L. B. Rist: Bank and IDA Financial Policy
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FROM: The President

December 17, 1962

THE NEED FOR AN INCREASED
"SOFT CREDIT" COMPONENT IN DEVELOPMENT AID

1. Several Directors have asked me for a further statement of my views regarding the need of increased resources for IDA. These are based on my conviction that: (1) the growing debt service burden of the developing countries makes it necessary to increase the proportion of "soft" lending; and (2) the amount of assistance channeled through non-political international agencies like the Bank/IDA ought to be increased, for reasons which I stated in my recent Annual Meeting address.

2. The figure of $500 million a year which I have proposed should be IDA's new commitment authority during the next few years is put forward as a judgment of the amount of money IDA could usefully and effectively commit on new credits during that period.

3. The attached paper attempts to give a view of the economic context in which IDA will be operating. It begins by presenting a very disturbing picture of the recent piling-up of international indebtedness. The crucial questions are: at what rate will this increase of debt and of the associated service liabilities continue; and how much greater service burden can the less developed countries stand without serious risk of default or dislocation of their continued economic development? These questions are constantly being examined in the Bank's country economic analyses, which have shown that in almost all developing countries the trend of external public debt and debt service is upwards, and that many countries which still have a margin of creditworthiness are rapidly eating into this margin. The paper then attempts a projection for the underdeveloped countries as a group, directed to the question of the level of "soft loans" which might be required over the next few years to arrest the further increase of the burden of debt service. Such a projection is necessarily based on a number of assumptions, which, although believed to be conservative, are by their nature uncertain. The results of the projection are therefore offered merely as an illustration of the forces at work and of some relevant orders of magnitude.

Distribution:

Members of Financial Policy Committee
President
Vice Presidents
Department Heads

4. As for the present volume of IDA operations, it now appears likely that new commitments in the fiscal year 1962-63 will approximate $400 million if credit applications continue to be processed normally. As the Executive Directors are aware, it is always very difficult to make accurate predictions regarding the completion of negotiations on IDA (or Bank) projects. We had previously expected to commit some $500 million of IDA funds during the current fiscal year, and there could be further unanticipated delays which would result in the year finishing up with new commitments of less than $400 million. The main trend, however, is perfectly clear. A series of factors--including the increasing capacity of many member countries to present suitable projects, the declining capacity of many member countries to assume new debt servicing burdens, the great increase in the number of member countries in IDA and the high proportion of these which would appear to be candidates for IDA assistance--all indicate unmistakably a rising rather than a falling tide of demand upon IDA resources.

THE NEED FOR AN INCREASED "SOFT CREDIT" COMPONENT IN DEVELOPMENT AID

Introduction

1. External public debt service obligations of the less developed countries as a group have been increasing over the past six years at an average annual rate of more than 15% per year. For a large number of the less developed countries this debt service burden has been becoming rapidly heavier in relation to export earnings, gross national product, domestic savings, government revenues and all other magnitudes which are relevant to an assessment of the seriousness of the debt servicing problem.

2. It was in these circumstances that the International Development Association was established to make available soft credits to countries where determined development efforts were being progressively jeopardized by decreasing creditworthiness for loans on conventional terms.

3. The case has already been presented to the consortia considering the financing of the development plans of India and Pakistan that these countries are not in a position to take on with safety any considerable additional amounts of external public debt on conventional terms. In order to carry out their development plans over the next few years, these two countries alone will require over $1 billion per year in IDA-type credits, over and above the grants and PL 480 assistance which they may be expected to receive and funds for the finance of Indus water works in Pakistan. This sum alone is over two-thirds of the amount of soft credits expected to be committed in the present financial year by IDA and the US AID, the two principal sources of such credits.

Country economic analyses made in the Bank show that a number of other countries have exhausted, or are rapidly exhausting, their capacity safely to assume additional debt on commercial terms. Moreover, the membership of IDA is now being augmented by a number of very low-income countries with extremely limited capacity to save or to raise government revenues. Although many of these countries have rather little external public debt, their ability to service such debt must be considered very small.

4. Now that the US AID and IDA are committing soft credits at a rate which may reach $1.5 billion in the current financial year, and such new sources of soft loans as the Social Progress Trust Fund administered by the Inter-American Development Bank are in operation, the external public debt of the less developed countries may be expected to increase at a slower rate. However, the final section of this paper contains a projection which suggests that, if the net capital inflow into the public sectors of the underdeveloped countries is to continue to expand at even a relatively modest pace, the present scale of soft credits will not be sufficient to prevent the external debt service liabilities of the less developed countries as a group from increasing significantly faster than the prospective increase of debt service capacity. The conclusion appears inescapable that if the steady progress of economic development is not to be seriously impeded, a substantial and increasing proportion of the future net capital inflow into the less developed countries must be made

available on lenient terms.[1]

Development of the Debt Service Problem

a. Increase in External Debt

5. Data on external public debt for a number of past years are available in the Bank for 32 Part II members of the Association, accounting for two-thirds of the population of the less developed countries.[2] The figures indicate that this group increased its external public debt between the end of 1955 and the end of 1961 by a factor of almost 2.1. The rate of increase varied considerably among the countries within the group, as shown by Table 1. India, for example, with almost 15% of the debt of the group in 1961, had increased its debt more than four-fold over the period; four other countries had exceptionally large percentage

1/ For purposes of this paper, it has been assumed that any increases in the amount of development assistance on lenient terms will take the form of soft credits repayable in foreign exchange rather than grants (including in this term reparations, PL 480 and similar commodity aid, and loans repayable in local currency). Accordingly, the portion of the future capital inflow which the paper indicates may have to be made available on lenient terms is described as a "soft credit" component. However, in the context of the paper the form which is taken by this portion of the total capital flow is of little importance: if governments elect to increase the amount of their grant assistance in future, the order of magnitude of the "soft credit" component would be correspondingly reduced.

2/ As the term the "less developed countries" is used in this paper, it includes all Part II members of the Association, dependencies of Part I members and all other countries, exclusive of Soviet Bloc countries, potentially eligible for membership in the Association. Annex Chart 1 lists these countries classified by geographical area. Annex Table 1 shows the population of these countries, likewise by geographical groupings. Countries with 76% of the total population of all the less developed countries are presently members of the Association, and territories with a further 2% of population are eligible for credits from the Association as dependencies of members. On the basis of pending applications for membership and other indications, it seems likely that by the end of 1963 countries with some 90% of the total population of the less developed countries will be, in principle, eligible for Association credits. (The balance of 10% is represented largely by Indonesia, which, at the time this paper was prepared, had not taken steps to join the Association.)

increases. Even if these five countries are left out of the calculation, however, the total debt of the remaining 27 countries increased by a factor of 1.8.

Table 1: Percentage Change of External Public Debt Outstanding, End-1955 to End-1961

End-1961 debt as percentage of end-1955 debt	Number of countries	Percent of total end-1961 debt accounted for by each group
Less than 110	3	1
110 - 169	4	12
170 - 229	15	45
230 - 289	5	17
290 - 349	3	9
Over 350	2	15
Total	32	100

b. Increase in Service Due

6. The nature of the available data makes it difficult to set out similar figures for the increase in service payments due on this debt. However, the evidence suggests that the increase in the total amount of debt was accompanied by a hardening of the average terms. While the amount of loans from public sources on relatively lenient terms increased over the period 1956-61, this appears to have been more than offset by increased dependence of some countries, at least, on loans from private sources with relatively hard terms (primarily export credits).3/ The public sectors of

3/ The conclusion is based on consideration of the percentage relationship between early service installments and related debt for 28 countries, over two different past periods. The structure of debt hardened appreciably between the earlier and the later periods for 12 countries, showed little change for nine and appreciably softened for seven. These findings are only illustrative, since it was not possible to make the comparison for the same periods for all 28 countries.

several less developed countries were still accumulating debt of highly unfavorable structure in 1960[4] and, on the average, the debt structure of the less developed countries deteriorated slightly over the period 1956-61. As stated in the preceding paragraph, total debt for the less developed countries rather more than doubled from 1955 to 1961; on the basis of available evidence, it appears that service on this debt increased from 1956 to 1962 by a factor of 2.5. This is considerably faster than the increase of export earnings, gross national product, domestic savings, government revenues or any other magnitudes relevant to a consideration of the debt service capacity except perhaps in a few highly exceptional countries. Given the distribution of rates of increase of external public debt as between countries, shown by Table 1 above, it is clear that it has been common experience in the past few years for the relative burden of debt service in the less developed countries to become considerably heavier. One important indicator was the rise of the ratio of service on external public debt to exports of goods and services from a little over 3% in 1956 to about 7% in 1962. The total outstanding external public debt of the less developed countries at the end of 1961 is estimated at some $20 billion, or $14 per head of population.

c. Present Burden of Service

7. The figures given in the preceding paragraph are broadly indicative of the continuing process by which the debt service burden has accumulated. But, being averages, they disguise the fact that the growth of debt service

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4/ See Annex Table 2. This shows, for the public external debt contracted in 1960 by several major borrowing countries, selected to illustrate a variety of experience, the percentage due to be amortized annually from 1961 through 1970.

obligations has been much larger for some countries and smaller for others. Analysis of the present burden on the balance of payments entailed by service on existing external public debt of 44 countries for which roughly comparable data are available indicates that for 19 of these countries the highest service due in a single year amounts to more than 10% of average export earnings in 1959 and 1960. The peak year measure may overestimate the actual service burden, either because export earnings may rise before the peak year installment becomes due or because some of the repayment obligations may be rolled over. But even taking as more indicative the average of three consecutive years' service, as many as 15 countries of the 44 would require the equivalent of at least 10% of 1959-60 export earnings for service of their external public debt.

8. Public external debt service liabilities of the less developed countries as a group now appear to be of the order of $2.5 billion per year, and gross capital inflow of this size is thus required before there is any net addition to resources available for investment. Such debt service liabilities introduce an element of rigidity into the balance of payments, public finance and savings - investment balance of the debtor countries. It is obviously a matter of judgment at what point an increase of the relative debt service burden and of the corresponding gap between gross and net capital inflows in any particular country may necessitate significant cutbacks of essential imports or investment expenditures, with consequent dislocation of the orderly progress of development, or may even present risks of default. In theory such consequences can be staved off by refinancing, but the need for repeated refinancing operations, requiring ever larger funds to cover interest

and amortization on existing debt as well as new capital needs, may well cause progressive destruction of confidence and lead to the gradual drying up of private, and eventually also of public, capital flows.

Prospective Debt Service Burden

9. The preceding section has shown the rapidly increasing seriousness of the debt servicing problems of a great many less developed countries. This has come about with net capital inflows into the public sectors amounting to about $4 per head of the population of the less developed countries per year, and with about half of the total gross inflow in forms not requiring service in external currency.5/

10. The pace at which the relative weight of the external public debt service burden will continue to increase will depend primarily upon the following factors: (a) the size and terms of future net capital inflows; (b) the effectiveness of the use made of this capital in expanding capacity to produce, export and save; and (c) the buoyancy of markets for the exports of the less developed countries. Obviously, it cannot now be said with any degree of certainty how much capital can be expected to flow into the less developed countries in the future, or at what rate the capacity of these countries to make effective use of capital will increase, or what the demand for their products will be. Any attempt to estimate the future evolution of the debt service burden

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5/ Grants, PL 480 and other similar commodity aid, loans repayable in local currency and reparations.

must therefore be founded on a number of assumptions.[6] These are discussed in the succeeding sections.

a. Present Capital Flow

11. The net capital flow into the public sectors of the less developed countries in 1959 was about $4.8 billion; the figure for 1960 is about $5 billion; and, on the available evidence, the figure for 1961 appears to be somewhat over $6.15 billion.[7] To take as the base for the projection an average of the three years, about $5.3 billion, would sharply discount the very considerable rise in the flow between 1960 and 1961. On the other hand, to take as the base the 1961 figure alone might be unsafe, partly because the data for that year are not yet complete and partly because the flow in that year was so much greater than before. There is, however, reason to believe that the figure for 1962 will be at least as high as that for 1961. In the circumstances, it was decided to base the projections on a $6 billion net capital inflow, taking 1961 as the base year.

6/ These assumptions are general in nature, and the projections based on them are aggregatives, applying to the underdeveloped countries as a group. While the projections are therefore inevitably somewhat hypothetical, and conceal the variety of experience to be expected by individual countries, nevertheless they are fully consistent with the staff's findings to date with respect to a large number of individual countries.

7/ The net capital flow figures include grants, reparations, PL 480 and other commodity aid, and U.S. "defense support" (but are supposed to exclude specifically military aid). The figures for capital flow into the public sector and for external public debt in fact include borrowing of the private sectors of less developed countries under government guarantee, whether from public or private sources. They also include public borrowing of the public sectors of less developed countries from external private sources, but exclude private borrowing from private sources without government guarantee. This definition of "public" debt is in accordance with the Bank's normal practice. The cost of technical assistance is included in the capital flow under the grant category.

b. Future Capital Flow

12. In view of the repeated expressions by governments of the industrialized countries that they intend to give increasing emphasis to development assistance, it has seemed unrealistic to assume that the future net capital flow into the public sectors of the less developed countries will, over the rest of the decade, either decline from or level off at the base figure. Any levelling off, it should be noted, would mean that development assistance would represent a gradually declining proportion of the GNP of the industrialized countries, as well as a gradually decreasing per capita contribution to the less developed countries.

13. Assuming, then, that the net capital flow is likely to increase,[8/] a number of assumptions might be made concerning the rate of increase. It might keep pace with increases in the GNP of the industrialized countries; it might achieve within a stipulated period the goal of 1% of the combined national incomes of the capital-exporting countries set by U.N. General Assembly Resolution 1717(XVI); or it might approximate the rate of increase during the period from 1956 to 1961. These approaches, when worked out by the staff, gave results ranging from an annual increase in the future flow of capital into the public sectors of the less developed countries of from 3% to 8%. The staff also made estimates of (a) the capital inflow implications of the development programs of a number of countries which have been assessed in the Bank, extrapolating

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8/ In the paragraphs which follow references to projected percentage increases in the capital flow should be understood to be increases above the postulated base of $6 billion in 1961.

the results to cover other countries, and (b) the prospective development of the total foreign exchange deficit on current account of the less developed countries, in the light of the factors which have affected the deficit in the past. The resulting projections indicated an average annual increase in the net flow of capital to the public sectors of the less developed countries of from somewhat less than 3% to rather over 4%. However, this type of exercise is by its nature so highly speculative that the results must be regarded as useful primarily as a cross-check.

14. Because of the uncertainties in all of the foregoing approaches, it was decided to make the arbitrary but conservative assumption that the net capital inflow into the public sectors of the less developed countries would increase by 3% per annum over the next few years. A 3% annual increase would imply a capital flow of $6.8 billion by 1965, $7.4 billion by 1968, and $7.8 billion by 1970. Since the assumed 3% rate of increase is somewhat less than the increase which may reasonably be expected in the GNP of the industrialized countries, it postulates a gradually decreasing burden on those countries; although the rate is somewhat greater than the average rate of population increase in the less developed countries, it postulates only a very modest increase in the per capita contributions received by those countries. It should be emphasized that the 3% figure is neither a prognostication of what is likely to be made available nor an estimate of what is necessary or desirable to achieve a satisfactory rate of development. To the extent that it understates the actual future capital flow, the debt service problem as described in the following paragraphs is likely to be more acute.

c. Terms of Future Capital Inflow

15. It is now necessary to consider what proportion of the projected total capital inflow is likely to be made available in forms which do not give rise to external servicing liabilities, i.e., grants, reparations, commodity aid and loans repayable in the borrower's currency.

16. Net capital inflows from public sources in forms which do not give rise to service obligations in transferable currency are assumed to remain at around the $4 billion level indicated for 1961, although it seems by no means unlikely that these will in fact fall off somewhat from that level. Specifically, it is assumed that (a) U.S. dollar loans repayable in local currency, now principally from the Social Progress Trust Fund of the Inter-American Development Bank, will remain at roughly the level indicated by commitments in the present year; (b) there will be a substantial decline in reparations, with the termination of large-scale transfers from Germany to Israel; (c) there will be a modest falling-off in grants and other unilateral transfers, both because, with the advent of independence, the former dependent territories are likely to receive less grant aid and to have to rely increasingly on loans, and because of the changing attitudes toward grants in a number of the principal capital-exporting countries; and (d) PL 480 and other commodity shipments against payment in local currency will remain at their present level or rise slightly.

d. Projections of the Debt Service Burden

17. Two of the principal assumptions underlying the projections, as already stated, are that the prospective net capital inflow into the public sectors of the less developed countries will rise at a rate of

about 3% annually over the base figure of $6 billion, and that $4 billion of this total annual flow will be in forms which do not give rise to external service obligations. It is now further assumed that the aggregate earnings from exports of goods and services of the less developed countries will increase by 4% a year. This assumption is derived from export forecasts for individual countries made by the staff, as well as a forecast based on an estimate of prospective demand in the advanced countries for major commodities and services of the less developed countries. The assumption is believed to be optimistic and may overstate rather than understate the evolution of repayment capacity in terms of export earnings.

18. Continuation of soft credit commitments at the present level of about $1.5 billion per year would not be sufficient, given the various assumptions stated above, to prevent further increase of the debt service burden relative to export earnings or GNP. Commitments of this kind were only begun on a large scale in 1961, and to the extent that they are made on relatively slow-disbursing project loans, it will take considerable time for <u>disbursements</u> (i.e., actual capital inflow) from this category of loans to catch up with the annual commitment rate. Indeed, if commitments continued at only $1.5 billion a year, disbursements would not much more than cover the <u>increase</u> in the capital flow which has been assumed for future years (see paragraph 14 above); this would leave almost $2 billion a year net (the base level of $6 billion minus the $4 billion assumed to be available from grants etc.) to be obtained annually from disbursements on conventional loans.[9] By about 1968

9/ By 1968 amortization requirements would be about $3 billion a year, so that a net capital inflow of $2 billion from loans on conventional terms would require a gross capital inflow of some $5 billion.

disbursements on soft credits would reach and level off at the figure of $1.5 billion a year, and thereafter the postulated annual increase in capital inflow would have to be covered by ever-increasing quantities of conventional loans.

19. In these conditions, external public debt on conventional terms would be about $31 billion at the end of 1967 as compared with $20 billion at the end of 1961, an average annual increase of about 7.5%. Debt service would increase at least as rapidly. Even in the year 1968, when soft-credit disbursements are postulated to reach the full $1.5 billion, the increase in conventional debt would be about 6%.10/ This is a slower rate of increase than in the recent past, but would still exceed the 4% annual increase which it would be reasonable to expect in exports and GNP of the less developed countries as a group. To cite again another indicator used above, the ratio of external public debt service liabilities to exports of goods and services, having increased from rather over 3% in 1956 to about 7% in 1962, would rise further to the neighborhood of 9% in 1968 and would be continuing to rise.

20. The position in 1968 might also be considered in terms of the amount of soft credit commitments which would be necessary to arrest the

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10/ The situation in 1968 would be:

	($ billion) Net
Capital inflow	7.4
Sums not requiring service in transferable currencies	4.0
Soft credit disbursements	1.5
Sums to be obtained by disbursements under hard loans	1.9

Borrowing of $1.9 billion net would be equal to 6.1% of debt outstanding at the end of 1967.

increase of the debt service burden in relation to servicing capacity. This might be defined as the amount necessary to limit to 4% per annum the increase of the aggregate external public debt on conventional terms. Given larger soft credit commitments than are assumed in the preceding projection, the amount of such "hard" debt would have increased somewhat less up to the end of 1967, say to $30 billion. 4% of this sum, or $1.2 billion, would then represent the amount of capital inflow which might be received in 1968 from conventional loans without increasing the relative debt service burden. Applying this, as well as the assumed $4 billion of grants, etc., toward the assumed net capital inflow of $7.4 billion in that year, some $2.2 billion would remain to be secured in the form of soft credits. In other words, by 1968 the need for disbursements on soft credits would be some 50% higher than the present rate of commitments on such credits, and this flow could scarcely be attained unless commitments on soft credits had reached or exceeded $2.2 billion a year for several preceding years.

21. A number of the less developed countries are well able to assume increased external public debt, and even if debt on conventional terms were to reach $30 billion or more by 1968 there would doubtless still be countries which could take on additional obligations of this kind. However, other countries already have more such debt outstanding than is safe either for themselves or their creditors. Furthermore some of the more fortunately situated less developed countries (for example, the big oil producing countries) are not likely to borrow up to the limit of their servicing capacity. It therefore seems reasonable to postulate that within a very few years the over-all increase of external public

debt and debt service of the less developed countries should be brought down to not more than 4% per year. Because of the lags between commitments and disbursements which must be expected when capital inflow is related to particular projects, this could be achieved only if the commitment rate on soft credits were raised very soon (say by 1964) to well over $2 billion per year. It may be noted that the proposed IDA commitment rate of $500 million per year would be less than 25% of this indicated soft credit requirement, and less than 10% of the indicated aggregate amount of soft credits, grants and foreign exchange loans repayable in local currency.

Annex Table 1: Population of Countries Actually or Potentially Eligible for IDA Credits

(1961 population estimates in millions)

	Tropical Africa	Middle East & South Asia	Far East	Oceania	Western Hemi-sphere	Europe and Medi-ter-ranean	Total
Part II Members[a]	96	619	146	-	119	107	1,087
Dependencies of Part I Members	20	1	9	1	3	b/	34
Countries Taking Steps to Become Members	57	9	2	-	84	11	163
Other Potential Members	17	6	101	1	3	9	137
Total	190	635	258	2	209	127	1,421

a/ November 30, 1962.
b/ Less than 500,000.

Annex Table 2: Amortization Schedules on New External Public Debt Incurred in 1960

Years after contracting debt

(Amortization as % of debt contracted)

	1	2	3	4	5	6	7	8	9	10
China	15.8	23.2	20.4	13.2	9.8	6.6	5.4	5.4	-	-
Yugoslavia	7.3	12.0	15.7	15.0	13.4	10.1	6.8	4.1	1.6	1.6
Chile	n.a.	9.0	16.5	16.8	13.4	9.4	8.6	7.3	5.5	4.2
Spain	6.1	13.7	13.9	13.9	13.9	13.9	13.7	6.2	-	-
Peru	11.8	14.4	11.1	12.7	7.7	5.8	4.5	3.4	3.4	3.4
Philippines	0.5	3.5	10.4	15.6	15.1	14.1	12.8	12.8	2.2	2.2
Mexico	n.a.	10.0	10.0	7.8	8.5	8.8	8.3	7.5	7.0	7.1
Israel	6.0	8.6	8.6	8.5	7.0	6.3	5.6	3.1	2.1	2.2
Pakistan	-	1.1	2.8	4.3	4.8	5.0	5.0	5.0	5.0	5.7
Colombia	0.2	1.0	2.6	3.1	3.6	4.1	3.5	3.7	3.9	4.1
India	0.1	0.2	1.0	2.0	2.9	7.8	8.5	8.6	8.6	8.7

Chart 1: Actual and Potential IDA Part II Members by Membership Status and Geographical Area

(figures are 1961 population estimates in millions)

	Tropical Africa		Middle East and South Asia		Far East		Oceania		Western Hemisphere		Europe and Mediterranean	
Part II Members, November 30, 1962	Nigeria	35.8	India	440.3	Philippines	28.7			Mexico	36.1	Spain	30.6
	Ethiopia	22.0	Pakistan	94.6	Thailand	27.2			Argentina	21.1	Turkey	28.6
	Sudan	12.1	United Arab Republic	26.6	Korea	26.0			Colombia	14.4	Yugoslavia	18.5
	Tanganyika	9.4	Iran	20.7	Burma	21.3			Peru	10.4	Morocco	11.9
	Ghana	6.9	Afghanistan	14.1	Viet Nam	14.5			Chile	7.8	Greece	8.4
	Senegal	3.0	Iraq	7.2	China	11.0			Ecuador	4.5	Tunisia	4.2
	Sierra Leone	2.3	Saudi Arabia	5.4	Ceylon	10.2			Haiti	4.2	Ireland	2.8
	Somalia	2.0	Syrian Arab Republic	4.9	Malaya	7.1			Guatemala	3.9	Libya	1.2
	Togo	1.5	Israel	2.2					Bolivia	3.5	Cyprus	0.6
	Liberia	1.3	Jordan	1.7					Dominican Republic	3.1	Iceland	0.2
			Lebanon	1.7					El Salvador	2.5		
									Honduras	1.9		
									Paraguay	1.8		
									Nicaragua	1.5		
									Costa Rica	1.2		
									Panama	1.1		
Dependencies of Part I Members	Federation of Rhodesia and Nyasaland	8.5	Aden	0.8	Hong Kong	3.2	Pacific Islands	0.9	Br. West Indies	0.7	Malta	0.3
	Kenya	7.3			Aust. New Guinea and Papua	2.0			Br. Guiana	0.6		
	Others	4.4			Singapore	1.7			Martinique	0.3		
					Sarawak	0.8			Guadeloupe	0.3		
					West New Guinea (West Irian)	0.7			Surinam	0.3		
					North Borneo	0.5			Neth. Antilles	0.2		
					Brunei	0.1			Bahamas, Bermuda	0.2		
									Others	0.1		
Countries taking steps to become members	Congo (Leopoldville)	14.4	Nepal	9.4	Laos	1.9			Brazil	73.1	Algeria	11.1
	Uganda	6.8							Venezuela	7.5		
	Malagasy Republic	5.6							Uruguay	2.9		
	Burundi) Rwanda)	5.0										
	Upper Volta	4.4										
	Cameroun	4.2										
	Ivory Coast	3.3										
	Guinea	3.1										
	Niger	2.9										
	Chad	2.7										
	Dahomey	2.1										
	Central African Republic	1.3										
	Congo (Brazzaville)	0.8										
	Mauritania	0.7										
	Gabon	0.5										
Other potential members	Mali	4.2	Yemen	4.1	Indonesia	95.2	Pacific Islands	0.1	Jamaica	1.6	Portugal	9.1
			Bhutan	0.7	Cambodia	5.1			Trinidad and Tobago	0.9		
	Overseas Provinces of Portugal		Muscat and Oman	0.6	Overseas Provinces of Portugal							
	Mozambique	6.6	Bahrain	0.2	Timor	.5						
	Angola	4.7	Others	0.2	Macao	.2						
	Port. Guinea	.6										
	Cape Verde	.2										
	Sao Tome, Principe	.1										

Source: Derived primarily from the U.N. Monthly Bulletin of Statistics.

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SLC/O/62-37

November 2, 1962

STAFF LOAN COMMITTEE

Memorandum from Department of Operations
Africa

Proportion of Project Costs Eligible for IDA Financing

1. The Department of Operations - Africa will be sending a large number of initial missions to new members. These missions have not only the task of making an economic appraisal but also of making an initial reconnaissance for priority projects that the Bank or IDA might wish to consider for financing. It is on one of the problems connected with this latter objective that I would like to have the guidance of the Committee.

2. Unlike the case of most of our earlier contacts with Africa, an especially difficult problem of our new members, most of whom will probably prove to be IDA candidates, is finding the local resources to contribute to the financing of projects we might be interested in.

3. This difficulty is of course not confined to Africa, but it assumes a particularly acute form in many of our newer African members. These are countries where practically the whole of the indigenous population is composed of peasants or cattle herders with cash incomes well under $50 a year and where the taxation required to meet even current expenditures is already a high proportion of the monetary national income. The amount of public savings available for investment is consequently quite small in most cases and the amount of private savings that could be borrowed by the government is meager or non-existent. This problem has already been encountered in Togo, Liberia, Sierra Leone, Tanganyika and Uganda.

4. In addition, in the disposition of the funds they can mobilize for investment, the governments often find that much of it has to go to public investments such as hospitals, administrative buildings, police stations, etc., which donor agencies commonly refuse to finance. The result is that the public savings available to finance the local contribution to projects eligible for foreign loans or grants may turn out to be very limited indeed.

5. Other agencies operating in Africa are also aware of this problem. The French agencies when necessary finance the entire cost of projects or investment programs. The Common Market Fund for Economic Development does the same.

In East Africa the Germans are also financing up to 100% of the cost of a project. The U.K. and the U.S.A. have also come to recognize the existence of the problem, particularly in the newer -- and generally poorer -- independent countries, but their hands are somewhat tied by existing legislation. In Sierra Leone, however, the U.K. has made Commonwealth Assistance Loan funds available to pay for general imports from the U.K., thus giving the Sierra Leone government the counterpart in Sierra Leone pounds to apply against any development projects. The U.S. is applying a similar general import financing procedure in Tanganyika and is willing to go up to 100% of the cost of a project if convinced that the local government is making an adequate effort to help itself overall.

6. I do not recommend at this time that we go so far as the other donors. I believe we should continue to insist on some local contribution to the cost of any project financed by us. We must, however, recognize that in many African countries this portion cannot reasonably be expected to exceed 20% or 25% of total cost at the most. If, therefore, we insist that local resources cover 40-50% of the cost of a project, it is virtually certain that we shall be unable to assist in the financing of many projects, particularly large ones, which may very well be of high economic priority.

7. Consequently, I would like to have the approval of the Committee to instruct missions going to our new African members that, where they find that a country is making a reasonable effort to mobilize its own resources, they should not exclude from further consideration a project that is prima facie suitable for IDA financing even if the IDA contribution that would be necessary might be as much as 80% of the total project or program cost.

Pierre L. Moussa
Director

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DECLASSIFIED

Date: 11/15/2010 STB

CONFIDENTIAL

R62-110

FROM: The Secretary

December 28, 1962

PROJECTION OF ACTIVITIES

1. In accordance with your request there are attached two schedules indicating how the activities of the Bank might evolve during the eleven-year period beginning July 1, 1962 and ending June 30, 1973. Schedule A assumes no dividends are paid. Schedule B assumes dividends of $50 million per annum with the first payment being made in fiscal 1963-64 out of 1962-63 earnings.

2. These projections are based on many assumptions and estimates, a change in any one of which could change the picture very substantially. While these assumptions and estimates are considered to be reasonable, the projections are put forward with considerable diffidence and should be used with great caution.

3. Many of the assumptions used in preparing the projections are evident from the figures themselves. Others are as follows:

a) New loans are assumed to be amortized from the third to the twenty-fifth year with an average life of about thirteen years.

b) Loans sold are assumed to be from maturities in the second through the eighth year after sale with a percentage spread in these years of 10%, 15%, 25%, 20%, 15%, 10% and 5%.

c) No losses.

d) $1,450 million of 18% funds and $205 million of 2% funds disbursed and outstanding on loans.

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Vice Presidents
Department Heads

e) Net income is estimated on the assumption that there will be no change in loan charge policies or in the present level of interest rates in the market; that grants and administrative expenses, including $10 million for educational purposes, will approximate $25 million per annum; and that the costs of borrowing and the income from the use of borrowed funds (exclusive of the 1% loan commission) will continue to be approximately equal.

f) The figures in the column "Borrowings Maturing" are based on presently outstanding bonds and the assumption that no new short-term issues will be sold except for the annual roll-over of $100 million of the central Bank issues now outstanding: amortization of other new issues is assumed to be from fifth year after placement to the twenty-fifth year with an average life of about twelve years.

SCHEDULE A

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Projection of Activities - Without Dividends

(Expressed in Millions of U.S. Dollars)

Fiscal Years Ending June 30	Loans Made	Loans Repaid to Bank	Loans Sold	Loans Disbursed	Net Income	Loan Commissions	Lendable Cash Balance	Undisbursed Balance of Loans	Loans Disbursed Held by Bank	Net New Funds	Borrowings Maturing	New Borrowings	Borrowings Outstanding	Cumulative Reserves		
														Supplemental	Special	Total
1963	700	110	200	700	75	32	1390	1700	3355	11	110	121 *	2540	550	256	806
1964	700	110	200	700	75	35	1045	1700	3745	(30)	130	100	2510	625	291	916
1965	700	135	200	700	80	39	1000	1700	4110	240	345	585	2750	705	330	1035
1966	700	140	200	700	85	43	1000	1700	4470	275	205	480	3025	790	373	1163
1967	700	170	200	700	90	46	1000	1700	4800	240	203	443	3265	880	419	1299
1968	700	180	200	700	95	49	1000	1700	5120	225	363	588	3490	975	468	1443
1969	700	200	200	700	100	53	1000	1700	5420	200	303	503	3690	1075	521	1596
1970	700	240	200	700	105	55	1000	1700	5680	155	248	403	3845	1180	576	1756
1971	700	270	200	700	110	58	1000	1700	5910	120	298	418	3965	1290	634	1924
1972	700	300	200	700	115	60	1000	1700	6110	85	388	473	4050	1405	694	2099
1973	700	320	200	700	120	62	1000	1700	6290	60	448	508	4110	1525	756	2281

Percentages

Fiscal Years Ending June 30	Total Reserves to Loans Outstanding	Total Reserves to Borrowings Outstanding	Special Reserve to Borrowings Outstanding
1963	24.0 %	31.7 %	10.1 %
1964	24.5	36.5	11.6
1965	25.2	37.6	12.0
1966	26.0	38.4	12.3
1967	27.1	39.8	12.8
1968	28.2	41.3	13.4
1969	29.4	43.3	14.1
1970	30.9	45.7	15.0
1971	32.6	48.5	16.0
1972	34.4	51.2	17.1
1973	36.3	55.5	18.4

* Actual borrowings this fiscal year to date

December 26, 1962

SCHEDULE B

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Projection of Activities - After Dividends

(Expressed in Millions of U.S. Dollars)

Fiscal Years Ending June 30	Loans Made	Loans Repaid to Bank	Loans Sold	Loans Disbursed	Net Income	Loan Commissions	Lendable Cash Balance	Undisbursed Balance of Loans	Loans Disbursed Held by Bank	Net New Funds	Borrowings Maturing	New Borrowings	Borrowings Outstanding	Cumulative Reserves		
														Supplemental	Special	Total
1963	700	110	200	700	75	32	1390	1700	3355	11	110	121 *	2540	550	256	806
1964	700	110	200	700	25	35	1000	1700	3745	(25)	130	105	2515	575	291	866
1965	700	135	200	700	28	39	1000	1700	4110	337	345	682	2852	603	330	933
1966	700	140	200	700	31	43	1000	1700	4470	329	205	534	3181	634	373	1007
1967	700	170	200	700	34	46	1000	1700	4800	296	203	499	3477	668	419	1087
1968	700	180	200	700	37	49	1000	1700	5120	283	363	646	3760	705	468	1173
1969	700	200	200	700	40	53	1000	1700	5420	260	303	563	4020	745	521	1266
1970	700	240	200	700	43	55	1000	1700	5680	217	258	475	4237	788	576	1364
1971	700	270	200	700	46	58	1000	1700	5910	184	313	497	4421	834	634	1468
1972	700	300	200	700	49	60	1000	1700	6110	151	408	559	4572	883	694	1577
1973	700	320	200	700	52	62	1000	1700	6290	128	474	602	4700	935	756	1691

Percentages

Fiscal Years Ending June 30	Total Reserves to Loans Outstanding	Total Reserves to Borrowings Outstanding	Special Reserve to Borrowings Outstanding
1963	24.0 %	31.7 %	10.1 %
1964	23.1	34.4	11.6
1965	22.7	32.7	11.6
1966	22.5	31.7	11.7
1967	22.6	31.3	12.1
1968	22.9	31.2	12.4
1969	23.4	31.5	13.0
1970	24.0	32.2	13.6
1971	24.8	33.2	14.3
1972	25.8	34.5	15.2
1973	26.9	36.0	16.1

* Actual borrowings this fiscal year to date

December 26, 1962

(not for public use)

INTERNATIONAL DEVELOPMENT ASSOCIATION **DECLASSIFIED**

Date: 11/15/2010 STB

CONFIDENTIAL

IDA/R62-18/2

FROM: The Secretary

August 17, 1962

INCREASE IN IDA RESOURCES

Attached is the report of the Executive Directors to the Board of Governors, to be considered at their annual meeting in September, regarding an increase in IDA resources. This version incorporates the changes agreed upon at the meeting of the Executive Directors on August 16, 1962.

The date in the first line of paragraph 5, and the amounts shown in that paragraph, will be brought up-to-date at the time of the submission of this report to the Board of Governors.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

[August 17, 1962]

REPORT OF EXECUTIVE DIRECTORS

INCREASE IN RESOURCES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

1. Article III, Section 1(a) of the Articles of Agreement of the International Development Association provides for a periodic review of the adequacy of the Association's resources.

2. In the light of the circumstances outlined in the following paragraphs of this report, the Executive Directors of the Association are of the opinion that this review should be promptly undertaken.

3. The situation confronting the Association has two separate aspects, namely:

   a) the adequacy of the Association's commitment authority, and

   b) the availability of funds for disbursement, when needed, for approved credits.

A. Commitment Authority

4. The Association cannot enter into commitments for credits in an aggregate amount that exceeds the amount of its pledged resources. Under the Articles of Agreement, the resources pledged to the Association from the subscription of those Part I and Part II countries which have become members of the Association amount to approximately $760 million in freely usable (i.e. convertible) currencies.

5. The present position regarding commitments is as follows. On [August 17, 1962], total commitments on credits actually approved amounted to [$298] million. In accordance with the indications given at meetings of the Indian and Pakistan consortia, the Association will have to consider additional credits amounting to [$193] million for those two countries by mid-1963. Should these credits be approved, this would leave only [$269] million of freely usable currencies available for other new credits. The President has informed the Executive Directors that, taking into account the volume of deserving new projects already under active consideration or expected to be presented in the near future, and assuming that these projects continue to be processed in the normal way, this remaining commitment authority might well be used up by the middle of 1963. If this should happen, the new credit commitments in the fiscal year ending June 30, 1963, would be in the neighborhood of $500 million.

6. With the increasing tempo of development activity in the Association's member countries, and the prospective increase in the number of member countries, the demand for development credits after June 30, 1963 is not likely to abate. Consequently, a serious hiatus could occur in the operations of the Association by the middle of 1963 unless by that time the Association has received new commitment authority.

B. The Association's Estimated Disbursements

7. The Association's pledged resources in freely usable currencies of approximately $760 million are being made available in five annual instalments, commencing in November 1960.

8. There is an inevitable and substantial lag between commitment and disbursement. It would appear that, if the Association continues to process in the normal way the projects now under active consideration and new projects likely to be presented, payment of these instalments on the due dates will cover the requirements for disbursements on the Association's credits during the first five years of operations. This includes both disbursements arising from commitment of the Association's existing resources and those arising from any new commitments that would be made on the basis of any increase in the Association's resources. However, fresh funds in convertible currencies should start coming into the Association's hands in 1965.

C. Recommendations

9. If the Association is to be placed in a position to continue to make commitments after the middle of 1963, and is to have available, beginning in 1965, additional funds for disbursement, legislative action on the part of many members would be necessary, and governments would have to be in a position to submit proposals to legislatures by the end of 1962 or early in 1963. This, in turn, means that, if possible, before the end of 1962 there should be agreement among the Association's member governments on such major issues as the amount of additional resources to be made available to the Association; the schedule for calling up these resources; the basis for distributing the incidence of the increase; and the relationship between new contributions and voting power. In the absence of such agreement, the question would naturally arise of whether the Executive Directors should take action to stretch out the use of IDA's remaining uncommitted resources.

10. Accordingly, the Executive Directors propose that they be instructed by the Board of Governors to embark promptly upon consideration of these and related questions and to submit specific proposals for the consideration of governments at the earliest date, if possible before the end of 1962. A draft resolution which would accomplish this purpose is attached.

INTERNATIONAL DEVELOPMENT ASSOCIATION

(DRAFT RESOLUTION)

Resources of the Association

RESOLVED:

THAT the Executive Directors are requested to consider the prospective financial requirements of the International Development Association, and to prepare and submit a report thereon to the Board of Governors of the Association at the earliest date, if possible before December 31, 1962.

(not for public use)

INTERNATIONAL DEVELOPMENT ASSOCIATION

DECLASSIFIED

Date: 11/15/2010 STB

FOR EXECUTIVE DIRECTORS' MEETING

CONFIDENTIAL

IDA/R62-18/1

(For consideration on August 16, 1962)

FROM: The President

August 14, 1962

NOTICE OF MEETING

INCREASE IN IDA RESOURCES

Following the Executive Directors' discussion that took place at the meeting on August 14, there is attached, for consideration by the Executive Directors, a revision of the draft report to the IDA Board of Governors regarding the increase in IDA resources.

This item will be taken up at the next meeting of the IDA Executive Directors which will be held on Thursday, August 16, 1962, immediately following a meeting of the Bank's Executive Directors which will begin that day at 3:00 p.m. These meetings will be held instead of those previously announced for Friday, August 17, 1962 at 3:00 p.m.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

REPORT OF EXECUTIVE DIRECTORS

INCREASE IN RESOURCES OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION

1. Article III, Section 1(a) of the Articles of Agreement of the International Development Association provides for a periodic review of the adequacy of the Association's resources.

2. In the light of the circumstances outlined in the following paragraphs of this report, the Executive Directors of the Association are of the opinion that this review should be promptly undertaken.

3. The situation confronting the Association has two separate aspects, namely:

a) the adequacy of the Association's commitment authority, and

b) the availability of funds for disbursement, when needed, for approved credits.

A. Commitment Authority

4. The Association cannot enter into commitments for credits in an aggregate amount that exceeds the amount of its pledged resources. Under the Articles of Agreement, the resources pledged to the Association from the subscription of those Part I and Part II countries which have become members of the Association amount to approximately $760 million in freely usable (i.e. convertible) currencies.

5. The present position regarding commitments is as follows. On______, 1962, total commitments on credits actually approved amounted to $298 million. In accordance with the indications given at meetings of the Indian and Pakistan consortia, the Association will have to consider additional credits amounting to $193 million for those two countries by mid-1963. Should these credits be approved, this would leave only $269 million of freely usable currencies available for other new credits. The President has informed the Executive Directors that, taking into account the volume of deserving new projects already under active consideration or expected to be presented in the near future, and assuming that these projects continue to be processed in the normal way, this remaining commitment authority might well be used up by the middle of 1963. If this should happen, the rate of new credit commitments in the fiscal year ending June 30, 1963, would be in the neighborhood of $500 million.

6. With the increasing tempo of development activity in the Association's member countries, and the prospective increase in the number of member countries, the demand for development credits after June 30, 1963, is not likely to be at any lower rate. Consequently, a serious hiatus could occur in the operations of the Association by the middle of 1963 unless by that time the Association has received new commitment authority.

B. The Association's Estimated Disbursements

7. The Association's pledged resources in freely usable currencies of approximately $760 million are being made available in five annual instalments, commencing in November 1960.

8. There is an inevitable and substantial lag between commitment and disbursement. It would appear that, if the Association continues to process in the normal way the deserving projects now under active consideration and new projects likely to be presented, payment of these instalments on the due dates will cover the requirements for disbursements on the Association's credits during the first five years of operations. This includes both disbursements arising from commitment of the Association's existing resources and those arising from any new commitments that would be made on the basis of any increase in the Association's resources. However, fresh funds in covertible currencies should start coming into the Association's hands in 1965.

C. Recommendations

9. If the Association is to be placed in a position to continue to make commitments after the middle of 1963, and is to have available, beginning in 1965, additional funds for disbursement, legislative action on the part of many members would be necessary, and governments would have to be in a position to submit proposals to legislatures at the beginning of 1963 at the latest. This, in turn, means that, if possible, before the end of 1962 there should be agreement among the Association's member governments on such major issues as the amount of additional resources to be made available to the Association; the schedule for calling up these resources; the basis for distributing the incidence of the increase; and the relationship between new contributions and voting power. In the absence of such agreement, the question would arise of whether the Executive Directors should take action to conserve and stretch out the use of IDA's remaining uncommitted resources.

10. Accordingly, the Executive Directors propose that they be instructed by the Board of Governors to embark promptly upon consideration of these and related questions and to submit specific proposals for the consideration of governments at the earliest date, if possible before the end of 1962. A draft resolution which would accomplish this purpose is attached.

INTERNATIONAL DEVELOPMENT ASSOCIATION

(DRAFT RESOLUTION)

Resources of the Association

RESOLVED:

THAT the Executive Directors are requested to consider the prospective financial requirements of the International Development Association, and to prepare and submit a report thereon to the Board of Governors of the Association at the earliest date, if possible before December 31, 1962.

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp
Mr. Geoffrey M. Wilson
Mr. Richard H. Demuth

September 28, 1962

FROM: John C. de Wilde

SUBJECT: Data in Support of IDA Replenishment.

In view of the early discussion in the Board on replenishment of IDA resources I am submitting to you at this time the draft of a still uncompleted paper, prepared by Mr. Hayes and his assistants, marshalling some data in support of a generous allocation of funds to IDA.

The paper as it stands:

a. shows the increase in the debt service burden of underdeveloped countries from 1955 to the present and gives indicators of the present magnitude of this burden, by country;

b. sets out an illustrative aggregate balance of payments projection for all underdeveloped countries to show that the weighted average debt service burden may be expected to increase over the remainder of the decade, and to illustrate the difference to this increase which would be made by alternative scales of IDA operations ($200 million and $600 million a year).

While the aggregative projections of external debt and debt service for the underdeveloped countries strikingly demonstrate the need for "soft loans", the difference in effect of IDA replenishment on two different scales is not equally striking. This is due to the fact that the impact is shown for all underdeveloped countries as a whole rather than simply for those on which IDA assistance would presumably be largely concentrated. To illustrate this we propose to add a separate projection for one country - Chile.

In the near future I hope to send you the remaining sectors of this paper, namely

A. The balance of payments projections for Chile, based on the findings of the Bank's review of the development plan, and showing the difference in the balance of payments if as much as half of the external public borrowing requirements could be met on IDA-type terms.

B. A discussion of types and directions of capital flows from public sources in 1960, designed to show probable changes which must be reckoned with for the future: e.g. the diminution of grants from France and the United Kingdom to their former overseas territories.

C. Four Annexes:

I. The IDA membership status of all countries regarded, for this paper, as underdeveloped, together with population figures.

II. The derivation of balance of payments estimates for the underdeveloped countries as a group vis-a-vis the remainder of the world (as in Table 3). The relation of the figures to OECD data on capital flows and to the Bank's debt service data.

III. Export forecast for underdeveloped countries.

IV. The significance of series based on GNP "as at US prices". Such series appear in Table 2, and will appear more prominently in the section described in B above.

It should be pointed out that this paper had to be prepared in great haste, that considerable difficulties were experienced in reconciling relevant data for the past, and that the projections made necessarily involve many assumptions about which there can be different opinions. I hope that the paper in its present form will be useful as a briefing within the Bank; refinements of the figures and changes in presentation would obviously be needed to produce a paper which could go to the Board.

CONFIDENTIAL

THE CASE FOR AN EXPANDED IDA **DECLASSIFIED**

Date: 11/15/2010 STB

1. The case for making substantial resources available to IDA rests, now as in the past, on the considerations that:

a. the underdeveloped countries[1] will continue to require large net capital inflows if they are to sustain or increase their development efforts;

b. unless an increasing proportion of these requirements for capital inflow is met on "soft" terms, many countries will develop increasingly unmanageable balance of payments problems, threatening serious dislocation of the development process itself;

c. given the case for a continuing supply of "soft" loans, possibly on an expanded scale, there are cogent reasons why an increasing volume of such loans should be made through the intermediary of an international institution.

2. This paper contains a number of estimates illustrating the case for replenishing IDA's resources on an increased scale. Although many of the estimates presented are very rough, they nevertheless provide orders of magnitude against which any given amount of IDA resources can be measured.

3. The first section of this paper marshals data on the development of external public indebtedness in the past. It shows that the external public debt of the underdeveloped countries has more than doubled over a six year period. Over the same period, export earnings increased by little over 15%. In these circumstances, the burden of service on external public debt is already a serious problem to many developing countries. The second section presents some rough projections, illustrating the probable continuation of the rising trend of service obligations on external public debt, unless a greater proportion of the capital flow into the underdeveloped countries is provided on "soft" terms. The final section examines the role which IDA appears to be particularly suited to play in these circumstances.

1/ The range of countries considered as underdeveloped for the purposes of this paper is shown in Annex I, which also distinguishes countries which are at present eligible to borrow from IDA or which may become so in the near future. The annex also shows population estimates for the various groups.

Economic Staff,
September 28, 1962.

RECENT GROWTH OF THE DEBT SERVICING PROBLEM

Increase of external public debt outstanding in recent years

4. The less developed countries which are Part II members of IDA have typically doubled their outstanding external public debt between the end of 1955 and the end of 1961. This conclusion is based on data for 34 countries accounting for some 70% of the population of the underdeveloped world. In fact, this group of countries appears to have increased its external public debt by a factor of almost 2.6.1/ However, India, with 17% of the debt of the group in 1961, had increased its debt more than six-fold. Omitting India, debt of the group increased by a factor of less than 2.3. If four other countries with exceptionally large percentage increases are left out of the calculation, the total debt of the remaining 29 countries roughly doubled, and in fact as many as 11 countries are concentrated in the range of increase 80-129%. Table 1 illustrates the variety of experience covered by these broad statements based on averages.

Table 1: Percentage Change of External Public Debt Outstanding, End-1955 to End-1961

End-1961 debt as percentage of end-1955 debt	Number of countries	Percent of total end-1961 debt accounted for by each group
less than 80	1	a/
80 - 129	2	1
130 - 179	8	14
180 - 229	11	31
230 - 279	3	9
280 - 329	4	17
Over 330	5	28
Total	34	100

a/ Less than 0.5%.

Increase of service due

5. The nature of the available data makes it difficult to set out similar figures for the increase of service payments due on this debt. However, the evidence suggests that the increase of debt has not been offset by any general improvement in the structure of debt. Such evidence as is readily available suggests that increases of loans available from

1/ Throughout this paper, figures for external public debt include private debt guaranteed by the government or a governmental agency in the debtor's country.

public sources on soft terms must have been roughly offset by increased dependence of the public sectors of some countries, at least, on loans from private sources carrying onerous service terms.[1/] Thus the weighted average increase in debt service obligations of underdeveloped countries, from 1956 to 1962, must have been roughly proportionate to the increase in aggregate debt - i.e., by a factor of about 2.6. The weighted average "debt service ratio" - service due on external public debt as a percentage of gross exports of goods and services in the same year - may have increased, for all underdeveloped countries, from roughly 3% in 1956 to over 7% in 1962 (see Table 7 below).

The present burden of debt service

6. The figures just given, being averages, exaggerate the growth of debt service obligations for some countries, while understating it for others. However, they serve to show the continuing process by which debt service burdens have assumed their present weight.

7. Charts 1 and 2 illustrate the present burden of service on external public debt on the balance of payments of the less developed countries. For various technical reasons, the figures are not always strictly comparable between different countries, but the general pattern which emerges is broadly correct.

8. Section C of Chart 1 shows 18 countries, out of a sample of 43, in which debt service in some particular year may amount to between 10% and 43% of average export earnings in 1959 and 1960. This may somewhat overestimate the true burden of service, to the extent that export earnings rise before the peak service instalment becomes due or that service obligations can be rolled over. Section B of the chart shows the average service burden for the three years 1963-65 (which are not, for some countries, the three consecutive years of highest average service obligations). Even on this basis, as many as 12 countries of the 43 are shown as having 10% or more of export earnings (as in 1959/60) pre-empted for service of external public debt.

9. The size of the debt service burden in relation to export earnings is a product of the size of debt (section A of Chart 1) and the degree of hardness of debt (illustrated by Chart 2). Some countries, such as Argentina, Yugoslavia and Mexico, have a large external debt, together with exceptionally unfavorable service terms - short repayment period on much of the debt - making for a high ratio of service due in the early

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1/ This conclusion has been derived from a consideration for 28 countries of the percentage relationship between early service instalments and the debt to which they relate, for two different periods. If the ratio of service to debt is higher in the later period than in the earlier period, the debt structure is considered to have "deteriorated" or "hardened". On this basis, 12 countries showed an appreciable "hardening" of debt, 9 showed little change and 7 showed appreciable "softening". These findings can only be taken as illustrative, since the periods compared vary for different countries. Some light is thrown on the terms of recent borrowing by Tables 5 and 6 later in this paper.

Chart I: Recent External Public Debt, and Service Thereon, as Percentage of Exports of Goods and Services, 1959/60.

A. DEBT

0 - 39	40-79	80-119	120-159	160-199	200-239	240-279	280-319	320-359
Burma 34	Ethiopia 79	Tunisia 110	Brazil 156	India 191	Israel 228			Bolivia 320
China 32	UAR 77	Haiti 109	Argentina 150		Turkey 217			
Philippines 30	Ecuador 75	Yugoslavia 107	Chile 145					
Nigeria 27	Peru 74	Mexico 106	Iran 140					
Ceylon 26	Paraguay 73	Colombia 91	Pakistan 121					
Br. Honduras 23	Sudan 60	Uruguay 85						
Ireland 21	Guatemala 54	Syria 84						
Malaya 20	Thailand 53	Costa Rica 83						
Venezuela 16	Ghana 52	Kenya 82						
	Panama 50							
	Iceland 50							
	Honduras 50							
	Nicaragua 50							
	Uganda 49							
	Portugal 46							
	El Salvador 41							

Debt outstanding as percentage of average exports of goods and services, 1959/60.

B. AVERAGE SERVICE 1963-65

0-3.9	4.0-7.9	8.0-11.9	12.0-15.9	16.0-19.9	20.0-23.9	24.0-27.9	28.0-31.9	32.0-35.9
Philippines 3.9	Uruguay 7.9	Colombia 10.6	Mexico 14.6	India 17.5	Argentina 23.7		Israel 31.0	
Panama 3.6	UAR 7.7	Ethiopia 9.5	Iran 14.0	Chile 16.4	Brazil 20.3		Turkey 28.9	
Burma 3.5	Peru 7.7	Costa Rica 9.5	Pakistan 12.0	Yugoslavia 16.3	Bolivia 20.0			
Uganda 3.3	Haiti 7.6	Syria 8.6						
Honduras 3.3	Guatemala 7.2							
China 3.3	Sudan 7.1							
Venezuela 2.3	Ecuador 6.7							
Br. Honduras 2.0	Paraguay 6.4							
Ceylon 2.0	Nicaragua 6.1							
Portugal 1.3	Iceland 5.8							
Malaya 1.3	Thailand 5.7							
Nigeria 1.0	El Salvador 5.7							
Ireland 0.9	Kenya 5.6							
	Ghana 4.7							
	Tunisia 4.3							

Average service due, 1963-1965, as percentage of average exports of goods and services, 1959/60

C. PEAK YEAR SERVICE

0-3.9	4.0-7.9	8.0-11.9	12.0-15.9	16.0-19.9	20.0-23.9	24.0-27.9	28.0-31.9	32.0-35.9	Over 36.0
Honduras 3.7	Kenya 7.5	Costa Rica 11.5	Haiti 14.1	Mexico 19.5	Brazil 21.8	Bolivia 26.5		Turkey 33.2	Israel 43.1
Portugal 3.2	Iceland 6.9	Colombia 11.3	Pakistan 13.6	Uganda 19.0	Chile 20.5	Argentina 26.2			
Br. Honduras 2.4	Nicaragua 6.6	Syria 10.7		India 18.9					
Ceylon 2.2	Thailand 6.6	Tunisia 10.7		Yugoslavia 17.7					
Nigeria 2.0	El Salvador 6.5	Peru 10.6		Iran 16.2					
Malaya 1.7	China 5.9	Ethiopia 9.7							
Iceland 1.2	Burma 5.7	Guatemala 9.2							
	Ghana 5.1	Sudan 8.9							
	Venezuela 5.0	UAR 8.8							
	Panama 4.2	Paraguay 8.8							
	Philippines 4.1	Ecuador 8.5							
		Uruguay 8.2							

Highest service due in single year as percentage of average exports of goods and services, 1959/60.

Chart 2: Figures Illustrating the Hardness of Debt.

THREE YEAR'S SERVICE

2.0-4.9	5.0-7.9	8.0-10.9	11.0-13.9	14.0-16.9	17.0-19.9	20.0-22.9	23.0-29.9
Nigeria 3.8	Panama 7.9	Thailand 10.6	Chile 13.1	Argentina 16.8			Venezuela 24.1
Portugal 2.9	Rhodesias 7.9	Paraguay 10.5	Peru 13.1	Yugoslavia 16.6			
	Ghana 7.6	Nigeria 10.5	Brazil 13.0	Philippines 16.5			
	Bolivia 6.8	Iran 10.3	Nicaragua 12.9	Guatemala 16.5			
	Kenya 6.7	Pakistan 9.9	Burma 12.8	Mexico 16.1			
	Uganda 6.4	Uruguay 9.0	Turkey 12.7	China 15.9			
	Malaya 6.1	Ceylon 8.9	Syria 12.6	Congo 15.0			
		India 8.3	Colombia 12.3	El Salvador 14.0			
		Honduras 8.1	Costa Rica 12.3	Sudan 14.0			
			Ethiopia 12.2				
			Iceland 12.0				
			Israel 11.9				
			Ecuador 11.8				

Three consecutive years' service as percentage of initial principal sum.

PEAK YEAR SERVICE

5.0-6.9	7.0-8.9	9.0-10.9	11.0-12.9	13.0-14.9	15.0-16.9	17.0-18.9	Over 19.0
Ireland 5.7	Ceylon 8.4	Br. Honduras 10.5	Haiti 12.9	Peru 14.3	Guatemala 16.9	Israel 18.9	Uganda 38.8
	Panama 8.3	India 9.9	Syria 12.6	Chile 14.2	Yugoslavia 16.6	Mexico 18.4	Venezuela 31.7
	Bolivia 8.3	Tunisia 9.7	Colombia 12.4	Brazil 13.9	Burma 16.5	China 18.3	
	Malaya 8.3	Ghana 9.7	Ethiopia 12.3	Philippines 13.9	El Salvador 15.8	Argentina 17.5	
	Honduras 7.5	Uruguay 9.6	Thailand 12.3	Costa Rica 13.9	Turkey 15.3		
	Nigeria 7.5	Kenya 9.2	Paraguay 12.1	Iceland 13.8	Sudan 15.0		
	Portugal 7.0		Iran 11.5	Nicaragua 13.3			
			UAR 11.4				
			Ecuador 11.3				
			Pakistan 11.2				

Highest service due in single year as percentage of initial principal sum.

PACE OF REPAYMENT

10-19	20-29	30-39	40-49	50-59	60-69	70-79
Kenya 19	Honduras 20	Pakistan 38	Chile 49	Mexico 58	Israel 64	Venezuela 76
Nigeria 16		India 36	Nicaragua 48	Sudan 57		
Portugal 11		Paraguay 35	Costa Rica 47	Guatemala 56		
		Ghana 33	Iceland 46	Peru 56		
		Bolivia 30	Colombia 46	El Salvador 53		
		Ceylon 30	Thailand 45	Philippines 50		
			Ecuador 43	Iran 50		
			Uruguay 40	Ethiopia 50		

Percentage of original principal sum to be paid off in approximately six years.

years to debt outstanding (see section A of Chart 2). On the other hand, Bolivia, India and Pakistan enjoy somewhat favorable debt service terms, offsetting in some measure the large size of their debt.

10. Table 2 shows various dimensions of the problem of external public debt for the countries for which it is most serious. Chile and Iran have relatively heavy debt service burdens in relation to GNP, but the effect on the balance of payments is somewhat softened by relatively high ratios of exports to GNP. However, for these countries (as also for Iraq, Mexico, Peru, Venezuela and the Federation of Rhodesia and Nyasaland, to mention the outstanding cases) it has to be borne in mind that the amount of external earnings effectively available is significantly diminished by transfers of investment income accruing to external enterprises.

11. At the other end of the scale, India and Pakistan have relatively small sums of debt outstanding and of debt service obligations both per head of population and as percentage of GNP. The debt servicing problem in relation to the balance of payments is essentially due to the relatively autarkic nature of these two economies. Turkey is another case where debt service obligations are very heavy in relation to export earnings but not among the heaviest in relation to GNP, export earnings being relatively small in relation to GNP.

12. This paper concentrates on the problem of debt service in relation to the balance of payments. However, there is also an argument for providing IDA funds for countries which face prospective debt servicing problems at the level of the public finances rather than the balance of payments. This is typically the case where export earnings are large in relation to GNP and are reasonably buoyant, but where "taxable capacity" is relatively low by reasons of low per capita GNP or other features of the economic system. Several tropical African countries will presumably be found to be claimants for IDA funds on these grounds, even though few of them have any considerable amount of external public debt at present. The capital inflow requirements of many countries in this category have been met in considerable degree, in the past, by grants from the metropolitan countries. Special problems will occur, if, as seems likely, this flow of grants tends to diminish in the future. These problems will be considered in the final section of the paper. The next section returns to consideration of the cases where debt servicing difficulties arise, or are likely to arise, from the impact on the balance of payments of service on a large and increasing external public debt.

PROSPECTIVE DEVELOPMENT OF THE DEBT SERVICE BURDEN

13. The increase of the burden of debt service over recent years, and the present seriousness of this burden in the balance of payments of many underdeveloped countries, are sufficiently clear. But to justify replenishment of IDA funds on a fairly large scale, it is necessary to consider the prospective evolution of the debt servicing problem several years ahead.

Table 2: Figures Illustrating the Problem of External Public Debt for High Debt Countries

	Date of debt covered	Average service due in 1st-3rd or 2nd-4th year, whichever higher				Debt outstanding				Hardness of debt: Average service due in 1st-3rd or 2nd-4th year as % of debt	Exports of goods and services per head of population ($)
		As percentage of:				As percentage of:					
		Exports of goods and services, average 1959/60	G.N.P.		$ per head of population	Exports of goods and services, average 1959/60	G.N.P.		$ per head of population		
			By exchange rate conversion	As at US prices			By exchange rate conversion	As at US prices a/			
Israel	March 1962	27.2	6.3	3.7	37.85	228	53	31	318.2	11.9	144
Turkey	May 1961	27.3	1.9	0.9	4.23	217	15	7	33.2	12.7	16
Argentina	Dec. 1961	25.3	3.0	1.7	14.51	150	18	10	86.2	16.8	60
Brazil	Feb. 1962	20.3	2.4	1.0	3.99	156	19	8	30.8	13.0	20
Bolivia	Nov. 1961	21.9	3.7	1.4	3.84	320	54	20	56.2	6.8	18
India	Nov. 1961	15.6	0.8	0.3	0.57	191	10	3	6.9	8.3	4
Chile	June 1962	18.6	3.6	1.8	12.39	145	27	14	94.6	13.1	71
Yugoslavia	June 1961	17.1	2.0	1.0	6.05	107	12	6	36.5	16.6	36
Mexico	June 1962	16.8	1.9	0.9	6.09	106	12	6	37.9	16.1	37
Iran	April 1962	13.6	3.3	1.3	3.62	140	32	12	35.1	10.3	27
Pakistan	Dec. 1961	12.0	0.9	0.3	0.58	121	9	3	5.8	9.9	5
Colombia	May 1962	11.1	1.6	0.8	4.64	91	13	6	37.7	12.3	43

a/ See Annex IV for the significance of these series.

14. Ideally, it would be desirable to be able to make balance of payments projections for a number of underdeveloped countries, showing the prospective effects of differing sums in IDA credits on the countries' balance of payments prospects. For some countries, where the strain of public debt service is felt more acutely in the budget than in the balance of payments, budgetary forecasts would also be relevant. However, the presentation of a considerable number of country projections, probably necessitating alternatives to allow for the serious uncertainties involved, would become very clumsy. Moreover, forecasts for individual countries raise problems as to the prospective sources of external finance for the public sector, and hence to the terms on which such finance will be available. This problem is somewhat easier to handle in an aggregative projection for all underdeveloped countries than in a series of projections for individual countries, since the aggregative projection evades the problem of the distribution of various types of finance between countries. In any case, given the speculative nature of all projection work, this paper can do no more than illustrate orders of magnitude. It has therefore seemed best to place the main weight in this paper on a set of projections for the underdeveloped world as a whole, showing weighted average relationships for all underdeveloped countries. Nevertheless, such an aggregative projection does not fully illustrate the extent of the prospective difficulties of the countries with the more acute debt servicing problems. For this reason, a set of projections based on an individual country case will also be given.

Balance of payments of the underdeveloped world in recent years

15. Table 3 gives a picture, for the years 1956-61, of the balance of payments of the underdeveloped countries, considered as a group, with the remainder of the world. The figures have been derived from three main sources:

a. an attempt by the UN secretariat to draw up a balance of payments table for the underdeveloped world;

b. OECD data on capital flows from DAC countries to the underdeveloped countries;

c. IBRD figures on the external public debt of underdeveloped countries and the related service obligations.

Certain arbitrary, but nevertheless plausible, assumptions have had to be made in order to fit together the data from the different sources (see Annex II). The category of "other transactions" is a residual, and undoubtedly contains a major element of errors and omissions. More significance may be attached to the general orders of magnitude of the figures shown than to year-to-year changes. The main purpose of the table is to show magnitudes based on IBRD debt and debt service figures in their relation to other balance of payments magnitudes, and to provide a basis for some purely illustrative projections.

Table 3: Outline Balance of Payments of the Underdeveloped Countries as a Group with the Remainder of the World, 1956-1961

($ million)

	1956	1957	1958	1959	1960	1961
1. Merchandise exports	19,630	19,835	19,635	20,725	20,320	
2. Merchandise imports	20,530	23,535	22,590	22,110	22,340	
3. Balance of services a/	-1,840	-2,055	-1,750	-1,555	[-1,800]	
Balance of goods and services a/	-2,740	-5,755	-4,705	-2,940	-3,820	
4. Interest on public external debt b/	-435	-470	-555	-700	-860	-1,005
5. Private interest and dividends	-1,965	-2,150	-1,775	-1,730	[-1,815]	
Balance on current account	-5,140	-8,375	-7,035	-5,370	-6,495	
6. Donations from private sources	275	270	305	250	260	[270]
7. Donations from public sources	1,845	2,070	2,415	2,265	2,500	2,755
8. PL480 etc.	665	860	675	690	900	895
9. Loans repayable in recipients' currencies	[--]	[35]	[95]	[155]	215	275
10. Other gross public borrowing b/	1,060	1,865	2,875	3,445	3,400	3,115
11. Amortization on external public debt b/	-535	-595	-710	-1,030	-1,205	-1,455
(Total of items 7-11)	(3,035)	(4,235)	(5,350)	(5,525)	(5,810)	(5,585)
12. Changes in official holdings of gold and foreign exchange c/	-500	+820	+840	-470	-420	
13. Other transactions (including: net private capital transactions; changes in assets and liabilities n.e.s. of monetary institutions; errors and omissions).	2,330	3,050	540	65	845	

a/ Excluding interest and dividend payments.
b/ Including government-guaranteed export credits to the private sector.
c/ - signifies increase of holdings.

Public capital inflow requirements in coming years

16. The figures in Table 3 suggest that there has been a net capital inflow into the public sectors of the underdeveloped countries of the order of $5.5 billion per year in the past few years. Of this amount, around $2 billion per year has come from loans which have to be serviced in transferable currency, the remainder taking the form of grants, reparations and similar transactions (around $2.5 billion per year), PL 480 shipments and similar commodity aid (in the neighborhood of $0.8 billion a year) and loans repayable in local currency (of the order of $0.2 billion a year).

17. The claims of the public sectors of the underdeveloped countries may be expected to increase rather than to diminish. Even if some of the capital flows of recent years may be judged excessive in relation to the ability of some countries to make effective use of capital inflow, it is equally possible to identify certain justifiable and unsatisfied claims; and in many countries the ability to make effective developmental use of capital inflow may be expected to grow.

18. To produce a defensible figure for capital inflow "requirements" is difficult not only in practice but also in principle. The practical difficulties of assessing how effectively capital will be used, with what degree of efficiency and with what effects on the pace and form of development, are sufficiently obvious. But, underlying these practical difficulties, there is an inescapable problem of principle - at what point does increasing supply of capital cease to be justified in terms of the developmental effects produced? Beyond a certain point, increasing capital inflow must certainly encounter diminishing returns. At what point (in all the various underdeveloped countries) are the returns to be considered too low to justify further increase in the resources made available? Any assessment of capital "requirements" clearly depends in principle on an answer to this question.

19. Being acutely aware of the many difficulties, the Bank has always been reluctant to express a view on the question of capital "requirements" for the underdeveloped world as a whole. Nevertheless, operational requirements compel the Bank to make certain assessments as to the scale of capital inflow which would be justified for certain countries. The quality of these assessments inevitably varies according to the purpose and nature of the Bank's examination. Types of case may be roughly distinguished as follows:

Plans examined in connection with consortia

India   Pakistan

(Even in these cases, it may not be possible at any particular time to give firm figures for capital requirements, because of the need to adjust plan magnitudes in the light of experience).

Plans examined at the request of the country concerned

Chile   Colombia

Countries in which the Bank has advised in preparation of a plan, and so knows the planning problems "from the inside"

e.g.	Malaya	Philippines
Kenya	Tanganyika	Uganda
Spain	Venezuela	

IDA candidates

The economic justification for an IDA credit commonly involves the judgment that the country concerned might run into debt servicing difficulties if capital inflow on a justifiable scale were to be secured on the terms which would probably apply in the absence of a contribution from IDA. This judgment thus necessitates some view as to what would be a justifiable scale of capital inflow for the country concerned.

20. For the purpose of this note, an effort has been made to add up the various assessments of "justifiable capital inflows", and to extrapolate the results to cover the underdeveloped countries which have not been specifically considered. The tentative nature of the country estimates which have been made, the probable lack of strict consistency between estimates for different countries, and the difficulty of the problem of extrapolation to the many countries not specifically examined, all make the results of this exercise extremely tentative.

21. The result of this tentative exercise was a figure of just over $6 billion a year as an estimate for a "reasonable" net capital inflow into the public sectors of the underdeveloped countries over the next few years. This figure is on a broad definition of capital inflow, including all items covered by the definition used by OECD in its figures for financial assistance made available by DAC countries. Thus such items as PL 480 commodity shipments, U.S. defense support and reparations are, in principle included in the $6 billion. Table 3 shows a net capital inflow into the public sectors of underdeveloped countries in the last few years of around $5.5 billion a year, on approximately the same basis. A point of some significance is that the figures of $5.5 billion for the past and $6.0 billion for the future have been derived independently one from the other. The correspondence between the two figures strengthens, to some extent, the confidence which it is possible to feel in each of them.

22. However, on closer examination the figures appear more satisfactory as indicators of order of magnitude than as indicators of change over time. It will be seen later in this paper that annual interest obligations on external public debt are likely to increase by over $500 million between 1960 and 1965. Thus if capital inflow were to increase by only $500 million a year over approximately the same period, there would be no addition to the resources made available by the capital inflow for domestic use.

23. However, the \$5.5 billion for the past includes publicly guaranteed borrowing by the private sectors of the underdeveloped countries, while the \$6.0 billion for the future does not. In order to continue with a definition of "public debt" which includes private debt under official guarantee, some addition must be made to the figure of \$6 billion. It is further possible that the \$6 billion estimate fails to take adequate account of the probable increase of interest liabilities. National planners, and economists elsewhere, appear often to use crude and inadequate techniques to estimate the prospective increase of debt service liabilities. The effort is now being made in the Bank to put country forecasts into a framework allowing systematic and realistic treatment of prospective debt service liabilities; but it has not yet been possible to apply this method to the assessment of capital inflow "requirements" for the underdeveloped world as a whole.

24. With these considerations in mind, it will be assumed that the net capital inflow requirements of the public sectors of the underdeveloped countries (including guaranteed private debt) will average \$6.5 billion a year in the years 1963-67. If the balance of payments estimates in Table 3 are substantially correct, this figure can hardly be an overestimate. Many underdeveloped countries will obviously be able, over the next few years, to make effective use of a greater capital inflow into their public sectors than they have been receiving to date (over and above the sums required to meet increased interest charges). To illustrate the point: Table 3 suggests that the deficit in the merchandise trade of the underdeveloped world with the remainder of the world has averaged a little over \$2 billion a year in recent years. If both exports and imports were to increase alike by 4% per year, the merchandise deficit would increase by over \$430 million over five years. It seems by no means unlikely that underdeveloped countries could usefully absorb an increase of imports by more than 4% per year, but may fail to increase the value of their exports by as much as 4% per year.

Comparison with other estimates of capital requirements

25. While the figure of \$6.5 billion is given only as a base for further rough calculations, and has been derived by comparatively crude methods, the question may arise how it compares with other estimates of capital requirements which have been published. The comparison is complicated, in practice, by differences in coverage of the capital flow concepts used. Subject to this caution, however, it appears that the figure of \$6.5 billion is perhaps 5-10% higher than the well-known estimate of Rosenstein-Rodan,[1] but somewhat lower than Hoffman's estimate of the average capital inflow over the 'sixties required to sustain an annual growth rate of 2%

1/ P.N. Rosenstein-Rodan, "International Aid for Underdeveloped Countries", Review of Economics and Statistics, May 1961, puts the annual "aid" requirement for 1961-66 at \$4.3 billion. However, "aid" is so defined as to exclude reparation payments, 75% of US defense support and one-third of PL 480 shipments.

per head per year for the underdeveloped world.[1/]

Prospective need for loans requiring service in convertible currency

26. In this section it is assumed that the net capital inflow into the public sectors of underdeveloped countries will in fact average $6.5 billion a year in the five years 1963-67, and that the phasing would be as indicated in Table 4.

27. The next step is to consider how much of a capital inflow of this size would have to be secured in the form of loans requiring to be serviced in convertible currency. In Table 4, the following assumptions are made:

a. that grants and other unilateral transfers, other than reparations, will remain at about the level of 1960, or somewhat below the peak level of 1961; this assumption may well put grants too high rather than too low, for the reasons considered in the final section of this paper;

b. reparations will fall off sharply from the level of around $140 million in the years 1959-61, with the termination of large-scale transfers from Germany to Israel; the bulk of the remaining reparations are Japanese, and for these tentative figures are available;

c. that PL 480 and other commodity shipments against payment in local currency will reach a plateau at about $1.25 billion a year after deduction of sums devoted to US uses; it is assumed that PL 480 Title 1 shipments will level off at $1.0 billion, market value, and that other commodity shipments will remain at about the level reached in fiscal 1961;

d. at the end of 1961, about $1 billion remained committed but undisbursed of U.S. loans repayable in local currency (other than loans made out of US-owned counterpart funds); the phasing of disbursements shown in Table 4 is arbitrary.

(TECHNICAL NOTE: Table 3 follows the OECD practice of recording as a loan item the loans made out of PL 480 counterpart, the figure for PL 480 transfers being reduced pro tanto to avoid double counting. In Table 4, PL 480 transactions are recorded once only, at the time when the original real transfer occurs).

1/ Paul G. Hoffman, One Hundred Countries, One-and-One-Quarter Billion People, (Washington, 1960) puts the requirement for "development capital" on public account at some $5.5 billion a year. Hoffman's "development capital", like Rosenstein-Rodan's "aid", is on a narrower definition than that used by OECD and in this paper.

Table 4: A Pattern for Net Capital Inflow into the Public Sectors of Underdeveloped Countries, 1963-67 a/

($ million)

	1963	1964	1965	1966	1967
Grants	2,400	2,400	2,400	2,400	2,400
Reparations	75	75	60	50	50
Loans repayable in local currency	400	200	150	50	-
PL 480 etc.	1,250	1,250	1,250	1,250	1,250
Other net external public borrowing	2,015	2,385	2,635	2,930	3,175
Total net capital inflow into public sectors	6,140	6,310	6,495	6,680	6,875

a/ On the basis of sums utilized.

28. The implication of these assumptions is that net borrowing giving rise to debt to be serviced in transferable currency would increase from $2,015 million in 1963 to $3,175 million in 1967. The 1963 figure is about on a level with the apparent average for similar loan drawings in the years 1958-61. The assumed failure of such drawings to show a rising trend from 1958 to 1963 is due to the assumed increase, in the period, of other items, and notably PL 480 shipments. It is, however, assumed that from 1963 PL 480 payments and grants will cease to rise, reparations will have begun to taper off and that disbursements of loans repayable in local currency will be falling from their peak.

Terms of Debt Service

29. In considering the service obligations likely to arise from a given increase in debt, all external public debt will be divided into three parts, IDA credits, 40-year AID loans and the rest.

30. "The rest" is, of course, an amalgam of debt on widely differing terms. It is assumed that the average relationship of service to debt outstanding will remain roughly as in the recent past. For all underdeveloped countries, it appears that service in any year has typically been about 12% of debt outstanding at the end of the previous year (c.f. Chart 2). If it is assumed that approximately 5% is interest, then the remaining 7% is amortization. (Amortization obligations in the first year are typically lower than in the second year, due to the operation of grace periods).

31. Such service terms may appear relatively "hard". However, while a few countries are now able to satisfy their external public borrowing requirements on relatively easy terms, others still draw to a considerable degree on suppliers credits and other short-term loans, and so continue to

have a high ratio of service to debt outstanding. Table 5 illustrates this point by showing, for the public external borrowing of various countries in 1960, the percentage due to be amortized in each year 1961 through 1970.

32. The size and time pattern of these amortization instalments depends essentially on:

a. the ratio of short-term to long-term debt in the total: the more the short-term debt, the larger the early amortization instalments as a percentage of the total sum borrowed;

b. the proportion of the loans allowing grace periods before repayment becomes due, and the length of these grace periods.

Table 6 shows how the amortization schedules for various countries are built up as weighted averages of different types of amortization schedules on different categories of debt.

Prospective build-up of the debt servicing problem

33. The prospective build-up of the debt service burden, based on the various assumptions already made, is illustrated in Table 7. Since IDA replenishment will not have a significant effect on the scale of disbursements until about 1966, the various series have been roughly extrapolated to 1972.

34. Table 7 allows for IDA commitment authority, from 1963/64, of $200 million a year. That is to say, it investigates the implications of IDA replenishment on roughly the scale envisaged in the original round of contributions.

35. A new element which has to be taken into account is AID loans of 40 years term, with grace period of ten years, carrying (like IDA) a service fee of 3/4% per year. AID is assumed to have a continuing commitment authority for such loans of $600 million per year.

36. According to all the assumptions made, external public debt outstanding of all underdeveloped countries, having increased by about $13.5 billion from the end of 1955 to the end of 1961, would increase by a further $21 billion over the ensuing six years (to end 1967). The percentage increase in debt would be considerably less from 1961 to 1967 than from 1955 to 1961, the total debt having started from a relatively low level in 1955. However, the increase in the total quantity of debt would be sufficient to add very appreciably to the burden of debt service.

37. With the advent of IDA and AID credits on soft terms, there would be some improvement of the structure of debt, as shown by the ratio of service obligations to debt outstanding (row Q in Table 7). Service as a percentage of debt outstanding at the end of the previous year would fall from around 12% in recent years to below 11% in 1967 and subsequent years.

Table 5: Amortization Schedules on New External Public Debt Incurred in 1960

(Amortization as % of debt contracted)

	Years after contracting debt: 1	2	3	4	5	6	7	8	9	10
HARD TERMS										
China	15.8	23.2	20.4	13.2	9.8	6.6	5.4	5.4	-	-
Yugoslavia	7.3	12.0	15.7	15.0	13.4	10.1	6.8	4.1	1.6	1.6
Chile	n.a.	9.0	16.5	16.8	13.4	9.4	8.6	7.3	5.5	4.2
Spain	6.1	13.7	13.9	13.9	13.9	13.9	13.7	6.2	-	-
Peru	11.8	14.4	11.1	12.7	7.7	5.8	4.5	3.4	3.4	3.4
SEMI HARD TERMS										
Philippines	0.5	3.5	10.4	15.6	15.1	14.1	12.8	12.8	2.2	2.2
Mexico	n.a.	10.0	10.0	7.8	8.5	8.8	8.3	7.5	7.0	7.1
Israel	6.0	8.6	8.6	8.5	7.0	6.3	5.6	3.1	2.1	2.2
SOFT TERMS										
Pakistan	-	1.1	2.8	4.3	4.8	5.0	5.0	5.0	5.0	5.7
Colombia	0.2	1.0	2.6	3.1	3.6	4.1	3.5	3.7	3.9	4.1
India	0.1	0.2	1.0	2.0	2.9	7.8	8.5	8.6	8.6	8.7

Table 6: Contractual Amortization Schedules, by Category of Debt, on New External Public Debt incurred in 1960

(Amortization as percentage of debt contracted in specified category)

Country and type of debt	Debt in category as percentage of total debt contracted	Years after contracting debt: 1	2	3	4	5	6	7	8	9	10
YUGOSLAVIA											
Privately placed debt	83	8.3	13.9	18.1	17.3	15.4	11.4	7.5	4.5	1.5	1.5
Publicly issued bonds (debt settlement)	4	11.3	11.3	11.3	10.3	10.3	10.3	8.7	8.7	8.7	9.1
Debt to Eurofima	2	1.1	4.4	14.9	14.9	14.9	13.8	12.8	2.3	2.4	2.3
DIF	11	-	-	-	-	-	-	-	-	-	-
All debt	100	7.3	12.0	15.7	15.0	13.4	10.1	6.8	4.1	1.6	1.6
CHILE											
Privately placed debt	44	n.a.	9.9	14.9	14.2	12.7	12.7	10.9	9.4	6.8	3.8
Eximbank	47	n.a.	9.9	21.1	22.4	13.9	5.5	4.1	2.7	2.7	2.7
Loans from Western Governments	9	n.a.	-	-	-	14.3	14.3	14.3	14.3	14.3	14.3
All debt	100	n.a.	9.0	16.5	16.8	13.4	9.4	8.6	7.3	5.5	4.2
MEXICO											
Privately placed debt	88	n.a.	11.0	10.5	8.5	8.8	9.1	8.6	7.6	7.1	7.1
Nationalized properties	3	n.a.	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
IBRD	9	n.a.	-	-	-	4.4	4.6	4.9	5.2	5.5	5.8
All debt	100	n.a.	10.0	10.0	7.8	8.5	8.8	8.3	7.5	7.0	7.1
PAKISTAN											
Eximbank	3	-	-	14.3	14.3	14.3	14.3	14.3	14.3	14.3	-
Loans from Western Governments	47	-	1.1	3.8	7.0	8.2	8.5	8.5	8.5	8.5	8.5
IBRD	50	-	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	3.4
All debt	100	-	1.1	2.8	4.3	4.8	5.0	5.0	5.0	5.0	5.7
INDIA											
Privately placed debt	6	-	-	-	-	8.0	6.6	13.2	13.2	13.2	13.2
Eximbank	21	0.4	1.0	1.0	1.0	1.0	10.3	10.3	10.3	9.2	9.2
Loans from Western Governments	40	-	-	-	-	0.8	8.4	8.9	8.9	8.9	8.9
IBRD	34	-	-	1.2	5.3	5.6	6.0	6.3	6.7	7.1	7.5
All debt	100	0.1	0.2	1.0	2.0	2.9	7.8	8.5	8.6	8.6	8.7

Table 7: Figures Illustrating the Prospective Growth of the Burden of Service on External Public Debt for Underdeveloped Countries as a Group

($ million)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
A. Drawings on net external public borrowing	525	1,270	2,165	2,415	2,195	1,660	2,000	2,015	2,385	2,635	2,930	3,175	3,375	3,585	3,805	4,020	4,240
of which: B. IDA	—	—	—	—	—	--	25	40	100	130	160	180	200	200	200	200	200
C. AID	—	—	—	—	—	--	250	300	350	390	430	470	510	565	595	600	600
D. Other	525	1,270	2,165	2,415	2,195	1,660	1,725	1,675	1,935	2,115	2,340	2,525	2,665	2,820	3,010	3,220	3,440
E. External public debt outstanding at end year (excluding IDA and AID)a/	9,410	11,105	13,995	17,215	20,140	22,355	24,655	26,890	29,470	32,290	35,410	38,775	42,330	46,090	50,100	54,395	58,980
F. IDA commitments in year	—	—	—	—	—	180	255	200	200	200	200	200	200	200	200	200	200
G. AID commitments in year	—	—	—	—	—	210	420	600	600	600	600	600	600	600	600	600	600
H. Total external public debt outstanding at end year	9,410	11,105	13,995	17,215	20,140	22,355b/	25,330	28,365	31,745	35,365	39,285	43,450	47,805	52,365	57,175	62,270	67,655
I. Amortization on external public debtc/	535	595	710	1,030	1,205	1,455	1,540	1,725	1,880	2,065	2,260	2,480	2,715	2,965	3,225	3,505	3,805
J. Gross external public borrowing (commitment basis)d/	1,235	2,290	3,600	4,250	4,130	3,670	4,515	4,760	5,260	5,685	6,180	6,645	7,070	7,525	8,035	8,600	9,190
K. Interest on external public debt (excluding IDA and AID)e/	435	470	555	700	860	1,005	1,120	1,235	1,345	1,475	1,615	1,770	1,940	2,115	2,305	2,505	2,720
L. Service charge on IDA and AID credits	—	—	—	—	—	--	5	5	10	15	20	25	30	35	40	50	55
M. Total debt service (I + K + L)	970	1,065	1,265	1,730	2,065	2,460	2,665	2,965	3,235	3,555	3,895	4,275	4,685	5,115	5,570	6,060	6,580
N. Exports of goods and servicesf/	31,900	32,230	31,910	33,680	33,020	35,415	36,830	38,305	39,837	41,430	43,090	44,810	46,605	48,470	50,405	52,425	54,520
O. Debt service as percentage of export earnings (M/N)	3.0	3.3	4.0	5.1	6.3	6.9	7.2	7.7	8.1	8.6	9.0	9.5	10.1	10.6	11.1	11.6	12.1
P. Amortization as percentage of drawings on net external public borrowing (I/A)	102	47	33	43	55	88	77	86	79	78	77	78	80	83	85	87	90
Q. Debt service as percentage of total debt outstanding in previous year (M/H)	n.a.	11.3	11.4	12.4	12.0	12.2	11.9	11.7	11.4	11.2	11.0	10.9	10.8	10.7	10.6	10.6	10.6

a/ Throughout this paper it is reckoned that drawings on debt amount at any time to 75% of total debt outstanding.

b/ Debt to IDA and AID are in principle included in this figure.

c/ Reckoned, from 1963, at 7% of debt outstanding at end of previous year (excluding debt to IDA and AID).

d/ $J(t) = H(t) - H(t-1) + I(t)$.

e/ Reckoned, from 1963, at 5% of debt outstanding at end of previous year (excluding debt to IDA and AID).

f/ Exports of goods to non-underdeveloped countries inflated by 30% to allow for trade between the underdeveloped countries and by a further 25% to allow for exports of services. From 1961, export earnings are assumed to increase by 4% per year.

38. However, this improvement in the structure of debt would be only a small offset to the increase in debt outstanding. Thus service obligations would increase by roughly 75% over the next six years.

39. On the possibly generous assumption that exports of goods and services by the underdeveloped countries, including trade among themselves, will increase by 4% a year, the weighted average ratio of debt service liabilities to exports of goods and services would increase from around 7% in 1961/62 to 10% in 1968, and to 12% in 1972 if there were a continuation of the same trends. Many countries have ratios of 7% or more at present, as is shown by Chart 1. While some countries may be expected to experience less than the average rise of debt service as a percentage of export earnings, others will experience a greater than average rise. Thus the implication of the projection is that, by the end of the decade, a considerably greater number of underdeveloped countries than at present would have 10% or more of their export earnings pre-empted for the service of external public debt. While there is nothing sacrosanct about the figure of 10%, so large a burden of debt service obligations in relation to current earnings of foreign exchange introduces a potentially dangerous rigidity into the balance of payments. The point of the projection is not so much to emphasize any particular level of the ratio as to show that the ratio is likely to continue to increase. According to Table 7, the weighted average increase would be of the order of half a percentage point per year. While exports of goods and services are assumed to grow by 4% per year, export earnings left after subtraction of service obligations would grow only by about 3.4% a year.

40. Table 7 draws attention to another aspect of the debt servicing problem which is a potential cause of increasing difficulties. In the years 1957 to 1960, amortization due averaged about 45% of drawings on net external public borrowing (row P). That is to say, the borrowing needed to make an addition to resources for development has been supplemented only to 45% by borrowing required to "roll over" amortization on outstanding debt. This ratio is shown as being potentially very much higher in the next few years. The advent of soft IDA and AID credits may check its rise for a time. But unless these credits were to be progressively expanded, the rise would be resumed around 1970. This has a very practical implication. An underdeveloped country requiring net capital inflow must borrow not only in order to secure this capital inflow but also in order to offset amortization obligations on existing debt. But to receive loans, it must as a general rule put up "projects" to be financed. The greater the proportion of new borrowing required in fact to meet amortization rather than to make an addition to disposable resources, the more difficult is it likely to become to find sufficient "projects" to attract the required sums.

<u>How much difference could IDA make</u>

41. Calculations as in Table 7 have been made on the alternative basis of an annual commitment authority for IDA of $600 million from 1963/64, all the other assumptions remaining unchanged. On this assumption, the

ratio of debt service obligations to exports of goods and services would be held down to 11.5% in 1972, as against 12.1% on the assumption of an IDA commitment authority of $200 million a year. By holding down the growth of service liabilities, increased IDA credits would reduce in later years the amount of new money having to be raised by borrowing from all sources (including IDA).

42. Comparison of the two projections shows that a difference of $400 million in annual IDA commitment authority would make some impact on the average debt service situation for all underdeveloped countries, but could not by itself effect a major transformation of the situation. However, it has been seen throughout this paper that the average for all underdeveloped countries covers a great range of difference in the experience of individual countries. An extra $400 million of resources available to IDA in each year could be concentrated on those countries experiencing, or threatened with, the greatest debt service difficulties, and could make a greater proportionate difference for a limited range of countries than is shown by the weighted average impact on the underdeveloped world as a whole. This may be illustrated by an example referring to a particular country.

IDA SUBSCRIPTION OF EEC GROUP

1. This note investigates the proposition that the USA and the EEC group of countries should each pay 40% of future IDA subscriptions. If by EEC countries is meant the original Six (as assumed in this note) then such an allocation would make the EEC subscription unjustifiably heavy vis-a-vis the countries other than the Six and the USA. Even if it is assumed that Japan and South Africa will not subscribe further to IDA, this group of "Others" still contains the UK, Canada, Australia, the Scandinavian countries, Austria and Finland.

2. There may well be good reason for restricting the US contribution to 40% of the total for Part I countries on the grounds that:

a. US GNP, while about 60% of the total for Part I countries (excluding South Africa and Japan) at exchange rate conversion, is only about 50% as at US price weights (the basis of comparison which minimizes US GNP relative to GNP of other countries).

b. The USA is making a greater effort, relative to GNP, to assist less developed countries than are most other Part I members; moreover, the United States assumes large burdens in connection with the common defense.

c. Given these commitments, the USA, with exports of goods and services equal to as little as 5% of GNP, is prone to balance of payments difficulties.

d. There are political and psychological reasons, both internal and external, why the United States should not finance as much as 50% of any international program.

3. While a share of 40% of IDA subscriptions for the USA may be justifiable and expedient, there seems to be no good reason why the Six should pay as much as 40% of the total, leaving only 20% to be subscribed by other Part I countries.

a. Even if Japan and South Africa are assumed not to subscribe in the future, countries other than the Six and the United States have aggregate GNP equal to not less than 70% that of the Six, even on an unfavorable price-weighting basis (about 90% by exchange rate conversion). But if the EEC countries, like the US, were to contribute 40% of IDA's resources, then the contributions of the "other" countries mentioned above would be only 50% of the EEC contribution.

Economic Staff
April 3, 1962.

b. Present efforts of the EEC countries as a group in support of development of underdeveloped countries are larger in relation to GNP than the corresponding efforts of the other Part I countries outside the United States.

Should other support of development be taken into account?

4. While the arguments for not charging more than about 32% of IDA Part I subscriptions to the EEC group are strong - c.f. Economic Staff, "Alternative Schedules...", March 22 - it is worth considering the arguments for and against adjusting IDA subscriptions to take account of other support given to less developed countries. Here three types of argument arise:

a. arguments of practical difficulty: what other transactions would be taken into account, and on what basis?

b. arguments concerning relative magnitudes: in what significant sense can adjustment of IDA subscriptions be made to compensate for other transactions which are very much larger?

c. arguments of principle: should not IDA subscriptions be considered a priority claim on resources, rather than as a residual to be adjusted in accordance with other claims?

5. If IDA subscriptions were adjusted to take account of other contributions in support of development, should private capital flows be taken into account or only public transactions? Countries like the United Kingdom, the Netherlands and Belgium, which make relatively large private investments in less developed countries, will certainly argue that this claim on their resources should be taken into account. Germany will argue that guaranteed private export credits should be counted as a contribution to development. Against this it will be argued that these transactions are made for commercial motives, and are not properly to be claimed as an offset against IDA subscriptions.

6. But even if only public operations are to be taken into account, the question still arises whether loans on commercial terms should be counted, or only "soft" transactions. On the one hand, loans on commercial terms may be said to bring sufficient return so that they do not impose a burden on the lending country. On the other hand, it may be argued that countries which make "hard" loans would often gain more from using the same resources for domestic investment. Moreover, to the extent that underdeveloped countries continue to be net borrowers, so that loans from public external sources are in effect continuously rolled over, it could be argued that the nominal return on hard loans is in fact illusory.

7. If it were nevertheless decided that only "soft" transactions should be taken into account, the question would arise where the line is to be drawn. Moreover, available data on countries' loans to less developed countries do not readily allow "soft" loans to be distinguished from "hard", even assuming the criterion of "softness" to have been agreed.

8. The large table sets out available information on capital flows from Part I countries to underdeveloped areas. The basic sources are the OECD documents, The Flow of Financial Resources to Countries in Course of Economic Development in 1960 (OECD/C(61)72) and a Corrigendum thereto dated January 2, 1962.

9. The columns "Grants" correspond to the OECD classification of "Net official grants". The OECD item of "Reparation and indemnification payments" is not included in the contributions shown in the table. For the United States, PL480 shipments have been included in this item. The columns "Grants and soft loans" include estimates for the USA, France and the UK of public bilateral loans made on soft terms - repayment in local currency or low rates of interest. Apart from the estimate for the United States in 1960, these figures rest on very tenuous foundations, and are hardly more than a token allowance for the existence of such transactions. The columns "Plus multilateral contributions" add the further element of public "Transactions with multilateral agencies", recorded on a net basis. Such transactions are to a great extent "soft". For present purposes it must be remembered that disbursements from existing IDA contributions are included. "Total public" includes net "Official new lending" less the sums considered as "soft", but not "Consolidation Credits" or "Guaranteed private export credits". Finally, the columns labelled "Plus private" comprise Total public plus "Net private lending and investment", "Transactions with multilateral agencies - Net private contributions", "Consolidation credits" and "Guaranteed private export credits". That is to say, the "Plus private" columns cover all the items covered by the OECD papers except "Reparation and indemnification payments".

10. In the central section of the table, these items have been expressed as percentages of GNP at factor cost for the various countries for the years indicated, on the exchange rate basis. In the right hand section, estimates of average GNP in 1958-60 as at US prices have been used as the denominator. These estimates have been made by extension to other countries, and projection forward in time, of the Gilbert and Kravis figures for 1955. The effect of the US price basis is to reduce for countries other than the United States and Canada the proportions of "aid" to GNP - a reduction which becomes progressively greater for the lower income countries.

Comparisons of Contributions to Under-developed Countries, 1959 and 1960

Absolute amounts ($ million)

	Grants 1959	Grants 1960	Grants and soft loans 1959	Grants and soft loans 1960	Plus multilateral contributions 1959	Plus multilateral contributions 1960	Total public 1959	Total public 1960	Plus private etc. 1959	Plus private etc. 1960
USA	1,641	1,917	[1,791]	2,135	[1,849]	2,370	2,295	2,836	3,277	3,781
France	655	708	[680]	[729]	[713]	[793]	832	836	1,135	1,291
Belgium	34	86	34	86	49	106	50	106	165	180
Netherlands	24	26	24	26	53	61	57	66	223	258
Germany	8	8	8	8	122	109	160	253	741	554
Italy	9	9	9	9	-34	62	29	82	135	254
Luxembourg	-	-	-	-	3	1	3	1	5	1
UK	145	165	[150]	[170]	[219]	[262]	360	411	816	857
Norway	1	1	1	1	-3	14	-3	14	-1	14
Canada	51	48	51	48	57	75	57	75	69	135
Denmark	-	1	-	1	1	5	1	5	20	29
Sweden	1	1	1	1	10	7	10	7	45	45
USA	1,641	1,917	[1,791]	2,135	[1,849]	2,370	2,295	2,836	3,277	3,781
EEC	740	837	[755]	[858]	[906]	[1,132]	1,131	1,344	2,404	2,538
EEC with France halved	407	483	[415]	[494]	[549]	[736]	715	926	1,836	1,892
EEC less France	75	129	75	129	193	339	299	508	1,269	1,247
"Others"	198	216	[203]	[221]	[284]	[363]	425	512	949	1,080

As percentage of GNP on exchange rate basis

	Grants 1959	Grants 1960	Grants and soft loans 1959	Grants and soft loans 1960	Plus multilateral contributions 1959	Plus multilateral contributions 1960	Total public 1959	Total public 1960	Plus private etc. 1959	Plus private etc. 1960
USA	0.37	0.42	[0.40]	0.46	[0.42]	0.51	0.52	0.61	0.74	0.82
France	1.54	1.45	[1.57]	[1.49]	[1.65]	[1.62]	1.92	1.71	2.62	2.65
Belgium	0.32	0.77	0.32	0.77	0.47	0.95	0.48	0.95	1.57	1.61
Netherlands	0.26	0.25	0.26	0.25	0.57	0.59	0.61	0.64	2.39	2.51
Germany	0.02	0.01	0.02	0.01	0.24	0.19	0.32	0.44	1.47	0.97
Italy	0.04	0.03	0.04	0.03	-0.14	0.22	0.12	0.29	0.54	0.90
Luxembourg	-	-	-	-	[0.79]	[0.22]	[0.79]	[0.22]	[1.16]	[0.22]
UK	0.25	0.26	[0.26]	[0.27]	[0.37]	[0.42]	0.62	0.66	1.40	1.37
Norway	0.03	0.03	0.03	0.03	-0.08	0.35	-0.08	0.35	-0.03	0.35
Canada	0.16	0.15	0.16	0.15	0.18	0.24	0.18	0.24	0.22	0.43
Denmark	-	0.02	-	0.02	0.02	0.10	0.02	0.10	0.43	0.55
Sweden	0.01	0.01	0.01	0.01	0.10	0.06	0.10	0.06	0.44	0.41
USA	0.37	0.42	[0.40]	0.46	[0.42]	0.51	0.52	0.61	0.74	0.82
EEC	0.53	0.54	[0.54]	[0.55]	[0.65]	[0.73]	0.81	0.86	1.73	1.63
EEC with France halved	0.29	0.31	[0.30]	[0.32]	[0.40]	[0.47]	0.51	0.59	1.32	1.21
EEC less France	0.08	0.12	0.08	0.12	0.20	0.32	0.31	0.47	1.33	1.16
"Others"	0.15	0.16	[0.15]	[0.16]	[0.21]	[0.26]	0.32	0.37	0.72	0.78

As percentage of GNP as at US prices

	Grants 1959	Grants 1960	Grants and soft loans 1959	Grants and soft loans 1960	Plus multilateral contributions 1959	Plus multilateral contributions 1960	Total public 1959	Total public 1960	Plus private etc. 1959	Plus private etc. 1960
USA	0.38	0.44	[0.41]	0.49	[0.42]	0.54	0.52	0.65	0.75	0.86
France	0.96	1.02	[0.98]	[1.05]	[1.03]	[1.14]	1.20	1.20	1.64	1.86
Belgium	0.25	0.63	0.25	0.63	0.36	0.77	0.36	0.77	1.20	1.31
Netherlands	0.15	0.16	0.15	0.16	0.33	0.38	0.35	0.41	1.39	1.60
Germany	0.01	0.01	0.01	0.01	0.14	0.12	0.18	0.29	0.84	0.63
Italy	0.02	0.02	0.02	0.02	-0.07	0.12	0.06	0.16	0.26	0.49
Luxembourg	-	-	-	-	[0.50]	[0.17]	[0.50]	[0.17]	[0.83]	[0.17]
UK	0.17	0.19	[0.17]	[0.20]	[0.26]	[0.31]	0.42	0.48	0.95	1.00
Norway	0.02	0.02	0.02	0.02	-0.05	0.25	-0.05	0.25	-0.02	0.25
Canada	0.16	0.15	0.16	0.15	0.18	0.24	0.18	0.24	0.22	0.43
Denmark	-	0.01	-	0.01	0.01	0.07	0.01	0.07	0.28	0.41
Sweden	0.01	0.01	0.01	0.01	0.08	0.06	0.08	0.06	0.37	0.37
USA	0.38	0.44	[0.41]	0.49	[0.42]	0.54	0.52	0.65	0.75	0.86
EEC	0.31	0.35	[0.32]	[0.36]	[0.38]	[0.47]	0.47	0.56	1.00	1.06
EEC with France halved	0.17	0.20	[0.17]	[0.21]	[0.23]	[0.31]	0.30	0.39	0.77	0.79
EEC less France	0.04	0.08	0.04	0.08	0.11	0.20	0.18	0.30	0.75	0.73
"Others"	0.11	0.12	[0.12]	[0.13]	[0.16]	[0.21]	0.24	0.29	0.54	0.62

11. On the exchange rate basis, EEC contributions are a higher percentage of GNP than those of the United States on all the definitions shown. However, with GNP as at US price weights, US public contributions as percentage of GNP somewhat outweigh those of the EEC countries. Even on this basis, total contributions of the EEC countries, including private, somewhat outweigh those of the United States as percentage of GNP. The EEC contributions at each level are shown as considerably outweighing those of the "Others". However, the stated contributions of the "Others" omit transactions of Australia, while Australian GNP has been included in the denominator.

12. A special problem arises because of the uniquely high ratio of contributions to GNP for France. To some extent, close financial relations within the Franc area have assured that capital outflows from France to the remainder of the Franc area are compensated by various return flows. While evidence remains inadequate, it seems likely that the OECD figures indicate a net charge on the French economy which is considerably larger than the actual burden. As an arbitrary allowance for this, a line has been inserted in which the stated French contributions are discounted by 50%. A further line shows the percentages for the EEC group excluding France.

13. Within the EEC group, Belgium and the Netherlands have made very much larger public contributions than Germany, Italy or Luxembourg. Taking pairs of countries, France-UK, Belgium-Canada, Netherlands-Norway, etc., the EEC group still appears as outweighing the "Others", so that there is no argument from size of existing effort for making the EEC group subscribe more heavily to IDA than the "Others".

14. Table 2 explores the hypothetical proposition that IDA subscriptions plus bilateral "soft" contributions ought to form the same proportion of GNP for all countries. Then, to raise IDA contributions of $600 million a year, IDA subscriptions plus bilateral "soft" contributions as in 1960 would have to be roughly 0.37% of GNP on the exchange rate basis or roughly 0.26% of GNP as at US prices. But US, French and Belgian bilateral soft contributions were already above these percentages of GNP in 1960. That is to say, if Part I IDA subscriptions are to total something of the order of $600 million a year, and if they are to be allotted in an effort to compensate for disparities in bilateral soft contributions, then they still could not fully compensate the USA, France and Belgium for their relatively large bilateral soft contributions as in 1960. Moreover, the resulting pattern of contributions would be very odd. The USA, France and Belgium would contribute nothing. About 35% of total contributions would be demanded from Germany and over 15% from Italy. Without further calculations, it is already apparent that any feasible adjustments of IDA subscriptions with the intent of compensating countries for support of development through other channels could only in fact give token compensation.

Table 2

Public Soft Subscriptions at 0.37% of GNP on Exchange Rate Basis of 0.26% of GNP as at US Prices

	0.37% of GNP on exchange rate basis (A)	0.26% of GNP as at US prices (B)	Grants and soft loans 1960 (C)	Residual = IDA subscriptions (A)-(C)	(B)-(C)
USA	1,708	1,137	2,135	a/	a/
UK	231	223	170	61	53
Germany	211	230	8	203	222
France	181	180	729	a/	a/
Canada	117	82	48	69	34
Italy	104	134	9	95	125
Australia	55	46	n.a.	55(-)	46(-)
Belgium	41	36	86	a/	a/
Sweden	40	31	1	39	30
Netherlands	38	42	26	12	16
Denmark	19	18	1	18	17
Austria	18	21	-	18	21
Norway	15	15	1	14	14
Finland	14	15	n.a.	14	15
Luxembourg	2	2	-	2	2
Total	2,794	2,212	3,214	600	595

a/ Negative.

15. Finally there are arguments as in the paper of March 15[1] against accepting the principle that IDA subscriptions should make even token compensations for development support through other channels. It would be undesirable to admit that bilateral contributions to less developed countries may be considered an optional alternative to contributions through multilateral agencies. Moreover, bilateral aid and defense efforts may be regarded as geared in considerable degree to support of specifically national objectives, and to this extent ought nct to be regarded as an acceptable offset to multilateral contributions to development.

Conclusion

16. There may be practical arguments for trying to induce the EEC countries to accept a single IDA subscription to cover the whole group. This subscription should then be nearer 30% of the total for Part I countries than 40%. If the US subscription were put at 40% of the total, this would leave 25-30% to be allocated between Canada, Australia, the UK, the Scandinavian countries and any other Part I countries.

1/ Economic Staff, A Systematic Basis for Assessing IDA Subscriptions of Part I Countries.

(% of total)

	Present IDA subscriptions	Proposed pattern
USA	43.3	40
EEC	20.5a/	30-35
Japan and South Africa	5.9	0?
Others	30.2	25-30

a/ Belgium-Luxembourg not subscribing.

(not for public use)

INTERNATIONAL DEVELOPMENT ASSOCIATION

DECLASSIFIED

Date: 11/15/2010 STB

CONFIDENTIAL

IDA/R62-18

(For consideration on August 14, 1962)

FOR EXECUTIVE DIRECTORS' MEETING

FROM: The President

August 8, 1962

NOTICE OF MEETING

REPLENISHMENT OF IDA RESOURCES

Pursuant to the Executive Directors' discussion that took place on July 17th in connection with the draft IDA Annual Report, there is attached, for consideration by the Executive Directors, a draft report to the IDA Board of Governors making recommendations regarding the replenishment of IDA resources.

This item will be taken up at a meeting to be held on Tuesday, August 14, 1962, immediately following the regular meeting of the Bank's Executive Directors beginning that day at 10:00 a.m. In the event that certain Executive Directors may not feel able to take final action on this draft report at that meeting, a later date will be fixed for further discussion.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

REPORT OF EXECUTIVE DIRECTORS

REPLENISHMENT OF RESOURCES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

1. Article III, Section 1(a) of the Articles of Agreement of the International Development Association provides for a periodic review of the adequacy of the Association's resources.

2. In the light of the circumstances outlined in the following paragraphs of this report, the Executive Directors of the Association are of the opinion that this review should be promptly undertaken.

3. The situation confronting the Association has two separate aspects, namely:

a) the adequacy of the Association's commitment authority, and

b) the availability of funds for disbursement, when needed, for approved credits.

A. Commitment Authority

4. The Association cannot enter into commitments for credits in an aggregate amount that exceeds the amount of its pledged resources. Under the Articles of Agreement, the resources pledged to the Association from the subscription of those Part I and Part II countries which have become members of the Association amount to approximately $760 million in usable (i.e. convertible) currencies.

5. The present position regarding commitments is as follows. On August 8, 1962, total commitments on credits actually approved amounted to $284 million. In accordance with the indications given at meetings of the Indian and Pakistan consortia, the Association will have to consider additional credits amounting to $193 million for those two countries by mid-1963. This would leave only $283 million of usable currencies available for other new credits. The President has informed the Executive Directors that, taking into account the volume of deserving new projects already under active consideration or expected to be presented in the near future, this remaining commitment authority might well be used up by the middle of 1963. If this should happen, the rate of new credit commitments in the fiscal year ending June 30, 1963, would be in the neighborhood of $500 million.

6. With the increasing tempo of development activity in the Association's member countries, and the prospective increase in the number of member countries, the demand for development credits after June 30, 1963, is not likely to be at any lower rate. Consequently, a serious hiatus could occur in the operations of the Association by the middle of 1963 unless by that time the Association has received new commitment authority.

B. The Association's Estimated Disbursements

7. The Association's pledged resources in usable currencies of approximately $760 million are being made available in five annual instalments, commencing in November 1960.

8. There is an inevitable and substantial lag between commitment and disbursement. The Executive Directors are advised that if the Association continues to process at the normal pace the deserving projects now under active consideration and new projects likely to be presented, payment of these instalments on the due dates will cover the requirements for disbursements on the Association's credits during the first five years of operations, including both disbursements arising from commitment of the Association's existing resources and those arising from any new commitments that would be made on the basis of any replenishment of the Association's resources. However, fresh funds in convertible currencies should start coming into the Association's hands in 1965.

C. Recommendations

9. If the Association is to be placed in a position to continue to make commitments after the middle of 1963, and is to have available, beginning in 1965, additional funds for disbursement, legislative action on the part of many members would be necessary, and governments would have to be in a position to submit proposals to legislatures at the beginning of 1963 at the latest. This, in turn, means that before the end of 1962 there should be agreement among the Association's member governments on such major issues as the amount of additional resources to be made available to the Association; the schedule for calling up these resources; the basis for distributing the incidence of the increase; and the relationship between new contributions and voting power.

10. Accordingly, the Executive Directors propose that they be instructed by the Board of Governors to embark promptly upon consideration of these and related questions and to submit specific proposals for the consideration of governments at the earliest possible date and in any case before the end of 1962. A draft resolution which would accomplish this purpose is attached.

INTERNATIONAL DEVELOPMENT ASSOCIATION

(DRAFT RESOLUTION)

Resources of the Association

RESOLVED:

THAT the Executive Directors are requested to consider the prospective financial requirements of the International Development Association, and to prepare and submit a report thereon to the Board of Governors of the Association at the earliest possible date and, in any event, before December 31, 1962.

Form No. 60
(9-60)

Mr. de Wilde

International Bank for Reconstruction and Development

CONFIDENTIAL
DECLASSIFIED
Date: 11/15/2010 STB

STAFF LOAN COMMITTEE

SLC/A/61-16

FROM: Secretary, Staff Loan Committee

April 12, 1961

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Monday, April 17, 1961, at 11:00 a.m. in Room 1006

AGENDA

IDA Development Credit Regulations

The Committee will consider the attached draft Development Credit Regulations No. 1 of the International Development Association.

Article III of these Regulations, not yet ready, will be distributed before the meeting.

DISTRIBUTION

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Director of Investments (IFC)

Mr. Sella

CONFIDENTIAL DRAFT
(Subject to Change)
April 12, 1961

INTERNATIONAL DEVELOPMENT ASSOCIATION

DEVELOPMENT CREDIT REGULATIONS NO. 1

Dated __________, 1961

ARTICLE I

Purpose; Application to Development Credit Agreements

Section 1.01. Purpose. The purpose of these Regulations is to set forth certain terms and conditions generally applicable to development credits made by the Association directly to its members.

Section 1.02. Application of Regulations. Any development credit agreement between the Association and a member may provide that the parties thereto accept the provisions of these Regulations. To the extent so provided, these Regulations shall apply to such agreement and shall govern the rights and obligations thereunder of the parties thereto with the same force and effect as if they were fully set forth therein. No revocation or amendment of these Regulations shall be effective in respect of any development credit agreement unless the parties thereto shall so agree.

Section 1.03. Inconsistency with Development Credit Agreements. If any provision of a development credit agreement is inconsistent with a provision of these Regulations, the provision of the agreement shall govern.

ARTICLE II

Credit Account; Service Charges; Repayment; Place of Payment

Section 2.01. Credit Account. The amount of the Credit shall be credited to a Credit Account which the Association shall open on its books in the name of the Borrower. The amount of the Credit may be withdrawn from the Credit Account as provided in the Development Credit Agreement and in these Regulations.

Section 2.02. Service Charges. A service charge at the rate specified in the Development Credit Agreement shall be payable on the principal amount of the Credit withdrawn from the Credit Account and outstanding from time to time. A special service charge shall be payable on account of any special commitment pursuant to Section 4.02 at the rate specified in the Development Credit Agreement for such special commitments.

Section 2.03. Computation of Service Charges. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 2.04. Repayment.

(a) The principal amount of the Credit withdrawn from the Credit Account shall be repayable in accordance with the amortization schedule to the Development Credit Agreement.

(b) The Borrower shall have the right to repay in advance of maturity (i) all of the principal amount of the Credit at the time outstanding or (ii) all or part of the principal amount of any one or more maturities, provided that on the date of such prepayment there shall not be outstanding any portion of the Credit maturing after the amount to be prepaid.

Section 2.05. Place of Payment. The principal of, and service charges on, the Credit shall be paid at such place or places as the Association shall reasonably request.

ARTICLE III

Currency Provisions

[to be supplied]

ARTICLE IV

Withdrawal of Proceeds of Credits

Section 4.01. Withdrawal from the Credit Account. The Borrower shall be entitled to withdraw from the Credit Account (i) such amounts as shall have been paid for the reasonable cost of goods to be financed under the Development Credit Agreement; and (ii), if the Association shall so agree, such amounts as shall be required to meet payments to be made for the reasonable cost of such goods. Except as shall be otherwise agreed between the Association and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the Effective Date or (b) expenditures in the currency of the Borrower, or for goods produced in (including services supplied from) the territories of the Borrower or (c) expenditures in the territories of any country (other than Switzerland) which is not a member of the Bank or for goods produced in (including services supplied from) such territories.

Section 4.02. Special Commitments by the Association. Upon the Borrower's request and upon such terms and conditions as shall be agreed upon between the Association and the Borrower, the Association may enter into special commitments in writing to pay amounts to the Borrower or others in respect of the cost of goods notwithstanding any subsequent suspension or cancellation.

Section 4.03. Applications for Withdrawal or for Special Commitment. When the Borrower shall desire to withdraw any amount from the Credit Account or to request the Association to enter into a special commitment pursuant to Section 4.02, the Borrower shall deliver to the Association a written application in such form, and containing such statements and agreements, as the Association shall reasonably request. Applications for withdrawal, with the necessary documentation as hereinafter in this Article provided, shall, except as the Association and the Borrower shall otherwise agree, be made promptly in relation to expenditures for the Project.

Section 4.04. Supporting Evidence. The Borrower shall furnish to the Association such documents and other evidence in support of the application as the Association shall reasonably request, whether before or after the Association shall have permitted any withdrawal requested in the application.

Section 4.05. Sufficiency of Applications and Documents. Each application and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Association that the Borrower is entitled to withdraw from the Credit Account the amount applied for and that the amount to be withdrawn from the Credit Account is to be used only for the purposes specified in the Development Credit Agreement.

Section 4.06. Payment by Association. Payment by the Association of amounts which the Borrower is entitled to withdraw from the Credit Account shall be made to or on the order of the Borrower.

ARTICLE V

Cancellation and Suspension

Section 5.01. Cancellation by the Borrower. The Borrower may by notice to the Association cancel all or any part of the Credit which the Borrower shall not have withdrawn prior to the giving of such notice, except that the Borrower may not so cancel any amount of the Credit in respect of which the Association shall have entered into a special commitment pursuant to Section 4.02.

Section 5.02. Suspension by the Association. If any of the following events shall have happened and be continuing, the Association may by notice to the Borrower suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account:

(a) A default shall have occurred in the payment of principal or service charges or any other payment required under the Development Credit Agreement or any other development credit agreement or any guarantee agreement between the Borrower and the Association.

(b) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower under the Development Credit Agreement.

(c) The Bank shall have declared the principal of a loan provided for in any loan agreement between the Borrower and the Bank or in any loan agreement with the Bank guaranteed by the Borrower to be due and payable in advance of the agreed maturity of such loan.

(d) The Bank (i) shall have suspended in whole or in part the right of the Borrower to make withdrawals under any loan agreement between the Borrower and the Bank, or (ii) shall have suspended in whole or in part the right of the borrower to make withdrawals under any loan agreement with the Bank guaranteed by the Borrower because of a default on the part of the Borrower.

(e) An extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations under the Credit Agreement.

(f) The Borrower shall have been suspended from membership in or ceased to be a member of the Association.

(g) The Borrower shall have ceased to be a member of the International Monetary Fund or shall have become ineligible to use the resources of said Fund under Section 6 of Article IV of the Articles of Agreement of said Fund or shall have been declared ineligible to use said resources under Section 5 of Article V, Section 1 of Article VI or Section 2 (a) of Article XV of the Articles of Agreement of said Fund.

(h) After the date of the Development Credit Agreement and prior to the Effective Date any event shall have occurred which would have entitled the Association to suspend the Borrower's right to make withdrawals from the Credit Account if the Development Credit Agreement had been effective on the date such event occurred.

(i) Any other event specified in the Development Credit Agreement for the purposes of this Section shall have occurred.

The right of the Borrower to make withdrawals from the Credit Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to exist or until the Association shall have notified the Borrower that the right to make withdrawals has been restored, whichever is the earlier; provided, however, that in the case of any such notice of restoration, the right to make withdrawals shall be restored only to the extent and subject to the conditions specified in such notice, and no such notice shall impair any right, power or remedy of the Association in respect of any other or subsequent event described in this Section.

Section 5.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days or (b) by the date specified in the Development Credit Agreement as the Closing Date an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may by notice to the Borrower terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice such amount of the Credit shall be cancelled.

Section 5.04. Application of Cancellation or Suspension to Amounts Subject to Special Commitment. No cancellation or suspension pursuant to this Article shall apply to amounts subject to any special commitment entered into by the Association pursuant to Section 4.02 except as expressly provided in such commitment.

Section 5.05. Application of Cancellation to Maturities of the Credit. Except as otherwise agreed between the Association and the Borrower, any cancellation shall be applied pro rata to the several maturities of the principal amount of the Credit as set forth in the amortization schedule to the Development Credit Agreement.

Section 5.06. Effectiveness of Provisions after Suspension or Cancellation. Notwithstanding any cancellation or suspension all the provisions of these Regulations and the Development Credit Agreement shall continue in full force and effect except as in this Article specifically provided.

ARTICLE VI

Enforceability of Development Credit Agreement; Failure to Exercise Rights; Arbitration

Section 6.01. Enforceability. The rights and obligations of the Association and the Borrower under the Development Credit Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any state, or political subdivision thereof, to the contrary. Neither the Association nor the Borrower shall be entitled in any proceeding under this Article to assert any claim that any provision of these Regulations or the Development Credit Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of the Association or for any other reason.

Section 6.02. Failure to Exercise Rights. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the Development Credit Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 6.03. Arbitration.

(a) Any controversy between the parties to the Development Credit Agreement and any claim by either such party against the other arising under the Development Credit Agreement which shall not be determined by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Association and the Borrower.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the Association; a second arbitrator shall be appointed by the Borrower; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought, and the name of the arbitrator appointed by the party instituting such proceeding. Within 30 days after the giving of such notice, the adverse party shall notify the party instituting the proceeding of the name of the arbitrator appointed by such adverse party.

(e) If, within 60 days after the giving of such notice instituting the arbitration proceeding, the parties shall not have agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) Subject to the provisions of this Section and except as the parties shall otherwise agree, the Arbitral Tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to all parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Loan Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties to the Development Credit Agreement and any claim by either party against the other party arising thereunder.

(k) The Association shall not be entitled to enter judgment against the Borrower upon the award, to enforce the award against the Borrower by execution or to pursue any other remedy against the Borrower for the enforcement of the award, except as such procedure may be available against the Borrower otherwise than by reason of the provisions of this Section. If, within 30 days after counterparts of the award shall be delivered to the parties, the award shall not be complied with by the Association, the Borrower may take any such action for the enforcement of the award against the Association.

(l) Service of any notice or process in connection with any proceeding under this Section or (to the extent that such remedy shall be available) in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 7.01. The parties to the Development Credit Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. Notices and Requests. Any notice or request required or permitted to be given or made under the Development Credit Agreement and any agreement between the parties contemplated by the Development Credit Agreement shall be in writing. Except as otherwise provided in Section 8.03 such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or radiogram to the party to which it is required or permitted to be given or made at such party's address specified in the Development Credit Agreement, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 7.02. Evidence of Authority. The Borrower shall furnish to the Association sufficient evidence of the authority of the person or persons who will sign the applications provided for in Article IV or who will, on behalf of the Borrower, take any other action or execute any other documents required or permitted to be taken or executed by the Borrower under the Development Credit Agreement, and the authenticated specimen signature of each such person.

Section 7.03. Action on Behalf of Borrower. Any action required or permitted to be taken, and any documents required or permitted to be executed, under the Development Credit Agreement on behalf of the Borrower may be taken or executed by the representative of the Borrower designated in the Development Credit Agreement for the purposes of this Section or any person thereunto authorized in writing by him. Any modification or amplification of the provisions of the Development Credit Agreement may be agreed to on behalf of the Borrower by written instrument executed on behalf of the Borrower by the representative so designated or any person thereunto authorized in writing by him; provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Borrower under the Development Credit Agreement. The Association may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of the Development Credit Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Borrower thereunder.

Section 7.04. Execution in Counterparts. The Development Credit Agreement may be executed in several counterparts, each of which shall be an original. All such counterparts shall collectively be but one instrument.

ARTICLE VIII

Effective Date; Termination

Section 8.01. Conditions Precedent to Effectiveness of Development Credit Agreement. The Development Credit Agreement shall not become effective until evidence satisfactory to the Association shall have been furnished to the Association that

(a) the execution and delivery of the Development Credit Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental action, and

(b) all other events specified in the Development Credit Agreement as conditions to its effectiveness have occurred.

Section 8.02. Legal Opinions. As part of the evidence to be furnished pursuant to Section 8.01, the Borrower shall furnish to the Association an opinion or opinions satisfactory to the Association of counsel acceptable to the Association showing:

(a) that the Development Credit Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and constitutes a valid and binding obligation of the Borrower in accordance with its terms;

(b) such other matters as shall be specified in the Development Credit Agreement.

Section 8.03. Effective Date. Except as shall be otherwise agreed by the Association and the Borrower, the Development Credit Agreement shall come into force and effect on the date upon which the Association dispatches the Borrower notice of its acceptance of the evidence required by Section 8.01.

Section 8.04. Termination of Development Credit Agreement for Delay in Becoming Effective. If all acts required to be performed pursuant to Section 8.01 shall not have been performed before the date specified in the Development Credit Agreement for the purposes of this Section or such other date as shall be agreed upon by the Association and the Borrower, the Association may at any time thereafter at its option terminate the Development Credit Agreement by notice to the Borrower. Upon the giving of such notice the Development Credit Agreement and all obligations of the parties thereunder shall forthwith terminate.

Section 8.05. Termination of Development Credit Agreement on Full Payment. If and when the entire principal amount of the Credit and all charges which shall have accrued on the Credit shall have been paid, the Development Credit Agreement and all obligations of the parties thereunder shall forthwith terminate.

ARTICLE IX

Definitions; Headings

Section 9.01. Definitions. Except where the context otherwise requires, the following terms have the following meanings wherever used in these Regulations or any Schedule hereto or in a development credit agreement to which these Regulations have been made applicable:

1. The term "Association" means International Development Association.

2. The term "Bank" means International Bank for Reconstruction and Development.

3. The term "Development Credit Agreement" means the particular development credit agreement to which these Regulations shall have been made applicable, as amended from time to time; and such term includes these Regulations as thus made applicable, all agreements supplemental to the Development Credit Agreement and all schedules to the Development Credit Agreement.

4. The term "Credit" means the development credit provided for in the Development Credit Agreement.

5. The term "Borrower" means the member of the Association to which the Credit is made available.

6. The term "currency" means such coin or currency as at the time referred to is legal tender for the payment of public and private debts in the territories of the government referred to. Whenever reference is made to the currency of the Borrower, the term "currency" includes the currencies of all territories on whose behalf at the time referred to the Borrower has accepted membership in the Association.

7. The term "dollars" and the sign "$" mean dollars in currency of the United States of America.

8. The term "Credit Account" means the account on the books of the Association to which the amount of the Credit is to be credited as provided in Section 2.01.

9. The term "Project" means the project or projects or program or programs for which the Credit is granted, as described in the Development Credit Agreement and as the description thereof shall be amended from time to time by agreement between the Association and the Borrower.

10. The term "goods" means equipment, supplies and services which are required for the Project. Wherever reference is made to the cost of any goods, such cost shall be deemed to include the cost of importing such goods into the territories of the Borrower.

11. The term "Effective Date" means the date on which the Development Credit Agreement shall come into force and effect as provided in Section 8.03.

12. The term "tax" and "taxes" shall include imposts, levies, fees and duties of any nature, whether in effect at the date of the Development Credit Agreement or thereafter imposed.

Reference in these Regulations to Articles or Sections are to Articles or Sections of these Regulations; references in a development credit agreement to Articles or Sections are to Articles or Sections of such agreement.

Section 9.02. Headings. The headings of the Articles and Sections and the Table of Contents are inserted for convenience of reference only and are not a part of these Regulations.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

DECLASSIFIED

Date: 11/15/2010 SJB

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Mr. Eugene R. Black

FROM: J. Burke Knapp

April 4, 1962

SUBJECT: Replenishment of IDA Resources

The following memorandum reflects the consensus of thinking in the Bank on the above subject.

The time is fast approaching when a replenishment of IDA resources must receive active consideration of governments.

The latest forecast (probably a little optimistic) indicates that IDA commitments during the fourteen months ending June 30, 1962, will come to $294 million, less than 40% of the convertible currency resources available to IDA from its initial subscriptions (approximately $760 million).

However, IDA's "work in progress" is building up fast. Credits to India and Pakistan will be accelerating rapidly as we move toward fulfilling the commitments made for a $250 million contribution to India* and a $135 million contribution to Pakistan by June 1963. The figure given above for commitments by June 30, 1962, includes $120 million for India and $39 million for Pakistan. Thus in the fiscal year 1962-63 we are planning additional commitments of $130 million to India and $96 million to Pakistan, which would leave only $240 million of IDA funds available to meet the needs of other areas after June 30, 1962. This $240 million might possibly be used up during the fiscal year 1962-63 as follows:

Africa	$85 million
Far East	$75 million
Latin America	$50 million
Turkey-Syria	$30 million

This program, if achieved, would mean total IDA commitments of nearly $500 million in the next fiscal year. While this seems unlikely, if only because of sheer processing difficulties, IDA's convertible currency resources will probably be fully committed by the Fall of 1963.** Furthermore, as a practical matter, forward planning of IDA activities will become very difficult well before commitment authority has actually run out. For example, when the Indian Consortium meets this Fall to consider the final three years of the Third Plan, IDA will have to say that it has no money to commit beyond June 1963.

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*Actually our only firm commitment to India at the present time is for $200 million in the period ending April 1963; however, we have actually reserved $250 million of IDA funds for India and there is no doubt that this will be needed for commitment by June 1963 or even earlier.

**A further possibility which will undoubtedly be pressed on us by many countries is an IDA contribution to the Indus gap.

IDA funds must therefore be replenished by mid-1963 if there is not to be a serious hiatus in IDA's program. For this purpose action would have to be taken by the U.S. Congress in the first half of 1963; this means that provision for the replenishment of IDA would have to be included in the U.S. Budget which will be presented to Congress in January 1963 and which will be in the final stages of preparation by the Administration in November-December 1962.

In the light of this time-table, the following course of action is proposed:

1) Prepare a memorandum from the President of IDA to the Executive Directors setting forth the facts outlined above, for delivery to governments by June of this year (the later the better from the point of view of reporting actual IDA progress, but - bearing in mind the August holidays - late in June is probably as long as it can wait).

2) Have a resolution passed at the Annual Meeting calling upon governments to consider fresh contributions to IDA and requesting the Executive Directors to pursue the matter. Presumably the United States would be willing to introduce such a resolution but it would certainly be preferable to have this initiative taken by a European country, possibly the Common Market countries acting as a group.

3) Hold meetings of the Executive Directors in October to negotiate the amount of the increase in IDA resources, the distribution thereof among the participating countries, the relation of contributions to voting power, etc.

What IDA will need is a replenishment of commitment authority, not an acceleration of actual calls for funds. Rough calculations indicate that even at the maximum commitment rate contemplated above, the present schedule of calls on initial subscriptions would provide sufficient funds to cover disbursements.

The question arises of how large a replenishment for IDA should be sought, and for how long a period. By mid-1963 only about two and a half years will remain of the initial 5-year period for which IDA funds were provided and this is obviously too short for replenishment purposes. The IDA Charter contemplates 5-year renewal periods. It would seem wise to take advantage of this and to seek adequate commitment authority for IDA for the 5 years from June 30, 1963; this would leave open the possibility of a subsequent retreat to 3 years. Further consideration would have to be given to the schedule for actual calls (this point is considered at greater length below).

As to the amount of replenishment, it may be noted that in the four months to June 1962 IDA will have been committing funds at the rate of $20 million a month; and in the fiscal year 1962-63, at the rate of perhaps

$35 to $40 million a month. Basically the scale of replenishment will depend upon the extent to which the capital-exporting countries decide to use multilateral rather than bilateral channels for their development assistance, particularly the portion taking "soft loan" form. It is suggested that an acceleration of IDA commitments to say $50 million a month during the next five years would be reasonable. For example, if half of this were to be devoted to India and Pakistan it would cover no more than about a quarter of the expected requirements of these countries from Consortium sources (excluding PL 480 and private investment).

How then could IDA funds be replenished in such a manner as to provide $50 million a month ($600 million a year) in convertible currencies?

This figure would be approximately achieved if there were an across-the-board increase in IDA subscriptions* in the amount of $4 billion for five years; taking account of the inconvertible currencies contributed by Part II countries, this would yield about $3.3 billion in usable form.

The disadvantage of this procedure is the very substantial burden which it would place upon Part II countries both in actual convertible currency contributions and in the creation of large paper obligations in local currencies. These countries could, of course, abstain from the next round of contributions but (in the absence of special measures to the contrary) they would lose voting power. A further deterrent would be created for the accession to membership in IDA by such "middle" countries as Argentina, Venezuela, Portugal, Lebanon, etc. who would have to put up substantial money to IDA without much expectation of assistance from that source.

It would be far preferable to follow an alternative procedure which would place upon Part I countries the burden of providing the additional IDA resources but would leave the present balance of voting power unchanged, at least as between the Part I and Part II countries. Indeed much the best solution would be to let voting power continue to be determined by the initial subscriptions, and to let the Part I countries agree upon a new $3 billion round of IDA contributions which would not carry voting power.

This is quite possible under the IDA Charter, and should be politically practicable despite the fact that the present distribution of the burden of IDA financing among the Part I countries will almost certainly not be maintained in the next round. Aside from the cases of Belgium and the Netherlands, it seems clear that the U.K. will not participate next time in its present rather out-size proportion. Also, the Common Market countries might well be expected to assume a substantially higher proportion not only because of their rising economic strength, but also because they are doing little if anything (exception made for France) in the way of bilateral "soft loans". Yet the changes may not be so very great and in any case voting power in IDA is not so very important, especially since in the election of directors it is the Bank pattern of voting power and not the IDA pattern which counts.

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*At this point and subsequently it is assumed that Belgium becomes a member of IDA.

The U.S. has subscribed to 34% of the total IDA capital to date but this has meant contributing 41% of IDA's convertible resources. Suppose the U.S. took 40% of the projected $3 billion; the rest might fall into place something like as follows:

Percentage Contribution of Convertible Currencies

	Initial subscriptions	Replenishment	Share in $3 billion
U.S.	41 %	40 %	1.2
Common Market	22.5	30	0.9
U.K.	17	13	0.4
Other Part I countries	17.5	17	0.5
Total	100	100	$3.0

The main problem will be to get the European countries, including the U.K., to agree upon an appropriate reallocation of their shares. Not much change can be expected in the case of the Part I countries outside of Europe, except for Canada which on any test of national income ought to make a substantially larger contribution.

The question remains of how fast the new funds would have to be called up. Attached is a chart which provides at least a tentative answer to this question. The top line shows the forecast for IDA credit commitments based on the assumption that these would proceed at the rate of $600 million a year after June 1963, when the initial funds are assumed to be fully committed.

The lower line shows the rate at which such commitments would actually be disbursed, based upon conservative assumptions derived from past Bank and IDA experience. The middle (jagged) line shows: first, through November 1964, the present program for calling up initial subscriptions; and then, commencing in July 1965, a suggested program for calling up $600 million a year from the new funds.

You will note that whereas we will be seeking commitments by the legislatures of the Part I countries by mid-1963, it would be possible to wait for two years before actually calling up the first of the new money. Payment of the new notes over a period of 5 years thereafter would still leave IDA with very ample cash margins.

Form No. 60
(9-60)

IDA Mr. Rist

International Bank for Reconstruction and Development CONFIDENTIAL

STAFF LOAN COMMITTEE

SLC/A/61-5

DECLASSIFIED

FROM: Secretary, Staff Loan Committee Date: 11/15/2010 STB February 8, 1961

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Thursday, February 9, 1961, at 2:30 p.m. in Room 1006

AGENDA

IDA Operations

The Committee will consider the attached draft statement for Mr. Black for the meeting of the IDA Executive Directors on February 14 and a draft briefing for Mr. Black's use at the meeting.

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Mrs. Boskey

DRAFT

February 8, 1961

STATEMENT FOR MR. BLACK FOR FEBRUARY 14 IDA DIRECTORS' MEETING

I want now to give you a progress report on what we have been doing to find projects suitable for IDA financing. As you know, even before IDA came into existence we urged governments to call possible IDA projects to our attention. In addition, Bank missions have been actively looking out for likely IDA projects all over the world, not just in countries which have joined IDA but also elsewhere. We have made quite substantial progress, although it is apparent that it will still take some time to get IDA into full swing.

One delaying factor is the slowness of many countries to complete formalities of membership. Out of 49 Part II countries, for example, only 25 have become members of IDA up to the present time. I am sure that we all want to see IDA become as broadly based an institution as possible and I hope that all of you will continue to press for action by the countries you represent who have not yet joined the Association. Of course, not all of the Part II countries will necessarily be receiving IDA loans; some will have entirely ample creditworthiness with the Bank and others will lack creditworthiness for conventional loans only because they are pursuing unsound economic and financial policies. It seems clear to me, however, that many of the countries that have not yet taken out membership in IDA would in fact be very well suited for IDA operations during the early stages of its development.

Another thing that takes time is the selection and appraisal of projects submitted for IDA financing. As you know, we propose to maintain high standards for the preparation and execution of IDA projects, and even with the increased staff which we have been building up for this purpose, especially in our Department of Technical Operations, the processing of these projects cannot be pressed forward beyond a certain pace. The pipeline is beginning to fill up, however, and we should soon have a flow of IDA loan proposals ready to come forward for your consideration.

In order to give you at this time a preview of the sort of IDA operations which we are planning for, I should like to review with you briefly the principal projects which we are actively working on in the different geographic areas. I do so mindful of the risk that some of these projects, contrary to present expectations, may never materialize. For the most part, however, I am confident that they can be carried forward to a successful conclusion.

Let me start with South Asia and the Middle East.

(Follow with brief description of state of play in "active" IDA countries.)

* * * * *

I have deliberately included in this catalogue projects at widely differing stages of preparation to give you an idea of the range and variety of activity on the IDA front. As I have indicated, in some cases we have not yet had a chance to examine the government's suggestions at all; in other cases we have made only a preliminary investigation and some of these may well be discarded. On the other hand, there are some that are quite far along and will almost surely result in a loan operation.

In the circumstances, it is difficult to predict the pace of IDA operations. We hope to be able to bring the first loans to the Board within the next two or three months. The volume will build up as the preparatory work bears fruit and as additional countries join the Association.

* * * * *

I think we are all agreed that we should approach the formulation of IDA policies through the consideration of specific cases, rather than through formal discussion of policies in the abstract. You will remember, however, that at an earlier IDA meeting I said that the management did not desire, in IDA's early days, to confront the Directors with fully negotiated loans, embodying financial terms on which the Directors had not been given a prior opportunity to express an opinion. I told you that when we were approaching the point of negotiating terms for a specific operation, we would report on what we had in mind and see whether you approved.

Among the projects I have mentioned today, there are two or three which may come along fairly soon, namely the Roseires dam project in the Sudan, the highway project in Honduras, and perhaps the water supply projects in Jordan. While we do not intend that the terms on which these projects are negotiated should necessarily establish a pattern for IDA loans in general, I want to tell you what we think would be appropriate for these particular projects. I suggest that, as soon as I finish my statement, the text should be distributed to all of you and that we proceed to a general discussion. I don't think we should try to make any definite decisions today and I would propose resuming our consideration in about two weeks. I would hope that at that time you could provide some definite guidance as to the terms to be established for these initial IDA loans.

We have in mind for these loans a 50-year maturity and a 10-year period of grace. We would require that they be amortized in foreign exchange, on a schedule calling for 1% of the principal to be repaid each year from the eleventh to the twentieth year, and for 3% of the principal to be repaid each year during the remaining 30 years. The loans would not carry interest or commitment charge. We would ask, however, a service charge of 3/4 of 1%

payable in foreign exchange on the disbursed and outstanding amount of the loan. This would be designed to provide IDA with income from which to meet its administrative expenses, and would be reviewed from time to time in the light of experience.

Of course, where the project being financed is one which by its nature can and should be revenue-producing and self-liquidating, at least in terms of local currency (e.g., the Roseires project), it would not be appropriate to extend to the project itself the concessional financial terms outlined above. Our thought is that in such cases we should normally make the IDA loan to the government, with the proceeds to be re-lent to the ultimate borrower, whether a public or private entity, on "conventional" terms. By that I mean terms comparable to those which would govern an International Bank loan for a similar project.

I should greatly welcome at this time any comments that the Executive Directors may have with regard to my statement.

DRAFT

February 8, 1961

BRIEFING FOR FEBRUARY 14 IDA DIRECTORS' MEETING

There are set forth below some points about which Executive Directors may have questions, following Mr. Black's statement, and notes on which a reply may be based.

1. Allocation of IDA funds

There will be no advance allocation of funds country-by-country. The important thing is to get started and, at least for a while, we intend to take projects as they come. We will try to assure a wide geographic distribution of loans and it will probably be necessary to place a limit on the amount which we can consider in the case of certain countries (e.g., India) which might otherwise present projects which would absorb a disproportionate amount.

2. Country eligibility

All Part II countries are in principle eligible for loans. However some will have ample creditworthiness and can be adequately served by the Bank. Others will lack creditworthiness for Bank loans only because of their unsound economic and financial policies and they should not be encouraged through IDA loans to continue the pursuit of such policies.

IDA loans should be reserved to those countries which for reasons beyond their control cannot finance a satisfactory rate of development with their own resources plus conventional financing. Also, it appeared to be the sense of the Charter discussions that priority be given to the poorer of these countries.

3. Rate of commitment

Too early to say. After a few loan operations, we will be better able to estimate how fast projects will be coming along.

4. Financing of local currency expenditures

Executive Directors have said, informally, that IDA should be somewhat more liberal in financing local currency costs than the Bank has been able to be. We would plan to proceed on that basis.

5. Terms of loans made in local currencies

We have deferred consideration of this issue.

It seems unlikely that IDA will be called on to lend local currencies derived from subscriptions. The bill authorizing the U.S. to turn over some PL 480 proceeds to IDA was not acted on by the last Congress. We understand the question will not be put to the new Congress unless and until IDA expects to have some use for the local currencies.

Mr. Leddy may have something to add.

6. Currency issues

Currency questions, such as denomination of loans and currency of repayment, will be dealt with in loan regulations. These are being drafted and will be submitted for consideration by Executive Directors in due course.

7. Control of "counterpart" funds

This, like other questions of policy, should be considered in the context of a particular case.

Our tentative thinking is that IDA should normally not attempt to control the manner in which a government uses interest or principal payments which it may receive from an ultimate borrower in excess of amounts immediately needed to service IDA loans.

8. Review of service charge

When volume of lending rises to a point at which a lower charge would produce enough income to cover administrative costs, we would consider reducing the charge. We would have in mind reduction on old as well as future loans.

9. <u>Change in borrower's position</u>

We have in mind including in IDA loan regulations a provision for consultation between IDA and borrowers whose economic position has either greatly deteriorated, so that some relaxation of loan terms would be justified, or greatly improved, so that an acceleration of payments would be justified.

9. <u>Change in borrower's position</u>

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(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Cavanaugh

CONFIDENTIAL

SecM60-240 Rev.

FROM: The Secretary

December 19, 1960

ALLOCATION OF CURRENCIES TO LOAN MATURITIES

Attached is a memorandum explaining a new procedure for the allocation of currencies to loan maturities.

Distribution:

Executive Directors and Alternates
President
Vice Presidents
Department Heads

December 16, 1960

ALLOCATION OF CURRENCIES TO LOAN MATURITIES

1. With a continuous increase in the number of loans outstanding and in the number of different currencies used in making disbursements, the Bank is having to deal with an increasing volume of accounting and administrative work which is becoming more and more burdensome. The present paper describes a way of alleviating it.

2. The currencies of more than 30 members have been disbursed to borrowers. For each loan, the Bank maintains records to identify not only each currency repayable by the borrower but also the type of each such currency repayable, i.e., 18% capital, borrowings and earnings. When principal repayments are due from borrowers the Bank has, with certain exceptions, recovered on a pro rata basis the different currencies out on the loan and apportioned them pro rata between the different types of each currency. Under this system, the apportionment pro rata of a dozen currencies and as many as three types of some of these currencies to 40 or more maturities of an individual loan is often required. As these funds are recovered from borrowers and disbursed on other loans, there is a tendency for a progressive fractionalization through an increasing number of borrower's accounts. Also the present practice of allocating the different types of a currency to specific maturities introduces an element of inflexibility in the borrowing operations of the Bank. For example when the Bank borrowed Deutsche Marks with a 3-year maturity it had to disburse them on loans which had maturities falling due within 3 years. Disbursements had to be spread over a large number of loans and it took about one year to utilize the borrowed DM. Thus short- and medium-term funds, even though they may be the least

expensive and perhaps the most readily available, may, under the present system, prove to be unusable.

3. The Bank must continue to record the amounts of each different currency due under any particular loan in order that the Bank and the borrower will know the payment obligations under the loan. However, it makes no difference to a borrower whether his obligation to pay a certain amount of a particular currency is the result of a disbursement of 18% funds, borrowed funds or earnings. His only concern is that he has to provide a certain amount of a certain currency.

4. Moreover, the Bank must continue to record, in respect of the total amount of any particular currency out on loan, the amount which represents respectively 18% funds, borrowed funds and earnings. In the past, as stated in paragraph 2 above, the Bank has not only recorded this, but has also made specific allocations so that at any time the type of each currency used on any single loan could be seen from the Bank's records.

5. The procedure now proposed is to discontinue recording the different types of each currency <u>in each loan</u>. The proposed system would be based on the rule that in respect of the amount of each currency disbursed and outstanding <u>in all loans</u>, the first amounts to be recovered would be deemed to be borrowed funds and earnings (hereinafter referred to as unrestricted funds) until no unrestricted funds are outstanding, and only then would amounts recovered be deemed to be 18% funds.

6. The way in which this system would be applied is described below:

(a) <u>A repayment or sale of part of a loan</u>

Under the procedure proposed, the proceeds of the repayment or sale would be deemed to be unrestricted funds (up to the limit of the total unrestricted funds on loan in that particular currency) and the balance, if any, would be deemed to be 18% funds.

(b) <u>An amount of a loan written off as a loss</u>

As under (a) above the loss would be deemed to be of unrestricted funds to the limit of the total amount of unrestricted funds outstanding on loan in that currency, and to the extent that this total did not cover the loss, the loss would be deemed to be in 18% funds.

(c) <u>A change in the value of a member's currency</u>

A change in the value of a member's currency calls for a payment to be made either by the member or the Bank as the case may be, in respect of that member's subscription under Article II, Section 9. At present these payments have to be made when the maturities of loans to which the 18% currency of the member in question have been allocated fall due. Under the proposed procedure the Bank, at the time a change in the value of the member's currency occurs, would determine the amount of unrestricted and 18% currency of such member then on loan and the first amounts of such currency recovered thereafter (up to the total amount of unrestricted funds then on loan in that currency) would be deemed to be unrestricted funds and the subsequent amounts 18% funds.

(d) A decision by a member no longer to allow the Bank the use of its 18% subscription

The procedure similar to that outlined in (c) above would be applied at the time the member so notified the Bank.

7. The change is of a technical nature and is primarily one of accounting procedure. It is proposed to start this new system on January 1, 1961.