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OPNSV
SENIOR VICE PRESIDENT
QURESHI'S SUBJECT FILES

IDA Meeting briefings
October 1985

IDA 7

1

Helpful discussion of Complex issue.
Diff of views - but Common threads - my colleagues.

(1)

1. Global nature of IDA - Sending of Afr Facility + Recomplementing
2. IDA's significance to problems of poorest countries
Needed even more today than before
3. Welcomed suggestion of Mgmt re commencement of IDA 8 negotiations - Time table seems agreeable as a working basis.
4. Take up some of the main issues.
a) Third Window: no support.
b) Allocation:

Economic Performance "high on the agenda" German
Individual projects Properly directed
Performance should not be the sole criteria re eligibility - Should not
Germany Same amount should be allocated for policy change as at present (includ Afr. Facility)
Allow flexibility to Mgmt.
Geographical allocation:
Virtually all speakers Africa: Priority to be given to it
" India & China should continue to be recipients
Question of the balance - Some satisfied with current balance - others feel that some modest adjust in favour of Africa needed -
Deputies have pointed out Issue linked with overall size + other sources -
Have sense of direction - No disruptive adjustment - Current flows should as a minimum be preserved - Depends

~~Bl~~ Denmark :

Italy : share for Africa has been maintained
Blend countries ... to benefit

See some changes in terms & conditions
but not as a substitute for
Selective approach.

make Canada :
loan
not loan
Performance.
Some increase in interest charge
Prepared to go along with changes in product.
in maturity structure & grace period.

Austria

Does not favor interest charge.
Shorter maturities
agrees with low interest on some
higher countries
Performance: like pa
No diff. terms by project.
Third window: Not much enthusiasm

United States:

U.S.

Policy

Econ Performance criteria impt for allocation.

Country allocation. Africa: highest priority
Modest downward adj in India & China.
A longterm commitment – largest share possible –
Differentiation amongst African Countries.

Terms Adjustment:
Hardening of terms
Maturity shortening for all IDA recipients
Modest decrease for all IDA borrowers.
Int Charges on a selective basis – flexibility to management – mgmt must more flexibility
Contractual Arrangement – Trigger for adjustment

France:

IDA needed today more than yesterday.
Raise interest rates for IDA – No –
Allocation Criteria
Relative Property
Ext Fin Situation
Availability & Capacity of the Country – Performance
Case by Case basis.

The Deputies reaffirmed their support for IDA

Differentiation of the terms

Netherlands.

Lueyson

There was broad support for maintaining the principal features

Views differed among deputies on selectivity.

Sub Saharan Africa - Priority

Australia: allocation: Global character
Performance - good - approach in the paper
Keep to blending - Does not want to
commit on

Finland:

Norway - No generalized hardening of terms.

Ireland: No shift
Performance important.
Likes blending.

Germany: Hardening of terms - we have opposition
Can see some differential hardening
of

Netherlands

Country focus allows more
conditionality
Graduation: Limit should not
be exceeded
Blending

Legit [illegible] basis for disbursements discussion

Sweden: Gradual approach should be
continued.

Voting rights

Japan: China's share not too high.
Current volume of flow to
be secured
Not prepared to see diff by projects

IDA/SecM86-13

FROM: Vice President and Secretary

January 14, 1986

IDA SEVENTH REPLENISHMENT
MID-TERM REVIEW

Meeting of IDA Deputies
Seoul, Korea, October 5, 1985

Attached for information is the "Chairman's Report" on the meeting of IDA Deputies held in Seoul on October 5, 1985.

Distribution

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council

MEETING OF IDA DEPUTIES

Chairman's Report on the Meeting of IDA Deputies held in Seoul, Korea on October 5, 1985

Introduction

1. A meeting of the IDA Deputies was held in Seoul, Korea, on October 5, 1985, under the chairmanship of Mr. Moeen A. Qureshi. The discussion focussed on the paper "A Review of IDA at the Mid-Term of IDA7," dated July 31, 1985, which had been prepared for the meeting. In addition to reviewing the adequacy of IDA7 resources at mid-term, the Deputies undertook to discuss certain aspects of IDA's role and to determine whether IDA's structure was appropriate to the current situation and circumstances of IDA-eligible countries, the objective being to lay the ground for an effective IDA8. The list of Deputies attending is attached (Attachment I).

2. The Chairman thanked the Government of Korea for the warm welcome that had been extended to the Deputies and for the excellent arrangements that had been made. He pointed out that the meeting in Seoul should be a reminder of the possibilities that an organization such as IDA held out, as years ago Korea itself was an IDA recipient. IDA's most successful graduate, Korea, was now represented at the meeting as a donor, one which, he hoped, would play an increasingly prominent role in IDA's affairs.

THE CHAIRMAN'S OPENING STATEMENT

3. The Chairman said that some 20 months earlier the Deputies had decided that the circumstances under which IDA7 had been negotiated warranted a review of the situation at midterm. The paper prepared for the meeting provided the results of that review and key issues regarding the next replenishment of IDA.

4. He recalled that in proposing the mid-term review, Deputies had intended to explore the possibility of securing additional funds for IDA. In the interim, however, efforts to launch a Special Facility for Sub-Saharan Africa had proven successful, and it and other aid institutions had absorbed most of the additional aid funds which had been available. The Special Facility, which would channel quick-disbursing funds to the Sub-Saharan African region in support of policy-reform efforts, was constituted in February and became effective in July, 1985. Total funding made available under the Facility would exceed $1.2 billion.

I. Developments Since Start of IDA7

5. Before reviewing what had happened since commitments under IDA7 had begun last year, the Chairman expressed appreciation to all the donors who had made it possible for the Seventh Replenishment to become effective on schedule. In contrast with previous replenishments, there had been no

unexpected delay on the part of any major donor in taking the necessary administrative and legislative actions.

6. The Chairman then noted that the experience under IDA7 had underlined the trend begun in FY81 of increasingly constrained resources in the face of significantly enlarged demand. The original plan under IDA6 had been to commit $12.4 billion, or SDR9.5 billion (at the then prevailing exchange rate), between FY81-83. With the release of IDA6 resources stretched beyond the original period, it had been possible to commit only $9.5 billion in those three years. Special arrangements for FY84, put in place by 30 donors, prevented a further sharp decline in commitments in that year.

7. For FY85-87 the shortage of resources available under IDA7 would expand the gap between planned and actual IDA programs. The Chairman reported that the reduction in the number of operations being identified and appraised would adversely affect recipient countries' investment programs and policy initiatives. The reductions were most severe in Asia, particularly in India and China. India's share in IDA lending had fallen from 40 percent in 1981 to about 22 percent in 1985. Lending to China had had to be trimmed back to about half of the amount originally planned.

8. In addition to the reallocation among regions in response to the worsening economic conditions in Africa, the constraints on IDA7 resources had also dictated an increasing concentration in the social sectors and on rehabilitation and maintenance projects, thereby forcing IDA to cut back sharply on allocations to projects in the industrial, energy, telecommunications, and transport sectors, especially in the blend countries.

9. IDA7 resources had been further eroded by exchange rate movements and by the collective inability to fill the unallocated gap of 2.6 percent in unsubscribed contributions. At last count the total resources available under IDA7, negotiated at $9 billion, had a value of about US$8.6 billion.

10. The Chairman pointed out that concomitant with the decline in IDA resources, had been a deterioration in the conditions in most recipient countries, especially in Africa. Economic recovery in the industrial world, and in some parts of the developing world, had largely eluded IDA-eligible countries and in some IDA countries per capita income and food production continued to decline. Moreover, with Africa's debt overhang absorbing an increasingly large proportion of total ODA flows, net resource transfers to the region were declining rapidly. He said that this situation must be reversed if an economic tragedy were to be averted in that continent and that the need for significant increases in concessional resource flows to the region grew more urgent by the day.

11. In the Asian blend countries the growth momentum had slowed somewhat, but the picture was relatively bright. The situation in Bangladesh was improving gradually, though its circumstances still resembled those of Africa rather than of its neighboring countries. The need to maintain present flows to Asia was clear if gains of the past decade were to be consolidated.

II. Issues before the Deputies

12. The Chairman pointed out that the mid-term review outlined three broad sets of issues on which the specific views of all Deputies were welcomed, since their views were essential to guide IDA's future course.

13. The first set of issues concerned the allocation of IDA resources in the next replenishment. The main issue before donors was to provide IDA with guidance on the degree to which they believed the current regional allocations needed to be adjusted, particularly with respect to IDA's major blend borrowers. When IDA7 commitments would be completed in FY87, it was expected that the share of Sub-Saharan Africa would be about 37 percent, and the combined share of India and China would be just less than 36 percent. The question was whether any further reduction to these major borrowers should be made. Obviously, a reduction in allocations to these countries would allow corresponding increases in allocations to others.

14. Another issue related to allocations was the weight that the Deputies would like to have placed on the economic performance criteria in determining IDA allocations. At the extreme, IDA could make good performance an eligibility requirement for IDA credits as in the case of the African Facility. Another possibility would be for IDA to increase the emphasis already placed on economic performance in determining the allocation of IDA resources.

15. A related issue was how far IDA should go beyond its present practices in increasing the share of resources aimed specifically at supporting broad policy reform and adjustment programs in recipient countries along the lines of the Special Facility. As noted in the mid-term review, IDA had already gone a long way in stressing policy reform in its financing of both specific investments and adjustment programs. It had done so on the principle that the mix of its operations and their thrust should be determined by country circumstances.

16. Related to the allocations was the possibility of a more flexible application of present policies regarding graduation from IDA. The Chairman noted that this issue had been specifically raised and said that he was submitting a proposal addressing this issue upon which he would appreciate receiving Deputies' views (See Attachment II).

17. The second broad set of issues concerned a possible restructuring of the terms of IDA credits. This issue had been reviewed during IDA7 negotiations at which time donors had decided that it would be inopportune to reduce resource availability and harden terms at the same time. Many donors, however, considered possible changes in terms as a major issue for IDA8.

18. Accordingly, the following questions were raised with the Deputies:

- Should the Association consider hardening the terms of IDA credits? Should it do so for all recipients, or on a selective basis?

- Should the hardening of terms be limited to achieving a reduction in maturity from the present 50 years? Should it also include a reduction in grace periods from the present 10 years?

- Should there be an interest charge beyond the present service charges?

19. In addition, the Chairman stated, it would be useful to know the Deputies' views on whether present blending practices constituted a feasible or desirable option to the application of an interest charge.

20. He also asked for the Deputies' views on whether there should be a differentiation in the terms of IDA credits, based on the type of projects being financed.

21. The third issue concerned the establishment of an intermediate, "third window" type of facility. The Chairman said that he would like to know whether there was any support for this idea.

22. The Chairman concluded by saying that he hoped it would be possible to reach some consensus of views on these important topics.

THE DISCUSSION

23. The Deputy for Denmark said that there was no longer a question of supplementing IDA7. After the establishment of the Special Facility for Sub-Saharan Africa, most national funds for such purposes had been exhausted; therefore the main thrust of the present meeting should be preparation for IDA8.

24. He said that his Government's support for IDA was based on the fact that IDA had, over the years, proven itself to be a very effective institution, reaching out to the poorest countries. On a global basis, he noted that IDA was highly respected by donors and borrowers alike.

25. The Deputy for Italy said she was sure that this mid-term review would have positive results for IDA and would pave the way for an IDA8 that would be commensurate with the real needs of the beneficiary countries.

26. The Deputy said that, in regard to the regional allocation of resources, Africa, as under IDA7, would have to remain the main beneficiary. It was possible that the African allocation would eventually have to be increased as the Special Facility for Sub-Saharan Africa was only temporary.

27. India and China should continue to benefit from IDA resources, although there had to be a limit to their combined allocation, which would depend on the final amount agreed upon for IDA8. It was up to the Deputies to express their views on general program issues; it would then be up to the Association's Board of Directors and management to make use of the Deputies' guidelines in implementing IDA8.

28. The Deputy said that some policy reform and economic performance criteria had to be taken into consideration when allocating resources. She advocated a conservative approach, explaining that this was meant in a positive sense. Her Government believed that because resources were scarce, IDA should consider carefully before channelling any more resources to countries which were not doing well in their economic policies. At the same time, IDA should be ready to transfer resources to countries which were not performing well but were showing goodwill and moving in the right direction.

29. The Deputy withheld comment on the graduation question, since she had not seen the paper.

30. The Deputy said that her Government was ready to see some changes in the terms and conditions of IDA credits, which would have to be agreed upon by the Deputies. She emphasized, however, that her Government did not want such changes to be a substitute for an adequate Eighth Replenishment.

31. The Deputy indicated that there was the possibility of a compromise solution, as suggested by the paper. The question was one of striking a proper balance in hardening terms between increasing IDA reflows, and preserving enough concessionality for IDA's beneficiaries.

32. She said the degree of concessionality, or the grant element, was going to be very relevant. It might be possible to shorten maturities, with different maturities for the pure-IDA and for blend countries, while not shortening the grace period for specific countries.

33. She said that it would be logical to take a selective approach by groups of countries. Factors that could be considered in determining appropriate terms by country groupings were creditworthiness, nearness to graduation, trends in country economic conditions, and changes in terms of trade. In other words, one could consider both internal problems and those caused by external factors. She suggested that if there were sufficient support for such an approach, management could prepare a paper.

34. The Deputy for Canada commended the staff for the high quality of the mid-term review, which was the first step toward IDA8. He said that he hoped that the Deputies would be able to make an early start on the IDA8 negotiations and considered the completion of negotiations within a year to be a reasonable target.

35. His Government wanted IDA to remain the major multilateral channel for concessional assistance and to attract appropriate support from all major countries, along traditional burden-sharing lines. Further, his Government hoped that IDA8 would achieve a reasonable increase in resources.

36. He expressed his Government's view that it was appropriate to begin with a discussion of issues such as country allocation and terms and conditions of IDA lending, which were normally left to the close of a replenishment negotiation, when there was no longer time to deal with them. It was better to begin with issues and leave discussion of volume until later,

although all Deputies retained certain assumptions about volume as they approached these other issues.

37. The Deputy said that since his Government's positions on certain questions were not well developed, he could only offer some personal impressions.

38. On the question of geographic allocation, the feeling was that under IDA7 there had already been a substantial adjustment among major countries and geographic areas. This adjustment had been appropriate, but whether it should go much further was uncertain. He said that the Deputies should be fairly conservative in this respect.

39. He said that he was inclined to give more weight to economic performance in IDA8 as had been done under the Special Facility for Sub-Saharan Africa. That, however, posed a dilemma. There was an overall feeling that Africa's share should increase, but a problem arose about how that could be done without diluting the economic performance criteria.

40. He said that a restructuring of IDA terms should be tried in a fairly broad way. A shortening of maturities and grace periods would seem to be both appropriate and fairly easy to achieve. In addition, the Deputies could consider an interest charge, perhaps just enough to give IDA lending the overall concessionality that it had had when IDA was created. He pointed out that, since the same thing could be achieved through blending with World Bank loans, blending was an issue that could be looked into. He added that adjusting maturities and grace periods might be an easier approach.

41. The Deputy said that he had not detected much support for a third window. Rather, there was a preference to continue using blending to deal with countries that were graduating from IDA. He said that he had previously outlined ways of addressing the issue of the lower-middle income countries without necessarily pursuing a third window. What mattered was to tailor Bank Group lending policies to provide continued financial support to those lower middle-income countries that were following strong structural adjustment policies.

42. The Deputy noted that attention was being given to the issue of small countries graduating from IDA and ways to ensure a continuation of the World Bank Group's lending presence in those countries, so that they did not graduate into limbo. He expressed gratitude for the efforts that had been made and looked forward to seeing specific ideas on that issue.

43. The Deputy for Austria stated that when IDA Deputies decided on a mid-term review in January, 1984, they had planned to examine the needs of IDA recipients. It had been hoped that 18 months later donors might be willing to consider an increase in resources for the rest of IDA7. In the meantime, the Special Facility for Sub-Saharan Africa had been established. However, its resources could not be considered as a substitute for IDA. She said that management might try to convince IDA donors that had not yet participated in the Special Facility either to do so or to provide additional IDA resources.

44. Although fully recognizing the needs of African countries, she drew attention to the problems of low-income countries elsewhere, which also suffered as a result of adverse external factors and had had to cope with reduced aid flows. Table 2.1 of the mid-term review demonstrated that the current accounts of non-African IDA recipients showed higher deficits than those of African IDA countries. She urged management to consider the needs of these low-income countries in allocating IDA's resources.

45. The Deputy did not consider it advisable to harden IDA terms at this time, when bilateral assistance to low-income countries was granted on increasingly softer terms. She opposed the idea of charging interest rates on IDA credits to low-income countries beyond the present service charge and commitment fee. However, she noted that it might be possible to charge interest to countries with higher GNP per capita, defined in paragraph 2.43 of the review, whose per capita income precluded them from IDA lending, but which were not sufficiently creditworthy to qualify for IBRD loans.

46. With regard to maturities, some adjustment was possible under IDA8. Since blending allowed considerable fine tuning, two or three categories for IDA credits should be sufficient. The present 50-year maturity, with 10 years' grace period, might be maintained for the poorest countries. For most IDA lending, maturities might be shortened to 35 or 40 years with 10 years' grace period. For countries at the upper end of IDA's eligibility, but whose access to IBRD funds was limited, a maturity of 25 years and a grace period of less than 10 years might be considered; in such cases, a low interest rate might also be considered.

47. She emphasized that changing the maturities of IDA credits should not lead to smaller replenishments. Shorter maturities would enable IDA to channel the reflows to new projects; under the present terms, the outstanding funds in a country generated by projects with fast returns were used for general budgetary purposes.

48. Experience had shown that within the life of an IDA credit, the economic condition of a country could improve substantially, and countries might graduate from IBRD before the last payments for their IDA credits were due. In these cases, the Deputy said that she would not propose a retroactive hardening of terms of previously committed IDA credits, but would suggest that such countries be persuaded to become IDA donors.

49. The Deputy agreed with the allocation criteria in paragraphs 3.07 and onwards of the mid-term review, and she expressed particular appreciation for the consideration of economic performance as described in paragraph 3.09.

50. With regard to regional and sectoral allocation of IDA funds, she considered the trends outlined in Annex 1 to be reasonable. She indicated, however, that the share of credits to basic infrastructure should not continue to decrease. In an improved economic environment, investments in this sector should rise.

51. She saw little merit in differentiation of terms by type of project. In addition to the arguments against such differentiation given in

paragraph 4.37, IDA should not use its credit terms to set incentives to promote certain types of projects over others. Instead, she suggested that country-based conditions be considered.

52. With respect to a third window, she agreed that an interest subsidy account had positive features. However, it should not be funded from the Bank's net income, as this income should be used primarily to strengthen the Bank's reserves. Using part of the Bank's income to subsidize interest would place a burden either on donor countries through earlier capital increases or on Bank borrowers through higher charges.

53. Since contributions to a third window would probably require legislative action in most countries, it was unlikely to result in additional funds. Papers on the third window idea mainly considered the overall costs and benefits of subsidized lending versus IDA contributions; they did not show the effect of such subsidization on the Bank's income for each year in which the subsidy would have to be provided. If subsidization was planned to be a one-shot, or at least a temporary action, it might be considered further. However, if subsidized loans were to be committed on an annual, or even on an annually growing basis, the amount of the subsidy paid out of the Bank's net income would increase progressively and might impair the primary purpose of IBRD net income, namely to strengthen its reserves and thereby increase the basis for the institution's growth.

54. The Deputy for the United States said that the paper went far in addressing an issue that had been of paramount concern to the United States in looking at the IDA program, namely, dealing with the policy issues before discussing the actual amounts or volume.

55. He said that the position the United States had taken on IDA7 had had significant effect on the decisions that others had taken, not only with regard to their position on funding, but also on subsequent efforts to find additional resources. The United States considered that its position had been the right one and remained committed to it.

56. He pointed out that the the United States was fully current on its obligations to every development bank of which it was a member. That had not been true at any time in the past 15 years. The ability to be current on these obligations reflected a carefully worked out consensus achieved among the various branches of the United States Government. It demonstrated that the US Administration's approach toward the development banks in the last set of replenishments had been the right one.

57. He expressed the hope that his Government would again be able to reach a consenses on support for these institutions. That process, he said, clearly began with a discussion of IDA policies, because policies were what determined whether or not and to what degree the United States participated in a given replenishment.

58. His Government believed very strongly that economic performance criteria were essential for country allocation. Countries that performed well and were attempting to deal with the very difficult task of adjustment should

be given additional support by IDA wherever possible. The United States believed that IDA should be very careful in allocating funds to any country, which, for whatever reason, decided that it did not want to or could not achieve the policy reforms necessary for promoting economic growth. Experience had shown that without such reforms, aid resources were wasted. Since concessional resources were limited, they had to be used as effectively as possible. He said that it was not consistent for the Deputies or for management to decide in advance that a given country, irrespective of its performance, was going to receive a certain allocation of resources. Rather, decisions had to be based on the performance of those countries.

59. On the issue of country allocation, his Government believed that Africa ought to have the highest priority in IDA8. Further, it should be possible to achieve modest downward adjustments in allocations to India and China. However, his Government recognized the contradiction in giving priority to African countries not meeting the performance test while restraining allocations for India and China, which were very good performers.

60. Nevertheless, management and donors must look at Africa as a long-term commitment and try to deal with the difficult situations there. IDA must try to allocate the largest share possible to Africa and then differentiate among the African countries. IDA should respond most forthrightly to those countries that were prepared to meet the rigors of policy reform, and should hold back from those that were not prepared to undertake reform.

61. The Deputy said that it was time for IDA and the soft-loan affiliates of the other development banks to seriously consider hardening their terms and to start to take action in this direction. His Government supported a shortening of maturities and believed that there could be a modest decrease in the grace period for all IDA borrowers.

62. The Deputy said that IDA should begin imposing interest charges on selected countries in a very careful, prudent way. He called on the Deputies to give management a great deal of flexibility in the handling of this issue. Although the IDA donors should be in the position to tell management that some interest charges could be imposed, management should decide when and how that would be done. It would also be helpful to look at the question of interest charges by project, inasmuch as one could differentiate between the returns from a health care project and an oil development project. In the health care project, the terms ought to remain more concessional. In the case of an energy project, which could quickly achieve a high payoff, it would be possible and desirable to apply an interest charge.

63. Yet, several factors had to be considered: The debt service profiles of the countries involved, Bank/IDA blending, and the possibility of shortened maturities and grace periods. Management would have to move very carefully in this area. Nevertheless, it was an issue that IDA should begin to address and hopefully take some modest, but positive, action.

64. He referred to the issue, raised by the Deputy from Austria, of countries that had been IDA recipients but were currently Bank borrowers, some of which would be approaching graduation from the Bank yet were still repaying

IDA credits. He agreed that a desirable objective would be for those countries to become IDA donors. He also suggested the possibility of drafting credit agreements that would allow an adjustment in the maturities if a country performed at a sufficiently high level, so long as such action did not seriously affect the country's debt service capability.

65. Management's handling of the question of graduation had been good, and his Government supported its approach. His Government was sympathetic to the problem of countries that did not qualify for IDA credits yet were not creditworthy for IBRD loan terms. Hopefully, management's paper would provide an effective response to that problem, other than the creation of a third window.

66. He reiterated the confidence that the United States had in the IDA, and noted the critically important role that IDA had played in the past and would continue to play in the coming years.

67. As a cautionary note, he pointed out that there was a link between the willingness of his Government to cut its budget and its ability to come up with significant contributions to foreign assistance programs. He said that it would do its best to achieve a desirable goal in the IDA negotiations. However, he warned that it would be a difficult task within his Government to secure support for IDA in the environment in which they were operating.

68. He also commented on the political dynamic that was at work in the United States in the area of trade. Trade did not normally come up in the context of IDA, but it was important that everyone be aware that there was currently legislation in the Congress authorizing three replenishment agreements that was being held up because of trade issues.

69. He pointed out that next year would be an election year in the United States, and the question of trade and the willingness of governments to negotiate new trade agreements was going to be of fundamental interest to the United States Congress. Its willingness to support multilateral institutions and international initiatives would be closely linked to whether legislators believed the world community was responding to the growing problem of world trade. He did not believe that IDA, the Bank, or the regional development banks would be able to escape the scrutiny of legislative branches anywhere unless some progress was made toward resolution of trade problems.

70. The Deputy for France said that the need for IDA was more obvious today than ever before. The importance of its role was emphasized by its increasing share of concessional lending to the poorest countries.

71. The uniqueness of IDA depended to a considerable extent on the conditions attached to its credits. These conditions should be considerably different from commercial terms, for example grace periods and long maturities if IDA was to finance basic infrastructure. The Deputy said that imposing interest charges in the present circumstances would be misunderstood and probably counterproductive.

72. With respect to allocations, the deputy for France indicated that her Government considered that three main criteria should be taken into account: First, the relative poverty of a given country; second, the external finance situation that determined the capability of a country to secure other forms of finance; and third, the ability of the country to carry out rigorous reforms to promote sustainable, long-term growth.

73. Recent experience had demonstrated the importance of the third criterion, which, nevertheless, had to be applied flexibly and on a case-by-case basis. Development was not possible without good macroeconomic policies and without good and consistent economic strategies. IDA's role was to undertake a dialogue with the country and to provide financial support and technical assistance.

74. Geographical allocations should also take into account the financial implications of the Special Facility for Sub-Saharan Africa and possibly the Trust Fund. However, as far as her Government was concerned, the priority should be on Sub-Saharan Africa.

75. She said that her Government considered IDA an excellent instrument for financing sectoral programs. The sectoral approach allowed one to formulate a project consistent with a country's overall economic policy. This approach implied an in-depth dialogue on policies, which was already the case in most countries. Sectoral programs would serve as useful references for other partners in development and would facilitate coordination, which was essential to development assistance.

76. Her Government considered the volume of the Eighth Replenishment to be a key challenge and believed that IDA8 should be larger than IDA7 plus the Special Facility for Sub-Saharan Africa.

77. The Chairman agreed with the Deputy's comments on the pressing need for concessional resources flows, and in that respect, suggested that negotiations of IDA8 begin as soon as possible. He proposed a first meeting of IDA Deputies in January 1986 to inaugurate the formal discussions and negotiations of the Eighth Replenishment. It was hoped that the process could move expeditiously, with fewer meetings than were held in negotiating the Seventh Replenishment and that negotiations could be brought to a close by the time of the 1986 annual meetings. The Chairman asked for the Deputies' reactions to this proposal.

78. The Deputy for Australia said that his Government had been disappointed at the size of IDA7 and had supported supplementary contributions. However, the time had clearly come to look towards IDA8, and he expressed satisfaction with the schedule proposed for IDA8 negotiations.

79. His Government supported allocating the greatest share of IDA resources to the poorest countries, including those in Sub-Saharan Africa. It was also necessary to provide uninterrupted support to other needy recipients, and any reduction in IDA's level of lending to them should be gradual. His Government wished to see the maintenance of a substantial flow of IDA resources, not only to African countries, but to countries such as Bangladesh

and other IDA countries in Asia, as well as India and China. However, within this general framework, decisions on allocation criteria should be determined by the Board of Directors, with country programs determined by Management.

80. His Government agreed that considerable weight should be attached to economic performance. This was consistent with the objective of using scarce concessional resources efficiently. Yet, the very poor countries that were the IDA recipients had needs of a very fundamental nature that should be addressed, even if their economic performance fell short of the optimum. He expressed his Government's agreement with the general approach proposed in the Bank's mid-term review.

81. His Government believed that IDA credits should be highly concessional, and it was not convinced that any of the proposals for hardening of terms were preferable to the present terms. While open to further consideration of this issue, his Government preferred the blending approach suggested in the paper. His Government was not convinced that the third window approach would be desirable. He welcomed management's intention to respond flexibly to the problems of the small island countries that might graduate from IDA but not be creditworthy for Bank lending.

82. The Deputy for Finland said that it was evident that the resources under IDA7 were insufficient to meet the needs of IDA recipients. Therefore, his Government wholeheartedly welcomed the establishment of the Special Facility for Sub-Saharan Africa. Its creation demonstrated both the will to help Africa and the inadequacy of IDA funds. He said that he agreed with the Deputy for the United States concerning Africa. The present negative development trends had to be changed; that did not mean, however, that one was unaware of poverty in other parts of the world.

83. Since there was little prospect for raising supplementary resources under IDA7, his Government felt that attention should be concentrated on securing a significantly larger IDA8. The Deputy expressed satisfaction with the timetable proposed for the negotiations.

84. The question of what would be appropriate terms of IDA credits had been discussed periodically since the establishment of the Association. The Deputy said that his Government was pleased with IDA as it was and with management's flexibility and sensitivity in the implementation of IDA's programs.

85. A general hardening of terms was not acceptable, since it would be a severe blow to the poorest developing countries, which were highly dependent on concessional external financing. His Government might consider a moderate hardening of terms for blend countries only. This, however, should be confined to a shortening of maturities and not include the imposition of interest charges. The present blending mechanism had worked well and needed no major changes. There was no need for differentiation of terms by project, due to the practical difficulties involved.

86. His Government would be prepared to study the advantages of a more formal graduation mechanism. He noted that there had been no particular

enthusiasm shown for the establishment of a third window. He considered its effect similar to the blending mechanism and a possible differentiated hardening of terms. He said that the proposal needed clarification.

87. The Deputy said that the private sector had a vital and dynamic role to play in developing countries. Satisfactory development in low-income countries required promotion of both the private and public sectors, with a proper balance between the two.

88. The Deputy pointed out that sound economic policies were a prerequisite for the successful implementation of external assistance. Since the effectiveness of IDA operations was an important issue, IDA should encourage developing countries to introduce and implement policy reforms conducive to positive results. This matter required prudence and mutual confidence between IDA and recipient countries.

89. The Deputy for Norway said that IDA's main task had been, and should continue to be, to provide financing for long-term development projects in the poorest countries. His Government strongly supported management's plan to increase the share of IDA allocations channelled to the countries with a per capita income below $400. Prospects for economic recovery were uncertain for IDA countries overall, and the economic condition of IDA countries in Africa had deteriorated during the last two years. It was, therefore, regrettable that IDA's net transfer to this area had declined in 1984, since there were no realistic alternatives to IDA's concessional lending for basic development purposes.

90. In general, his Government was satisfied with IDA's performance and its operational procedures and noted that IDA continued to maintain its high quality in project preparation and administration of funds. As far as possible, more emphasis should be put on involvement in the implementation of projects, and greater responsibility should be taken for the follow-up of investments in order to secure their lasting effect. Although IDA had regularly adapted its lending program to meet the needs of the borrowing countries, such modifications should not alter the basic concept of IDA, which was sound. He said that his Government would not like to see major changes affecting IDA's character.

91. The Deputy said that the mid-term review paper outlined many issues that would be more properly dealt with by the Board of Directors than in this more restricted body of donor-country representatives. He added, however, that he hoped that this preliminary discussion would help advance preparation for the coming replenishment negotiations.

92. In general, his Government found that application of eligibility and allocation criteria had been based on solid judgment and was well within the guidelines laid down by the Executive Directors. The established practice of having the Board determine these criteria, while leaving the application largely to management, seemed to be working satisfactorily.

93. Management's flexible application of eligibility and allocation criteria, and its approach to blending, seemed to correspond to the wishes of

the members. There did not appear to be an immediate need to formulate graduation policies more explicitly.

94. IDA's present emphasis on economic performance was reasonable and necessary. The Special Facility for Sub-Saharan Africa made economic reform the major eligibility criteria, since economic reform was undoubtedly essential for a number of these countries. The Special Facility provided needed support to those countries willing to go through a difficult adjustment process. However, his Government did not favor making economic performance criteria more important than they were at present. The Special Facility was not meant to become a blueprint for IDA's lending policies. IDA's guiding principle must continue to be to allocate credits to borrowers that lacked sufficient creditworthiness to attract private lending. His Government subscribed to IDA's own assessment that a shift to a policy emphasis like the Special Facility's would represent a major change in IDA's goals and character, and his authorities opposed such a major change.

95. His Government agreed that while priority should be given to Africa in the allocation of resources, the needs of the large borrowers on the Asian continent had to be considered. His Government would want to reassess the relative distribution between Asian blend countries and Sub-Saharan Africa when the size of the Eighth Replenishment was established. Care had to be taken to avoid any disruptive changes in lending, while at the same time paying increased attention to the acute problems of Africa.

96. Any discussions on changing IDA's terms ought to be guided by the basic principle of concessionality. IDA's lending was based on country-level assessments rather than project-specific considerations. A high rate of return on individual projects would contribute to fulfilling IDA objectives of increasing domestic savings and investment. These benefits ought to contribute to further development in the borrowing countries, rather than foster recycling of IDA's funds.

97. His Government saw no need for a radical restructuring of IDA's terms. A generalized hardening of terms was neither advisable nor acceptable, given the very difficult resource situation of the poorest countries. His Government considered interest charges for IDA credits unacceptable, since this was contrary to the maintenance of concessionality. The donor countries should be willing to continue to finance IDA's generous terms for a long time.

98. The particular problems of blend countries needed to be considered. The mid-term review paper presented a number of alternative arrangements, but each presented difficulties. The least attractive options seemed to be a third window and differentiation of terms by project. Differentiation of terms by country appeared to be the most realistic option and could be discussed further. Nevertheless, his Government did not see any clear justification for a change of present policies or practices.

99. His Government was ready to consider all these problems. It felt, however, that they should be discussed by the Board of Directors, where there would be full participation by the LDC representatives.

100. He said that it was too early to be specific about the size of IDA8. Considering the needs, the aim should be an amount more than IDA7, plus the Special Facility. He agreed that talks on IDA8 should start as soon as possible and hoped that negotiations would be completed before the next annual meeting.

101. The Chairman said that he appreciated the Deputy's suggestions and his reminder that in the final analysis the terms and conditions were approved by IDA's Board of Directors. He said, however, that it had been a tradition, and a good one, that the IDA Deputies meetings gave donors an opportunity to indicate how they wanted their funds used. The signals did not have any binding decision-making authority.

102. It was extremely helpful, however, to have ideas placed on the table by the Deputies on the important issues of terms and conditions. They were also likely to influence the negotiations of the next IDA replenishment, and therefore the sooner some of those issues could be considered the better it would be.

103. The Deputy for Ireland said that his Government looked forward to the negotiation of IDA8, which would hopefully result in a substantial increase in resources for IDA, and hoped that the proposed timetable could be maintained.

104. His Government saw no reason for making any major shifts in the allocation of IDA resources. All countries involved needed more resources, and it was difficult to take from some in order to help others. Obviously, the African countries needed special assistance, but it would be difficult to reduce substantially the resources available to the other countries.

105. The Deputy said that IDA's Board of Directors had been shifting toward more emphasis on policy reform. This should not go as far as adopting the same emphasis as the Special Facility for Sub-Saharan Africa, which required special measures in order to achieve fast disbursement of the resources. His Government wanted IDA's main emphasis to continue to be on project lending. Attention had to be paid to economic performance, but there was no need to give it primary consideration.

106. His Government sympathized with the need for a more formal graduation policy. It was hard to justify a graduation policy that moved countries out of IDA and then left them in limbo.

107. It was very difficult under the present circumstances to see how the terms could be hardened significantly. Hardening of the terms perhaps had to be looked at in the context of the level of resources that would be available under IDA8. A hardening of terms would have long-term benefits by affecting the amount of flows that would be recycled, but in the short term it would reduce the benefits for needy countries. In any discussion of hardening of terms, his Government would not favor any interest charge. Although the best approach would be to look at the maturities and grace periods, even there, his Government would not like any major change. Any hardening should be for the more developed IDA recipients. A flexible way to harden terms already existed through the blending mechanism.

108. His Government saw little merit in the proposal for a third window. Unless there were extra resources available, it did not make much sense to undertake such a difficult task.

109. The Deputy for Germany said that his Government very much agreed with the views and analysis put forward in Section II of the paper. It believed that the funds under the Seventh Replenishment were insufficient and regretted that it had not been possible to achieve a higher volume on the basis of equitable burden-sharing. It was better to concentrate discussions on possible structural changes and to prepare the ground for IDA8.

110. He said that he agreed that economic performance had to rank high among allocation criteria. Almost all international organizations and bilateral programs were concerned about what an individual project could achieve when implemented in an unfavorable overall economic environment. This was the essence of policy reform and related efforts.

111. Policy reform and general economic performance were eligibility criteria for the Special Facility for Sub-Saharan Africa. However, his Government did not want them to become eligibility criteria for IDA. They could serve as allocation criteria as established by the Board of Directors.

112. His Government believed that at least approximately the same amount could be made available to support economic policy and institutional reforms under IDA8 as under IDA7 plus the African Facility.

113. The Deputy said allocation by country was essentially a matter of China and India versus Africa. Whatever the level of IDA8, it would be exceptionally difficult to do justice to the needs of those major blend recipients. He said that the allocations to India, China, and Sub-Saharan Africa outlined by the management seemed plausible in face of the constraints on IDA. Yet, in allocating funds, one also had to look at other potential flows including, for example, the IMF Trust Fund reflows.

114. Graduation from IDA to IBRD should be seen as a step in economic development. Since use of the criteria for graduation might lead to hardship in isolated cases, management should proceed on a case-by-case basis and apply the criteria flexibly. The phasing out of a country from IDA meant that the additional funds became available for other, poorer countries; but this alone should not be the deciding factor.

115. The Deputy said that his Government had difficulties with the hardening of terms. IDA's standard terms were a 50-year maturity, 10-year grace period, and 0.75 percent service charge, resulting in a grant element of 85 percent, provided that the whole amount was immediately disbursed. Such rapid disbursement generally did not take place; under normal disbursement of eight years, the grant element was reduced to 77 percent. He pointed out that donors had agreed to try to reach an overall grant element in their aid programs of 86 percent. According to the DAC definition of grant element, current IDA terms just reached that target; if they were hardened, the grant element would deteriorate tremendously. The Deputy said that he had brought this up because he was concerned that countries might allocate funds to IDA

believing they would be disbursed on highly concessional terms, only to find that this was not really the case.

116. His Government had forgiven all debts to least developed countries and recently had been making only grants. It would appear inconsistent if his Government were to vote for IDA terms that were harder than its own. His Government might be willing to discuss a shortening of maturities and grace periods, but only so long as the least developed countries were excluded.

117. Since a main concern was the debt burden of developing countries, an interest charge might not be appropriate at this time. It would have benefits only in the very long-term in terms of reflows and adding to IDA's resources.

118. The interest subsidy account, he said, was a non-starter. It had been tried 10 years ago. The reluctance to repeat that exercise stemmed from the experience of both donors and recipients. He said that he had not heard a single voice so far in favor of a third window.

119. The Deputy for Saudi Arabia said that IDA had always responded to the growing and changing needs of the developing countries. He said that his Government had confidence in management's ability to meet its responsibility to respond to these changing needs. Therefore, the time was appropriate to discuss the role of IDA as donors' views presented today would help management establish a general view of IDA's role in the near future.

120. He called on management to provide the Deputies with a working paper on all aspects of the situation in the developing countries, including the degree of their development and their need for concessional aid. This study could suggest priorities, since many ideas had been presented in the mid-term review and in the present discussion.

121. He declined to make specific suggestions on terms and conditions of lending. He hoped that the paper he proposed would present all the issues with various options.

122. He said that there should not be sudden changes in IDA's policies and practices; rather any changes should be introduced gradually.

123. The difficulties experienced with the Seventh Replenishment called for more effective preparations for the Eighth Replenishment. Management should take into consideration the many views expressed during the Seventh Replenishment when forming the structure of the Eighth Replenishment. Extensive informal and bilateral meetings and contacts would be required to identify countries' positions, the limits on their readiness to contribute, and their areas of maneuverability.

124. He also suggested that management try to expand the number of IDA donors. There was wide scope for bringing in additional countries that were in a position to contribute, particularly among countries that had once received IDA funds.

125. On the allocation of IDA resources, he pointed out that there had been a rise in the number of countries applying for IDA assistance, thereby increasing the competition for limited resources. This had to be dealt with in a balanced manner and without causing any serious problems for some countries, while taking account of the varying development requirements among countries.

126. In regard to graduation, one could not use a single criterion to decide which countries should graduate. Strict criteria must be established, but each case should be considered on its own merits. He did not expect that the Deputies would be willing to see a country graduated while it still confronted difficulties and was ineligible for lending on harder terms.

127. The Deputy for the Netherlands said he fully agreed with a relatively short timetable for IDA8 negotiations, particularly as there appeared to be a basis for a meeting of minds on IDA8. He pointed out that IDA had proven particularly effective in countries having the right policy environment and that total flows to IDA recipients were not sufficient. Circumstances, partly outside the control of recipients, had created a large need for concessional aid in some areas and it was important to husband IDA's resources and not to fragment its efforts. He noted, too, that the Chairman had stated that for Africa a recovery in non-concessional flows was unlikely to occur.

128. Regarding allocations, the Deputy said that a concentration of IDA resources on the poorer countries was correct. On the role of performance and policy reform in determining allocations, the Deputy said that the approach to Africa should not be governed so much by the Special Facility as by the principles embodied in the Joint Program for Africa. He added that he particularly agreed with the Deputy for Germany on this point.

129. Where donor coordination and policy reform were needed, they should be sought in the course of the policy dialogue, and the supply of funds should be conditional on what was achieved in the course of that dialogue. He noted that the country focus approach met the need for flexibility, particularly among the non-African countries, and also allowed the application of macro-conditionality where necessary.

130. The size of future allocations to Africa, once the Special Facility was phased out, should be governed by Africa's pressing needs and the desirability of maintaining the flow of funds to this region, assuming policy conditions were fulfilled. Therefore, depending on the size of the replenishment, one could maintain either the real absolute value of the allocation to that region, or its share of total IDA allocations under IDA7 and the Special Facility.

131. However, the Deputies should be flexible in their guidelines. He indicated that the results of IDA operations in Africa should be carefully evaluated and the results taken into account. He stated that management should continue to be allowed to exercise its discretion in considering the policy environment and the availability of promising projects in individual African countries. He wished also to learn how the Trust Fund proposal would be taken into account.

132. He said that he was not in favor of a formal process of graduation for blend countries. Referring to the new paper on graduation, the Deputy said that, although he was sympathetic to countries experiencing difficulties in borrowing upon graduation, he did not feel IDA should sacrifice its principles too easily. He stated that, (i) countries above an agreed level of per capita income should not qualify for IDA funds; (ii) if a country was fully drawn under the World Bank portfolio limits, this limit should not be stretched; and (iii) if a country was not creditworthy in Bank terms, it should strive to become so and it deserved support if it did. He felt the graduation paper went a bit too far in stretching the principles, even going beyond them. However, temporary assistance to prevent a country from going into limbo might be considered.

133. He said that his Government was definitely not in favor of a third window, for reasons that had been mentioned by others.

134. His Government thought that IDA's lending terms were outdated and were long overdue for revision. He said that IDA8 should not start with the same undifferentiated lending terms now in use, but might differentiate by country.

135. He noted that although such a move implied a hardening of at least the average terms of IDA loans, the terms had appreciably softened since IDA had been established because of rising interest rates. His Government was strongly in favor of a shortening of maturities for countries that were not facing extremely adverse circumstances. He suggested that management present a concrete proposal in the course of the IDA8 negotiations.

136. Without a substantial shortening of maturities, and perhaps of the grace period, IDA would presumably continue to face anomalies, such as the fact that first IDA credits would not be repaid until the year 2010 and that a large amount would be due from countries that had graduated. Countries could repay in advance, but such voluntary action could not be relied upon.

137. The Deputy noted that with interest rates ranging from 3 to 5 percent, the reflows of funds to IDA would be far from negligible, but neither would be the effect on the grant element of IDA credits. The question was, what did donors want?

138. A great deal of what was regarded as fair treatment had been achieved by blending. Differentiation of interest charges, however, could be useful in instances where blending had reached its limits. Further, it could help in dealing flexibly with the question of allocations to India and China. If one were to introduce an interest charge for the blend countries, the effect could be softened by the blend itself. While his Government had no strong feelings on the matter, it tended to be in favor of some differentiation of terms. Differentiation of maturities and interest charges should be governed largely by per capita income and creditworthiness.

139. His Government was not in favor of differentiation by type of project, because it would tend to distort the allocation of funds within a country. Moreover, it would also tend to benefit the countries with a higher

per capita income, inasmuch as these had a higher share of social infrastructure projects.

140. The Deputy brought up a matter his Government had raised in the course of the IDA7 negotiations, but which had not been mentioned in the paper. That was the question of voting rights in IDA. He said that it would be worth considering, though perhaps not during negotiations because it might prolong them indefinitely, and might be dealt with separately.

141. The Chairman said he was sure that the issue of voting rights would come up in the course of the negotiations for the Eighth Replenishment. Management intended to address the issue well before that.

142. The Deputy for Sweden said that his Government shared the view that since there were no realistic prospects of raising additional funds under IDA7, the focus should be on IDA8; it therefore supported the proposed timetable.

143. The Deputy said that his Government did not see any strong reasons to change IDA's basic structure and modalities. The fundamental issue was to reach agreement on a substantial volume for IDA8 to enable IDA to meet the needs of the recipient countries, particularly the poorest ones.

144. His country's traditionally strong and continuing support for IDA was based on IDA's main objectives, which were similar to Sweden's, that is, to give priority to the poorest countries and to the poorest segments of the population, with strong focus on basic needs. That provided a strong argument for credits on highly concessional terms. IDA's effectiveness in fulfilling these objectives had made IDA the single largest channel for Swedish multilateral development aid.

145. In order to maintain this strong support, it was essential that IDA not be changed in any way that would weaken its standing as the main source of highly concessional funds to the poorest countries, particularly since their need for such resources had not diminished. He noted that the slow growth in concessional flows which had been projected for the rest of this decade should be reversed, and that IDA's role in this process was crucial. Thus, the size of IDA8 should be sufficient to place IDA's operations at a significantly higher level than at present.

146. The level of lending to the Sub-Saharan African countries should be maintained at least at the same level as IDA7 and the Special Facility combined. He said that his Government had strongly supported the establishment of the Special Facility as an essential element of the Bank's Joint Program of Action for Sub-Saharan Africa. However, it considered the Special Facility to be a one-time, temporary operation. After its three-year period, it should be integrated in IDA's ordinary activities. This called for a large enough IDA8 to take this into account.

147. His Government believed that the overriding purpose of any changes in terms and modalities should be to free IDA resources to the poorest countries, and it should be demonstrated to what extent they would contribute to this

end. Suggestions for changes should also be related to what they could realistically accomplish with respect to the potential volume of resources that could be obtained for IDA8.

148. His Government believed that the flexible use of the present eligibility and allocation criteria had worked well. Priority should continue to be given to the Sub-Saharan African countries, implying more resources for IDA commensurate with the integration of the Special Facility into IDA's future activities. As regards India and China, his Government supported a continuation of the gradual approach adopted under IDA7.

149. On the issue of economic performance criteria, his Government's view was that IDA's main function should continue to be long-term financing of specific projects, with emphasis on agriculture and rural development, social infrastructure, and human resource development. Policy-based lending in support of structural and sectoral adjustment, however, should constitute an important supplement to traditional IDA lending.

150. The mid-term review presented some arguments for hardening of IDA's terms. The Deputy said he agreed with the Deputy for Germany that these arguments were not strong enough to outweigh the negative effects. A hardening of terms would increase the debt service burden of IDA borrowers at a time when the external debt of many of the poorest countries was already causing serious problems. For this reason, his Government was not prepared to accept any introduction of interest charges. This would change the fundamental grant character of IDA lending, which was an important basis for his Government's support of IDA as the main multilateral channel for concessional financing.

151. A possible shortening of maturities would not have any short-term effect on the budgets of donor countries. The positive effects, which were relatively minor, would not arise until the role of IDA had been transformed substantially due to changes in the IDA universe. The argument that hardening of terms would increase the effectiveness of IDA credits was doubtful. Past evidence indicated that IDA credits with no interest charges and long maturities had produced the same or even higher rates of return than Bank projects on nearly commercial terms.

152. He said that his Government was not in favor of any generalized hardening of terms for IDA credits. If some countries strongly favored some hardening of terms, his Government could think of situations where a differentiated hardening in the form of shorter maturities might be appropriate, depending on the borrower's stage of development. Such a differentiation applied flexibly could take the form of a retroactive change of the original terms, possibly incorporated as a condition in the credit agreement, which took effect upon graduation from IDA.

153. The Deputy for <u>Japan</u> said that his Government supported the proposed timetable for IDA8 negotiations because IDA7 would terminate in June 1987, the size of IDA7 was not sufficient, and IDA could not borrow funds from the capital markets. His Government was prepared to participate positively in the negotiations.

154. Since the size of the IDA replenishment and IDA's terms, conditions, and allocations were closely interrelated, his Government hoped that IDA8 negotiations would proceed as early as possible, under the fair burden sharing principle. One this point, his Government believed that U.S. participation in the negotiations was essential.

155. In the light of the serious budgetary constraints of donor countries, IDA resources should be used as efficiently and effectively as possible. Therefore, his Government welcomed management's approach of reviewing the structure of IDA terms and the allocation of its resources.

156. IDA should maintain its global character and continue to allocate appropriate amounts of resources, not only to African countries, but to Asian countries as well. The current level of IDA resources allocated to China was not too high. At a minimum, the current volume of resources from IDA to China should be maintained, even if its relative share should decrease.

157. His Government supported strengthening the policy and advisory function of the Bank Group. Thus, policy-oriented credits, namely structural and sectoral adjustment credits, should be increased. In addition, technical assistance credits should be encouraged for effective formulation and implementation of policies and projects.

158. As to the hardening of terms, one should take a modest approach. Since a shortening of maturities had a relatively minor effect upon the grant element, his Government could accept a general shortening by 10 to 15 years. For the same reason, it could also support a modest adjustment in grace periods.

159. He said that his Government supported a differentiation in interest rates by country groups. However, for practical reasons the number of differentiated interest-rate groupings should be kept to a minimum. His Government was not in favor of differentiation in interest rates by project, as such differentiation would be too difficult to administer.

160. If asked to assign priority to these alternatives, his Government would favor shortening the maturities or grace period over the introduction of interest changes. The blending mechanism would remain useful, and should continue to be used, even if lending terms were hardened.

161. If differentiation by country or by project were introduced and became too complicated, he said that his Government could go along with a modest, across-the-board increase in the interest rate, for example, from 1.0 to 1.5 percent.

162. In regard to the third window, his Government had reservations on any interest subsidy scheme. As to graduation, it should be treated on a case-by-case basis. He agreed with the Deputy for Canada that it was necessary to study the problem of lower and middle income countries that had graduated from IDA but were not eligible for IBRD.

163. The Deputy for the United Kingdom pointed out the Chairman had rightly said that management needed a bit of guidance, and that the Deputies should respond to the points outlined in the paper.

164. He said that his Government was at ease with the existing approach in the use of performance criteria to allocate IDA resources. He fully accepted the fact that management had to make decisions and exercise discretion within broad criteria, which must obviously include the relative poverty of the recipient countries and their ability to make good use of the funds. He thought it would not be appropriate to overload specific projects with economic policy requirements that were not relevant to those projects.

165. His Government agreed that IDA lending to the large blend countries should continue. In particular, it doubted whether it would be wise to allow India's share to fall below 22 percent. When allocating IDA resources to India and China, one had to bear in mind the future availability and use of the Trust Fund reflows. Although the needs of Africa were enormous, it would be wrong to focus excessively on Africa or let the world think that IDA had become a kind of permanent Special Facility for Africa.

166. The Deputy stated that his Government supported management's present, practical approach to graduation. His Government was happy to leave discretion on this subject to management, not the least because management had exercised it well.

167. On the question of terms, his Government accepted the case for quicker recyling of IDA funds, particularly if this helped those countries with legislative problems. It would be willing to have grace periods shortened to 7 years and maturities to 35. His Government would not take a rigid position on this, but would consider a change. It felt that any change should apply to all IDA borrowers.

168. The Deputy said that his Government had doubts about imposing interest charges, since IDA funds were bound to remain scarce, were focused on the poorest countries, and were available to IDA on grant terms from the donors. In particular, there could be a problem with differentiated rates for blend countries. As was pointed out in the paper, the overall concessionality of the final blend should be evaluated, not just the IDA terms themselves, as the imposition of interest charges could cause the overall blend to become scarcely concessional.

169. His Government feared that any major differentiation of terms by project might discourage IDA borrowers from seeking credits for operations that carried harder terms, and thereby could militate against greater use of IDA for policy-based, adjustment lending.

170. The Deputy said that a third window had been tried about 10 years earlier, but it had not worked out very well. His Government did not think that the circumstances justified a resumption of that experiment.

171. The Deputy pointed out that since negotiation of the last IDA replenishment, there had been a substantial change in public attitudes toward

aid in general, and aid towards poor countries in particular helped by the awareness of the magnitude of the debt problem. There also had been an extraordinary public reaction in the UK to what had happened in Africa. He said that he was glad that there was interest in providing resources not only for short-term relief efforts but also for longer-term projects. The Deputies' attitudes must to some extent reflect the popular public feeling that more should be done, not only on short-term efforts, but on long-term efforts.

172. The other side of the coin was that there had been a public feeling that aid must be more carefully directed. This related to the volume of IDA8 and its relationship to policy. The Deputies and their Governments must be able to show their public that the money channeled through IDA would help those who made good use of it. IDA's allocations for the agricultural sector had generally increased, and it was necessary to increase the focus more on that and on the question of food security -- a point that had been rather neglected despite recurring famines. More attention had to be paid to human resources, specifically population issues. IDA should not shirk its responsibilities in looking at the problems of population and environmental degradation, which in many cases accompanied famine and were closely linked to agricultural development.

173. Finally, the Deputy said that the question of IDA and aid generally could not be considered without looking into the wider issue of trade policy. It was clear that the trend toward protectionism was an evil that must be reversed. New trade negotiations within GATT were a powerful psychological weapon to try to counter that trend. The effects of aid could be easily negated if the recipients were not permitted to trade freely with the donor countries.

174. When looking at the problems of debt and of the major indebted countries, what had to emerge from this meeting was that the industrial countries must see all their policies together -- policies on debt and on trade -- so that those in trouble could feel that they could work out their own future, with the help of industrial countries, and not just in a kind of donor-recipient relationship, which in the last resort must be self-defeating and temporary. The donor countries had to provide the recipient countries, not just with money, but also with hope.

175. The Deputy for Kuwait said that the mid-term review noted that most IDA recipients still suffered from weak economic growth and faced economic problems, which underscored the need for a much bigger Eighth Replenishment. The Deputy said that most of the issues related to the structure and role of IDA presented in the paper would depend on the size of the Eighth Replenishment.

176. With respect to the allocation of resources, there was still a need to put emphasis on the poorer countries. The current criteria, per capita income, population, and economic performance, could be used as guidelines, if applied with flexibility and the will to balance allocations.

177. His Government believed that it was possible to reconsider maturities and grace periods, but that such reconsideration should not include all IDA recipients. IDA should differentiate between those countries that could shoulder additional burdens and those that could not.

178. His Government supported the proposal for an early start of the negotiations on the Eighth Replenishment and hoped that the pace would be such as to enable IDA to continue its operations without difficulty.

179. The Deputy for Argentina said that Argentina was participating in this midterm review of IDA7 in full awareness of its status as a developing country and also in its capacity as Chairman of the G-24. The G-24 considered its external assistance efforts as part of economic cooperation among developing countries, with particular focus on promoting social alliances and building social confidence. His Government's position on all issues was the same as that expressed by the G-24. He referred to the G-24 statement that they were discouraged at the fact that the IDA7 midterm review had deviated from its original purpose of considering ways to obtain supplementary resources for IDA7. Further, since the basic tenet of IDA had traditionally been specific investment financing requiring sustained commitment and support, his Government deplored the excessive weight given to policy reform and the recent attempt to inject macroeconomic conditionality into IDA operations.

180. As far as graduation was concerned, the establishment of explicit policies was still not necessary. As in other areas, IDA management should be flexible in its approach to this issue. It should avoid at all costs cutting off from funds countries that were no longer eligible for IDA but not yet eligible to borrow from the Bank.

181. The G-24 deplored the possible hardening of the terms and conditions of credits when so many low-income countries were not in a position to bear harder terms.

182. The Deputy called on IDA not to implement unnecessary reforms, particularly since the donors were being asked to make only a marginal effort. Although his Government believed that incentives should be built into IDA, IDA's role in this respect was limited. Furthermore, it did not seem to be the opportune time to consider proposals involving incentives.

183. The Deputy for Belgium noted that in view of IDA's effective role in assisting developing countries, his Government had a certain sympathy for the present structure of IDA and with its modus operandi. On the other hand, his Government wanted to avoid a repetition of what had taken place since 1981 with IDA6 and the negotiations leading to IDA7. Thus, Belgium did not have any dogmatic positions and was willing to seek solutions that would permit IDA to play its role as best it could. The Deputy agreed with the timetable for negotiating IDA8.

184. Although the Deputies could respond to some of the issues raised by the Chairman, he said, his Government believed that the Board should be more closely involved, since it represented recipient countries, donor countries, and some countries not directly involved with IDA.

185. With respect to the allocation of resources, his Government felt that the three criteria used, relative poverty, population, and economic performance, were still valid and should continue to be applied in a flexible, pragmatic way. So far as economic performance was concerned, this was an allocation criterion and should not be used to determine eligibility. He indicated that over the last few years the portion of specific investment credits had gone down considerably and represented only half of IDA's operations. The mid-term review tended to formalize the emphasis on policy-based credits already underway.

186. Africa should be given priority in receiving credits. Nevertheless, his Government recognized the problems facing countries such as India and China, and, therefore, recommended that they continue to receive sufficient IDA resources to support their development efforts over the next few years. The matter could be solved more easily if a sufficiently large volume of resources were made available to IDA.

187. The Deputy said that graduation should be approached pragmatically and on a case-by-case basis, which had been the practice so far. The paper given to the Deputies presented a justifiable, but tentative solution to the particular problem of the small island countries. However, the issue should be further analyzed before a definitive solution was proposed.

188. The Deputy said that his Government did not consider the reasons advanced in favor of hardening terms to be wholly valid, and felt that for each of them one could find a counter-argument. The blend system was probably the best way of adapting the present terms and conditions of IDA and the Bank to the circumstances of different borrowing countries. For that reason the blend system still had his Government's support.

189. His Government favored maintaining the present conditions. There could, however, be a change in maturities, perhaps from 50 to 35 years for certain countries. The introduction of interest charges would be a dangerous innovation and could only have an unfavorable effect on the debt service problem of IDA countries. Therefore, his Government was not in favor of introducing interest charges. He stated that a 1 or 2 percent charge might be bearable, only as a last recourse. The Deputy said that his Government was not in favor of differentiation based on the type of project. The subject of an interest subsidy his Government considered should be postponed, since further discussion did not appear useful.

190. The Deputy for Denmark said that on the question of whether policy reforms or economic performance should be used as criteria for allocating IDA resources, his Government saw no need to change IDA policy. It was willing, however, to discuss this further if it would facilitate negotiations and lead to better results.

191. His Government was against the incorporation of features of the Special Facility for Sub-Saharan Africa into IDA and did not want to see IDA assistance become dependent upon fulfillment of policy conditions. His Government had accepted the Special Facility because it provided badly needed resources for Africa, but with the provision that funds be allocated flexibly

and without strict conditionality, which it felt the African situation did not warrant.

192. Economic performance, on the other hand, was already one of the allocation criteria for IDA credits. His Government could agree to applying the same criteria under IDA8, perhaps with more emphasis on performance.

193. The Deputy said that his Government had supported efforts to allocate a larger share to Africa, and welcomed the fact that Africa's share was now 37 percent. A higher figure would be acceptable, even if it meant slight reductions in the shares of blend countries. He stressed that this underlined the importance of negotiating an IDA8 bigger than IDA7 to avoid a reduction in nominal resources for any borrower.

194. He said that his Government agreed with management that the present graduation procedure had worked quite well. Formalizing the process could lead to difficulties. He called on management to continue to be flexible.

195. The Deputy pointed out that his Government had been easing terms of bilateral aid to the poorest countries. Thus, its position was similar to that of Germany, since there would be a conflict between its policies on the bilateral side and on the multilateral side, if IDA started hardening terms. In particular, his Government opposed the introduction of interest charges on IDA credits. If changes had to be made in the terms, it would rather consider maturities and possibly grace periods. Further, his Government opposed a differentiation of terms by type of project. If a poor country had implemented a profitable project, it should enjoy the benefits of that project. His Government also was not convinced that it would be wise to differentiate by country group.

196. The Deputy said that the supplementary note on eligibility of certain very small island countries had not yet been discussed in capitals, but it would be looked at with symphathetic eyes. He saw no difficulty with paragraph 3 of that paper, namely, that operations planned in those countries under IDA7 should be continued to be financed by IDA.

197. The Deputy said that he agreed with the timetable proposed by the Chairman for the IDA8 negotiations.

198. The Deputy for South Africa said that differentiation of terms should not necessarily be construed as hardening of terms. If the availability of funds with 50-year maturities was restricted, but not eliminated, this could mean that IDA would be able to provide appropriate incentives for rapid development through the disbursement of larger amounts for relatively shorter maturities and shorter grace periods, and at the same time improve the distribution prospects for other potential recipients.

199. The Deputy for Greece said that, in general, IDA's guiding principle should be the careful application of a selective approach. For example, regarding geographical considerations in the allocation of funds, an evaluation of the specific needs of prospective recipients should be the paramount criterion rather than a predetermined regional allocation formula.

200. In regard to the terms of lending, an adjustment of maturities might be acceptable, but the imposition of interest charges would not. The Deputy said that her Government was skeptical about the application of graduation and conditionality rules, since both might pave the way for a shifting away from concessional toward semi-commercial lending, which was exactly the opposite of what IDA stood for.

201. The Deputy for Mexico said that his Government was sorry that the Deputies were discussing the hardening of terms of IDA credits instead of seeking new ways to provide resources for the development of the poorest nations. Since IDA should not cease to be a source of concessional funds, especially as the recipients were going through a severe crisis, his Government did not think it appropriate to harden IDA terms. A better way to channel additional resources would be to ensure that the new replenishment be large enough to cover the needs of the least developed countries. Further, his Government was not in favor of the creation of a third window, for the same reasons mentioned by other Deputies.

202. The issue of greater conditionality was very delicate, and his Government would not be prepared to support it. Experience had shown that these sorts of criteria created bottlenecks or additional difficulties in channeling resources.

203. The Deputy for Luxembourg said that IDA's mission was to help the least fortunate countries. Among those countries, there were some like China and India that, despite figures indicating a low level of economic development, were more capable of dealing with their situation than others. On the other hand, IDA recipients in Sub-Saharan Africa were the least capable of self support. IDA resources should be allocated accordingly.

204. Economic performance should remain a criterion for allocating IDA resources so as to avoid wasting even a small part of these scarce resources. However, IDA should not apply the conditionality of the Special Facility and the possibly high conditionality of the IMF Trust Fund. Rather, it should be flexible in meeting countries' specific needs. He stated that IDA's present approach was satisfactory in this respect.

205. IDA's current graduation policy was also satisfactory and a more formal graduation process was unwarranted, due to the many uncertainties surrounding the future recovery of developing countries.

206. The Deputy said that he saw sufficient justification for a hardening of terms, for two principle reasons. One was that it would strengthen IDA's resources, and borrowers would benefit from faster revolving resources. The other was that the grant element of its lending would not be substantially diminished if the right combination of financial variables were chosen. He suggested that management be given the authority to make its own choices within certain ranges of maturities, grace periods, and interest rates, according to its assessment of the situation in each country. A possible set of ranges that might be applied appeared in Paragraph 4.14 of the mid-term review paper. The Deputy stated that he did not favor a differentiation of terms according to the nature of projects.

207. The Deputy pointed out that the issue of an interest subsidy account had been revived because of the unsuccessful replenishment of IDA7. However, support for IDA was becoming more evident. The idea of an interest subsidy might therefore be put aside for the time being but should not be forgotten. It was an alternative to the existing system of pure donations.

208. The Deputy for Brazil said that her Government fully supported the timetable for IDA8 negotiations. The situation of the less developed countries more than warranted a rapid increase in the flow of resources.

209. Her Government opposed any hardening of terms and conditions, especially if such hardening were considered a substitute for a greater volume of resources for IDA8. Her Government was against a mechanical, formal approach to graduation. Management should have flexibility to deal with the changing economic conditions of IDA countries.

210. The Deputy for Korea said that his Government welcomed the timetable proposed for the IDA8 negotiations and hoped that sufficient resources would be secured to meet the requirements of the poor countries.

211. He said that the spirit of IDA was showing some strain and hoped that the difficulties between the poor and the rich countries would not hamper the mobilization of resources. He also hoped that at a minimum the current level of the IDA resources could be maintained.

212. The Deputy said that the issue of the small island economies should be taken into account in the allocation question. His Government thought that while there was some room for a hardening of IDA terms, there was no justification for a major shift. A shortening of maturities might be acceptable, but an interest charge was not necessary.

213. The Deputy for the United Kingdom raised, on an informal basis, the question of whether the time period of the next replenishment might be changed to a four year cycle more convenient to one of IDA's major contributors. He pointed out that there were four-year replenishments in the regional banks, and added that there was a certain cost in too-frequent renegotiation of Replenishments.

214. The Chairman said that he would not want to table that issue for discussion at present, but it was something that might be borne in mind during negotiations of IDA8.

III. Chairman's Summary Note

215. A draft of the Chairman's Summary Note was circulated to the Deputies. After some discussion and changes, the Note was approved. (The final version of the Chairman's Summary Note is annexed hereto as Attachment III.)

IDA Deputies' Meeting
Seoul, Korea
October 5, 1985

List of Delegates

IDA

Mr. Moeen A. Qureshi
Mr. David Bock
Mr. Hugh Scott
Mrs. Mary Oakes Smith

Argentina

Mr. Alfredo Chiaradia (Deputy)
First Secretary
Embassy of the Argentine Republic (Washington D.C.)

Mr. Jesus Sabra
Director General
Economic Affairs
Ministerio de Relaciones Exteriores y Culto

Mr. Daniel Merino
Division Chief
Dept. for International Organizations & Agreements
Banco Central de le Republic Argentina

Australia

Mr. Laurence Corkery (Deputy)
First Assistant Secretary
Australian Development Assistance Bureau

Mr. Ronald H. Dean
Executive Director
The World Bank

Mr. William Bowen
Asistant to Executive Director
The World Bank

Austria

Dr. Maria Pilz (Deputy)
Director
Credit Section
Ministry of Finance

Mr. Heiner Luschin
Advisor to Executive Director
The World Bank

Belgium

Mr. J. P. Arnoldi (Deputy)
Advisor
Administration de la Tesorerie

Brazil

Ms. Maria Celina Vinhosa (Deputy)
Division Chief
Department of International Organizations and Agreements
Central Bank of Brazil

Mr. Olavo Rocha da Silva (Deputy)
Head
Department of International Organizations and Agreements
Central Bank of Brazil

Canada

Mr. J. C. Coleman (Deputy)
Assistant Deputy Minister
Department of Finance

Mr. N. Frank Potter
Executive Director
The World Bank

Mr. Roy. E. J. Culpepper
Advisor to Executive Director
The World Bank

Miss Anne-Marie Doyle
Director
Int. Finance and Dev. Division
Department of Finance

Mr. Jean-Marc Metivier
Director General
Canadian International Development Agency

Mr. Peter Fiori
Economist
International Finance and Development
Department of Finance

Mr. Ian Wright
Deputy Director
Financial Institutions Division
Canadian International Development Agency

Denmark

Mr. Boerge V. Bloend (Deputy)
Head of Division
Danish International Development Agency
Ministry of Foreign Affairs

Mr. Niels Bodelsen
Head of Section
Danish International Development Agency
Ministry of Foreign Affairs

Mr. Viggo N. Jensen
Advisor to Executive Director
The World Bank

Finland

Mr. Mariti Ahtisaari (Deputy)
Under-Secretary of State
Ministry of Foreign Affairs

Mr. Veikko Kantola
Cabinet Counsellor
Ministry of Finance

Ms. Inga-Maria Grohn
Financial Advisor
Ministry of Finance

Mr. Hannele M. Tikanvaara
First Secretary, Advisor
Ministry of Foreign Affairs

France

Miss Ariane Obolensky (Deputy)
Assistant Director for Multilateral Affairs
Treasury, Ministry of Economy, Finance and Budget

Mr. Thierry Moulonguet
Head, Division of Aid to Developing Countries
Treasury, Ministry of Economy, Finance and Budget

Mr. Francis Mayer
Alternate Executive Director
The World Bank

Germany

Mr. Eberhard Kurth (Deputy)
Deputy Director General
Federal Ministry for Economic Cooperation

Germany (continued)

Mr. Peter Dingens
Foreign Officer

Mr. Wilfried Koschorreck
Division Chief
Federal Ministry of Finance

Mr. Uwe Henrich
Sr. Officer
Federal Ministry for Economic Cooperation

Mr. Ernst-Joachim Klute
Sr. Officer
Federal Ministry for Economic Cooperation

Mr. Gerhard Boehmer
Executive Director
The World Bank

Greece

Mrs. Tzoulia Panourgia-Kloni (Deputy)
Economic Minister
Permanent Representative of Greek Permanent Mission in Washington

Hungary

Mr. Ede Bako (Deputy)
Managing Director
International Monetary Department
National Bank of Hungary

Mr. Andras Horvai
Assistant General Manager
International Monetary Dept.
National Bank of Hungary

Mr. Miklos Pulai
Deputy President
National Planning Office

Mr. Pal Peterfalvy
Advisor to the Executive Director
The International Monetary Fund

Mr. Tibor Melega
Deputy Minister
Ministry of Foreign Trade

Iceland

Mr. Thorhallur Asgeirsson (Deputy)
Secretary General
Ministry of Commerce

Ireland

Mr. Michael G. Tutty (Deputy)
Principal Officer
Department of Finance

Mr. Patrick T. Downes
Advisor to Executive Director
The World Bank

Italy

Ms. Fernanda Forcignano (Deputy)
Joint Ministerial Counsellor
Department of Treasury

Mr. Mario Draghi
Executive Director
The World Bank

Mr. Pietro Masci
Assistant to Executive Director
The World Bank

Japan

Mr. Fumiya Iwasaki (Deputy)
Deputy Director-General
International Finance Bureau
Ministry of Finance

Mr. Toshiyuki Mineshima
Director
Overseas Investment Division
International Finance Bureau
Ministry of Finance

Mr. Kazushige Taniguchi
Deputy Director
Overseas Investment Division
International Finance Bureau
Ministry of Finance

Mr. Kenji Yamaguchi
Executive Director for Japan
The World Bank

Japan (continued)

Mr. Zenbei Mizoguchi
Alternate Executive Director for Japan
The World Bank

Mr. Naoki Kajiyama
Advisor to Executive Director for Japan
The World Bank

Mr. Shigeki Yoshida
Assistant to Executive Director for Japan
The World Bank

Mr. Takatoshi Kato
Executive Director for Japan
The Asian Development Bank

Korea

Mr. Doo-Hyung Lee (Deputy)
Deputy Director
International Finance Bureau
Ministry of Finance

Mr. Un-Sun Ryo
Chief
Research Department
Bank of Korea

Mr. Yeung-Kyun Rhee
Economist
Research Department
Bank of Korea

Kuwait

Mr. Bader Al-Humaidhi (Deputy)
Director-General
Operations and Finance
Kuwait Fund for Arab Economic Development

Dr. Abdul-Karim Sadek
Economic Advisor
Kuwait Fund for Arab Economic Development

Mr. E. M. Shamsedin
Advisor
Kuwait Fund for Arab Economic Development

Luxembourg

Mr. Serge Kolb (Deputy)
Assistant to Executive Director
The World Bank

Mexico

Mr. Jose Luis Flores (Deputy)
Director of International Financial Organizations
Secretaria de Hacienda y Credito Publico

Netherlands

Mr. Pieter Stek (Deputy)
Director, Foreign Financial Relations
General Treasury
Ministry of Finance

Mr. R. Treffers
Director
Multilateral Financial Develop. Cooperation & Special Programs Dept.
Ministry of Foreign Affairs

Mr. Johan A. Weijers
Head, Banks and Investment Section
Multilateral Financial Div. Cooperation
Ministry of Foreign Affairs

Mr. Ferdinand van Dam
Executive Director
The World Bank

Mr. J. Weeda
Head
Press and Publicity Information
Ministry of Finance

New Zealand

Mr. Neil William Irvin Stirling (Deputy)
Head of Section
Fiscal Affairs Branch
The Treasury

Norway

Mr. Tormod P. Svennevig (Deputy)
Director-General
Multilateral Department
Ministry of Development Cooperation

Ms. Jorunn Maehlum
Head of Division
Multilateral Department
Ministry of Development Cooperation

Norway (continued)

Mr. Kaaren Bryn
Deputy Director-General
Ministry of Foreign Affairs

Mr. Svein Aass
Assistant to Executive Director
The World Bank

Saudi Arabia

Mr. Osamah J. Faquih (Deputy)
Deputy Minister for International Development Cooperation
Ministry of Finance and National Economy

Mr. Mohammad Al-Shawi
Alternate Executive Director
The World Bank

Mr. Abduerahman Sehaibani
Director General
Program Research and Economic Studies Division
Saudi Fund for Development

South Africa

Mr. Arnold Peacey (Deputy)
Principal Resident Representative
South African Mission to the IMF and the World Bank

Sweden

Mr. Peder Hammerskjoeld (Deputy)
Assistant Under Secretary for International Development Cooperation
Ministry of Foreign Affairs

Mr. Per Taxell
Alternate Executive Director
The World Bank

Mrs. Inga Bjork-Klevby
Head of Section
Office for Int'l Development Cooperation
Ministry of Foreign Affairs

United Kingdom

Sir Crispin Tickell (Deputy)
Permanent Secretary
Overseas Development Administration

Mr. T. P. Lankester
Executive Director
The World Bank

Mr. Richard G. M. Manning
Alternate Executive Director
The International Monetary Fund and the World Bank

United States

Mr. James W. Conrow (Deputy)
Deputy Assistant Secretary for Developing Nations
U.S. Treasury Department

Mr. Hugh W. Foster
Alternate Executive Director
The World Bank

Mr. Donor Lion
Deputy Assistant Administrator, Program and Policy Coordination
Agench for International Development

Ms. Barbara Upton
Chief, Multilateral Financial Institutions Division
Office of Donor Coordination
Agency for International Development

Mrs. Jane Hallow
Assistant to Executive Director
The World Bank

Mr. William B. Milam
Deputy Assistant Secretary of State for International Finance and Development

Mr. Scott Brown
Special Assistant to Under-Secretary
U.S. Dept. of State

IDA Staff Attending

Mr. S. Shahid Husain

Mr. Koji Kashiwaya

Mr. Daisuke Kotegawa

IDA Staff Attending (continued)

Mr. Percy Mistry

Mr. Dan Morrow

Mr. Gerard T. Rice

Mr. J. William Stanton

Mr. Frank R. Vogl

Mr. D. Joseph Wood

Mid-Term Review of IDA7: Supplemental Note on Eligibility of Certain Very Small Developing Economies

As noted in paragraph 34.3 of the Mid-Term Review of IDA7, it is possible for a country's per capita income to rise above the effective eligibility level for IDA lending without the country having yet achieved creditworthiness for IBRD lending. As a result, such countries would have no access to Bank Group resources, at least temporarily.

In the view of the Bank's management, this problem exists in regard to a group of six small island economies. Technical adjustments in reported per capita incomes, such as for exchange rate over-valuations, would not bring these countries within the IDA-eligible range, and economic analyses do not show in any systematic, quantifiable sense, unqiue diseconomies which would allow adjustments in GNP data, or IDA criteria, relevant only to small island economies. Yet, there is common agreement that these small island economies face some special problems. Accordingly, Management proposes -- subject to the approval of the Bank's Executive Directors -- to adopt the approach set out below:

- First, as a matter of principle, a member should not be excluded from both IDA and IBRD resources, assuming economic performance warrants Bank Group lending.

- Second, actual borrowing will continue to be determined according to standard project criteria and assessment of performance.

- Third, during IDA7, planned operations in these countries will continue to be financed by IDA. (The amount involved is about SDR 10 million.)

- Fourth, with respect to IDA8, a small amount of lending (expected to be less than SDR 40 million) would be set aside to finance operations in this list of specified countries that would otherwise be excluded by the per capita income eligibility criterion.

- Fifth, for those countries which our analyses show as having some capacity for incurring debt on IBRD terms, the Bank would begin to blend IBRD and IDA lending and make special efforts to assist such countries in developing relationships with commercial sources of finance.

10/5/85

Meeting of IDA Deputies

Seoul, October 5, 1985

Summary Note by the Chairman
Mr. Moeen A. Qureshi, Senior Vice President, Finance, World Bank

1. The IDA Deputies met in Seoul on October 5, 1985, to review the situation of IDA-7 at mid-term. In their deliberations, they discussed the resource needs of IDA recipients and reviewed the principles governing the allocation of IDA resources and the structure of IDA's terms.

2. The Deputies strongly reaffirmed their support for IDA as an institution. The poorest countries, especially those in Africa, are facing extremely severe challenges to their growth and development. The Deputies emphasized the important role of IDA as a multilateral institution in providing basic investment for long-term growth and for helping design and support needed economic policy reforms and structural changes. Recognizing IDA as a particularly effective aid channel, Deputies agreed on the need for negotiations on IDA-8 to commence early in 1986, and be completed if possible by the Annual Meetings a year from now.

3. Deputies generally welcomed the opportunity to exchange views on key issues concerning IDA's practice and operations especially in the context of evolving economic circumstances in various recipient countries. In this connection Deputies focussed on issues of eligibility and allocation, expressing general support for continuing the use of existing criteria for eligibility (per capita income and lack of creditworthiness) and allocation (relative poverty, population size and economic performance). Deputies reaffirmed that the Executive Directors of the Association should continue to set and approve policies on eligibility and allocation criteria, while Management would, as in the past, exercise discretion in their application. They further supported Management's flexible use of eligibility criteria in determining graduation from IDA.

4. Deputies acknowledged that temporary exceptions could be made in determining IDA eligibility for a small number of developing economies whose special circumstances resulted, if existing criteria were strictly applied, in their having no access to any form of Bank Group resources. A supplemental note outlining Management's proposed approach for dealing with this issue in a specific set of countries was circulated and discussed.

5. The Deputies broadly supported the emphasis being given to economic performance in determining the allocation of IDA resources. Deputies acknowledged and endorsed the increasing weight IDA has given economic performance as a criterion for lending in recent years. There was considerable support for further strengthening this emphasis, and it was suggested that management apply the criterion with flexibility on a case-by-case basis.

6. With respect to geographic allocation, Deputies stressed the importance of retaining IDA's global character. Deputies recognized that the question of allocations would be influenced by the size of the 8th replenishment and other sources of concessionary funding that might become available. There was general agreement, however, that priority in IDA's allocation be given to Sub-Saharan Africa, and it was suggested that in IDA-8 every effort should be made to increase resource flows to Africa following termination of the African Facility in 1987. Deputies cited the importance of balancing allocations with appropriate emphasis on economic performance. There was general support that India and China should continue to receive IDA credits. No conclusion was reached on the possibility of change in their allocations, but all agreed that any such change should be modest, gradual and made in a non-disruptive manner.

7. There was support among most Deputies for a reconsideration of the terms of IDA lending. Views differed, however, on the specific way in which any such change might be pursued. A majority of Deputies was willing to consider a shortening of maturities and grace periods for the blend countries in particular, with some support expressed for a general shortening of maturities and grace periods for all IDA recipients. Grace periods in the range of 7 to 10 years and final maturities in the range of 35 to 40 years were mentioned. Views were strongly divergent on the introduction of interest rates; some Deputies favored such a step for the blend countries; the majority were opposed. It was recognized that this matter would need to be considered further. There was little enthusiasm for differentiation of terms by project, but it was agreed that Management should further study how this might be done. There was no support for the establishment of a Third Window in the form of an interest subsidy account. Several Deputies pointed out that a final decision on changing IDA's terms was a matter for the Bank's Board of Directors.

8. Noting that it would take some time and considerably more information for views to converge on changes in IDA's terms, and emphasizing that final views would be determined by the outcome of negotiations on the size of the next replenishment, Management was requested to examine further a number of the possibilities discussed including that of applying interest rates on IDA credits to blend countries. The resulting analysis should be included in a paper to be prepared for the first meeting of Deputies on IDA-8 negotiations.

9. It was agreed that the first meeting to initiate IDA-8 negotiations would be held in Paris next January.

Seoul
October 5, 1985

PRESS CONFERENCE

OPENING STATEMENT
by Moeen A. Qureshi, Senior Vice President of the World Bank and Chairman of the Meeting of IDA Deputies on October 5, 1985

Ladies and Gentlemen:

Today we had a most constructive meeting of representatives of the 33 nations that are donors to the International Development Association. It was a meeting that underlined the importance and effectiveness of IDA and given this it is indeed fitting that our meeting should take place here in Korea -- Korea a nation that was once an IDA borrower and today is an IDA donor.

The first point I want to stress is the extent of support voiced for IDA as an effective institution which focuses on the poorest countries. The representatives of donor governments stressed IDA's vital role in providing basic investment for long-term growth and for helping design and support needed economic policy reforms and structural changes. Many underlined the point that the need for a strong IDA has never been greater given the crisis confronting many of the very poorest nations.

The second point I want to stress concerns the plight of the poorest nations. All officials left no doubt about the scale of concern and the grave nature of the problems confronting, in particular, the nations of Sub-Saharan Africa.

Today's meeting established an excellent basis for moving ahead with preparations for IDA8 negotiations -- negotiations that we agreed should start in ~~early~~ January 1986 and be completed a year from now, that is ~~at~~ by time of the next year's Annual Meetings.

Today's meeting confirmed that donors wish to maintain IDA's basic character as a development institution, lending on concessional terms. Many governments expressed a desire to reconsider the terms on which IDA lends. No decisions were made and governments agreed to discuss this issue further at the next meeting.

On the topic of the geographic distribution of IDA's credits, there was very evident concern for the need for IDA to ensure adequate flows to Sub-Saharan Africa. But there was very clear support too for continuing IDA lending to the poorer nations of Asia, including India and China.

In my view, we had a most constructive and useful exchange of views. It was a most encouraging meeting -- one that suggests a willingness by all donors to expedite the next round of IDA negotiations in 1986 and to complete them much more quickly than in the past.

CHAIRMAN'S SUMMARY NOTE

IDA/RPL/85-3

FROM: Vice President and Secretary

October 5, 1985

IDA SEVENTH REPLENISHMENT
MID-TERM REVIEW

Meeting of IDA Deputies
Seoul, Korea, October 5, 1985

Attached is the Chairman's Summary Note on the IDA Deputies meeting held in Seoul on October 5, 1985.

Distribution

Messrs. Al-Sultan, Boehmer, Coates, Dean, de Groote, de Maulde, Draghi, Foster, Gutierrez-Castro, Haxthausen, Lankester, Potter, van Dam, Yamaguchi, and Mrs. Gonzalez

For transmission to the IDA Deputies of Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Kuwait, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, South Africa, Spain, Sweden, United Arab Emirates, United Kingdom, United States, Venezuela and Yugoslavia.

Information

President
Senior Vice Presidents
Senior Management Council
European Office
Tokyo Office

Meeting of IDA Deputies

Seoul, October 5, 1985

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Mr. Moeen A. Qureshi, Senior Vice President, Finance, World Bank

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2. The Deputies strongly reaffirmed their support for IDA as an institution. The poorest countries, especially those in Africa, are facing extremely severe challenges to their growth and development. The Deputies emphasized the important role of IDA as a multilateral institution in providing basic investment for long-term growth and for helping design and support needed economic policy reforms and structural changes. Recognizing IDA as a particularly effective aid channel, Deputies agreed on the need for negotiations on IDA-8 to commence early in 1986, and be completed if possible by the Annual Meetings a year from now.

3. Deputies generally welcomed the opportunity to exchange views on key issues concerning IDA's practice and operations especially in the context of evolving economic circumstances in various recipient countries. In this connection Deputies focussed on issues of eligibility and allocation, expressing general support for continuing the use of existing criteria for eligibility (per capita income and lack of creditworthiness) and allocation (relative poverty, population size and economic performance). Deputies reaffirmed that the Executive Directors of the Association should continue to set and approve policies on eligibility and allocation criteria, while Management would, as in the past, exercise discretion in their application. They further supported Management's flexible use of eligibility criteria in determining graduation from IDA.

4. Deputies acknowledged that temporary exceptions could be made in determining IDA eligibility for a small number of developing economies whose special circumstances resulted, if existing criteria were strictly applied, in their having no access to any form of Bank Group resources. A supplemental note outlining Management's proposed approach for dealing with this issue in a specific set of countries was circulated and discussed.

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IDA/RPL/85-3

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CHAIRMAN'S OPENING STATEMENT

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Ladies and Gentlemen:

Welcome! Many of you have travelled long distances to be here today. We deeply appreciate your willingness to arrive early for this meeting of IDA Deputies. IDA would not be the institution that it is today were it not for the time, effort and dedication that you and your predecessors have devoted to its cause. As we look to the months ahead I shall count on that spirit of commitment to see us through yet again.

Before we launch into our main items of business, I would like to thank the Government of Korea for the warm welcome that has been extended to us and for the excellent arrangements that have been made. Our meeting in Seoul should remind us of the possibilities that multilateral enterprises such as IDA hold out. It was not so long ago that this thriving and dynamic country was an IDA recipient. Twenty years later Korea is IDA's most successful graduate. And, to our delight, it is now represented at this table as a donor, one which I hope will play an increasingly prominent role in IDA's affairs in the future.

Twenty months ago, the Deputies decided that the circumstances under which IDA7 was negotiated warranted our reviewing its situation at mid-term. The paper prepared for this meeting provides the results of such a review and the key issues which now face IDA as an institution. You will recall that in proposing the mid-term review of IDA7 the Deputies originally had in mind the possibility of securing additional funds if the situation in recipient countries so demanded. This is no longer its main purpose. At the urging of several donors we tried, earlier on, to raise supplementary funding for IDA. Unfortunately, consensus eluded us. A few months later our joint efforts to launch a Special Facility for Africa did prove fruitful. That Facility was constituted in February of this year; it became effective in July and I am glad to report that total funding made available under the Facility's broad umbrella will exceed $1.2 billion.

The Facts

Permit me to review quickly what has happened since commitments under IDA7 began last year. Before I do so, I must express our appreciation to all the donors who made it possible for the Seventh Replenishment to become effective on schedule. In contrast with previous replenishments there were no unexpected delays on the part of any major donor in taking the necessary administrative and legislative actions. So much for the good news.

The IDA7 resource situation has underlined the trend of increasingly constrained supply in the face of significantly enlarged demand. This trend began in FY81. Under IDA6, we had originally planned to commit $12.4 billion (or SDR 9.5 billion at then prevailing exchange rates) between fiscal years 1981-83. With the release of IDA6 resources being stretched beyond the originally envisaged period, we could only commit $9.5 billion dollars (or SDR 8.8 billion) in those three years. The Special Arrangements for FY84 which were put in place by thirty donors prevented a further sharp decline in commitments emerging in 1984.

For fiscal years 1985-87 the shortage of resources available under IDA7 will accentuate the gap between our planned and actual IDA programs for that three-year period. A smaller number of operations are being identified and appraised,which will adversely effect recipient countries' investment programs and policy initiatives. The reductions were most severe in Asia, particularly in India and China. India's share in IDA lending has now fallen from 40% in 1981 to just over 22% in 1985. Lending to China had to be trimmed back to about half of the amount originally planned.

In the face of these regional program adjustments, and of worsening economic conditions in Africa, the bulk of IDA7 resources committed so far have been concentrated on the social sectors and on rehabilitation and maintenance projects. We have had to cut back sharply on IDA allocations to projects in the industry, energy, telecommunications and transport sectors, especially in the blend countries.

IDA7 resources have been further eroded by the effects of exchange rate movements and by our collective inability to fill the unallocated gap of 2.6% in unsubscribed contributions. At last count the total resources available under an IDA7 negotiated for $9 billion had a value of under $8.6 billion.

On the other side of the coin, conditions in most recipient countries - especially in Africa - have deteriorated sharply. Economic recovery in the industrial world and in some parts of the developing world has largely eluded Africa; per capita incomes and food production continue to deteriorate sharply. Economic recovery in the industrial world and in some parts of the developing world has largely eluded Africa; per capita incomes and food production continue to decline. Moreover, with Africa's debt overhang absorbing an increasingly large proportion of total ODA flows, net resource transfers to the region are declining rapidly. This situation must be reversed if an economic tragedy is to be averted. The need for significant increases in concessional resource flows to the region grows more urgent by the day.

In the Asian blend countries the growth momentum has slowed somewhat but the picture there is brighter. The situation in Bangladesh is improving gradually but its circumstances still approximate those of Africa rather than neighboring Asia. In Asia the need for maintaining present flows is quite clear if the gains of the past decade are to be consolidated.

The Issues

As the paper before you indicates quite clearly there are three broad sets of issues on which the specific views of all Deputies would be welcome at this meeting - indeed they are essential to guide our future course.

May I request that Deputies include in their interventions remarks which are as specific as possible on these questions.

The first set of issues concerns the allocation of IDA resources in the next replenishment. The key question for donors to provide us with guidance is the degree to which they believe current regional allocations need to be further adjusted. When IDA7 commitments are completed in FY87 we expect that: the share of Sub-Saharan Africa will be about 37%; the share of Bangladesh about 11%; the share of India and China about 36%, with the remaining 16% being distributed between pure IDA countries such as Burma and Nepal as well as "blend" countries such as Pakistan and Sri Lanka. In addition to IDA7, donors have decided to set up the Special Facility for Africa to channel quick disbursing funds to this region in support of policy reform efforts. Obviously, an increase in allocations to any one of these groupings will require corresponding reductions in allocations to others.

A second question related to allocations is the weight you would like us to place on the economic performance criterion in determining IDA allocations. In other words, should we go further than we do now in providing incentives for good performance and disincentives against poor economic management by adjusting the amount of IDA allocations. A related issue is how far should the Association go, beyond its present practices, in increasing the share of resources aimed specifically at supporting broad policy reform and adjustment programs in recipient countries along the lines of the Special

Facility for Africa. As the paper before you notes, the Association has already gone a long way to stress policy reform in both its program and project lending operations. It has done so on the principle that the mix of its operations and their thrust should be determined by country circumstances rather than by a predetermined orientation.

In this context of allocations, may I add that the issues of applying more flexibly our present policies regarding graduation from IDA has also been specifically raised and I am submitting a specific proposal addressing those concerns. It would be most useful to have your views on this issue as well.

The second broad set of issues concerns the restructuring of the terms of IDA credits. You may recall that we reviewed this question when we started negotiating IDA7. Donors decided then that it would be inopportune to reduce resource availability and harden terms at the same time. Since then many donors have asked that we review the terms of IDA credits as a matter for discussion at this meeting. Accordingly, I would like to put the following questions to you: (a) Should the Association now consider hardening the terms of IDA credits? (b) Should it do so on an across-the-board basis for all recipients including the neediest countries or should it do so selectively? (c) Should the hardening of terms be limited to achieving a reduction in maturity from the present 50 years in order to revolve funds more quickly? Should it also include reducing grace periods? Should there be an interest charge, i.e., beyond the present service charges that are levied? In responding to these questions, it would be useful for us to know your views on whether present "blending" practices constitute a feasible or desirable option to the application of an interest charge. I would also like to know your views on whether there should be a differentiation in the terms of IDA credits based on the type of projects they finance.

The third concerns the establishment of an intermediate "Third Window" type of facility. I would like to know whether there is any support for this idea.

Procedures

We have only one day to try to reach some consensus of views on these important but complex topics. It would be useful for all of us if we could hear the views of every Deputy around the table on these questions before we break up for lunch. Interventions will therefore need to be brief and to the point to ensure that everyone has the opportunity to be heard.

In the afternoon, I would like to elicit an exchange of views on the issues raised during the morning session. My intention is to summarize the positions of the Deputies in a written note which will be circulated for your review around tea time. I hope that it will be possible for us to reach a consensus on these issues before the day is finished.

We have much ground to cover. Without further ado, let us begin.

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Ladies and Gentlemen:

Welcome! Many of you have travelled long distances to be here today. We deeply appreciate your willingness to arrive early for this meeting of IDA Deputies. IDA would not be the institution that it is today were it not for the time, effort and dedication that you and your predecessors have devoted to its cause. As we look to the months ahead I shall count on that spirit of commitment to see us through yet again.

Before we launch into our main items of business, I would like to thank the Government of Korea for the warm welcome that has been extended to us and for the excellent arrangements that have been made. Our meeting in Seoul should remind us of the possibilities that multilateral enterprises such as IDA hold out. It was not so long ago that this thriving and dynamic country was an IDA recipient. Twenty years later Korea is IDA's most successful graduate. And, to our delight, it is now represented at this table as a donor, one which I hope will play an increasingly prominent role in IDA's affairs in the future.

Twenty months ago, the Deputies decided that the circumstances under which IDA7 was negotiated warranted our reviewing its situation at mid-term. The paper prepared for this meeting provides the results of such a review and the key issues which now face IDA as an institution. You will recall that in proposing the mid-term review of IDA7 the Deputies originally had in mind the possibility of securing additional funds if the situation in recipient countries so demanded. This is no longer its main purpose. At the urging of several donors we tried, earlier on, to raise supplementary funding for IDA. Unfortunately, consensus eluded us. A few months later our joint efforts to launch a Special Facility for Africa did prove fruitful. That Facility was constituted in February of this year; it became effective in July and I am glad to report that total funding made available under the Facility's broad umbrella will exceed $1.2 billion.

The Facts

Permit me to review quickly what has happened since commitments under IDA7 began last year. Before I do so, I must express our appreciation to all the donors who made it possible for the Seventh Replenishment to become effective on schedule. In contrast with previous replenishments there were no unexpected delays on the part of any major donor in taking the necessary administrative and legislative actions. So much for the good news.

The IDA7 resource situation has underlined the trend of increasingly constrained supply in the face of significantly enlarged demand. This trend began in FY81. Under IDA6, we had originally planned to commit $12.4 billion (or SDR 9.5 billion at then prevailing exchange rates) between fiscal years 1981-83. With the release of IDA6 resources being stretched beyond the originally envisaged period, we could only commit $9.5 billion dollars (or SDR 8.8 billion) in those three years. The Special Arrangements for FY84 which were put in place by thirty donors prevented a further sharp decline in commitments emerging in 1984.

For fiscal years 1985-87 the shortage of resources available under IDA7 will accentuate the gap between our planned and actual IDA programs for that three-year period. A smaller number of operations are being identified and appraised,which will adversely effect recipient countries' investment programs and policy initiatives. The reductions were most severe in Asia, particularly in India and China. India's share in IDA lending has now fallen from 40% in 1981 to just over 22% in 1985. Lending to China had to be trimmed back to about half of the amount originally planned.

In the face of these regional program adjustments, and of worsening economic conditions in Africa, the bulk of IDA7 resources committed so far have been concentrated on the social sectors and on rehabilitation and maintenance projects. We have had to cut back sharply on IDA allocations to projects in the industry, energy, telecommunications and transport sectors, especially in the blend countries.

IDA7 resources have been further eroded by the effects of exchange rate movements and by our collective inability to fill the unallocated gap of 2.6% in unsubscribed contributions. At last count the total resources available under an IDA7 negotiated for $9 billion had a value of under $8.6 billion.

On the other side of the coin, conditions in most recipient countries - especially in Africa - have deteriorated sharply. Economic recovery in the industrial world and in some parts of the developing world has largely eluded Africa; per capita incomes and food production continue to deteriorate sharply. Economic recovery in the industrial world and in some parts of the developing world has largely eluded Africa; per capita incomes and food production continue to decline. Moreover, with Africa's debt overhang absorbing an increasingly large proportion of total ODA flows, net resource transfers to the region are declining rapidly. This situation must be reversed if an economic tragedy is to be averted. The need for significant increases in concessional resource flows to the region grows more urgent by the day.

In the Asian blend countries the growth momentum has slowed somewhat but the picture there is brighter. The situation in Bangladesh is improving gradually but its circumstances still approximate those of Africa rather than neighboring Asia. In Asia the need for maintaining present flows is quite clear if the gains of the past decade are to be consolidated.

The Issues

As the paper before you indicates quite clearly there are three broad sets of issues on which the specific views of all Deputies would be welcome at this meeting - indeed they are essential to guide our future course.

May I request that Deputies include in their interventions remarks which are as specific as possible on these questions.

The first set of issues concerns the allocation of IDA resources in the next replenishment. The key question for donors to provide us with guidance is the degree to which they believe current regional allocations need to be further adjusted. When IDA7 commitments are completed in FY87 we expect that: the share of Sub-Saharan Africa will be about 37%; the share of Bangladesh about 11%; the share of India and China about 36%, with the remaining 16% being distributed between pure IDA countries such as Burma and Nepal as well as "blend" countries such as Pakistan and Sri Lanka. In addition to IDA7, donors have decided to set up the Special Facility for Africa to channel quick disbursing funds to this region in support of policy reform efforts. Obviously, an increase in allocations to any one of these groupings will require corresponding reductions in allocations to others.

A second question related to allocations is the weight you would like us to place on the economic performance criterion in determining IDA allocations. In other words, should we go further than we do now in providing incentives for good performance and disincentives against poor economic management by adjusting the amount of IDA allocations. A related issue is how far should the Association go, beyond its present practices, in increasing the share of resources aimed specifically at supporting broad policy reform and adjustment programs in recipient countries along the lines of the Special

Facility for Africa. As the paper before you notes, the Association has already gone a long way to stress policy reform in both its program and project lending operations. It has done so on the principle that the mix of its operations and their thrust should be determined by country circumstances rather than by a predetermined orientation.

In this context of allocations, may I add that the issues of applying more flexibly our present policies regarding graduation from IDA has also been specifically raised and I am submitting a specific proposal addressing those concerns. It would be most useful to have your views on this issue as well.

The second broad set of issues concerns the restructuring of the terms of IDA credits. You may recall that we reviewed this question when we started negotiating IDA7. Donors decided then that it would be inopportune to reduce resource availability and harden terms at the same time. Since then many donors have asked that we review the terms of IDA credits as a matter for discussion at this meeting. Accordingly, I would like to put the following questions to you: (a) Should the Association now consider hardening the terms of IDA credits? (b) Should it do so on an across-the-board basis for all recipients including the neediest countries or should it do so selectively? (c) Should the hardening of terms be limited to achieving a reduction in maturity from the present 50 years in order to revolve funds more quickly? Should it also include reducing grace periods? Should there be an interest charge, i.e., beyond the present service charges that are levied? In responding to these questions, it would be useful for us to know your views on whether present "blending" practices constitute a feasible or desirable option to the application of an interest charge. I would also like to know your views on whether there should be a differentiation in the terms of IDA credits based on the type of projects they finance.

The third concerns the establishment of an intermediate "Third Window" type of facility. I would like to know whether there is any support for this idea.

Procedures

We have only one day to try to reach some consensus of views on these important but complex topics. It would be useful for all of us if we could hear the views of every Deputy around the table on these questions before we break up for lunch. Interventions will therefore need to be brief and to the point to ensure that everyone has the opportunity to be heard.

In the afternoon, I would like to elicit an exchange of views on the issues raised during the morning session. My intention is to summarize the positions of the Deputies in a written note which will be circulated for your review around tea time. I hope that it will be possible for us to reach a consensus on these issues before the day is finished.

We have much ground to cover. Without further ado, let us begin.

NOTICE OF MEETING AND AGENDA

International Development Association
FOR OFFICIAL USE ONLY

IDA/RPL 85-1

FROM: Vice President and Secretary

August 30, 1985

IDA SEVENTH REPLENISHMENT
MID-TERM REVIEW

Notice of Meeting and Agenda

1. A meeting of the Deputies will be held at Daewoo Foundation Building, Seoul, Korea, on October 5, 1985.

2. Attached for the information of the Deputies are the following:

(a) The Agenda

(b) Note on Administrative Arrangements

3. A background paper for the meeting, circulated separately, is entitled "A Review of IDA at the Mid-Term of IDA7" (IDA/RPL/85-1, dated July 31, 1985).

Distribution

Messrs. Al-Sultan, Coates, Dean, de Groote, de Maulde, Draghi, Foster, Gutierrez-Castro, Haxthausen, Munzberg, Potter, van Dam, Wicks, Yamaguchi, and Mrs. de Gonzalez

Information

President
Senior Vice Presidents
Senior Management Council
European Office
Tokyo Office

For transmission to the IDA Deputies or Observers to the IDA Deputies' Meeting of Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Kuwait, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, South Africa, Spain, Sweden, United Arab Emirates, United Kingdom, United States, Venezuela and Yugoslavia

IDA SEVENTH REPLENISHMENT
MID-TERM REVIEW

Seoul; October 5, 1985

THE AGENDA

1. Report on the status of IDA7.

2. Discussion of the paper circulated for the meeting "A Review of IDA at the Mid-Term of IDA7".

3. Other Business.

IDA SEVENTH REPLENISHMENT
MID-TERM REVIEW

Seoul, October 5, 1985

NOTE ON ADMINISTRATIVE ARRANGEMENTS

Location

1. The meeting of the Deputies will be held at Room 4 (18th floor), Dae Woo Foundation Building, 526, 5-KA, Nam Dae Mun-Ro, Chung-Ku, Seoul, on Saturday, October 5, 1985. The opening session will begin at 9:30 a.m.

General Information

2. Information about the meeting and other arrangements may be obtained at the Meeting Reception Desk located outside the Meeting Room.

Simultaneous Interpretation

3. Simultaneous interpretation from and into Arabic, English, French, and Spanish will be in operation during the meeting. Any Deputy who intends to speak from a prepared text is asked to give a copy of his statement to the Meeting Secretary in advance for the guidance of the interpreters.

Documentation

4. The paper circulated for the meeting is "A Review of IDA at the Mid-Term of IDA7" (IDA/RPL/85-1, dated July 31, 1985). Additional copies of this paper will be available at the meeting.

Hospitality

5. The Chairman invites all members of Delegations to lunch on Saturday, October 5, 1985 at the banquet room on the 2nd floor of the Dae Woo Foundation Building.

IDA Deputies' Meeting
Seoul, Korea
October 5, 1985

List of Delegates

IDA

Mr. Moeen A. Qureshi
Mr. David Bock
Mr. Hugh Scott
Mrs. Mary Oakes Smith

Argentina

Mr. Alfredo Chiaradia (Deputy)
First Secretary
Embassy of the Argentine Republic (Washington D.C.)

Mr. Jesus Sabra
Director General
Economic Affairs
Ministerio de Relaciones Exteriores y Culto

Mr. Daniel Merino
Division Chief
Dept. for International Organizations & Agreements
Banco Central de le Republic Argentina

Australia

Mr. Laurence Corkery (Deputy)
First Assistant Secretary
Australian Development Assistance Bureau

Mr. Ronald H. Dean
Executive Director
The World Bank

Mr. William Bowen
Asistant to Executive Director
The World Bank

Austria

Dr. Maria Pilz (Deputy)
Director
Credit Section
Ministry of Finance

Mr. Heiner Luschin
Advisor to Executive Director
The World Bank

Belgium

Mr. J. P. Arnoldi (Deputy)
Advisor
Administration de la Tesorerie

Brazil

Ms. Maria Celina Vinhosa (Deputy)
Division Chief
Department of International Organizations and Agreements
Central Bank of Brazil

Mr. Olavo Rocha da Silva
Deputy Head
Department of International Organizations and Agreements
Central Bank of Brazil

Canada

Mr. J. C. Coleman (Deputy)
Assistant Deputy Minister
Department of Finance

Mr. N. Frank Potter
Executive Director
The World Bank

Mr. Roy. E. J. Culpepper
Advisor to Executive Director
The World Bank

Miss Anne-Marie Doyle
Director
Int. Finance and Dev. Division
Department of Finance

Mr. Jean-Marc Metivier
Director General
Canadian International Development Agency

Mr. Peter Fiori
Economist
International Finance and Development
Department of Finance

Mr. Ian Wright
Deputy Director
Financial Institutions Division
Canadian International Development Agency

Denmark

Mr. Boerge V. Bloend (Deputy)
Head of Division
Danish International Development Agency
Ministry of Foreign Affairs

Mr. Niels Bodelsen
Head of Section
Danish International Development Agency
Ministry of Foreign Affairs

Mr. Viggo N. Jensen
Advisor to Executive Director
The World Bank

Finland

Mr. Mariti Ahtisaari (Deputy)
Under-Secretary of State
Ministry of Foreign Affairs

Mr. Veikko Kantola
Cabinet Counsellor
Ministry of Finance

Ms. Inga-Maria Grohn
Financial Advisor
Ministry of Finance

Mr. Hannele M. Tikanvaara
First Secretary, Advisor
Ministry of Foreign Affairs

France

Miss Ariane Obolensky (Deputy)
Assistant Director for Multilateral Affairs
Treasury, Ministry of Economy, Finance and Budget

Mr. Thierry Moulonguet
Head, Division of Aid to Developing Countries
Treasury, Ministry of Economy, Finance and Budget

Mr. Francis Mayer
Alternate Executive Director
The World Bank

Germany

Mr. Eberhard Kurth (Deputy)
Deputy Director General
Federal Ministry for Economic Cooperation

Germany (continued)

Mr. Peter Dingens
Foreign Office

Mr. Wilfried Koschorreck
Division Chief
Federal Ministry of Finance

Mr. Uwe Henrich
Sr. Officer
Federal Ministry for Economic Cooperation

Mr. Ernst-Joachim Klute
Sr. Officer
Federal Ministry for Economic Cooperation

Mr. Gerhard Boehmer
Executive Director
The World Bank

Greece

Mrs. Tzoulia Panourgia-Kloni (Deputy)
Economic Minister
Permanent Representative of Greek Permanent Mission in Washington

Hungary

Mr. Ede Bako (Deputy)
Managing Director
International Monetary Department
National Bank of Hungary

Mr. Andras Horvai
Assistant General Manager
International Monetary Dept.
National Bank of Hungary

Mr. Miklos Pulai
Deputy President
National Planning Office

Mr. Pal Peterfalvy
Advisor to the Executive Director
The International Monetary Fund

Mr. Tibor Melega
Deputy Minister
Ministry of Foreign Trade

Iceland

Mr. Thorhallur Asgeirsson (Deputy)
Secretary General
Ministry of Commerce

Ireland

Mr. Michael G. Tutty (Deputy)
Principal Officer
Department of Finance

Mr. Patrick T. Downes
Advisor to Executive Director
The World Bank

Italy

Ms. Fernanda Forcignano (Deputy)
Joint Ministerial Counsellor
Department of Treasury

Mr. Mario Draghi
Executive Director
The World Bank

Mr. Pietro Masci
Assistant to Executive Director
The World Bank

Japan

Mr. Fumiya Iwasaki (Deputy)
Deputy Director-General
International Finance Bureau
Ministry of Finance

Mr. Toshiyuki Mineshima
Director
Overseas Investment Division
International Finance Bureau
Ministry of Finance

Mr. Kazushige Taniguchi
Deputy Director
Overseas Investment Division
International Finance Bureau
Ministry of Finance

Mr. Kenji Yamaguchi
Executive Director for Japan
The World Bank

Japan (continued)

Mr. Zenbei Mizoguchi
Alternate Executive Director for Japan
The World Bank

Mr. Naoki Kajiyama
Advisor to Executive Director for Japan
The World Bank

Mr. Shigeki Yoshida
Assistant to Executive Director for Japan
The World Bank

Mr. Takatoshi Kato
Executive Director for Japan
The Asian Development Bank

Korea

Mr. Doo-Hyung Lee (Deputy)
Deputy Director
International Finance Bureau
Ministry of Finance

Mr. Un-Sun Ryo
Chief
Research Department
Bank of Korea

Mr. Yeung-Kyun Rhee
Economist
Research Department
Bank of Korea

Kuwait

Mr. Bader Al-Humaidhi (Deputy)
Director-General
Operations and Finance
Kuwait Fund for Arab Economic Development

Dr. Abdul-Karim Sadek
Economic Advisor
Kuwait Fund for Arab Economic Development

Mr. E. M. Shamsedin
Advisor
Kuwait Fund for Arab Economic Development

Luxembourg

Mr. Serge Kolb (Deputy)
Assistant to Executive Director
The World Bank

Mexico

Mr. Jose Luis Flores (Deputy)
Director of International Financial Organizations
Secretaria de Hacienda y Credito Publico

Netherlands

Mr. Pieter Stek (Deputy)
Director, Foreign Financial Relations
General Treasury
Ministry of Finance

Mr. R. Treffers
Director
Multilateral Financial Develop. Cooperation & Special Programs Dept.
Ministry of Foreign Affairs

Mr. Johan A. Weijers
Head, Banks and Investment Section
Multilateral Financial Div. Cooperation
Ministry of Foreign Affairs

Mr. Ferdinand van Dam
Executive Director
The World Bank

Mr. J. Weeda
Head
Press and Publicity Information
Ministry of Finance

New Zealand

Mr. Neil William Irvin Stirling (Deputy)
Head of Section
Fiscal Affairs Branch
The Treasury

Norway

Mr. Tormod P. Svennevig (Deputy)
Director-General
Multilateral Department
Ministry of Development Cooperation

Ms. Jorunn Maehlum
Head of Division
Multilateral Department
Ministry of Development Cooperation

Norway (continued)

Mr. Karen Bryn
Deputy Director-General
Ministry of Foreign Affairs

Mr. Svein Aass
Assistant to Executive Director
The World Bank

Saudi Arabia

Mr. Osamah J. Faquih (Deputy)
Deputy Minister for International Development Cooperation
Ministry of Finance and National Economy

Mr. Mohammad Al-Shawi
Alternate Executive Director
The World Bank

Mr. Abdulrahman Sehaibani
Director General
Program Research and Economic Studies Division
Saudi Fund for Development

South Africa

Mr. Arnold Peacey (Deputy)
Principal Resident Representative
South African Mission to the IMF and the World Bank

Sweden

Mr. Peder Hammerskjoeld (Deputy)
Assistant Under Secretary for International Development Cooperation
Ministry of Foreign Affairs

Mr. Per Taxell
Alternate Executive Director
The World Bank

Mrs. Inga Bjork-Klevby
Head of Section
Office for Int'l Development Cooperation
Ministry of Foreign Affairs

United Kingdom

Sir Crispin Tickell (Deputy)
Permanent Secretary
Overseas Development Administration

Mr. T. P. Lankester
Executive Director
The World Bank

Mr. Richard G. M. Manning
Alternate Executive Director
The International Monetary Fund and the World Bank

United States

Mr. James W. Conrow (Deputy)
Deputy Assistant Secretary for Developing Nations
U.S. Treasury Department

Mr. Hugh W. Foster
Alternate Executive Director
The World Bank

Mr. Donor Lion
Deputy Assistant Administrator, Program and Policy Coordination
Agench for International Development

Ms. Barbara Upton
Chief, Multilateral Financial Institutions Division
Office of Donor Coordination
Agency for International Development

Mrs. Jane Hallow
Assistant to Executive Director
The World Bank

Mr. William B. Milam
Deputy Assistant Secretary of State for International Finance and Development

Mr. Scott Brown
Special Assistant to Under-Secretary
U.S. Dept. of State

IDA Staff Attending

Mr. S. Shahid Husain

Mr. Koji Kashiwaya

Mr. Daisuke Kotegawa

IDA Staff Attending (continued)

Mr. Percy Mistry

Mr. Dan Morrow

Mr. Gerard T. Rice

Mr. J. William Stanton

Mr. Frank R. Vogl

Mr. D. Joseph Wood

MID-TERM REVIW PAPER

Mid-Term Review of IDA-7: Supplemental Note on Eligibility of Certain Very Small Developing Economies

As noted in paragraph 34.3 of the Mid-Term Review of IDA-7, it is possible for a country's per capita income to rise above the effective eligibility level for IDA lending without the country having yet achieved creditworthiness for IBRD lending. As a result, such countries would have no access to Bank Group resources, at least temporarily.

In the view of the Bank's management, this problem exists in regard to a group of six small island economies. Technical adjustments in reported per capita incomes, such as for exchange rate over-valuations, would not bring these countries within the IDA eligible range and economic analyses do not show in any systematic, quantifiable sense, unique diseconomies which would allow adjustments in GNP data, or IDA criteria, relevant only to small island economies. Yet, there is common agreement that these small island economies face some special problems. Accordingly, Management proposes -- subject to the approval of the Bank's Executive Directors -- to adopt the approach set out below:

- First, as a matter of principle, a member should not be excluded from both IDA and IBRD resources assuming economic performance warrants Bank Group lending;
- Second, actual borrowing will continue to be determined according to standard project criteria and assessment of performance.
- Third, during IDA-7, planned operations in these countries will continue to be financed by IDA. (The amount involved is about SDR 10 million.)

- Fourth, with respect to IDA-8, a small amount of lending (expected to be less than SDR 40 million) would be set aside to finance operations in this list of specified countries that would otherwise be excluded by the per capita income eligibility criterion.
- Fifth, for those countries which our analyses show as having some capacity for incurring debt on IBRD terms, the Bank would begin to blend IBRD and IDA lending and make special efforts to assist such countries in developing relationships with commercial sources of finance.

10/5/85

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10/5/85

International Development Association
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IDA/RPL/85-1

FROM: Vice President and Secretary

July 31, 1985

IDA SEVENTH REPLENISHMENT
MID-TERM REVIEW

Meeting of IDA Deputies
Seoul, Korea, October 5, 1985

Attached for review and consultation by the IDA Deputies is the Report entitled "A Review of IDA at the Mid-Term of IDA7" to be discussed during the meeting in Seoul on October 5, 1985.

Distribution

Messrs. Al-Sultan, Coates, Dean, de Groote, de Maulde, Draghi, Foster, Gutierrez-Castro, Haxthausen, Munzberg, Potter, van Dam, Wicks, Yamaguchi, and Mrs. Gonzalez

For transmission to the IDA Deputies of Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Kuwait, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, South Africa, Spain, Sweden, United Arab Emirates, United Kingdom, United States, Venezuela and Yugoslavia

Information

President
Senior Vice Presidents
Senior Management Council
European Office
Tokyo Office

A REVIEW OF IDA AT THE MID-TERM OF IDA7

IDA Staff
July 31, 1985

Table of Contents

A REVIEW OF IDA AT THE MID-TERM OF IDA7

I. INTRODUCTION

1.01 In January 1984 at their last meeting, the IDA Deputies requested that a review of IDA7 be undertaken in about 18 months time. The review was to consider whether the Association had met the needs of IDA recipients and whether changing economic conditions had increased or reduced those needs.

1.02 The major reason behind this request, repeated at the April 1985 meeting of the Development Committee, was that the agreed size of IDA7 appeared insufficient in view of the critical situation facing IDA recipient countries, especially in Africa. While efforts to obtain supplementary IDA funds outside the negotiated replenishment agreement were not successful, a Special Facility for Sub-Saharan Africa was constituted in February 1985 and became effective in July 1985 with total resources of over $1.2 billion.

1.03 Section II of this paper reviews the adequacy of IDA7 resources against current economic conditions for recipients. The majority of IDA's recipient countries continues to suffer from weak economic growth, deteriorating external positions, and faltering development. The crisis in Sub-Saharan Africa continues to deepen, although some governments are undertaking major programs of structural adjustment and policy reform. The volume of external finance continues to be below that required and IDA's own programs have been scaled back to fit within an IDA7 smaller than management believed was the minimum necessary. In short, events over the last 18 months have tended to reinforce the arguments in favor of a larger IDA7. In recent consultations, however, donors have made clear that the African Facility and other replenishment agreements have absorbed the concessional funds available under their budgets for multilateral contributions at this time. Accordingly, they see little prospect for raising supplementary resources for commitment under IDA7, despite the continuing stringency of IDA resources. Moreover, IDA8 negotiations will need to commence within a few months of the Mid-Term Review; this suggests that it would be more productive to use the Mid-Term Review as an opportunity to reexamine certain aspects of IDA's role and explore whether IDA's structure is appropriate to the current situation and circumstances of IDA-eligible countries, the objective being to lay the ground for an effective IDA8.

1.04 Among the structural issues, the focus of donor interest has been the role of IDA in the blend countries and priorities in the allocation of IDA funds. Questions have also been raised about whether IDA's highly concessional terms might be amended and whether a "Third Window" in IBRD might be created for lower-middle income or blend countries. Most variants on this idea have as one of their goals the aim of reallocating IDA's resources for the very poorest countries.

1.05 Section III of this paper reviews the allocation of IDA resources among countries and regions, as well as among the various types of lending instruments. Section IV analyzes possible adjustments in IDA terms and the merits of a Third Window.

1.06 This review is therefore intended not only to be retrospective in nature, but also to provide a basis for an initial discussion in Seoul on the future role and structure of IDA.

II. IDA7 RESOURCES AND OTHER AID FLOWS

The Global Economic Environment and IDA Recipients

2.01 The performance of the world economy in 1984 was more favorable than expected in both industrial and developing countries. The industrial countries' GNP grew by 2.6% in 1983 and by nearly 5% in 1984 after a virtual stagnation between 1980 and 1982. GDP growth in developing countries remained low in 1983 but increased to 3.7% in 1984 and exceeded the rate of population growth for the first time since 1980. World trade growth resumed in 1983 and was 8.8% in 1984, including an 8% increase in the exports of all developing countries and the first increase in their imports since 1981. These results, however, have left the majority of the low-income developing countries unaffected. Growth in the pure IDA countries, especially those in Africa, has not rebounded, and per capita incomes continue to fall.

2.02 Indicators of the economic performance of IDA countries are set out in Table 2.1 below.

Table 2.1: ECONOMIC INDICATORS FOR IDA RECIPIENTS
(% Per Annum)

	Per Capita GDP Growth		Export Growth		Import Growth		Terms of Trade		Current Account (% Exports)	
	1980-82	1982-84	1980-82	1982-84	1980-82	1982-84	1980-82	1982-84	1980-82	1982-84
Pure IDA										
Africa	-3.8	-4.3	0.7	-7.8	-1.5	-3.7	-6.7	10.4	-33.6	-34.7
Other	1.5	1.7	0.7	9.7	2.9	5.6	2.2	1.3	-63.2	-54.2
Blend										
India	1.9	3.6	4.6	4.7	-0.7	2.3	-1.6	-1.1	-27.0	-24.0
China	3.7	6.8	11.1	7.8	0.1	17.4	4.4	-1.0	4.1	14.5
Africa	-1.3	-0.4	-11.4	8.5	-14.1	0.2	-4.4	4.9	-38.3	-28.1
Other	1.6	2.0	4.1	10.7	-1.3	9.1	-4.3	3.5	-37.3	-27.8
All IDA Recipients	2.2	4.3	5.8	5.6	-1.8	7.0	-4.6	5.4	-16.4	-8.0
Memorandum Item:										
Industrial Countries	0.5	2.3	0.6	6.1	-1.7	8.1	-0.2	0.9	0.2	-1.0
All Developing Countries	-0.1	0.5	-5.6	4.4	1.5	-0.6	-0.3	-0.9	-10.8	-8.5

2.03 In the IDA-only countries of Africa, economic conditions have worsened in the last two years. As Table 2.1 indicates, per capita income declined at a rate of over 4% per annum over the last two years, and exports have fallen even more swiftly. Terms of trade have improved generally, but this has been partially offset by the fall in export volume, and the African countries' external imbalances remain very serious indeed.

2.04 In other pure IDA countries, such as Bangladesh, Burma, and Nepal, per capita GDP growth has been less than 2% per annum. Many of these countries face serious constraints in increasing agricultural production, though some potential does exist for raising per capita income and generating employment. Export growth has shown improvement over the last two years, but current account deficits are still more than 50 percent of foreign exchange earnings.

2.05 Among blend countries, the picture is more mixed. Those, such as Zambia, Senegal and Kenya that had borrowed extensively abroad while their economic performance was eroding were especially hard hit by the fall in their external earnings during the recession, by the falling availabilities of external finance, and by the rise in real interest rates. Subsequent reductions of imports in response to rising balance of payments constraints have led to a reduced capacity to produce for export. Other blend countries, notably India, Pakistan, and China with more conservative external borrowing policies, and larger and more diversified economies, were less affected and somewhat better positioned to take advantage of the recovery. There have also been notable changes in policy in several of these countries aimed at laying an even better foundation for growth and development. The remarkable results of the reform process in China are widely recognized, and are outlined in Section III below. India, too, is beginning a major reorientation, including important tax and regulatory reforms, also described in Section III, and similar considerations hold for Pakistan.

2.06 The ability of many IDA countries to benefit from the recovery is limited, inter alia, by the continuing effects of inappropriate government policies, and institutional obstacles. Diminishing aid resources have also constrained the ability of some low income developing countries to undertake needed policy reform and structural change. The shortage in IDA7 resources, discussed in more detail below, has, for example, curtailed the financing of long-term productive investments and institutional strengthening required to support economic growth. Moreover, the immediate need to stabilize their economies has restricted the growth in basic long-term investments. Infrastructure in many African countries, for example, continues to erode. Capacity utilization remains low and capital stock is not being replaced. Prospects for economic policy reform in Africa leading to greater flows of private investment are diminishing because of insufficient infrastructure, such as transportation, utilities, and other basic facilities and services.

Capital Flows to IDA Countries

2.07 Between 1979 and 1983, total net transfer receipts (grants plus borrowing net of both repayments and interest) by the IDA countries fell from $11.1 billion (1979-81 average) to only $9.0 billion, or by about 20%, as shown in Table 2.2 below.[1/] Almost half of this fall is accounted for by the collapse in private capital flows to these countries, which fell from an average of $0.8 billion in 1979-81 to practically zero in 1983.

2.08 The majority of the fall was due to official loans, while grants also fell. IDA, in fact, was the only major source of financing to increase its net transfers to these countries between 1979-81 and 1983. The picture is much the same at a regional level; IDA net transfers increased in each of the five country groups shown in Table 2.2, while total net transfers fell everywhere. Only in India, where private net transfers increased, and in the "other" blend countries (Pakistan, Sri Lanka, etc.) where grant receipts increased did any other major form of financing help to offset the overall decline.

2.09 The decline in overall net transfers was most serious in these "other" blend countries, where they fell by over 40% between 1979-81 and 1983, and in the "other" pure IDA countries (Bangladesh, Nepal, etc.), where they fell by over 25%. The table also illustrates the dominance of official flows to IDA's recipient countries. Even at the peak of private lending in 1980, private sources provided only 9% of overall net transfers. These trends show that IDA has been a crucial instrument for maintaining financial flows to the poorest countries during the world recession. But it must not be forgotten that they reflect commitments made during periods when IDA resources were growing. With the stretching out of IDA6 contributions, and particularly with the small size of IDA7, commitments have been in decline since FY81, and this began to be reflected in disbursements in FY84. IDA is thus no longer in a position to mitigate the overall shortage of finance to the recipient countries in the way it did during the period up to 1983.

1/ Excluding China, for which information is not available.

Table 2.2: NET TRANSFERS (DISBURSEMENTS NET OF DEBT SERVICING) TO IDA COUNTRIES
($ million)

	1978	1979	1980	1981	1982	1983
(i) Pure IDA Countries						
Africa						
Grants	1,281	1,458	2,016	1,853	1,952	1,736
IDA	182	227	235	308	402	363
Other Official Loans	733	1,446	1,475	1,389	889	993
Private Loans	169	293	352	422	399	-54
Total	2,365	3,424	4,078	3,972	3,642	3,038
Other Regions						
Grants	710	701	1,255	751	1,033	746
IDA	149	226	220	250	290	325
Other Official Loans	618	1,505	889	791	808	600
Private Loans	86	67	-8	114	25	-15
Total	1,563	2,499	2,356	1,906	2,156	1,656
(ii) Blend Countries						
India						
Grants	633	717	647	809	455	520
IDA	289	503	602	726	1,033	883
Other Official Loans	-20	-233	684	10	-46	145
Private Loans	-34	-13	191	225	283	414
Total	868	974	2,124	1,770	1,725	1,962
Africa						
Grants	670	691	627	750	622	680
IDA	274	324	384	442	609	562
Other Official Loans	412	448	499	480	296	254
Private Loans	473	304	361	-150	-157	-81
Total	1,909	1,767	1,871	1,532	1,370	1,415
Other a/						
Grants	379	443	1,033	624	694	742
IDA	88	101	108	147	215	184
Other Official Loans	710	606	1,035	675	660	262
Private Loans	-6	-23	282	15	-69	-239
Total	1,171	1,127	2,458	1,461	1,500	949
(iii) All Recipients a/						
Total						
Grants	3,673	4,010	5,578	4,787	4,756	4,424
IDA	800	1,154	1,314	1,565	2,152	1,954
Other Official Loans	2,715	3,999	4,817	3,663	3,004	2,617
Private Loans	688	628	1,178	626	481	25
Total	7,876	9,791	12,887	10,641	10,393	9,020

a/ Excluding China

NOTE: Grants exclude technical cooperation.

Sources: World Debt Tables 1984-85 and OECD Geographical Distribution of Financial Flows, 1984.

2.10 Given the fall in total transfers, the efficient use of official flows becomes even more necessary to the IDA countries than in previous years, and to this end, aid must be more effectively coordinated among donors. IDA has been important in coordination of aid in the poorest and the least creditworthy countries, especially for the success of consultative groups (CGs) and other coordinating mechanisms.

2.11 In the past two years, there has been special interest in expanding the role of CGs in Africa. Aid coordination has an important place in the World Bank's Joint Program of Action for Sub-Saharan Africa, endorsed by the Development Committee in September 1984. The number of CGs is expected to grow from 11 to perhaps 16 or 17 over the next several years. For example, a new CG for Senegal was organized in December 1984; new CGs for Mauritania and Malawi are expected in 1984, and one for Guinea is planned for 1986. Collaboration between the UNDP and the Bank Group has also been enhanced to ensure the increased effectiveness of both CGs and UNDP-led Roundtables, the coordinating mechanism used in many IDA-recipient countries for which CGs do not exist.

2.12 Experience thus far has been mixed. Basic responsibility for coordination rests with the recipient government, but donors must play an active role if these groups are to work. Staffs of both the Bank and UNDP are being enhanced in Sub-Saharan Africa, partly with this objective in mind. Bank resident missions in Sub-Saharan Africa, for example, have been expanded recently, with plans to expand further in the next several years. There has been a renewed commitment to aid coordination, especially in connection with the Bank's Joint Program of Action in Sub-Saharan Africa. Although it is too early to tell how lasting and successful better donor coordination will be, its importance in Africa is widely accepted, since in this region official flows predominate and a wide variety of different forms of assistance (technical cooperation, export credits, rescheduling, etc.) have to be combined together.

Other Developments in Official Development Assistance

2.13 The recent decline in ODA and its prospects are described in the forthcoming report of the Task Force on Concessional Flows and is, therefore, reviewed only briefly below. Table 2.3 shows ODA as the major source of external capital for low-income countries. During 1983-84, ODA made up about 35% of total net disbursements to all developing countries, and together with nonconcessional multilateral development finance as much as 42%.

Table 2.3: TOTAL NET DISBURSEMENTS TO DEVELOPING COUNTRIES, 1975-84
(US$ billion, 1983 prices and exchange rates)

	1975	1980	1981	1982	1983	1984P
Official Development Finance	35.4	40.6	41.8	40.3	40.9	43.2
Of Which:						
Concessional Flows (ODA)	31.6	36.1	36.2	33.7	33.8	35.7
Bilateral	25.9	28.8	28.5	26.2	26.2	27.3
Multilateral	5.7	7.3	7.7	7.5	7.6	8.4
Multilateral Non-Concessional	3.8	4.6	5.6	6.6	7.2	7.5
Other Official Flows*	11.9	18.4	16.0	15.3	12.6	14.5
Private	37.3	34.9	49.0	40.5	51.6	37.5
Total Resource Flows	84.6	93.9	106.8	96.1	105.3	95.3

P Preliminary
* Mainly export credits, official and officially supported.

Sources: OECD Development Cooperation Directorate, Draft Press Communique on 1984 Financial Flows to Developing Countries, 18th June 1985
OECD, Development Cooperation, Paris 1984

2.14 ODA flows, moreover, have been a fairly steady source of capital to developing countries over the past decade. Their relative importance has been increased because of the recent contraction in private lending. In 1984, ODA accounted for 37% of total resource flows to LDCs, compared to 32% just one year earlier, as private flows to LDCs fell by 27%.

2.15 As Table 2.4 shows, the DAC and OPEC countries have been the principal sources of ODA, accounting for about 90% of total ODA flows. Although OPEC members' ODA/GNP ratios continue to be well above the DAC average, their ODA contributions have fallen, as have their share of total ODA flows. DAC flows have continued to increase in the 1980s. During the 1980-84 period, DAC flows increased at an annual average real rate of 3.4%, much of the increase coming in the last year. This increase reflects to a large extent short-term emergency relief programs for the drought-stricken countries in Africa. The DAC Secretariat has indicted that further increases in ODA from DAC countries are expected to occur in 1985.

Table 2.4: NET DISBURSEMENTS OF ODA BY DONOR GROUPS 1970-84 a/

Donor Group	1970	1975	1980	1981	1982	1983	1984P	Average Annual Growth Rate (%) 1970-80	1980-84
(i) $ Billion, 1983 Prices and Exchange Rates									
DAC	18.1	20.5	25.6	24.9	27.7	27.5	29.3	3.5	3.4
OPEC	1.0	9.3	9.1	8.1	5.9	5.4	4.6	24.7 b/	-15.7
CMEA	2.6	2.2	2.5	2.8	2.9	3.0	3.0	-0.3 b/	4.7
Other	1.0	0.7	0.5	0.5	0.5	0.4	0.5	-	-
TOTAL	22.7	32.7	37.7	36.3	37.0	36.3	37.4	5.2	-0.2
(ii) $ Billion, Current Prices and Exchange Rates									
DAC	6.9	13.8	27.3	25.5	27.7	27.5	28.6	14.7	1.2
OPEC	0.4	6.3	9.7	8.4	5.8	5.4	4.5	37.4	-17.4
CMEA	1.0	1.5	2.7	2.9	2.9	3.0	2.9	10.3	1.8
Other	0.4	0.5	0.5	0.6	0.6	0.4	0.5	-	-
TOTAL	8.7	22.1	40.2	37.4	37.0	36.3	36.5	16.5	-2.4

P Preliminary.
a/ Net disbursements, including note deposits, by DAC member countries to multilateral agencies and net bilateral disbursements.
b/ Calculated on the basis of 1982 prices.

Source: As Table 2.3

2.16 Since the end of the 1970s, the multilateral share of DAC ODA disbursements has declined from a peak of 35% (1977/78) to 31% in the period through 1983 (see Table 2.5). Some donors have placed an increased emphasis upon bilateral assistance. This shift in emphasis reflects a variety of factors including national concerns for trade relations, access to investment opportunities, and political and security interests. IDA's share in total DAC ODA flows has declined from 16% (1977/78) to 11% (1979/83) and from 46% to 36% of DAC disbursements to multilateral institutions (see Table 2.5). This reduction in IDA's resources even as a percentage of total multilateral disbursements reflects in part the delay which occurred in contributions to the Sixth Replenishment as a result of the rephasing of the U.S. contribution. In FY85 IDA's annual lending in current dollars was more than 20% below that of FY80.

Table 2.5: ODA RECEIPTS FROM DAC BY LENDING CHANNEL
(percentages of net disbursements)

	Bilateral Total	Multilateral Total	Of Which: IDA	UN	EEC	Regionals	Other
1965	93	7	55	41	2	0	2
1970	83	17	26	33	14	7	20
1975	72	28	32	32	18	14	4
1977-78	65	35	46	23	14	13	4
1979-83	69	31	36	26	18	14	6

Source: OECD, Development Cooperation, various years.

2.17 IDA's role in ODA is crucial to sustaining concessional flows to the poorest countries. While other aid flows have been directed largely towards low and lower middle-income countries, IDA's lending has been concentrated on the very poor recipients (those with per capita income below $400). During FY80-84, IDA has increased its allocations to the poorest countries to 90%, from about 70% in the early and mid-1970s. IDA7 allocations to this group are planned to increase further, to about 93%. DAC and OPEC donors have also increased their focus on the very poorest, but more than 60% of of DAC and OPEC assistance remains directed towards the middle-income countries. IDA's net disbursements to countries with 1983 GNP per capita of $400 or less has increased steadily. But again, IDA disbursements reflect past commitments and will decline as the lower level of IDA7 commitments over those of IDA6 are translated into disbursements.

Table 2.6: NET DISBURSEMENTS OF IDA AND BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE
BY PER CAPITA INCOME OF RECIPIENT
(Percentage)

Per capita income	IDA b/				DAC bilateral aid				OPEC bilateral aid		
of recipients a/	1970	1975	1980	1983	1970	1975	1980	1983	1975	1980	1983
$400 or less	72	71	80	84	41	41	34	38	24	20	24
$401 - $790	14	22	18	14	18	20	28	27	47	10	13
$791 - $1,635	5	2	1	2	12	11	8	14	2	11	4
$1,635 - $2,850	9	5	1	-	20	12	11	5	21	54	58
Over $2,850	-	-	-	-	9	16	19	16	6	5	1
Total (Percentage)	100	100	100	100	100	100	100	100	100	100	100
Total (Billions of dollars)	0.2	1.1	1.5	2.5	5.1	8.8	16.0	14.4	4.8	5.8	2.5

a/ GNP per capita in 1983 for 1983 figures. Others based on GNP per capita in 1980.

The Volume of IDA's Resources

2.18 Since 1980 IDA's resources have been increasingly constrained. The Sixth Replenishment agreed to by Deputies in December 1979 was for an amount totalling $12 billion (SDR 9.1 billion). During the FY81-83 period, $12.4 billion (SDR 9.5 billion) was planned for commitment (including some reflows of resources and expected IBRD transfers), but only $9.5 billion (SDR 8.8 billion) in commitments were made due to slower-than-anticipated contributions. Thus, on an annual average basis, commitments in current dollars during the IDA6 period were only 3.7% above those during IDA5, and they fell by 17.7% in real terms. While the Special Arrangements among donors for FY84 allowed commitments to increase somewhat in current terms in FY84, the IDA7 replenishment for the period FY85-87 of $9 billion represented a sizable reduction in funds in nominal terms (25%) as well as real terms (40%) over that for IDA6 proper.

2.19 The reduction in IDA7 resources resulted in large-scale cutbacks in planned commitments for FY85-87 from those initially envisaged. The immediate effect of the constraint on IDA7 resources has been to realign the lending program to reduced levels. A smaller number of operations are being identified and appraised, which will adversely effect recipient investment programs and policy initiatives. A review of these cutbacks shows that reductions were most severe in Asia, particularly India and China, although sizeable reductions were made across the board. In terms of sectors, the greatest impact was on industry, telecommunications, transportation and energy. The limited development of social, human and physical infrastructure in virtually all IDA countries is a major obstacle to growth, and lending in these areas was maintained as much as possible. However, continued support to sectors such as energy and industry, where stimulus to private initiative and productivity is warranted and economic and commercial return are viable, is also necessary to provide for the long-term productive economic base required by most LDCs. The broad pattern of IDA lending under IDA7 by region and sectors is reviewed in Annex I.

2.20 IDA7 resources agreed in January 1984 of $9.0 billion (SDR 8.7 billion) have been further reduced by exchange rate changes and by unallocated contributions. Although denominated in SDRs, the replenishment agreement provided for contributions to be pledged in national currencies and converted to U.S. dollar equivalencies, using six-month average exchange rates (June 10, 1983 to December 9, 1983). The result of this arrangement, which occurred during a period of dollar appreciation, was the reduction in value of the replenishment by SDR 0.3 billion. This, coupled with SDR 0.2 billion in unallocated shares (about 2.6% of the replenishment which is unsubscribed) has reduced IDA7 resources available from donor contributions to SDR 8.2 billion.

2.21 In addition to IDA7 donor contributions, the Association will have some other resources for commitment during 1985-87. These are a carryover from FY84, the United States' last payment of its IDA6 contribution, a transfer of IBRD FY84 net income, the proposed transfer from FY85 net income and possible transfers from net income in future years. Together, these would raise total resources available for commitment during FY85-87 to about SDR 8.6 billion, at the exchange rates of June 1985.2/

Trends in Assistance to Africa

2.22 Emerging external resource shortfalls are beginning to add to the disruption of the development process in many Sub-Saharan African countries. An increasing number of these countries have had serious problems in servicing their debt, and the incidence of debt reschedulings has increased dramatically. Despite having only 10% of developing country debt, Africa now accounts for over half of all reschedulings and a quarter to half of the amount rescheduled. However, most of these reschedulings have provided only a temporary relief and will, in fact, increase resource requirements in the next few years. World Bank estimates suggest that for IDA countries, total repayments (including IMF repurchases) will amount to $3.5 billion a year during the period 1985-87, equivalent to 37% of gross capital inflows in 1983 (the latest year for which data are available). In addition, in recent years many African countries have allowed large debt-servicing and other arrears to build up. These payment difficulties appear to have caused some suppliers to these countries to raise their prices, and for some countries they are threatening to disrupt trade flows.

2.23 Even as financial problems increase and repayment obligations rise, new external financing is falling. With declining creditworthiness, nonconcessional flows have declined dramatically and, as shown in Table 2.2, official capital flows too have fallen in nominal terms. The adverse effects of these trends are beginning to appear. Most African countries are already experiencing a severe compression of imports, as illustrated in Table 2.1. Similarly, gross investment as a proportion of GDP has declined every year since 1980. For some African countries, the ratio is now below 15 percent, which, after allowing for depreciation, leaves very little for net capital formation and development.

2.24 In recent years, the IMF has been important in financing and adjustment in Africa. However, repurchases by the African IDA countries are now expected to increase from about $350 million in 1983 to over $830 million per year during 1985-87. The level of net transfers to the region is therefore expected to decrease. Proposals currently under consideration to reactivate the Trust Fund may mitigate the severity of the turnaround somewhat, but it is likely to remain serious, with potentially detrimental effects on the IMF's role in the stabilization programs of the African countries. It is clear that, given the already serious debt-servicing problems, the option of a recovery in nonconcessional flows is just not available. Even for maintaining import and investment at 1980-83 levels in real terms, a substantial increase in ODA levels will be necessary during 1985-87.

2/ The actual value of the replenishment, however, will not be known until contributions to IDA7 have been completed, because exchange rate changes will affect it over time.

2.25 Donors have committed over a three-year period (FY86-88) some $1.2 billion in direct contributions and special joint financing for a Special Facility for Sub-Saharan Africa. The Facility is viewed as a means of effectively promoting the process of policy reform by providing immediately available resources specifically geared to recipient policy action, pending the longer-term increase in, and reprogramming of development assistance to Africa. Several bilateral donors have also increased their own African programs. The United States' "economic policy reform program" for instance will provide additional aid up to $500 million over five years to African countries which undertake to reform their price structures and other policies. In addition, commitments to the African Development Fund of the African Development Bank for 1985-87 were increased 50% to $500 million over the previous replenishment. Nevertheless, even with these actions the external financing needs of most African countries will remain acute.

Conclusion

2.26 In January 1984 at the close of the IDA7 negotiations, it was clear that many donors agreed on the critical impact of a reduced IDA. The institution's role in directing assistance to the neediest was well established, and curtailment of resources could only have negative consequences for LDCs in the long-run. Reductions in planned lending allocations were made following the IDA7 agreement which have affected all IDA recipients. Investments have been deferred in infrastructure, social sectors and productive activity, which will have undeniable costs to long-term growth, as well as to the efforts to avoid substantial reductions in living standards during the adjustment process. The need for more concessional resources from all sources to the low income countries remains clear and urgent, but the realities of the establishment of the African Facility and the nearness of IDA8 would in all probability make a renewed effort towards supplementary financing at this time fruitless and counterproductive. The implication is that addressing the imbalance between the continuing need for substantial concessional resource flows by IDA's recipients and the Association's available resources will be deferred until the forthcoming Eighth Replenishment Period. In the meantime, preparatory work for the IDA8 negotiations will need to move forward. The balance of this memorandum discusses some of the "structural" issues that may be usefully addressed at this time, in advance of formal replenishment negotiations.

III. IDA ALLOCATIONS

3.01 This Section reviews two issues which have arisen both during and since the IDA7 negotiations, and which were factors in subsequent discussions on the African Facility and the Future Role of the Bank. Traditionally, such issues have been treated in the IDA context under the rubric of lending allocations. They are:

- In light of the emphasis given to policy reform in the African Facility and the increasing role of IDA in supporting adjustment programs, to what extent should policy reform and/or economic performance be used as criteria for allocating IDA resources? In view of donors' understanding on the one-time nature of the Facility's operations (with all resources committed by FY88), how should its phase-out bear on future IDA allocations to Africa?

- Given the overall scarcity of concessional resources, what is the appropriate future role of IDA in the blend countries? Should their share of future replenishments be reduced in order to accommodate donors' expressed wish to see priority given to Africa? In this connection, should the Association adopt a formal process of graduation?

Background - Current Eligibility and Allocations Criteria

3.02 As IDA's recipient community has changed and IDA's resources have become increasingly scarce, the issues of eligibility for IDA lending and of allocations among eligible recipients have increased in importance. The eligibility and allocations criteria generally applied have been examined at IDA Deputies meetings, as well as by the management and Executive Directors of the Association, on a number of occasions.3/ Most recently the Deputies reviewed these subjects in the course of the IDA7 negotiations.4/ The outcome of the review was incorporated in the final report of the Executive Directors on IDA7.5/ The current criteria and the manner in which they are applied are considered below.

3/ See, for example, Bank/IDA Lending Programs - Allocation Among Income Groups, Sectors and Regions, R81-24, IDA/R81-16 dated February 12, 1981; IDA lending and Prospects for the Poorest Countries, IDA/RPL/78-4, dated November 8, 1978; IDA Allocations Criteria, IDA/R77-72 (Rev.) dated July 8, 1977; IDA Lending Policies, IDA/R73-7, dated February 7, 1973; President Memorandum on the Review of IDA Policies, dated June 24, 1968.

4/ IDA: Eligibility and Allocations Criteria, IDA/RPL/83-1, dated January 12, 1983.

5/ Additions to IDA Resource: Seventh Replenishment, IDA/R84-513, dated May 22, 1984.

3.03 There are two criteria that determine eligibility. The first, per capita income by its very nature, can only be applied in a relative manner. While the Executive Directors have in principle determined income per capita in 1983 of $790 to be the level beyond which countries would not receive IDA funds, in fact virtually no credits are planned for countries with incomes above $550 per capita. Further, the Association's mandate to support the poorest countries has meant that by far the bulk of its lending is allocated to countries whose per capita incomes are below $400 (see Section II above).

3.04 The second eligibility criterion is lack of creditworthiness. Only a country without sufficient access to commercial borrowings (or other sources of finance on terms reasonable for that country) may obtain IDA credits. The Bank's creditworthiness judgments depend on long-range assessments of ability to service debt on commercial and IBRD terms. In countries where the Bank Group lends a combination of "hard" and "soft" funds, the IBRD/IDA "blend" proportions are based on an assessment that such countries are borrowing as much as is appropriate on hard terms in each year, consistent with their long-term debt-servicing capacity.

3.05 The scarcity of IDA resources in recent years has required considerable flexibility in applying these criteria. Blends have been hardened significantly in some low-income countries (particularly India) because of enhanced creditworthiness. Blends have been softened in others because of eroded creditworthiness. The restrictions of IDA eligibility to the poorest countries has, however, created difficulties for countries which are close to or just above the effective per capita income limit, as some of these countries either have large capital requirements or weaknesses in their economies that make them largely uncreditworthy (see also paragraph 3.39 below).

3.06 In the IDA7 negotiations, the Deputies concluded that management's flexible use of eligibility criteria had served the Association well, and that while one might discuss weights for particular indicators, eligibility could not be mechanically determined. The Deputies affirmed that the determination of eligibility would remain a matter for final decision by the Association's Executive Directors.

3.07 There are three dominant allocation criteria, the first being relative poverty. It is presumed that the lower the GNP per capita of any eligible country, the greater is its need for IDA assistance. Commitments to countries with per capita incomes of $400 or less (in 1980 dollars), as discussed above, account for around 90% of IDA commitments.

3.08 A second criterion is population size. The intention was to allocate IDA resources, giving at least some weight to the notion of broadly equal benefits per capita, from a global perspective. On this basis, very large proportional allocations were initially given to India and Pakistan. As more IDA eligible countries joined the World Bank Group, however, it was recognized that continued allocations on this basis would severely constrain IDA's ability to play an effective role in the smaller countries. Consequently, the shares of India and Pakistan were subject to a subjectively-determined "cap" and were reduced progressively. A similar problem arose when China joined the World Bank in 1980. Thus, this criterion no longer is applied to judgements about allocations to the very populous countries, but the criterion does affect allocations among smaller countries, particularly those in Africa.

3.09 The third criterion, and the most difficult to define, is economic performance. Performance is understood broadly: it includes a country's growth record, project implementation capacity, performance in poverty alleviation, efforts to improve policy framework, and receptivity to policy dialogue. The criterion encourages countries to pursue effective development policies and ensure that IDA's scarce resources make as great a contribution to development as possible. Countries with such policies receive greater allocations than would be warranted by per capita income and population size.

3.10 In the IDA7 negotiations, the Deputies affirmed two organizational practices: (i) the criteria and general policies under which allocations of IDA7 resources would be made could only be determined by the Executive Directors, and (ii) the application of criteria and policies to determine country-specific allocations would be made by management. Judgment would be exercised by management, since no formula could be derived in advance for country allocations in a replenishment.

3.11 The Deputies further agreed that the existing allocations criteria -- relative poverty, population size, and economic performance -- should be used in IDA7 in the same way as in the past. Due to the growing gap between IDA resources and the needs of IDA's borrowers, it was agreed that highest priority should be accorded to IDA credits to Africa, taking account of the view that relative poverty should be given special emphasis in determining IDA7 allocations.

3.12 It was also reiterated that a strict use of the population size criterion would lead to an imbalance in the lending program, and that some limits would have to be placed on lending to India and China. Abrupt changes in the Association's commitments, however, were as a matter of general policy, to be avoided.

3.13 Finally, it was agreed that economic performance should continue to be an important criterion for allocating scarce IDA resources. The principal factors included in economic performance would be the robustness and sustainability of a country's growth, the quality of its economic management, and the ability of its economy to resist external shocks. It was strongly felt, nevertheless, that IDA had a special mission to help the poorest countries, even if their current economic performance was weak.

3.14 The key question now is whether the preceeding summary continues to represent the donors' views. Do donors wish to see a greater emphasis given to economic performance in allocating IDA resources? Taken a step further, would donors wish to see the performance criterion translated into a policy reform focus per se, as in the African Facility? If so, are there particular policy areas to which donors believe the Assocation should devote more attention? The following discussion reviews the extent to which IDA lending is presently associated with conditionality and reforms which contribute to changes in economic performance, and then considers some of the reasons for distinguishing between a special effort such as the African Facility and that of IDA itself. It should be noted that it is very difficult--in some respects impossible--to deal with the question of lending conditionality in the abstract. Country circumstances vary widely and performance assessments and improvements need to be tailored to the individual country and to the individual lending operation. Moreover, it is worth reiterating that the Bank's ability to induce change is not unlimited and derives primarily from the technical quality and non-political character of its advice. IDA's capability to deliver a package of financing, technical assistance, and policy advice, adapting the features of each package to the specific needs of borrowing countries, is fundamental to its objectives and the character of its aid.

Economic Performance Criteria and Future IDA Lending

3.15 Table 3.1 below summarizes the types of lending instruments used by IDA and the amount lent under each type.6/ Nearly all types of lending instrument involve performance criteria and policy advice of some sort, and many are focussed on explicit policy conditions. What distinguishes the policy content of different instruments is the type and scope of policy addressed.

Table 3.1: DISTRIBUTION OF IDA FUNDS BY LENDING INSTRUMENT
(Amount in SDR million)

Instrument	FY81-84 Annual Average		Projected FY85-87 Annual Average*	
	Amount	%	Amount	%
Specific Investment	1292	45	1330	43
Sector Operations:				
Sector Investment	841	29	1050	34
Financial Intermediary	348	12	230	7
Sector Adjustment	57	2	70	2
Program & Structural Adjustment	219	8	300	10
Technical Assistance	118	4	60	2
Emergency Reconstruction	2	0	50	2
TOTAL	2877	100	3090	100

* Based on FY85 actual lending and program estimates for FY86-87. Program estimates contain some overbudgeting for the later years.

6/ A fuller discussion of the various lending instruments is contained in Future Role of the Bank: Bank Lending Instruments, (uncoded memorandum to the Executive Directors dated December 21, 1984), attached as Annex 2.

3.16 Specific investment loans have the primary objective of creating new productive assets, increasing the output from existing investments, or ensuring adequate maintenance. Loan covenants include conditions on the economic and financial, as well as the technical viability of the projects. Such covenants affect recipient governments' policies on cost recovery, prices and tariffs for the service provided by the project.

3.17 In the case of sector loans, the policy concerns include establishing criteria and methods for project identification in the sector concerned, understandings on prices, tariffs and investment levels in the sector and, in the case of adjustment loans, key elements of sectoral reform according to a monitorable program. The usual elements of such programs involve producer incentives, the restructuring of relevant public enterprises and the reform of excessive regulation and other hindrances to competition.

3.18 In the case of structural adjustment operations, the focus on reform is taken to the level of the economy as a whole, and policy concerns are reflected in macro-economic conditions and in reform measures in a variety of sectors. The technical requirements of this kind of operation are exceptionally demanding. In practice, structural adjustment is usually undertaken in a series of operations, each concentrating on a narrower range of sectors.

3.19 The African Facility, under IDA's administration, gives strong emphasis to a particular type of economic performance by supporting countries that adopt broad sectoral or macroeconomic policy reform measures. Indeed, access to the Facility's resources is restricted to countries that "have undertaken or are committed to undertake programs of policy reform, including structural and institutional improvements, as well as stabilization measures acceptable to the Association."[7] Would it be feasible or desirable for IDA to narrow its performance orientation to resemble that of the African Facility?

3.20 There are several reasons why it should not. First, IDA's basic task has traditionally been the financing of specific investments, many of which are in areas such as population, agricultural research, and institutional and human resource strengthening, where sustained commitment and support are required. Thus, although IDA undertakes a good deal of policy-related lending, its long-term assistance does not depend upon the fulfilment of policy conditions. Moreover, IDA financing is important to meeting the substantial investment requirements of these countries for long-term growth, and to stimulating and expanding private investment and other capital flows. In the Facility, it is possible to rely on policy reform as the major allocation and eligibility criterion, in substantial part because IDA provides a sustained core program of support to the same countries. For IDA, policy change is only one element of the assessment of recipient performance, and performance in turn is only one of the allocation criteria and does not affect eligibility at all.

7/ Establishment of a Special Facility for Sub-Saharan Africa, Resolution No. IDA 85-1, dated May 21, 1985.

3.21 Furthermore, IDA maintains a policy dialogue with all recipient countries on economic conditions and development, even when IDA funds projects in sectors where macroeconomic policy or key price distortions are not crucial, recognizing that while improved recipient policies on prices and economic management do affect project results in social sectors such as health, education, and water supply, they do so through their effect on the economy in general rather than through matters specific to the sectors themselves.

3.22 IDA's recipient group is also significantly broader than that of the African Facility, and includes not only countries like Bangladesh which reproduce many of the features of the African situation, but the large blend countries -- particularly India and China -- which have very different needs and capabilities. Macroeconomic policy remains important in these countries, but more weight is given to basic investments. This contrasts with the situation faced by many African countries where extreme economic problems and distortions have led to a focus on policy reform and structural adjustment, as well as maintenance and rehabilitation activities.

3.23 In sum, IDA is already giving substantial emphasis to policy reform, but within IDA's normal allocation and eligibility criteria and subject to long-term considerations. A shift in policy emphasis to something like the African Facility would thus represent a major change in IDA's goals and character. Nonetheless, the present distinctions between the Facility and IDA highlight both the increased importance of overall economic performance in IDA's lending decisions and the reasons for maintaining a continuing presence in a wide range of recipient countries. Deputies may wish to discuss whether the Association's present approach is broadly satisfactory and whether there are specific policy areas to which they feel it should give special emphasis.

The Role of IDA in the Blend Countries

3.24 As noted above, the shares of the largest blend countries, particularly India and China, have been determined largely independent of the formal allocation criteria, in order to avoid directing more than three-quarters of IDA7 resources to them. Recognizing the need to concentrate resources more heavily in Africa, donors acknowledged during the IDA7 negotiations that commitment levels to such countries would be constrained in IDA7. Whether or not more severe restraint on shares of India and China will be required in subsequent replenishments will naturally depend on the overall volume of resources that is available. Nonetheless, it may be useful to review even at this stage the case for continued IDA lending to the large blend countries, particularly India and China. This would help clarify the future role that donors expect the Association to play in such countries, whose poverty and developmental needs have been one of the main focuses of the Association in the past. Related to this is the issue of the graduation process. Since the IDA7 negotiations, some donors have raised the question of whether IDA should adopt a formal graduation process with more explicit criteria, or maintain the present informal method based on blending and application of the traditional eligibility and allocation criteria.

3.25 Countries subject to the blending mechanism fall into two broad categories. The first are those like India, Pakistan, and Kenya that have made major economic strides in recent years and have been considered creditworthy enough to absorb a harder blend of Bank Group lending. In India's case the hardening has reduced the blended grant element on its borrowing from the Bank Group from 71% in FY80 to 22% in FY85. Over the same period Pakistan's grant element has fallen from 77% to 28% and Kenya's from 49% to 12%. The second category consists of countries which have encountered severe economic difficulties and whose creditworthiness is declining. As a result these countries, which had earlier moved from pure IDA to blend status, have reverted to a softer blend (more IDA credits), and some, such as Liberia and Tanzania, are no longer eligible for IBRD funds at all.

3.26 The ten current blend countries apart from India and China are not subject to a lending "cap". The Association's management has been able, therefore, to structure the IDA program in these countries by applying the full range of criteria discussed above. The problems of blend allocations are thus focussed particularly clearly on India and China, and the discussion below deals primarily with them.

3.27 Despite the progress made by India and China in recent years, foreign assistance in the form of capital and technology is essential to help restructure and modernize their economies. Both countries remain very poor, with 1983 GNP per capita of $260 and $290, respectively. Many in these very large populations live below absolute poverty levels and, especially in India often in conditions as bad as, or worse than, those in Sub-Saharan Africa. Indeed, India contains one third of the world's poor. And while China does not have the same depths of poverty as India, some 100 million of its rural people remain very poor. Both have high domestic savings ratios, but in both the efficiency of investment needs to be enhanced. Their historically high capital output ratios partly reflect their needs to build up basic infrastructure. They need assistance both to increase the volume of investment, and to make sure that it contributes as much as possible to the momentum of growth and structural change. Thus, the fundamental rationale for continued IDA lending is the persistence of poverty of an unacceptable degree and extent, and the need to lift the rate of economic development above that which can be sustained by domestic resources alone. The transformation of economic structure takes time and is subject to risks which private markets are unwilling to absorb. Moreover, the domestic investment required to generate greater resources in these countries cannot prudently be financed on wholly IBRD terms, but requires the concessionality which IDA provides.

3.28 The World Bank Group has played an important role in the changes occurring in the economies of India and China and in the favorable trends in their performance. Because these changes entail major shifts in policy and increased external borrowing, however, the countries face financial risks. Concessional lending becomes particularly important in containing these risks and in supporting the major reforms underway.

3.29 In India following successful development in agriculture, the Government intends that the industrial sector be the main focus of its efforts to sustain the 5% annual growth in GDP attained in recent years. A program of export-led industrial expansion promises benefits in the medium to long term, but carries near-term financial risks that could compel India either to limit economic growth to below that needed to alleviate its poverty, or to overborrow externally on commercial terms. In China, the Government has embarked on a through-going reform of the economy, and capital requirements are large. Economic liberalization measures, including economic incentives, decentralization and more open trade, have been undertaken with a view to long-term economic growth. Such measures have complicated the task of macroeconomic management and in recent months China has faced growing external imbalances and an erosion of reserves. Its capability to sustain its momentum towards development depends on being able to borrow at reasonable terms.

3.30 More specific cases for IDA lending are made below based upon: (i) the need to maintain development focus and momentum on the alleviation of poverty; (ii) the opportunity to strengthen policy reforms and related programs conducive to long-term development; and (iii) the need to contain debt servicing costs and reduce country specific financial risk.

3.31 First, IDA lending to India and China has been concentrated on the social and rural sectors, which are sectors of poverty and vast need. In India, this assistance has had notable success in increasing food production to near self-sufficiency. Continued agricultural development requires evolution in agricultural strategy and resources and technical inputs in irrigation and rain-fed crops. Non-agricultural areas where IDA has also been instrumental are primary education, nutrition and health. All of these areas need continuing support, if India is effectively to combat poverty. In China, IDA credits have been concentrated in a similar fashion on human resource development. IDA has emphasized agricultural support, as well as programs in education, health and water supplies. IDA's visibility in China is high. Many multilateral agencies have technical assistance and training programs in China but IDA is the only major multilateral source of concessional finance. Even among bilateral donors, only Japan and Germany offer China extensive concessional assistance.

3.32 The table below shows the sectoral emphasis of IDA in the blend countries. In FY83-85, over 70% of all IDA credits to the blend countries supported rural and social sector investments. The concentration has also been marked for India (65%) and China (86%). This is in contrast to Bank loans to these countries, which almost all supported industrial and basic infrastructure sectors.

Table 3.2: BANK GROUP LENDING TO IDA COUNTRIES, FY83-85
(% of lending)

Sector	Pure IDA Countries	Blend IDA/IBRD Countries: All Funds	Blend IDA/IBRD Countries: IDA Credits	Blend IDA/IBRD Countries: IBRD Loans
Agriculture	30	24	48	5
Education & PHN	11	5	11	1
Urban & Water	5	5	11	0
Rural & Social Sectors	47	35	71	6
Industry & DFCs	9	10	5	13
Energy	13	36	8	57
Transport	13	17	11	22
Commercial Sectors	35	62	24	93
Non-Project & TA	18	3	5	1
Total	100	100	100	100

Source: World Bank Annual Reports 1983, 1984, and 1985.

It can thus be seen that the bulk of IDA lending in the blend countries is to those core sectors where long-term support is necessary. Such sectors tend to be underfunded and IDA's initiatives in these areas are not likely to be replaced.

3.33 Second, IDA funding provides the Bank Group with a unique opportunity to support policy initiatives and reforms. It is not possible to induce countries into unwanted reform by financing, but IDA's role demonstrates the Bank's own commitment to selected areas of policy reform. In India, as discussed briefly above, policy initiatives have been made in support of industry-led development. These initiatives include efforts to reduce the savings-investment gap in the public sector, and shift investment resources to the private sector to enhance capital utilization. Trade policy reform is a part of the adjustment program being implemented by the Government of India. Bank Group dialogue on and support to these policy initiatives and related industrial growth strategy can be facilitated by IDA's involvement, even though IDA will not be lending for operations in that sector. IDA's ongoing role in poverty alleviation will balance the Bank's program in India and its relationship with the government over changes in policies which have been seen as central to India's development philosophy.

3.34 In China, the Bank Group has an opportunity to support movement towards greater use of market mechanisms, a more open economy and more international trade. The Bank Group has been active in support of these reform measures by helping China install incentive structures and mechanisms by which the efficiency of capital can be raised. For example, it has helped strengthen the role of financial intermediaries such as the China Investment Bank and the Agricultural Bank, by providing them with additional resources and by helping them develop better techniques for evaluating investment projects. But China still has a long way to go in its economic reform program and in developing appropriate market structures and incentives. The Bank Group, in which IDA has high visibility, could play an important role in facilitating the development and implementation of appropriate measures.

3.35 Third, both India and China have begun to undertake major development programs which require large increases in external capital. There is need in both countries to contain debt service costs and IDA funds lower their average borrowing costs. While both countries presently have relatively good access to commercial borrowing, their creditworthiness is fragile. In 1980, India's commercial market borrowings began to be substantial, in order to meet capital requirements that no longer could be adequately met by aid. By 1983, financial market gross disbursements had increased to $640 million, compared to $35 million just five years before. Total capital requirements are expected to average nearly $6 billion per year in the next three years. The country's low debt servicing (itself partly the result of the important role of IDA and other concessional lenders in the past), high standards of economic management and export potential make this plan feasible, though nonetheless risky, to implement. But faced with further cuts in IDA funds (already down from an average of $1.2 billion p.a. in 1978-82 to $650 million today), it is not clear that the debt-servicing implications of the strategy could be contained, as debt-servicing ratios would rise to over 25% by the middle of the next decade. India is thus likely to reach the prudent limit in its use of commercial capital, and IDA lending, though more limited than in the past, will hlep to maintain a satisfactory debt servicing pattern. India's average cost of borrowing from the Bank Group has risen substantially in recent years, from an average of 2.6% in FY75-79 to almost 7% in FY82. Since 1982, the hardening of the blend has offset the gradual fall in IBRD interest rates, and India's blend interest rate has remained fairly constant over the last three years. The Bank Group has thus already responded to India's relatively strong creditworthiness.

3.36 China faces similar risks in its long-term development effort. Although China so far has very little foreign debt, the financial risks of its long term development effort have been made clear by two recent episodes. After a hasty and unsustainable import boom in 1979/80, China had to impose strict stabilization measures. The result was the build up in 1981-83 of substantial international reserves. Further decentralization of investment decisions and opening of trade, however, has again unleashed import demand, and China's external position has been weakened by the rapid emergence of a substantial external deficit and a drawdown in reserves of about $6 billion within the last year.

3.37 If China is to realize its development objectives, which call for a growth rate of over 6%, and carry through the major restructuring of its economy that this implies, it will have to incur substantial external indebtedness. If all of this debt were to be incurred on commercial terms, China could face a very large debt servicing burden in relation to its export potential, and be obliged to change its restructuring plans. IDA credits on a substantial scale would help control the early build-up of debt servicing, and contain risks of overborrowing.

3.38 A strong case exists, therefore, for a continuation of IDA lending to the large blend countries, based on their marginal credit-worthiness and the poverty of much of their populations. But the very constrained volume of IDA inevitably means that not all recipients' needs can be met. For reasons of equity, IDA's allocations to these populous and very poor countries must be limited, but the question remains what limits on share of IDA lending to India and China can realistically be made in the next replenishment without damaging these countries' development prospects.

3.39 Closely related to the issue of allocation is that of graduation from IDA. The Association's graduation policy is also based on per capita income and creditworthiness considerations, and the technique used to implement the policy is the gradual hardening of terms through blending. The question has arisen as to whether IDA should establish a more formalized graduation process, particularly because of the impact of the per capita income criterion in excluding certain countries that are only marginally less poor than present IDA-eligibles, but whose creditworthiness is still quite limited.

3.40 In determining graduation, management has applied eligibility criteria with flexibility as directed by its Board and IDA Deputies, and per capita income limits and creditworthiness tests have served as indicators. While in principle per capita income limits apply (currently $790 in 1983 prices), in fact the Association's mandate to support the poorest countries has meant that it has weighted the poverty criterion more heavily, allocating the bulk of its lending to countries with per capita income below $400. With respect to creditworthiness, management has applied judgments on long term debt service capabilities, presuming that countries able to do so will rely on non-concessional flows for some of their external needs. The progressive hardening of blend terms has been used as the path towards graduation.

3.41 Eighty-four countries have received IDA credits since IDA's founding. By 1985, thirty of those have been graduated and have since been borrowing only from the Bank. Recently graduated countries include Indonesia, Thailand, Egypt and Cameroon. Several countries, however, have regressed to weaker blends or pure IDA status, such as Mauritania, Liberia, Senegal and Zambia. IDA can accommodate such reversals with flexibility by tailoring the blend to recipient circumstances.

3.42 Flexible judgments on graduation are made within the context of IDA's ongoing discussion with countries on their economic performance. As country economic conditions change, countries can move progressively towards graduation with blend financing tailored to their economic circumstances, or regress to pure IDA status if circumstances require.

3.43 The present graduation process on the whole works well; problems can however arise if the IDA eligibility criteria conflict with one another. In particular, a country's per capita income can rise above the eligiblity level and cut it off from IDA lending even though it does not have enough creditworthiness to qualify for IBRD loans. In such cases, the fact of graduating from IDA can sever, at least temporarily, the country's borrowing relationship with the Bank Group. This sort of problem has arisen specifically in Caribbean countries such as Dominica, Grenada, St. Lucia, and St. Vincent. The views of Deputies are sought as to whether the present process, including management's use of eligibility criteria to focus on the poorer countries, is still satisfactory.

3.44 During the IDA7 negotiations no need was perceived to formulate an explicit graduation policy for IDA recipients, since both the criteria and the way in which they were applied by Management were felt to result in an appropriate outcome. Deputies are asked to confirm whether this continues to reflect their wishes. Deputies may also wish to consider alternative financing mechanisms, for countries approaching graduation, to the blending techniques in use. Two such alternatives, hardening of terms and an interest subsidy account, are reviewed in the next section.

3.45 Management would also welcome the views of Deputies on the allocation issue, with particular reference to the phase-out of the African Facility and the role of IDA in India and China. While these and other issues are, of course, closely related to the eventual size of IDA8, the termination of the Facility and the traditional approach of "capping" India's and China's shares of a replenishment make them useful and important separate topics of discussion in advance of actual IDA8 negotiations.

IV. RESTRUCTURING IDA'S TERMS

4.01 Proposals for restructuring IDA's terms have been discussed extensively in the past. An analysis of such proposals was part of the background work undertaken for the Seventh Replenishment negotiations, when several ideas were considered,8/ including changing IDA terms, the establishment of a mechanism to harden terms during the life of a credit for those borrowers that became wealthier or more creditworthy, and borrowing by IDA from governments or private markets. While Deputies were open to consideration of a reduction in maturities, the borrowing option was rejected largely on the grounds that it might lead to a substitution of loan for grant funding for IDA. The retroactive hardening of terms for countries nearing graduation from IDA was also proposed but rejected as being difficult to implement objectively.

4.02 The option of establishing a subsidized window within the IBRD has also been given active consideration in the past. In 1976 a Third Window was established temporarily in IBRD. Its establishment on a permanent basis, however, did not secure general support in the 1976 Development Committee meeting, and it remained a one-year special effort to increase the concessionality of IBRD lending, mainly to the poorer developing countries with a per capita income of up to $375 (in 1975 prices).

4.03 During the IDA7 negotiations the discussion of hardening the terms of IDA lending centered around shortening maturities and increasing interest costs for creditworthy borrowers and those with per capita GNP above $405 (at 1981 prices). Another alternative considered was to shorten maturities across the board for all borrowers. Criteria for differentiating terms among borrowers were also discussed. These proposals were not pursued by the Deputies, however, because it was felt that IDA borrowers could not support the additional burden of funds on less concessional terms, given the small agreed volume of IDA7. The present review affords an opportunity to reconsider possible term changes--for credits granted in IDA8--outside a replenishment negotiation.

4.04 Before reviewing the options available in IDA for hardening terms, there are several preliminary points which should be made. First of all, setting appropriate terms on IDA credits has always involved a broad judgement. When IDA was established in 1960, for instance, there was considerable debate as to whether IDA should make grants to the poorest developing countries or credits with a long maturity and small rate of interest. At issue was the question of whether IDA should be purely a conduit for donors' concessional aid or a fund that would eventually recycle its own lending. The judgement then made was that IDA should give credits but that these should be highly concessional in nature. Since then credits have been extended to all IDA borrowers, regardless of their relative economic circumstances, on one set of terms: a 50-year maturity, a 10-year grace period, and a service charge of 0.75% on the disbursed amount outstanding. A commitment fee of 0.5% on undisbursed balances was added in 1982.

8/ "An Approach to IDA7: Requirements, Terms and Conditions", IDA/RPL/82-17, dated November 3, 1982.

4.05 Any change in IDA terms at this juncture would require the Deputies to apply a similar broad judgement as to the desirable balance between the grant and loan characteristics of IDA credits. There are three arguments that may be advanced in favor of hardening IDA's terms. The first is that there have been major changes in the global economic and financial environment that have led to much higher market interest rates on average over the last ten years than occurred during the previous ten. This meant that IDA's small fixed service charge became increasingly concessional when viewed against market interest rates. Another manifestation of the same phenomenon was that the spread between IDA and IBRD lending rates has increased from 5.25% in 1968 to 8.07% today. In addition, the maturities available in private capital markets have shortened dramatically over the past 20 years. Long-term bond issues of 30-40 years' maturity were common at the time IDA was founded. Today, maturities as long as 20 years are considered exceptional.

4.06 Against this, it should be noted that bilateral assistance to the poorest developing countries has been increasingly provided on a grant basis and this would militate in favor of keeping IDA terms as concessional as possible. A hardening of terms would, furthermore, lead to upward shifts in the debt servicing profiles of IDA borrowers which could, in some instances, aggravate already fragile external debt positions. A hardening of terms may also be counterproductive in the sense that a heavier debt burden will reduce the creditworthiness of blend countries and slow down the pace of their graduation from IDA. As noted earlier, a number of blend countries have already experienced a marked increase in their borrowing costs in recent years on account of the hardened blend they have received.

4.07 The second argument for hardening IDA's terms stems from some donors' concerns that IDA should generate more funds internally for relending. This view is based not only on the scarcity of concessional funds available for replenishing IDA, but on the observation that $2.5 billion of IDA credits are still outstanding to countries that have already graduated. In the IDA7 negotiations a trigger mechanism was discussed--but not pursued--to deal with this problem. The concern was that some countries whose economic situations had markedly improved would still receive concessional funds while the more needy recipients were restricted in their access to IDA. Hence, a clause might be placed in IDA credit agreements which would allow for harder terms to be levied in the event of a specific per capita income level--"the trigger"--being reached. As noted above, this idea was rejected on grounds of administrative complexity and general unworkableness.

4.08 A third argument for hardening terms is that it would eventually lead to a more rapid recycling of IDA resources. Such a move would enhance the Association's ability to redirect its funds to where they can yield the greatest benefits. Shortening terms means that original donor contributions can more frequently be redirected; adding interest charges means that more than the original donor contributions can be redirected. Moreover, to the extent that hardening of terms entails imposition of higher charges, it would also contribute to covering IDA's administrative costs. In recent years IDA has been running a financial deficit in its operations; revenues from service charges have been inadequate to cover administrative costs. (There are, however, a number of other ways in which IDA's deficit might in principle be covered in future besides raising interest charges.) Hardening of terms will not, on the other hand, have a sizeable effect on reflows to IDA in the short term. Hardening of IDA lending would thus need to be seen only as a step towards more rapid recycling of IDA resources; it seems unlikely to be a significant substitute for replenishments of IDA's resources for the foreseeable future.

4.09 It is important to note in this regard that hardening of IDA's terms is not simply an issue of donors vs. recipients, but also one of the distribution of the benefits of IDA lending among recipients over time. Donor contributions to IDA are in grant form. To the extent that the terms of lending are hardened, the concessionality of these resources to the initial group of recipients is reduced. But the faster reflows to IDA will simply be recycled as new credits either to these same recipients or to others. In the longer term this implies that those countries which remain IDA-eligible will benefit from an enhanced volume of new commitments. Those countries in contrast which pay harder terms but in the longer term graduate from IDA will not benefit from the reflows.

4.10 Against this background, three options for hardening terms are examined below:

(a) a generalized hardening of IDA terms;
(b) differentiating IDA's terms by country group; and
(c) differentiating IDA's terms by type of project.

4.11 These three options for hardening terms should not be viewed as mutually exclusive. There could, for instance, be a moderate shortening of maturities for the poorest or least creditworthy IDA borrowers coupled with a more distinct hardening of terms for other IDA borrowers. Another option might be to harden terms on loans for specific projects subject to a ceiling on increases in overall IDA borrowing costs for the poorest or least creditworthy.

(a) A Generalized Hardening of IDA Terms

4.12 In assessing the potency of any method of hardening terms, the impact on IDA and its borrowers must be separately gauged. Changes in the lending terms will impact on both IDA's own cash flow and on the concessionality of the funds lent to borrowers. Both aspects are analyzed in turn below.

4.13 But what is a feasible range for any hardened set of hardened IDA terms? The outer bounds of each range are set on the one hand by the present terms offered to borrowers from IDA and on the other by the softest terms made available to blend borrowers by the IBRD. This implies an outer range of maturities of anywhere between 20 and 50 years, a grace period of between 5 and 10 years and interest costs of between 0.75% (IDA service charge) and the blended lending rate (around 7.2% at present).

4.14 Within these bounds a maturity range of 25 to 40 years would seem most reasonable. Anything below 25 years would translate into an unacceptably large loss in concessionality for borrowers. Anything above 40 years would be very similar in its effects from the present maturity of IDA credits. Consistent with this range would be grace periods of 6 to 10 years. For interest rates, a practical upper ceiling would be around 5%, that is 2% to 3% below the blend interest rate charged to blend borrowers. A figure above 5% would lead to a sharp drop in concessionality while a lower limit would be IDA's 3/4% service charge. The mid-point of the maturity range--30 to 35 years--would seem an appropriate focal point for analysis with corresponding grace periods of 7 or 8 years and interest costs in the 3% to 5% range.

4.15 The Impact of Hardening Terms on IDA's Cash Flow. Table 4.1 below illustrates the impact on IDA's cash flow, that is the volume of reflows of principal (and when appropriate, interest) from loans made to borrowers, of a hardening of terms under various assumptions. Two types of terms hardening are illustrated in the table. First a shortening of maturities on all IDA credits to 40, 35, 30, and 25 years from the traditional 50 years is examined. Grace periods are also shortened in tandem with maturities . Second, interest charges of 3% and 5% are added. The table shows the reflows of principal and interest in various future years as a percentage of an illustrative $1 billion repleishment. The replenishment is phased over three years, with an equal volume of commitments in each. The cumulative volume of reflows are examined at three points in time; 8 years after the commitments from the hypothetical replenishment begins, 17 years after, and 26 years after. The significance of these years is that the volumes of reflows identified will be the amounts available to supplement a sample of new replenishments which would begin in the following year.

Table 4.1: THE IMPACT OF HARDER TERMS ON IDA CASH FLOW (REFLOWS)

Characteristics of IDA Credits			Nominal cumulative reflows as a percentage of the original replenishment after:		
Maturity (Yrs)	Grace (Yrs)	Interest[a/] (%)	8 Yrs.	17 Yrs. (%)	26 Yrs.
Terms on Traditional IDA Credit					
50	10	0	0	17	39
Shorter Maturities Only					
40	10	0	0	22	52
35	8	0	1	32	66
30	7	0	3	42	81
25	6	0	9	56	99
Shorter Maturities and Higher Interest Costs					
40	10	3	11	58	105
35	8	3	12	66	113
30	7	5	22	95	152
25	6	5	27	105	157

a/ The calculations displayed in this table do not include the effects of the service charge levied by IDA on the assumption that this is used to pay administrative expenses to IBRD and is therefore not available for relending.

4.16 On traditional IDA terms, capital begins to reflow slowly after the 10-year grace period is complete and even after 17 years only 17% of the illustrative IDA replenishment reflows. Shortening the maturities for all borrowers quickens the pace of reflow to IDA. Within 17 years 22% of the 40-year maturity replenishment has reflowed, while for the shortest maturity (25 years) 56% has reflowed.

4.17 Increasing the interest costs for all borrowers in addition to shortening IDA maturities further accelerates reflows to IDA because interest charges yield income which boosts the Association's internally-generated funds. The reflows are themselves relent although no account is taken of these subsequent effects in the present analysis. Table 4.1 shows that higher interest charges boost significantly the volume of reflows. Maturities at the middle of the feasible range, 35 and 30 years, when coupled with 3% and 5% interest rates, yield respectively reflows of 66% and 95% of the illustrative replenishment by the 17th year. The combination of shorter maturities and higher interest costs yields sufficient reflows to permit relending on an appreciable scale.

4.18 The Impact on Borrowers of Hardening Terms. Harder terms inevitably lead to reduced concessionality for borrowers. Concessionality is usually measured by the grant element on a loan (see Box 1) or by the grant equivalent (see Box 2). The grant element on a conventional IDA credit has normally been calculated as 85%. The calculation underlying this figure is based, however, on a credit which disburses immediately. In the analysis that follows, an 8-year disbursement period is assumed which reduces the grant element on the traditional IDA credit to 77%. The grant element can be used as the yardstick for comparison of the concessionality of different options for the hardening of terms. In comparing grant elements the important factor is the change from the 77% benchmark rather than the absolute level itself.

Box 1: GRANT ELEMENT

The grant element of a loan seeks to measure the concessionality of aid funds, extended at a given set of terms, as compared to the benefits of the same funds extended as a grant. The benefit of a loan is a product of five primary factors, i.e., a loan's interest rate, maturity, grace period, volume, and the relevant discount rate. The traditional definition of grant element is the face value of the loan less the present value of debt service payments, divided by the face value of the loan. The grant element is defined here as the difference between the present value of disbursements (disbursements are assumed to be made over an eight-year period) and all debt-service payments, divided by the present value of disbursements.

As the table below indicates, for any loan the grant element is greater the longer its maturity and grace period and the lower its interest rate.

Maturity (years)	Interest Rate[a] (%)	Grace Period (years)	Discount Rate (%)	Grant Element (%)
50	0.75	10	10	77.2
50	3.75	10	10	50.9
35	3.75	8	10	45.0
20	3.75	5	10	30.8

a/ Includes IDA service charge of 0.75%.

In interpreting grant element statistics care must be taken to ensure that the assumptions underlying different sets of calculations are consistent. Different loan disbursement assumptions, for instance, affect the calculation. So too does the discount rate assumption which may vary with the cost of capital observed in financial markets.

4.19 The overall impact of harder terms on the concessionality of loans for all IDA borrowers depends, of course, upon the extent of the terms changes. As Table 4.2 illustrates, however, a shortening of maturities from 50 to 30 years (coupled with a slight shortening of the grace period) reduces the grant element from 77% to 63%. A further 5-year shortening of maturity reduces the grant element to 56%. The table also shows how the imposition of higher interest charges reduces the grant element--especially in the 5% interest case--to levels that are barely concessional.

4.20 An alternative measure of a loan's benefit to recipients is the grant equivalent (see Box 2 below). The grant equivalent of a $1 billion replenishment is $497 million, largely as a result of the long eight-year disbursement period (see Table 4.2). This reduces to $474 million on a 40-year maturity loan and $361 million on a 25-year loan. Adding higher interest costs reduces the grant equivalent sharply. With the hardest terms shown (a 25-year loan with a 5% interest rate) the grant equivalent falls to $155 million. It would therefore take a replenishment of more than $3 billion (497/155) of loans on the hardest terms to provide the same total grant equivalent as a $1 billion replenishment at traditional IDA loans.

Box 2: GRANT EQUIVALENT

Because the grant element, described in Box 1, is a percentage, it does not capture the effect of volume changes. The grant equivalent does. It is defined as the present value of disbursements less all debt-service payments. Essentially, it measures the net present value of the aid funds received by the borrower. The grant equivalent, is a function of the loan's interest rate, maturity, grace and disbursement period, volume, and the relevant discount rate. The grant equivalent is greater the longer is the maturity of the loan and the grace period, the larger the volume, and the lower the interest rate.

Table 4.2: THE IMPACT OF HARDER TERMS ON THE GRANT ELEMENT OF IDA CREDITS

Characteristics of IDA Credits Maturity	Grace	Interest a/	Grant Element (%)	Grant Equivalent b/
Terms on a Traditional IDA Credit				
50	10	0	77.2	497
Shorter Maturities Only				
40	10	0	73.5	474
35	8	0	68.3	439
30	7	0	63.0	406
25	6	0	56.1	361
Shorter Maturities and Higher Interest Costs				
40	10	3	48.4	312
35	8	3	45.0	290
30	7	5	27.2	175
25	6	5	24.1	155

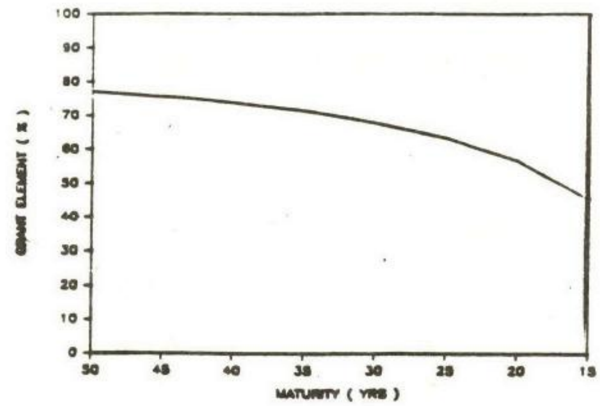
a/ The calculations displayed in this table take account of the 0.75% service charge levied by IDA, but this charge is not included within the interest costs shown in this column.

b/ Grant equivalent is expressed in $ millions per $1 billion dollar replenishment.

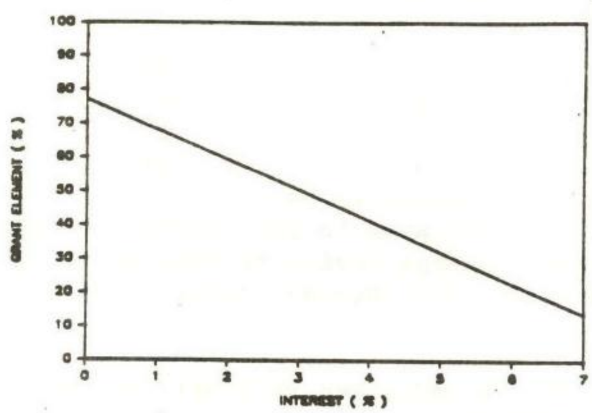
4.21 The impact of a plausible change in interest charges on the grant element is much greater than a change in maturity or grace period. This is illustrated in Chart 4.1. While a 5-year shortening of maturities reduces the grant element by between 2% and 7%, a 100 basis point rise in the interest rate reduces it by close to 10%. The grace period, which is normally changed in tandem with the maturity, has a relatively small independent effect on the grant element.

Chart 4.1

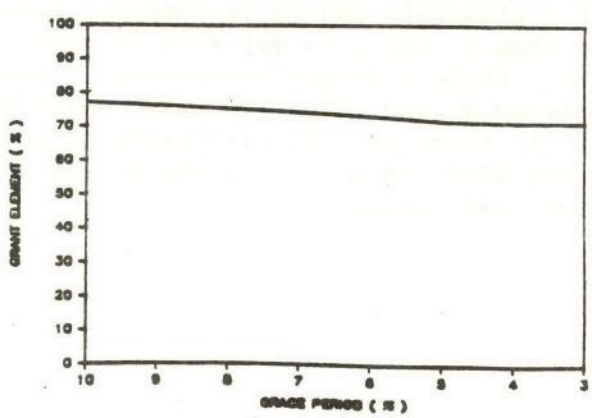
THE EFFECT OF MATURITY CHANGES ON GRANT ELEMENT



THE EFFECT OF INTEREST CHANGES ON GRANT ELEMENT



THE EFFECT OF GRACE PERIOD CHANGE ON GRANT ELEMENT



4.22 In reviewing the impact of across-the-board hardened terms on IDA borrowers, there is clearly a marked loss of concessionality if credit maturities fall below 35 years and additional interest charges are levied. For the poorest countries, however, this loss in concessionality is mitigated by the fact that reflows from these faster maturing loans will be recommitted to them, provided they continue to satisfy the IDA lending criteria. To mute the impact of higher interest charges on these countries, meanwhile, would require IDA commitments to them to grow in nominal terms at the same rate as the level of interest charges. The fact that the more creditworthy IDA borrowers could afford to absorb a somewhat greater loss of concessionality in the short-term than the poorest implies that the average IDA terms might be hardened by selectively hardening terms. This is the subject of the next section.

(b) Harder Terms, Differentiated by Country Group

4.23 Implicit in a differentiation of terms by country grouping is a recognition that there are differences in recipients' needs as between the poorest borrowers with few alternative sources of external finance and those whose economic circumstances have grown closer to the middle-income developing countries. The latter group are better able than IDA's least creditworthy to service loans with harder terms.

4.24 A method of hardening terms for a selected group of IDA eligible countries is, of course, already in place in the form of the existing blend mechanism. This mechanism, as noted in Section III, offers a less formal and more flexible approach to differentiating terms than a selective hardening applied to a defined group of countries. The blending mechanism and the blended terms arising from it are in fact the result of two distinct but closely coordinated procedures. The first is an application of IDA allocations criteria which establishes the volume of IDA credits available for individual eligible borrowers. The second is an assessment of the creditworthiness of the country concerned for IBRD lending. The blend offered to the country represents a balance between a careful allocation of scarce IDA resources and a careful appraisal of the IBRD's ability to increase its own exposure in a particular country, based on the overall debt-servicing ability of the country and taking account of the creditworthiness-enhancing aspects of the blend being offered. Blends also change over time to reflect relative availabilities of IBRD and IDA resources as well as the progressive maturation of countries towards full commercial creditworthiness. The specific IBRD/IDA blend obtained is also a function of the choices made by the borrowing country with respect to its desired composition of borrowing. The blend process is therefore a subtle one, especially in comparison with the formal graduation procedures applied in the IBRD. Any proposal for hardening terms on a differentiated basis would thus need to be appraised against the background of the strengths and weaknesses of this blend mechanism.

4.25 To compare a hardening of terms with the blend mechanism it is necessary to examine two modes (not mutually exclusive) of hardening the blend. The first involves an increase in IBRD lending. This method has no effect on IDA reflows. It does, however, lead to a higher blended interest rate. The second way involves a reduction in IDA lending. This would immediately release resources for lending to other IDA eligible countries, (other things being equal) and would lead to a rise in the blended interest rate.

4.26 In the blending context the nearest equivalent to a hardening of terms is when there is a reduction in IDA credits counterbalanced by an equal increase in IBRD loans. The borrower receives the same volume of Bank Group assistance but at higher cost. As Table 4.3 below illustrates, the blended interest rate can be made the same via blending or hardening by adjusting the relative volumes of IDA credits or IBRD loans.

Table 4.3: COMPARING BLENDING WITH TERMS HARDENING

	Illustrative Bank Group Lending to a Blend Country					
	Before Hardened Blend or Hardened IDA Terms		**After Hardening Blend**		**After Hardening IDA Terms**	
	Percent of Bank Group Lending	Interest Charges (%)	Percent of Bank Group Lending a/	Interest Charges (%)	Percent of Bank Group Lending	Interest Charges (%)
IBRD Loans	70	10	85	10.0	70	10.0
IDA Credits	30	0	15	0	30	5.0
TOTAL	100	7	100	8.5	100	8.5

a/ Shares change either because IBRD loans increase or IDA credits fall (or some combination of the two).

4.27 It is also important to bear in mind that a differentiation of terms could take place either in addition to, or as a substitute for, the present blend mechanism. That is, IDA terms for the blend countries could be hardened, their IDA allocations could be reduced, and lending from the IBRD increased (or a combination of these three). The key point is that it is the overall concessionality of the final blend that must be evaluated and not just the IDA terms by themselves.

4.28 In the IDA7 negotiations there was broad agreement that differentiation should take place, if at all, with respect to just two groups of countries within IDA. The countries to receive harder terms would be those with higher GNP per capita or with superior creditworthiness, in practice the blend countries. This form of country differentiation is used in the analysis that follows.

4.29 Tables 4.4 and 4.5 analyze the implications of a shortening of maturities for all IDA borrowers combined with higher interest rates for the blend countries alone. The tables assume that IDA lending is divided between the pure IDA and blend countries on a 50/50 basis. Table 4.4 shows that as long as the hardening is largely confined to shortening of maturities, there is little effect on grant elements. With the increase in interest charges, however, the grant element of lending to the blend countries alone falls off sharply from 60.6% (1% interest charge and 35-year maturity) to 27.2% (5% interest charge and 30-year maturity). For the pure IDA borrowers the grant element falls in these examples to 73.5% and 68.3%, reflecting the shortening of maturities from 50 years to 40 and 35 years, respectively. For all borrowers taken together the grant element declines from 77.2% for credits on traditional terms to 47.8% in the severest case examined.

Table 4.4: THE IMPACT OF DIFFERENTIATED HARDER TERMS ON THE GRANT ELEMENT OF IDA

Characteristics of IDA Credits					
Maturity	Grace	Interest			
Terms on a Traditional IDA Credit					Grant Element (%)
50	10	0 a/			77.2
Hardened IDA Terms					
40	10	0	(Pure IDA)]		73.5
35	8	1	(Blend)]		60.6
				Average	67.1
40	10	0	(Pure IDA)]		73.5
35	8	3	(Blend)]		45.0
				Average	59.3
35	8	0	(Pure IDA)]		68.3
25	6	3	(Blend)]		36.8
				Average	52.6
35	8	0	(Pure IDA)]		68.3
30	7	5	(Blend)]	Average	27.2
					47.8

a/ The calculations in this table include the effects of the 0.75% IDA service charge. This amount is additional to the interest charges shown in this column.

Table 4.5 examines the IDA cash flow implications of the same assumptions adopted for Table 4.4. As the terms get harder they have an increasingly potent effect on reflows to IDA. Under the hardest combination of terms shown, a 35 year maturity for all borrowers coupled with a 5% interest rate for blend countries (on a 30-year maturity loan), reflows of interest and capital exceed the size of the original replenishment by the 26th year.

Table 4.5: THE IMPACT OF HARDER TERMS ON IDA CASH FLOW (REFLOWS)

Characteristics of IDA Credits				Nominal cumulative reflows as a percentage of the original replenishment after:		
Maturity	Grace	Interest		8Yrs.	17Yrs.	26Yrs.
				(%)		
Terms on Traditional IDA Credits						
50	10	0 a/		0	17	39
Hardened IDA Terms						
40	10	0	(Pure IDA)]			
35	8	1	(Blend)]	2	33	67
40	10	0	(Pure IDA)]			
35	8	3	(Blend)]	6	44	83
35	8	0	(Pure IDA)]			
25	6	3	(Blend)]	10	59	100
35	8	0	(Pure IDA)]			
30	7	5	(Blend)]	11	64	109

a/ This column ignores the 0.75% IDA service charge which does not give rise to lendable reflows.

The differentiation of terms by country could, as noted above, be undertaken within the context of the present blend mechanism. Harder terms coupled with a harder blend could lead to a sharp reduction in concessionality. It is necessary to consider, therefore, the likely impact of a hardening of terms for the blend countries on grant elements and blended interest rates. Table 4.6 shows the impact of hardening terms of blend borrowers in various ways on the assumption that blend countries receive respectively 50%, 30%, and 15% of their Bank Group borrowings from IDA over the FY85-87 period.

Table 4.6: THE IMPACT OF A HARDENING OF TERMS ON THE BLENDED GRANT ELEMENT AND INTEREST RATE FOR BLEND BORROWERS

Characteristics of IDA Credits: Maturity	Grace	Interest a/	Blended Grant Element (percent): 50% b/ from IDA	30% b/ from IDA	15% b/ from IDA	Blended Interest Rate c/ (percent): 50% b/ from IDA	30% b/ from IDA	15% b/ from IDA
Traditional IDA Terms								
50	10		38.6	23.2	11.6	5.4	7.2	8.6
Hardened Terms for Blend Borrowers								
40	10	0	36.8	22.1	11.0	5.4	7.2	8.6
35	8	0	34.2	20.5	10.2	5.4	7.2	8.6
35	8	3	22.5	13.5	6.8	6.9	8.1	9.1
30	7	3	20.7	12.4	6.2	6.9	8.1	9.1
35	8	5	14.8	8.9	4.4	7.9	8.7	9.4

a/ The 0.75% IDA service charge is not shown in the column but is included in the calculations in the table.
b/ Share of Bank Group borrowing from IDA.
c/ Assumes an IBRD lending rate of 10%.

4.30 Table 4.6 illustrates the joint impact of a hardening of terms and a stronger blend (in this instance a lower proportion of IDA credits in total Bank Group lending). For example, with a 30% blend (the projected average for FY85-87), the blended grant element with present IDA terms is 23.2%[9/] and the blended interest rate is 7.2%. Hardening terms to 30 years maturity, 7 years grace and 3% interest reduces the grant element by nearly half to 12.4%. Reducing the IDA proportion of the blend to 15% also reduces the grant element by half. As terms harden and the blend strengthens, blend borrowers begin to receive terms almost indistinguishable from those offered on IBRD loans. The blended grant element approaches zero and the blended interest rate approaches the IBRD lending rate (assumed to be 10%). This suggests that a practical lower limit to the terms for the blend borrowers is perhaps in the range of 30-35 year maturities and 3% to 5% interest rates. Even these terms are barely concessional on a blended basis.

9/ According to DAC definition, which uses an assumption of an instantaneous disbursement schedule and no commitment fee, the blended grant element is 24.9%.

4.31 Returning to the comparison of a hardening of IDA terms with a hardening of the blend, it should be emphasized that one form of blending (expanded IBRD lending and a constant volume of IDA credits) is a clearly attractive option to borrowers among the available set. Although this option involves a hardening of the blend interest rate, it does give the borrower additional lending. The impact of the blending option on IDA's cash flow depends upon the assumptions made about the use of IDA funds in the absence of the harder blend. If the alternative had been to provide more IDA credits to the borrower in question, then the impact of the hardened blend is to redirect resources to other IDA eligible countries. Given, however, that there will be a continuing need for semi-concessional funds in the blend countries for some time to come, a hardening of IDA terms might be used as an alternative to strengthening the blend in some cases.

(c) Differentiation of Terms by Type of Project

4.32 Traditionally there has been no differentiation of terms by project in IDA. The majority of IDA's funds are devoted to sectors such as rural development, health, education, and urban infrastructure in which returns, though apparently high, are hard to measure and are often non-financial in nature. Such projects typically have long gestation periods and the benefits derived from them accrue in the long run. The rationale for lending at highly concessional terms however is not based on the nature of IDA projects but on the economic situations of recipient countries which are often characterized by very low levels of investment and income and by limited creditworthiness.

4.33 In practice some IDA projects now differ in financial character from the long-term, infrastructural type noted above. A few have relatively short payback periods, high financial returns, and generate foreign exchange earnings. In sectors such as energy and industry, for instance, projects can yield economic benefits within about 20 years. A shortening of maturities in these sectors could be done in principle.

4.34 The impact of hardened terms on the concessionality of these credits would be moderated by the fact that disbursements on these types of projects are generally faster than for the standard infrastructure-type project. On present terms the effective grant element of an energy sector credit, disbursing over 5 years, is 80% compared to a livestock project credit, disbursing over 10 years, which is about 74%.

4.35 Table 4.7 below shows the impact on reflows per $1 billion in loans assuming that harder terms are applied to all energy, industry, telecommunications projects and program loans. For purposes of analysis, the historical pattern of about 20% of all IDA credits in these sectors has been assumed. Terms of 25 year maturities and 6 year grace have been assumed based on some concessionality over the 17 to 20 years maturity of IBRD loans and the need for a long enough grace period to allow project benefits to begin before repayments are required. An interest charge of 5% has also been assumed.

Table 4.7: THE IMPACT ON IDA CASH FLOW AND THE BORROWERS OF HARDER TERMS ON COMMERCIAL SECTOR CREDITS

Characteristics of IDA Credits				Nominal Cumulative Reflows as a Percent of the Original $1 Billion Replenishment After:			Grant
	Maturity	Grace	Interest	8 Yrs.	17 Yrs.	26 Yrs.	Element
				(%)			(%)
Traditional IDA Terms in All Sector							
(i)	50	10	0	0	17	39	77.2
Harder Terms in Commercial Sectors Only a/							
(ii)	50	10	0	0	13	31	77.2
(iii)	25	6	5	5	21	32	24.1
TOTAL (ii + iii)				5	34	63	66.6

a/ 80% of IDA lending is made on traditional terms while the remaining 20% is made on harder terms.

4.36 The analysis in Table 4.7 illustrates the effects of terms differentiation on IDA's cash flow. The relevant comparison is between the reflows generated on traditional IDA loans (row (i) of Table 4.7) and reflows from the same volume of credits but with the terms on commercial sector loans hardened (final row of the table). It can be seen that by the 26th year reflows have increased from 39% of the illustrative replenishment on the traditional loans to 63% in the hardened terms case. The grant element for borrowers falls from 77% to 67% with hardened terms.

4.37 There are limits to the extent to which it is desirable to harden project terms. First, there are macroeconomic grounds for allowing low-income countries to appropriate the economic benefits of projects, rather than encumbering them with heavy debt servicing costs. It may be better to allow borrowing countries to redeploy a portion of the earnings on some projects rather than siphon them off quickly through relatively hard terms. Second, higher servicing requirements on commercial projects might unfavorably affect countries with high concentrations of such projects. Because of the way that IDA lending is allocated between sectors, the harder term would fall on a greater proportion of projects in the pure IDA countries than in the stronger blend countries (see Table 3.2). Third, the financial impact of hardened project terms must be viewed within the context of the total debt servicing burdens of the borrowing countries. For some countries a hardening of project terms will aggravate further an already precarious external financial position.

4.38 The Bank has not been in favor of differentiation of terms by project in the past. For instance, in a 1968 discussion of lending policies, Management felt that such a differentiation would make it more difficult for governments to be objective in their allocation of investment funds.[10] It has argued that the Bank applies the same project appraisal criteria in all sectors, attempting to correct for any biases so as to ensure an efficient allocation of investment funds. There should therefore be no need to differentiate terms in order to improve investment allocations.

4.39 If different terms were to be levied on different projects, it would be desirable that this be done in a way that maintains the country-based nature of the creditworthiness judgements intact. Thus, differentiation by project would need to be done around a country average and over a several-year period to avoid inappropriate terms for smaller, less frequent borrowers.

The Third Window - An Interest Subsidy Account

4.40 The idea of establishing a so-called Third Window as a means to provide a degree of concessionality for a limited number of the poorer developing countries eligible for borrowing from the IBRD has been much discussed by the Board and IDA Deputies in the past. Indeed in 1976 the IBRD established a temporary, one-year, facility with $154 million in immediate voluntary donor contributions to subsidize $700 million in IBRD loans to 25 countries by 400 basis points. Recently Canada has revived the idea of a Third Window but specifically for the lower middle-income IBRD (non-IDA) borrowers.

4.41 Reconsideration of the concept of an interest subsidy account has also been suggested in the IDA context, as a means of stretching donor resources further, for somewhat the same reasoning that motivated the suggestion to harden IDA terms for the blend countries. A hardening of terms in IDA and the Interest Subsidy Account could thus be viewed as alternative options for changing IDA's structure.

4.42 An Interest Subsidy Account (ISA) would function as follows. First of all, IDA lending to the blend countries would be reduced or eliminated altogether. IBRD lending would be expanded correspondingly and some or all of the IDA resources that were previously lent to the blend countries would instead be used to subsidize lending to these countries within the IBRD. In this way, the total Bank Group capital flow to these countries would be maintained, and the blended interest rate on these resources would be kept at a concessional level. In principle, the Interest Subsidy Account--that is the subsidy itself--could be financed either by a transfer from IDA or by a contribution from the IBRD's net income (which has, as an opportunity cost, a contribution to IDA). The lending supported by the Interest Subsidy Account would be financed by additional IBRD borrowing which in turn would need to be backed by increased IBRD capital and reserves.

10/ See Memorandum for the Executive Directors, July 16, 1968.

4.43 Because only a proportion of the funds previously lent to blend countries is needed to finance subsidies, the residual could be used to supplement lending to the poorest and least creditworthy IDA borrowers. As this simplified presentation suggests, the appeal of the ISA concept is that it stretches donor resources by using private capital markets to supply the principal amount of the resource transfer while drawing upon aid budgets only for the interest subsidy component. There is, however, a temptation for donors under such a scheme to gauge their impact on recipients by the size of the resource transfer from the private markets rather than by the relatively small (in present value terms) transfer implied by the subsidy.

4.44 The Interest Subsidy Account proposal raises a number of issues which impinge on donors, the Bank and the borrowers. The central issue is one of whether a genuine stretching of donor resources would in fact occur and whether the final outcome is a reduction in aid budgets or an expansion of capital flows to developing countries. As far as blend borrowers[11/] are concerned the issue revolves around the extent to which increased borrowing, albeit subsidized, from IBRD would entail a reduction in the concessionality of lending. From the Bank's perspective, the key issue is whether the Interest Subsidy Account would increase the need for the IBRD to obtain additional lending authority (i.e. callable capital) and whether the increased portfolio risk would compromise the Bank's own creditworthiness standards, especially in the eyes of the financial markets.

4.45 In reviewing the various impacts of the Interest Subsidy Account proposal an appropriate benchmark for comparison is the option of hardening of terms for blend countries within IDA discussed above. This is a key comparison for if the Interest Subsidy Account proposal does not, when its costs and benefits are weighed, prove more effective than a hardening of terms then the latter option, on grounds of simplicity, may be preferable.

4.46 In the context of the analysis of harder terms for blend countries a feasible hardening of terms was considered to be a loan with a 35-year maturity, 8-year disbursement and grace periods, and an interest cost in the region of 3% to 5%. The Interest Subsidy Account would involve lending to the blend countries at a maturity in line with other loans from IBRD, around 20 years, with an 8-year disbursement period and 5 years grace. For purposes of comparison it is assumed that the IBRD lending rate (for simplicity taken to be 10%) will be subsidized by respectively 7% and 5% to yield subsidized lending rates of 3% and 5%--terms consistent, in other words, with the hardening of terms option.

4.47 Table 4.8 below illustrates the costs to donors of these two approaches to hardening terms. This table takes no account of any reduction in benefits to loan recipients. Clearly donors do not gain

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11/ The Interest Subsidy Account could be used either as a discrete facility through which countries graduating from IDA would pass, or an account within IDA which would be part of a blend mechanism for these countries. Combining some IDA lending with additional IBRD lending subsidized under the Interest Subsidy Account could, of course, produce a range of intermediate borrowing costs for some countries.

directly from a hardening of IDA terms for the additional reflows generated by the harder terms flow back into IDA. In present value terms the cost of granting $1 billion in credits to blend borrowers is $600 million. That this figure is less than the $1 billion in lending reflects the fact that contributions to IDA are made in line with credit disbursements and hence they are called and paid in over a period of time, not "up front". As noted above, the cost to the donors--$600 million--is invariant to the interest costs levied on the blend borrowers. In contrast the costs to the donors of providing $1 billion in loans, subsidized by the Interest Subsidy Account, will vary with the size of the subsidy. It will, for instance, cost donors $246 million to subsidize IBRD's lending rate if blend borrowers pay only 3% (a 7% subsidy). If the subsidy is cut to 5%, the donors' cost is reduced (in present value terms) to $176 million.

Table 4.8: DIFFERENCE IN COST TO DONORS OF $1 BILLION IN LENDING TO BLEND COUNTRIES BY IDA OR BY IBRD THROUGH THE INTEREST SUBSIDY ACCOUNT
($ Millions)

	IDA Lending a/			IBRD Lending Subsidized By the Interest Subsidy Account b/	
	Interest on IDA Credit			Subsidized Lending Rate	
	0%	3%	5%	3%	5%
Cost to Donors in Present Value Terms	600	600	600	246	176

a/ The hardened terms in lending to blend countries are assumed to comprise a 35-year maturity, 8-years disbursement, 8-years grace, 0.5% commitment fee.

b/ Interest Subsidy Account terms are assumed to be 20 years maturity, 8-year disbursement, 5 years grace, 0.75% service charge and a 0.75% commitment fee.

4.48 An Interest Subsidy Account, therefore, appears considerably cheaper for donors. Several factors help explain this. First, the donors are not providing direct financing for the blend countries. The principal amount of lending to these countries is instead provided by the IBRD on the basis of its own market borrowing. All the donor is providing is the cost of the subsidy.12/ Second, the shorter maturity of the subsidized IBRD loan compared to a (hardened) IDA credit means that the duration of the subsidy and its total cost to the donor would invariably be lower. By way of example, if the maturity of the subsidized loan were increased to that of the IDA credit with hardened terms (35-year maturity), then the cost to donors would increase to $320 million (with a 3% lending rate after subsidy) and $230 million (with a 5% interest rate after subsidy).

12/ This abstracts from the cost to donors of providing paid-in and callable capital to back the additional lending by the IBRD.

4.49 The savings for the donors are counterbalanced, however, by losses for the blend countries and possibly for IDA itself. For the blend countries there is a loss in the concessionality of their borrowing from the Bank Group. This results primarily from the shorter maturity of lending and shorter grace period attached to the IBRD lending compared with the hardened terms offered by IDA. For IDA, meanwhile, the diversion of donor funds to the Interest Subsidy Account reduces the future loan flows that would occur under the hardened terms approach. To the extent that such a scheme reduced overall flows to IDA, there would be a loss of concessionality not just to the blend countries but to IDA and its clientele generally.

4.50 This point is illustrated in Table 4.9, which compares the present values of the cost to donors with the benefits to borrowers under the two approaches. As the figures indicate, hardening IDA terms reduces the present value of benefits to borrowers by one-third to more than one-half in the examples cited (i.e., the present value of $1 billion in lending falls from $440 million to $292 million and to $193 million, respectively). The difference, however, accrues to IDA in the form of faster reflows. The interest subsidy approach, on the other hand, virtually eliminates the difference between donor costs and borrower benefits, while reducing overall benefits (or concessionality) to borrowers by much more than would harder IDA terms.

Table 4.9: HARDENING TERMS VS. SUBSIDIZED IBRD LENDING: COSTS FOR DONORS AND BENEFITS FOR BORROWERS OF $1 BILLION IN LENDING ($ million)

	IDA Lending			IBRD Subsidized Lending	
	Interest on IDA Credit a/			IBRD Lending Rate After Subsidization b/	
	0%	3%	5%	3%	5%
(1) Present Value of Cost to Donors	600	600	600	246	176
(2) Present Value of Benefits to Blend Borrowers	440	292	193	203	133
(3) Difference, (1)-(2)	160	308	407	43	43

a/ The hardened terms in lending to blend countries are assumed to comprise 35 years maturity, 8 years disbursement, 8 years grace, 0.5% commitment fee.

b/ Interest Subsidy Account terms are assumed to be 20 years maturity, 8 years disbursement, 5 years grace, 0.75% service charge and a 0.75% commitment fee.

4.51 What the above analysis suggests is that the leverage obtained by the Interest Subsidy Account is more apparent than real. There are offsetting costs which weaken both IDA (in terms of lending potential) and its borrowers (in terms of concessionality). For the Interest Subsidy Account to thus be workable and acceptable would require some offsetting benefits for blend borrowers, for instance an increase in the volume of lending to compensate for the hardening of terms. The trade-off of volume of lending against degree of concessionality is shown in Table 4.10 below, measured here by the grant equivalent concept (see Box 2). The table sets out the grant equivalents of regular IDA lending, including harder terms, and the interest subsidy approach. As the table shows, present IDA terms have a grant equivalent of $497 million per $1 billion of commitments. The ISA with a 5% interest rate after subsidy has a grant equivalent of only $129 million. To achieve the present grant equivalent under this approach would require a commitment volume of about $4 billion (497/129). Similarly, because the grant equivalent of harder IDA terms is larger than that of the ISA, subsidized IBRD commitments would need to be roughly 40-50% higher to achieve the same grant equivalent for borrowers as a hardening of terms within IDA. Put another way, it would take between $1.3 billion and $1.5 billion in new commitments through the ISA mechanism to yield the same grant equivalent as $1 billion of IDA loans on hardened terms.

Table 4.10: GRANT EQUIVALENTS OF DIFFERENT IDA AND ISA LOAN TERMS a/
($ million per $1 billion of commitments)

Final Maturity (Years)	Grace Period (Years)	Rate After Subsidy (%)	Grant Equivalent ($ million)
Present Terms			
50	10	0	497
Harder IDA Terms			
35	8	3	290
35	8	5	191
30	7	3	267
30	7	5	175
Interest Subsidy			
20	5	3	198
20	5	5	129

a/ 8-year disbursement, 10% discount rate, .75% service charge on both.

4.52 This raises the question of the feasibility of expanding IBRD lending to blend borrowers on a significant scale. Two types of constraints are likely to be encountered: first, the Bank currently operates with a portfolio concentration guideline of no more than 10% of total loans outstanding to any single borrower. In the present context, this constraint already imposes a ceiling on the annual IBRD commitment volume to India and could eventually come into play in the case of China as well. Even if the IBRD portfolio limit were to be raised above 10%, it is not clear that the major blend countries would necessarily be better off under the ISA proposal. Much would depend upon the extent to which their borrowing from IDA was simultaneously curtailed.

4.53 The second constraint is on the degree of exposure that is prudent for the IBRD to have in individual countries, given their overall debt servicing capacity. For the most part the blend countries are at the margin of commercial creditworthiness. In many cases the existing IBRD lending plans already represent the maximum prudent exposure for the IBRD in these countries. Accordingly, it is doubtful that IBRD lending can be expanded in any significant way to the blend countries without a change in the Bank's policies and/or in its risk bearing capacity.

Conclusion

4.54 A number of proposals for hardening terms have been reviewed above and these could in principle be combined in various ways to bring about a degree of differentiation in the terms offered to borrowers. If a differentiation is undertaken the focus will invariably be on a hardening for the blend countries. Even within the blend group, however, it bears repeating that a distinction should be made between those countries graduating towards IBRD on the basis of increased wealth and greater creditworthiness and those IBRD borrowers which have again become eligible for IDA credits from IBRD on account of a sharply deteriorating economic situation.

4.55 The proposal for an Interest Subsidy Account appears at first sight to offer a high degree of leverage on funds which would otherwise be used for direct lending to blend borrowers. The analysis has shown, however, that there would also be significant offsetting costs for borrowers, IDA and the IBRD in following the proposal. Some of the loss in concessionality for borrowers, however, could be mitigated by an increase in IBRD lending. But there is a question mark over feasibility of any major expansion of IBRD lending at this juncture.

4.56 Management would welcome the views of the Deputies on a number of the issues raised in the analysis set out in Section 4.

- Generalized hardening of terms: Management perceives that there is a degree of support for a generalized hardening of IDA terms. The main question surrounds the nature of this hardening. A shortening of maturities and grace periods seems the most appropriate appropriate mode of hardening. The issue here is the feasible range of hardened maturities and grace periods and, related to this, what the Deputies consider to be an appropriate degree of concessionality (measured by the grant element) for borrowers.

- Differentiation of terms by country: The analysis in Section 4 traced the implications of a differentiated hardening of terms, focussing in particular on the impact of a modest increase in interest charges (to 3% and 5%). If the Deputies feel that some differentiation by country is warranted, then the question is again one of what the appropriate blend rate and grant element is for these borrowers. This will determine the extent of the hardening.

- Differentiation of terms by project: Section 4 also reviews the possibilities for hardening terms by project and underlines many of the practical difficulties which might be involved in this. Management would welcome the Deputies' views on whether this approach to hardening should be pursued.

- The Third Window: Management, finally, would like to seek the Deputies' views on the attractiveness of a Third Window approach to hardening terms in relation to the existing blend mechanism and/or a differentiated hardening of IDA's terms.

The Pattern of IDA Lending by Region and by Sector

By Region

The regional allocation of IDA lending is affected by the entry and graduation of countries, as well as by the Association's lending policy to countries which remain members. During the FY81-85 period, the most important such changes have been the graduation of Egypt in 1981 (lending discontinued in FY82), which substantially reduced the share going to the Middle East region, and the readmission of China in 1980 (lending resumed in FY81) which has greatly increased the share going to East Asia. (See Tables A and C.)

Table A: ALLOCATION OF IDA FUNDS BY REGION
(Amounts in SDR million)

Region	FY81-84 Annual Average		FY85		Projected FY85-87 Annual Average*	
	Amount	%	Amount	%	Amount	%
Sub-Saharan Africa	935	32	1109	36	1137	37
Eastern & Southern Africa	598	20	710	23	729	24
Western Africa	337	11	399	13	408	13
EMENA	99	3	43	1	48	2
LAC	32	1	46	1	37	1
East Asia & Pacific	182	6	454	15	409	13
(Of which: China)	(168)	(6)	(450)	(15)	(392)	(13)
South Asia	1629	57	1395	46	1459	47
(Of which: India)	(929)	(32)	(673)	(22)	(671)	(22)
TOTAL	2877	100	3047	100	3090	100

* Based on FY85 actual and current lending program for FY86-87.

NOTE: Detail may not add to total due to rounding.

The remaining changes reflect an increasing concern with Sub-Saharan Africa, and the growing creditworthiness of India. Thus, the shares of both the Sub-Saharan regions have increased, continuing a trend which has been evident almost since IDA's inception. The share of the South Asian countries began to decline quite steeply: throughout the 1970s it remained at around 55 to 60% of IDA lending, but in FY85 fell to only 45%.

The rest of the IDA7 period, up to FY87, is likely to see no great change in the pattern of regional allocations.

By Sector

The main trends in the sectoral pattern of lending during the IDA7 period will be a rapid fall in the proportion devoted to basic infrastructure and to industry, and offsetting increases in agriculture and rural development, other infrastructure and human resources - see Tables B and C. At a subsector level, the decline in basic infrastructure will be shared by all three of its components (energy, transport and telecommunications), and the increases in other infrastructure and in human resources will also be evenly spread between subsectors. Most of these trends are the resumption, after an interruption in FY81-84, of long-term trends in the sectoral pattern of IDA lending.

Table B: ALLOCATION OF IDA FUNDS BY SECTOR
(SDR million)

Sector	FY81-84 Annual Average		FY85		FY85-87 Annual Average c/	
	Amount	%	Amount	%	Amount	%
Agricultural & Rural Development	1101	38	1367	45	1294	42
Total Infrastructure	946	32	889	29	816	27
Basic Infrastructure	775	27	550	18	512	16
Energy	372	13	220	7	230	7
Transport	315	11	271	9	242	8
Telecommunication	88	3	59	2	39	1
Other Infrastructure	171	6	339	11	305	10
Water Supply and Sewarage	87	3	159	5	141	5
Urbanization	84	3	180	6	164	5
Industry a/	274	9	77	3	165	5
Human Resource Development	253	9	448	15	411	13
Education	193	7	417	14	292	9
Population, Health and Nutrition	60	2	31	1	119	4
Non-Project Lending b/	304	11	266	9	404	13
TOTAL	2877	100	3047	150	3090	100

a/ Includes development finance companies, industry, small-scale enterprises and non-fuel minerals.
b/ Includes technical assistance.
c/ Based on FY85 actual and current lending program for FY86-87.

NOTE: Detail may not sum to total due to rounding.

Table C: IDA COMMITMENTS BY REGION AND BY SECTOR 1961-87
(% of total)

	1961-70	1971-76	1977-81	1981-84	1985-87
Regions					
Sub-Saharan Africa	16	24	25	32	37
EMENA	8	10	8	3	2
Latin America	5	3	2	1	1
East Asia	8	8	6	6	13
South Asia	63	55	59	57	47
O.W. India	45	39	38	32	22
	100	100	100	100	100
Sectors					
Agriculture, etc.	23	32	44	38	42
Basic Infrastructure	41	30	27	27	16
Energy	6	8	14	13	7
Transport	30	17	10	11	8
Telecommunications	5	5	3	3	1
Other Infrastructure	3	4	8	6	10
Water	3	3	5	3	5
Urban	0	1	2	3	5
Industry	4	10	8	9	5
Human Resources	6	6	8	9	13
Education	6	5	6	7	9
PHN	0	1	2	2	4
Non-Project	23	18	6	11	13
	100	100	100	100	100

BANK LENDING INSTRUMENTS

During the discussion of "The Future Role of the Bank" on November 14, a number of Directors expressed interest in having more precise descriptions of the various types of Bank loans and the amount of lending falling under each category. This paper responds to that request.

The earliest operations of the Bank were general purpose loans to help finance the reconstruction of Europe after World War II. Later, Bank loans were used to finance specific investments in transportation, electric power, irrigation, and other infrastructure. Gradually, modifications and extensions of Bank lending instruments evolved as a response to the growing capacities in borrowing countries and to changes in the nature of the problems confronting them. As experience in the development process grew, the Bank's focus broadened to address issues of macroeconomic and sectoral policies and to include institutional development concerns crucial to the success of investments. At the same time, an increasing number of borrowers developed the ability to prepare, appraise, and supervise individual projects, and this made possible a significant increase in sector lending and loans to financial intermediaries. More recently, the Bank has introduced structural adjustment and sector adjustment lending in support of broad gauged policy changes. By far the largest share of Bank lending continues to be for investment in new productive assets and to improve the productivity of existing investments. The increased focus on policy change has been accompanied by an increase in the share of quick disbursing loans in the Bank's portfolio, although increases in disbursement rates have occured in all types of operations.

On the basis of present indications, we expect that the recent pattern of use of lending instruments will be maintained at current levels for the next few years, based on our evaluation of the needs of borrowers and our judgement of how the Bank can provide the most effective assistance to them. It is unlikely that the rate of disbursement out of outstanding commitments will increase.

Types of Lending Instruments

To describe the range of Bank lending in this paper, loans have been classified by their broad purposes and link to investments and institutions. The operations form a continuum from discrete investment operations to comprehensive structural adjustment loans, with various types of sector operations in between; combinations of operations are also possible. Conceptually, the five principal categories are:

(1) Specific investment loans

(2) Sector operations

  (a) Sector investment and maintenance loans

  (b) Financial intermediary loans

(c) Sector adjustment loans

(3) Structural Adjustment Loans

(4) Technical Assistance Loans

(5) Emergency Reconstruction Loans

Four key characteristics of these lending instruments are described in Attachment I, i.e. objectives, focus and content, use of loan proceeds, and disbursement period. It should be noted that while conceptually these categories can be defined discreetly, in practice, operations may have characteristics which are common to more than one of these categories and the shares shown in Attachment II are based on a judgement about the main characteristics of each operation.

Specific Investment Loans

This category accounts for the major part of Bank Group lending. It comprises the bulk of lending in agriculture and rural development, education, energy, urban development and water supply. The main objectives are to create new productive assets, increase the output from existing investments, or ensure adequate maintenance. The focus of these operations is on the technical, financial and economic viability of specific investments and those aspects of the sector policy framework which bear directly on the productivity of the investment, e.g., input and output prices, efficiency of enterprises. Appraisal and supervision of these operations is done primarily by Bank staff. This category comprised about 61% of lending in FY80 and 41% in FY84. Specific investment loans disburse over 4-9 years.

Sector Operations

About 48% of Bank loans in FY84 can be classified as sector operations. These range from operations that are only moderately broader than specific investment loans to comprehensive sector adjustment operations that are only moderately narrower than structural adjustment loans. The three sub-categories are described below.

(a) Sector Investment and Maintenance Loans. This category of Bank lending has expanded substantially over the years in line with the increasing competence of operating agencies in developing countries to plan and implement sector-wide investment programs, and the need for emphasis on sectoral policy and institutional issues. In these operations the focus is on improving sector policies and priorities and the institutional ability of the borrower to formulate and implement the program. Particularly in the middle-income countries with relatively strong institutions, detailed appraisal and supervision of sub-projects is done by the sector agency rather than by the Bank staff, based on agreed criteria and standards. A large part of lending to the transport sector now takes the form of sector loans. An example is the FY84 Highway Sector Project in Korea, which financed a portion of the government's highway investment program for the years 1984-1987 and included measures to improve highway investment planning, energy conservation, and transport regulation. An example in agriculture is the FY84 loan for the National Rural Development Project in Thailand, which was directed at the alleviation of poverty in designated districts covering 40% of the country through improving agricultural productivity, and enhancing self-help participation by the local communities. The loans in support of large state-wide irrigation programs in India also fall into this category as does the second power distribution loan to Electrobras in Brazil, which will on-lend the funds to several state and local electricity authorities and provide overall direction on sector priorities, pricing and the supervision of the sub-projects.

The typical disbursement period for this type of loan is 3-7 years. In FY84 loans falling in this category totalled about 27% of all Bank lending, compared with 17% in FY80.

(b) Loans to Financial Intermediaries. This category includes loans to development finance companies and agricultural credit agencies. It is similar to the previous category in that a local institution selects, appraises and supervises the sub-projects, but different both because of the financial nature of the intermediary and the fact that the recipients of the sub-loans are generally private entrepreneurs rather than administrative units. These operations support specific investments in industry and agriculture to strengthen the capacity of intermediary institutions, to perform intermediation functions and to support policies to improve the mobilization and use of financial resources in the respective sectors. The loans require agreement on criteria to select sub-borrowers, on lending rates and specific measures for institution building. While these loans usually try to address sector policy issues, loans for individual financial intermediaries are usually not good vehicles for this purpose because of the independent or private nature of many of the intermediaries and their relatively small share of the overall financial system. To continue to support the lending facilities for the development of key target groups while at the same time making the operations more relevant to the financial sector, apex loans were conceived. An apex loan for the financial sector in the Philippines (FY81) supports a number of financial institutions and focuses substantially on the overall financial issues affecting the industrial sector. In India, an apex loan to the National Cooperative Development Corporation is designed to strengthen the effectiveness of farmer cooperatives by expanding credit for storage and processing facilities and by providing training programs.

The majority of these loans disburse in 3-7 years. Total lending in the financial intermediary category amounted to $2.0 billion in FY84, or 13% of total lending. This compares with about 15% in FY80.

(c) Sector Adjustment Loans. The main objective of sector adjustment loans is to support comprehensive policy changes and institutional reforms in a specific sector. They are narrower in scope than structural adjustment loans and are chosen when the limited implementation capability, the overall level of economic management and policy reform, or the large size of the economy would not permit a structural adjustment loan to be implemented effectively. Unlike sector investment and maintenance loans or loans to financial intermediaries, the primary purpose of sector adjustment loans is to support policy change in the sector. For instance, the Ghana Export Rehabilitation Credit involved important improvements in producer price policies for cocoa and in institutonal support to the main export sectors (cocoa, timber and gold). The Morocco Industrial and Trade Policy Loan supported improvements in the system of incentives through reduction of restrictions on exports, reduced import protection, improved fiscal incentives, and financial policies, and reduction in price controls. The Fertilizer Loan to Nigeria supported reforms in the fertilizer sub-sector such as reductions in subsidies, commercialization of fertilizer retail channels and improvements in procurement and marketing methods. These loans generally finance imports for the sector, with pre-identified beneficiaries or selected following agreed criteria, and disburse in 1-4 years. The recent increase of lending in this category is partly due to the Bank's Special Action Program, but the use of sector adjustment loans is likely to continue as the adjustment process deepens and lending operations focus increasingly on sector specific constraints. Total lending in this category amounted to $1.3 billion in FY84 or about 9% of total lending. This compares with about 2% in FY81.

Structural Adjustment Loans and Program Loans

There is no need to elaborate here on the characteristics of structural adjustment loans since these have been reviewed with the Board on several occasions, most recently in the Progress Report on Structural Adjustment Lending (R-84-150 dated May 23, 1984). In addition, there has been a small number of program loans which may include policy and institutional reforms. However, the basic objective of program loans remains focused on relieving specific constraints in the economy and addressing the policy issues associated with these constraints. The credit to Uganda for a Third Reconstruction Program was designed to support policy and institutional reforms in economic management and planning, foreign exchange and external debt management, and parastatal reform. Structural Adjustment and Program loans amounted to $1272 million in FY84 or 8.2% of total lending. This compares with 3.1% in FY80 and 6.4% in 1981. These loans generally disburse in 1-3 years.

Technical Assistance Loans

The objective of these loans is to strengthen the ability of local institutions to prepare development policies and specific investments. This is done through two types of services: engineering-related TA and institution-related TA. Engineering services relate directly to the preparation and implementation of the physical infrastructure of investments, whereas institution-related TA provides diagnostic or prescriptive assistance on institutional or policy matters. The latter also assists in issues of national economic planning, improvements in managing the public sector or the operation of a specific entity. There has been a shift during recent years in the composition of our technical assistance between engineering support and broader economic advice. The latter now accounts for about half the total. This shift is largely due to increased recognition both by the Bank and, in particular, our African borrowers, that the lack of appropriate institutions and the shortage of qualified managers and technicans are the causes of significant absorptive capacity constraints.

These loans amounted to about 2% of total commitments in FY84 totalling over $300 million which was more than double the commitment level in FY80. Technical assistance loans disburse over 2-6 years.

Emergency Reconstruction Loans

This type of lending assists the borrower to deal with the effects of natural or other disasters. Examples are the loans to repair damage by earthquakes in Yugoslavia and Colombia, for post-hurricane reconstruction in the Dominican Republic, Haiti, and Fiji, and immediate post-civil war reconstruction in Nicaragua. The form of each operation has to be adapted to the circumstances of the emergency problem. There were a total of 12 such operations in the two years FY80 and FY81, most of these disbursed within less than four years. In FY84 there was only one operation in this category——the earthquake reconstruction loan in Colombia.

Disbursement Patterns

In FY80 some 8% of all loans committed were fully disbursed within two years and about 15% within four years; these percentages are estimated to have increased to about 18% and 25%, respectively, for loans committed in FY84. This increase reflects the increased share of sectoral and structural adjustment loans in total lending. However, Attachment I illustrates that the disbursement periods for many lending instruments have wide ranges which overlap between different lending categories. Thus, the correlation between individual lending instruments and disbursement rates is far from exact.

Conclusion

The characterization of Bank lending operations presented in this note is intended to summarize these operations within a range of differentiated categories. As noted earlier, these categories cannot be delineated rigidly. Nevertheless, based on a review of the Bank's loan portfolio, they appear to adequately reflect its main elements.

December 20, 1984

RANGE OF LENDING INSTRUMENTS

Product	Objective	Focus and Content	Use of Loan Proceeds	Disbursement Period 1/
1. Specific Investment Loan	To create new productive assets and economic and social infrastructures, to restore them to full capacity or to ensure their maintenance.	Focusses on technical, financial, economic and institutional viability of a specific investment and its maintenance, and on those aspects of the sector policy framework which bear directly upon the productivity of the investment (e.g., input and output prices, operational efficiency of enterprises). Assists in the design of investments and in preparing management and training programs. Investment proposals are appraised by Bank staff. Requires agreement on viability and specifics of investments.	Pre-identified equipment, materials, services and civil works for specific investments.	4-9 years
2. Sector Operations				
2a. Sector Investment and Maintenance Loan	To bring sector investments in line with economic priorities and ensure they are efficiently operated and maintained.	Focusses on sector expenditures, especially balance between new investments, rehabilitation and maintenance, and on institutional capacity to plan, implement and monitor investments. Requires agreement on well designed sector programs to meet priority development needs, as well as on specific measures to strengthen management and policies, and a sector institution capable of carrying out the program using agreed appraisal criteria for individual parts of program.	Broad categories of equipment, materials, services, and civil works related to the whole or a time-slice of the sectoral program.	3-7 years
2b. Financial Intermediary Loan	To provide funds for enterprises and small and medium size farmers through an intermediary within a competitive environment.	Focusses on categories of clients, types of investments, service levels and cost of capital. Requires agreement on criteria to select sub-borrowers and appraise their needs, on on-lending rates and on specific actions for institution-building.	Credit for investment and working capital needs of sub-borrowers selected in accordance with agreed criteria.	3-7 years
2c. Sector Adjustment Loan	To support comprehensive policy changes and institutional reforms in a specific sector.	Focusses on major sectoral issues and investment programs, especially incentive framework (tariffs, prices, taxes), and institutional capability. Usually either in countries lacking administrative and political capability to formulate and implement comprehensive economy-wide structural adjustment programs, or not requiring such comprehensive programs, or as follow-up to stabilization programs to deepen reforms in a sector. Requires agreement on specific monitorable action program in above areas on specific schedule and on investment programs for the sector.	Mainly imports required for sector with actual users either pre-identified or to be selected following agreed criteria.	1-4 years
3. Structural Adjustment Loan	To support, through a series of loans, specific policy changes and institutional reforms to achieve efficient use of resources and contribute to a sustainable BOP in medium and long term, while maintaining growth.	Focusses on major macroeconomic issues as well as major sectoral issues covering several sectors, especially trade policy (e.g., tariff reform, import liberalization, export incentives), resource mobilization (e.g., role of parastatals budget policy, interest rates, debt management), efficient use of resources (e.g., public investment program criteria, pricing, incentive system), and institutional reforms economy-wide and in specific sectors. Requires agreement on effective stabilization programs with monitorable policy modifications in above areas on specific schedule.	General imports subject to negative list of prohibited imports.	1-3 years
4. Technical Asst. Loan	To strengthen local institutions concerned with (i) designing and adopting policies, strategies and institutional approaches promoting further development in a sector or in the economy as a whole, or (ii) preparing, implementing or operating specific investments, or to carry out specific tasks related to the preparation, implementation or operation of investments.	Focusses on capacity (e.g., organization, management, staffing, methods, physical or financial resources) of institutions directly concerned with sector or economy-wide policies and strategies or with investments, and on specific gaps (studies and personnel) preventing efficient investments. Requires agreement on specific time-bound action programs to strengthen institution through technical assistance and training, on appointment of local counterparts, or on the carrying out of studies with agreed terms of reference.	Specialized consultants and services, studies and training.	2-6 years
5. Emergency Reconstruction Loan	To support rebuilding activities and rapid restoration of physical structures and productive activities after disasters.	Focusses mainly on restoring pre-disaster situations with emphasis on strengthening institutions to handle reconstruction effort and prepare them for future.	Broad positive list related to reconstruction needs.	2-5 years.

1/ This is the normal range of expected disbursements. There may be a small number of exceptional cases where the disbursement period is shorter or longer than shown below.

ATTACHMENT II

Summary of Commitments by Main Category of Lending Instrument
FY80, FY81, and FY84

Bank and IDA

A. Million $

		FY80	FY81	FY84
1.	Specific Investment	6941	6064	6414
2.	Sector Operations			
	a) Sector Investment	1941	2533	4113
	b) Financial Intermediaries	1765	2314	2043
	c) Sector Adjustment	90	244	1318
3.	Structural Adjustment & Program Loan	355	782	1272
4.	Technical Assistance	125	279	324
5.	Emergency Reconstruction	265	75	40
6.	**Total**	11482	12291	15524.

B. Percentage Shares

		FY80	FY81	FY84
1.	Specific Investment	60.5	49.3	41.3
2.	Sector Operations			
	a) Sector Investment	16.9	20.6	26.5
	b) Financial Intermediaries	15.4	18.8	13.2
	c) Sector Adjustment	0.7	2.0	8.5
3.	Structural Adjustment & Program Loan	3.1	6.4	8.2
4.	Technical Assistance	1.1	2.3	2.1
5.	Emergency Reconstruction	2.3	0.6	0.3
6.	**Total**	100.0	100.0	100.0

ATTACHMENT III

A. Value of Loans by Main Category of Lending Instrument and Disbursement Period a/
Actuals for FY80 and FY81 and Estimates for FY84 b/
(million $)

Year of Commitment	FY80			FY81			FY84		
Disbursement Period	Less than 2 years	2 to 4 years	More Than 4 Years	Less than 2 years	2 to 4 years	More than 4 years	Less than 2 years	2 to 4 years	More than 4 years
Specific Investment	210	333	6398	130	467	5467	167	404	5843
Sector Investment	-	23	1918	-	18	2515	--	170 c/	3943
Financial Intermediaries	340	172	1253	-	535	1779	198	335	1510
Sector Adjustment	25	65	-	115	50	79	1145	151	22
Structural Adjustment	355	-	-	282	440	60	1272	-	-
Technical Assistance	-	16	109	-	6	273	-	24	300
Emergency Reconstruction	25	140	100	-	51	24	-	40 c/	-
TOTAL COMMITMENTS	**955**	**749**	**9778**	**527**	**1567**	**10197**	**2782**	**1124**	**11618**

B. Percent of Loans by Main Category of Lending Instrument and Disbursement Period a/
Actuals for FY80 and FY81 and Estimates for FY84 b/
(percentages)

Year of Commitment	FY80			FY81			FY84		
Disbursement Period	Less than 2 years	2 to 4 years	More Than 4 Years	Less than 2 years	2 to 4 years	More than 4 years	Less than 2 years	2 to 4 years	More than 4 year
Specific Investment	3.1	4.8	92.1	2.1	7.7	90.2	2.6	6.3	91.1
Sector Investment	-	1.2	98.8	-	0.7	99.3	-	4.1 c/	95.9
Financial Intermediaries	19.3	9.7	71.0	-	23.1	76.9	9.7	16.4	73.9
Sector Adjustment	27.8	72.2	-	47.1	20.5	24.6	86.9	11.5	1.7
Structural Adjustment	100.0	-	-	36.1	56.3	7.7	100.0	-	-
Technical Assistance	-	12.8	87.2	-	2.2	97.8	-	7.5	92.5
Emergency Reconstruction	9.4	52.8	37.7	-	68.0	32.0	-	100.0 c/	-
TOTAL COMMITMENTS	**8.3**	**6.5**	**85.2**	**4.3**	**12.7**	**83.0**	**17.9**	**7.2**	**74.9**

a/ The disbursement period refers to the time within which a loan is fully disbursed.

b/ FY84 has been estimated on the basis of an evaluation of the expected disbursement periods for each of the se adjustment and structural adjustment loans and historical experience (FY80 and FY81 average) for each of the other lending instruments, except as noted.

Direct estimate.

QUESTIONS AND ANSWERS

QUESTIONS ON IDA8 TO BE ADDRESSED AT THE DEPUTIES MEETING IN SEOUL ON OCTOBER 5, 1985

Allocations Issues

- In light of the emphasis given to policy reform in the African Facility and the increasing role of IDA in supporting adjustment programs, to what extent should policy reform and/or economic performance be used as criteria for allocating IDA resources?
- In view of donors' understanding on the one-time nature of the Facility's operations (with all resources committed by FY88), how should its phase out bear on future IDA allocations to Africa?
- Given the overall scarcity of concessional resources, what is the appropriate future role of IDA in the blend countries?
- Should IDA adopt a more formal process of graduation?

IDA's Terms

- Do the Deputies support a generalized hardening of IDA's terms? If so, would this extend to hardening interest charges as well as credit maturities?
- Would the Deputies support a differentiation of IDA's terms by country group? If so, which countries would be subject to hardening?
- Do Deputies consider that there is a strong case for introducing a differentiation of terms by type of project?
- What other modes of hardening or combinations of hardening options would be acceptable to the Deputies?
- Are Deputies in favor of establishing a Third Window (or interest subsidy account) in the IBRD?

QUESTIONS AND ANSWERS ON

THE IDA7 MID-TERM REVIEW

Questions and Answers

A. Introduction

Q.1 What is your projection on the schedule of IDA8 negotiation? Do you think it is possible to obtain, at the Seoul meeting, firm commitment of donor countries to begin IDA8 negotiations in the spring of 1986? (Germany)

1. Developments in Official Development Assistance

Q.2 What is the projected disbursements from IDA over the period of FY84-88? Does it show a substantial decline from the level over the previous period, say, FY80-83? Would it indicate a decline of IDA's share in total ODA and multilateral ODA? (para.2.09, p.5, para.2.17, p.10)

Q.3 Among aid recipients whose per capita income are higher than $790 in 1983, who have received substantial amount of ODA? (para.2.17, p.10)

Q.4 How can we assert that multilateral aid is more effective than bilateral aid and that the assistance through the IDA is more effective than other institutions? (Germany, Italy)

2. The Volume of IDA Resources

Q.5 To what extent do you expect will the resource available for commitment purposes over the period of IDA7 fall short of $9.0 billion (SDR8.7 billion)? How will the management deal with the possible shortfall in commitment authority? (para.2.20, p.11)

Q.6 What are the amounts of other resources for commitment during 1985-87, namely, a carryover from FY84, the United States' last payment of its IDA6 contribution, a transfer of IBRD FY84 net income, the proposed transfer from FY84 net income and possible transfers from net income in future years? (para.2.21, p.11-12)

Q.7 What were the criteria in cutting back IDA lending plan from the one based on $12 billion IDA7 to the one based on $9 billion IDA7? In this regard, what is the rationale for reducing planned IDA lending to India and China most seriously? Would it imply that there have been less priority operations in these countries? (para.2.19, p.11)

Q.8 Would the fact that the management has cut back IDA lending to industry, telecommunications, transportations and energy sectors due to the reduced size of IDA7 indicate the management's judgement that projects in these sectors are more suited to less concessional funding due to their financial returns? Don't you think this would support the idea of introducing a differentiation of terms by types of projects? (para.2.19, p.11)

3. Trends to Assistance to Africa

Q.9 What countries in Sub-Saharan Africa have rescheduled their debt? What is the amount of debt rescheduled by these countries? (para.2.22, p.12)

Q.10 Table 2.2 shows that net transfer from IDA to pure IDA countries in Africa declined from $402 million in 1982 to $363 million in 1983. What is the main reason for such a decline? (para.2.23, p.12)

Q.11 What is the status of proposals to reactivate the IMF Trust Fund? What is the outlook on the possibility that such a proposal will increase net transfer to Sub-Saharan African countries? (para.2.24, p.12)

Q.12 What do you project would be the level of ODA to Sub-Saharan African countries necessary to maintain their import and investment at 1980-83 levels in real terms during 1985-1987? (para.2.24, p.12)

C. IDA Allocations

1. Background - Current Eligibility and Allocation Criteria

Q.13 On what basis did the management judge that India's creditworthiness was enhanced, when it decided to harden blends in India significantly in recent years? (para.3.05, p.15)

Q.14 The Mid-Term Review paper refers to the cap that were applied to India, Pakistan and China. What are other countries who were subject to such a cap in the past? (para.3.08, p.15)

2. Economic Performance Criteria and Future IDA Lending

Q.15 Table 3.1 of the Mid-Term Review paper shows that the allocation of IDA funds for technical assistance will account for less share in the total IDA operation during the period FY85-87 than during FY81-84. What is the reason for such reduction? Would this go against the frequently publicized emphasis on technical assistance in total IDA operations? (para.3.15, p.17)

Q.16 What do you think about the possibility that too much emphasis on performance criteria might satisfy the U.S. but weaken support among others such as Nordics? (Germany)

Q.17 What is your prospect for increasing the share of Sub-Saharan Africa to the IDA allocation to about 50%? (France)

Q.18 What are the views of major donor countries on the proposal to integrate the African Facility and IDA? (France)

Q.19 Allocations for the African Facility may be taken into account to deciding Africa's share in the first year of IDA8. What is your view on this point? (Italy)

3. <u>The Role of IDA in the Blend Countries</u>

Q.20 What is the position of the U.S. on IDA allocation to India and China? What is the pace of change with respect to India and China required to induce substantial U.S. participation in IDA8? (Germany)

Q.21 How has the blended grant element been changed for China? (para.3.25, p.20)

Q.22 What are the ten blend countries other than India and China? (para.3.26, p.20)

Q.23 What are domestic savings ratios of India and China? (para.3.27, p.20)

Q.24 What is the level of current ODA flows to India by source of funds? (Germany)

Q.25 Why would it be impossible to finance the domestic investment required to generate greater resources in India and China on wholly IBRD terms? (para.3.27, p.20)

Q.26 What is the degree of external imbalances and an erosion of reserves China has faced recently? (para.3.29, p.21)

Q.27 Could you provide a table that shows Bank Group lending to India and China by sector and by source of funds (IBRD & IDA)? (para.3.32, p.22)

Q.28 Can IDA credits to Sub-Saharan Africa be maintained over the period of IDA8 at the level of the aggregate amount of IDA lending over the IDA7 and lending by the African Facility? (para.3.45, p.25)

D. <u>Restructuring IDA's Terms</u>

1. <u>General</u>

Q.29 What is the position of the United States and other major donor countries on the issue of restructuring IDA's terms? (United Kingdom)

Q.30 What were the level of market interest rates on average over the last ten years and during the previous ten? (para.4.05, p.27)

Q.31 DAC has encouraged its member countries to provide bilateral assistance to the poorest developing countries on a grant basis. Would a hardening of terms of IDA credits go against this direction? (para.4.06, p.27)

Q.32 What are the countries who have already graduated from IDA but still have outstanding IDA credits? (para.4.07, p.27)

Q.33 Could you explain the "administrative complexity and general unworkableness" cited in the Mid-Term Review paper as grounds of rejecting a "trigger" mechanism? (para.4.07, p.27)

Q.34 When do you project would the repayment to IDA become a significant substitute for replenishment of IDA's resources? (para.4.08, p.28)

Q.35 What is the development of the proposal on changing terms in the negotiation of regional banks such as ADB and IDB? (Nordics)

2. A Generalized Hardening of IDA Terms

Q.36 What are the assumptions for the blended lending rate of around 7.2% at present? (para.4.13, p.28)

Q.37 Why have the years' of 8 years, 17 years, and 26 years been chosen in examining the cumulative volume of reflows? (para.4.15, p.29)

Q.38 Could you give us projected cumulative amount of reflows by FY88 (that is, possibly the starting year of IDA8), FY91 (IDA9) and FY94 (IDA10)? (para.4.15, p.29)

Q.39 How have reflows to IDA been used? What is the amount of reflows outstanding at the end of FY85? (para.4.15, p.29)

Q.40 What would be the grant elements for IDA credits with shorter maturities and higher interest costs shown in Table 4.2 if the DAC reporting method of grant elements will be used? (para.4.20, page 33)

3. Harder Terms, Differentiated by Country Group

Q.41 What is the extent of hardening IDA terms needed to induce US support for substantial allocation to India and China? (Germany)

Q.42 Should the differentiation of terms be applied to India and China only or all blend countries? What is the criteria to categorize countries to which harder terms will be applied? (Nordics, United Kingdom)

Q.43 Should we assume that a hardening of blend through an increase in IBRD lending would encounter the same kind of constraints, that is, ceiling on the IBRD loans outstanding to individual borrowrs, which the Third Window concept is likely to encounter? (para.4.25, 4.52, p.35, p.47)

Q.44 The Mid-Term Review paper explains (in paragraph 4.29) that under the hardest combination of terms shown, a 35 year maturity for all borrowers coupled with a 5% interest rate for blend countries (on a 30-year maturity loan), reflows of interest and capital exceed the size of the original replenishment by the 26th year. While it is true on nominal terms, would it mean a smaller amount than the size of the original replenishment on real terms? (para.4.29, p.37)

Q.45 What is the grant element of an IBRD loan? (para.4.30, p.39)

4. Differentiation of Terms by Type of Projects

Q.46 Differentiation of terms by type of projects seems to have advantage over differentiation of terms by country, because the latter would involve more political argument and differentiation according to the life of the project may be more attractive from the viewpoint of the U.S. than country differentiation. Should this option be further studied by the management? (Italy)

5. Third Window

Q.47 What country provided contribution to the 1976 Third Window and what country did not? (para. 4.02, p.26)

Q.48 Why did major donor countries such as the United States, Germany and Japan not provide funding to the 1976 Third Window? (para.4.02, p.26)

Q.49 Were there any eligibility and/or allocation criteria for the 1976 Third Window? (para.4.02, p.28)

Q.50 What does the difference between the present value of cost to donors and present value of benefits to blend borrowers in the Table 4.9 stand for? (para.4.50, p.45)

Q.51 Why could it take between $1.3 billion and $1.5 billion in new commitment through ISA mechanism to yield the same grant equivalent as $1 billion of IDA loans on harder terms? (para.4.51, p.48)

Q.52 Why is the present status of IBRD loans outstanding to individual borrowers? What is the projection of IBRD loans outstanding to India and China? (para.4.52, p.47)

Q.1 What is your projection on the schedule of IDA8 negotiation? Do you think it is possible to obtain, at the Seoul meeting, firm commitment of donor countries to begin IDA8 negotiations in the spring of 1986? (Germany)

Answer: An agreement on the IDA8 should be finalized before the end of CY86 so that donor countries, including the US, whose aggregate share in IDA7 amounts to over 50% would be able to make formal notifications of IDA8 before the end of October 1987. Some European countries (Germany, France, Italy, Netherlands and Belgium) and Canada would not be able to deposit formal notification in 1987 (Attachment I).

It is likely that we will not be able to have meaningful discussion on the size and burden-sharing of IDA8 until the summer of 1986 in view of the consultation of the U.S. Administration with the Congress that would likely take place in late June or September 1986.

Whether the negotiation of IDA8 should start in January (or February) or in April (at the time of the Development Committee) would be contingent upon the outcome of the IDA Deputies meeting in Seoul. If there would be substantial issues to be discussed in IDA Deputies meeting, the negotiation should start in January (or February); otherwise in April. In any event, from our informal consultation with major donor countries we are quite hopeful that a firm commitment can be made by IDA Deputies to start the IDA8 negotiation in the spring of 1986. (For past IDA Deputies meetings, please refer to Attachment II).

It is our intention to limit the number of meeting as few as possible, and in any event, not more than four. With these perspective in mind a tentative schedule for the IDA8 negotiation meeting is set out below:

Date		Focal Topics
January (or February),	1986	Topic(s) proposed in the meeting on the Mid-Term Review
May	1986	Size and Burden Sharing
September	1986	IDA8 Resolution
(November-December	1986	IDA8 Resolution, Outstanding Issues)

ATTACHMENT I

Fiscal Year of Major IDA Donors

Fiscal Year	Country	Share of IDA7 (%)	
October (X - 1) - September X	United States	25.00	28.50
	Saudi Arabia a/	3.50 b/	28.50
April X - March (X + 1)	Japan	18.70	
	United Kingdom	6.70	
	Canada	4.50	
	Kuwait	0.70	
	New Zealand	0.80	30.68
January X - December X	Germany	11.50	
	France	6.60	
	Italy	4.30	
	Netherlands	3.00	
	Belgium	1.68	
	Norway	1.27	
	Denmark	1.20	
	Finland	0.70	30.25
July - June c/	Sweden	2.50	
	Australia	1.90 d/	4.40
			93.83

Note:

a/ October 15 - October 14.
b/ Share includes an extra contribution of 0.25% to reduce the unallocated gap.
c/ In these countries the terms of FY85-86 is used.
d/ Additional contribution to reduce the unallocated gap is expected.

Attachment II

IDA Deputies Meeting in the Past

		Date and Site of Deputies Meetings		Date of Board Meeting
IDA1 (July 1964 - June 1968)		No Deputies meeting. Only discussion by the Board.		9/9/1963
IDA2 (July 1968 - June 1971)	1.	Nov. 1967	The Hague	3/8/1968
	2.	Dec. 1967	London	
	3.	Feb. 1968	Washington, DC	
IDA3 (July 1971 - June 1974)	1.	Dec. 1969	Paris	7/21/1970
	2.	Mar. 1970	London	
	3.	Apr. 1970	Vienna	
	4.	May 1970	Paris	
	5.	June 1970	Washington, DC	
IDA4 (July 1974 - June 1977)	1.	Dec. 1972	Paris	11/7/1973
	2.	Mar. 1973	London	
	3.	May. 1973	Tokyo	
	4.	July 1973	Washington, DC	
	5.	Sep. 1973	Nairobi	
IDA5 (July 1977 - June 1980)	1.	Nov. 1975	Paris (Size, Allocation)	
	2.	Feb. 1976	London (Size, MOV, Voting)	
	3.	June 1976	Helsinki (Size, Burden-Sharing, Allocation)	
	4.	Oct. 1976	Kyoto (Size, Burden-Sharing, Voting)	
	5.	Jan. 1977	Kuwait (Exchange Rates, Voting, Bridging Arrangement, Draft Resolution)	
	6.	Mar. 1977	Vienna (Burden-Sharing, Draft Resolution)	
IDA6 (July 1980 - June 1983)	1.	Dec. 1978	Paris (Timetable, Size)	
	2.	Mar. 1979	Paris (Size, Burden-Sharing, Technical Matters)	
	3.	June 1979	Brussels (Size, Burden Sharing, Tech. Matters)	
	4.	Oct. 1979	Dvrobnik (Draft Resolution, Technical Matters)	
	5.	Dec. 1979	Paris (Size, Burden-Sharing, Draft Resolution)	
IDA7 (July 1984 - June 1987)	1.	Dec. 1982	Washington, DC (Timetable, Terms and Conditions)	
	2.	Feb. 1983	Paris (Eligibility and Allocations Criteria)	
	3.	Mar. 1983	Copenhagen (Burden sharing)	
	4.	July 1983	Tokyo (Size, Technical Matters)	
	5.	Sep. 1983	Washington, DC	
	6.	Dec. 1983	Paris (Size, Burden-Sharing)	
	7.	Jan. 1984	Washington, DC (Size, Burden-Sharing, Draft Res.)	

Major Meetings of MDBs

February	1986	ADF Donors Meeting (Vancouver) Dates to be determined in October.
March 24-25,	1986	IDB Annual Meeting (San Jose)
April	1986	Development Committee (Washington, DC) Dates to be determined in October.
(May 4-6)	1986	Summit Meeting (Tokyo)
May 5-7	1986	AfDB Annual Meeting (Zimbabwe)

Q.2 What is the projected disbursements from IDA over the period of FY85-88? Does it show a substantial decline from the level over the previous period, say, FY81-84? Would it indicate a decline of IDA's share in total ODA and multilateral ODA? (para.2.09, p.5, para.2.17, p.10)

Answer: The table below shows actual and projected disbursements from IDA. It shows that average disbursements from IDA over the period of FY85-88 would grow at the level of about 10% per annum. However, disbursements is projected to level off in FY89.

DISBURSEMENT (GROSS) FROM IDA, FY80-90
($ billion)

Actual						Projected				
1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1.41	1.88	2.07	2.60	2.51	2.50	3.01	3.13	3.22	3.30	2.85

COMMITMENTS FROM IDA, FY75

Financial Year										
1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1.58	1.67	1.31	2.31	3.02	3.84	3.48	2.69	3.34	3.58	3.05

Q.3 Among aid recipients whose per capita income are higher than $790 in 1983, who have received substantial amount of ODA? (para.2.17, p.10)

Answer: According to the "Geographical Distribution of Financial Flows" by DAC, the following countries have received substantial amount of ODA.

	1983 Total ODA Receipts (Net Disbursement) (US$ million)	1983 GNP a/ Per Capita (US$)	Major Donors: Countries	Major Donors: ODA Net Disbursement (US$ million)
1. Israel	1345	5320	USA	1292
2. Syria	909	1680	OPEC b/	800
3. Jordan	700	1710	OPEC	606
4. Thailand	431	810	Japan	248
5. Reunion	411	3710	France	411
6. Turkey	358	1230	USA	86
7. Martinique	299	4270	France	299
8. Peru	288	1040	USA	86
9. Costa Rica	252	1020	USA	200
10. Tunisia	195	1290	Germany	51
11. Guadaloupe	188	4330 c/	France	188
12. New Caledonia	182	7790	France	182
13. Jamaica	178	1300	USA	109
14. Polynesia (Fr.)	178	8190	France	182
15. Malaysia	177	1870	Japan	92

a/ 1983 preliminary figures by the World Bank Atlas 1985.
b/ Breakdown among OPEC is not available.
c/ 1982 figures.

Q.4 How can we assert that multilateral aid is more effective than bilateral aid and that the assistance through the IDA is more effective than other institutions? (Germany, Italy)

Answer: The advantages of multilateral development agencies which led to their creation and growth are widely acknowledged. Among these are:

-- In general they are able to sustain a comprehensive, well-informed view of overall economic and sectoral conditions in a wide array of countries. This information is widely disseminated and actively used in program and project design.

-- The multilateral agencies can give greater weight to developmental criteria in allocation of resources between and within countries since they have no national commercial or strategic interest to serve; this also helps in more efficient utilization of aid resources.

-- Some of the multilateral organizations are in a position to play a leading role in policy dialogue with recipients and in the coordination process among donors and recipients.

-- These characteristics, along with their high volume of operations, also permit some multilateral agencies to take the lead on issues and programs which are too difficult or too large for individual bilateral donors to undertake.

-- Some multilateral organizations have specialized functions which enable them to provide vital technical and related assistance based on their wide experience and high-quality international expertise.

-- Through multilateral channels donors are able to participate in major programs in many countries. This is a particular advantage for smaller donors with limited administrative resources for their assistance programs. [Source: Task Force Report on Concessional Flows]

The concessional arms of the regional development banks have made an important contribution to economic progress in the developing countries. IDA has specific strengths, however, which are related to its status as an international multilateral institution. It is able, for instance, to draw on the capacity of the Bank Group as a whole in a range of areas (particularly in the research and technical assistance areas). Given its size, for instance, it has the ability to engage in meaningful policy dialogue with its borrowers. Furthermore, the wide country scope of its operations means, for instance, that often successful projects in one part of the world can be implemented in another part.

Q.5 To what extent do you expect will the resource available for commitment purposes over the period of IDA7 fall short of $9.0 billion (SDR8.7 billion)? How will the management deal with the possible shortfall in commitment authority? (para.2.20, p.11)

Answer: Over the period of IDA7, the resource available for commitment purpose will fall short of $9.0 billion (SDR8.7 billion) by SDR640 million. For details please see the attachment.

IDA7 : STATUS OF CONTRIBUTIONS

	IDA7 Contributions		Value of IDA7 Contributions on August 26, 1985			IDA7 Contributions Released as of August 30, 1985		IDA7 as Agreed		
Donor	Currency of Obligation	Amount (Million)	U.S.$ (Million)	SDR (Million)	Share (%)	Notification Date	SDR (Million)	U.S.$ (Million)	SDR (Million)	Share (%)
Argentina	N. Curr.	0.24	0.30	0.29	.00			18.75	9.34	0.21
Australia	N. Curr.	200.00	140.84	135.92	1.64	11/01/84	45.31	178.52	175.38	1.98
Austria	N. Curr.	1187.28	61.26	59.12	0.71	01/21/85	19.71	61.20	57.62	0.68
Belgium	N. Curr.	8042.33	143.90	138.87	1.67			151.20	134.84	1.68
Brazil	N. Curr.	15531.41	2.27	2.19	0.03	10/26/84	0.73	22.17	14.93	0.25
Canada	N. Curr.	499.70	368.08	355.22	4.27	06/30/85	236.82	405.00	388.15	4.50
Colombia	N. Curr.	617.30	4.08	3.94	0.05			7.50	6.67	0.08
Denmark	N. Curr.	1025.40	102.30	98.73	1.19	10/05/84	65.82	108.00	96.91	1.20
Finland	N. Curr.	357.08	60.61	58.50	0.70	09/20/84	19.50	63.00	57.89	0.70
France	N. Curr.	4738.68	562.62	542.98	6.53	02/05/85	180.99	594.00	529.70	6.60
Germany	SDR	932.94	966.69	932.94	11.22	03/31/85	310.98	1035.00	932.94	11.50
Greece	N. Curr.	408.64	3.12	3.01	0.04	04/03/85	2.00	4.50	3.84	0.05
Hungary	N. Curr.	454.07	8.96	8.64	0.10	04/29/85	2.88	10.00	9.69	0.11
Iceland	N. Curr.	75.33	1.84	1.78	0.02	12/28/84	0.59	2.70	2.48	0.03
Ireland	N. Curr.	8.33	9.40	9.07	0.11			9.90	8.83	0.11
Italy	N. Curr.	611736.58	330.30	318.77	3.83			387.00	345.21	4.30
Japan	N. Curr.	402206.30	1700.30	1640.93	19.74	09/14/84	546.98	1683.00	1660.82	18.70
Korea	N. Curr.	7052.63	8.01	7.73	0.09	06/24/85	2.58	9.00	8.59	0.10
Kuwait	N. Curr.	18.38	60.97	58.84	0.71	10/31/84	19.61	63.00	60.65	0.70
Luxembourg	N. Curr.	239.36	4.28	4.13	0.05	06/18/85	1.38	4.50	4.01	0.05
Mexico	N. Curr.	1941.54	6.73	6.50	0.08	01/14/85	2.17	15.00	12.92	0.17
Netherlands	N. Curr.	797.17	256.90	247.93	2.98			270.00	242.59	3.00
New Zealand	N. Curr.	11.40	5.55	5.35	0.06			7.52	7.21	0.08
Norway	N. Curr.	845.37	103.30	99.69	1.20	09/21/84	66.46	114.30	103.18	1.27
Portugal	N. Curr.	641.90	3.88	3.75	0.05			5.25	4.57	0.06
Saudi Arabia	U.S.$	315.00	315.00	304.00	3.66	11/13/84	101.33	315.00	301.75	3.50
South Africa	N. Curr.	12.18	4.83	4.66	0.06	10/09/84	3.11	10.80	9.41	0.12
Spain	N. Curr.	6196.33	38.11	36.78	0.44	07/19/85	24.52	41.09	37.18	0.46
Sweden	N. Curr.	1757.68	213.35	205.90	2.48	09/20/84	137.27	225.00	206.86	2.50
U.A.E.	N. Curr.	218.06	59.40	57.33	0.69			59.40	57.56	0.66
United Kingdom	N. Curr.	401.52	562.73	543.08	6.53	02/26/85	362.05	603.00	544.78	6.70
United States	N. Curr.	2250	2250.00	2171.44	26.12	11/08/84	723.81	2250.00	2180.11	25.00
Venezuela	N. Curr.	182.35	12.80	12.35	0.15			15.00	13.70	0.17
Yugoslavia	N. Curr.	1484.63	5.39	5.21	0.06			15.00	11.45	0.17
Sub-total			8378.10	8085.56	97.26		2876.59	8764.30	8241.76	97.38
Unallocated			235.70	227.47	2.74			235.70	475.20	2.62
GRAND TOTAL			8613.80	8313.03	100.00		2876.59	9000.00	8716.96	100.00

FPAFS
August 30, 1985

Response of Donor Countries to IDA Request for Authorization to Commit Second Installment Payments Before November 1, 1985

Subsequent to Mr. Qureshi's memorandum of June 24, 1985, we have coordinated closely with the offices of the Executive Directors of the donor countries to answer any questions that they may have, and to stay abreast with any new developments that may arise. So far, Canada, Denmark, Greece, Norway, Spain, South Africa, Sweden, and the United Kingdom have responded favorably and have agreed to release their second tranche of IDA7 for commitments before November 1, 1985. Greek authorization (SDR 1 million) was received in July and the others (SDR 448 million) in August 1985. Responses of the other donors are as follows:

1) France

The French ED's office was concerned about the impact of the waiver on France's payment schedule. We reassured them that the payment schedule was independent of the waiver (memo of July 29, 1985 to Mr. Claude Desneux). Mr. Moulonguet of the French Finance Ministry, who was visiting Washington, was also contacted. Although the French had initially indicated their inability to release their second tranche of IDA7 due to their "parliamentary process", we have requested them to reconsider the matter.

2) Germany

So far indications from Germany are that it cannot meet our request for authorization to commit the second installment while other contributors have not yet fulfilled their obligations concerning the first installment. However, we are still trying to persuade them to release their second installment, on the basis that the delay by certain members in submitting their notifications is not the only cause of the present shortfall. Other reasons for the shortfall are exchange rate fluctuations and the tranching arrangement which results in a time lag between credit-approvals and release of commitment authority.

3) Japan

We have been in contact with their authorities and have been trying to persuade them to release their second tranche before November 1, 1985. It appears that they may release their second tranche in early September.

4) Ireland

Ireland has not yet notified IDA of its participation in IDA7 and its response to the waiver proposal is also not known.

5) Italy

Italy has not yet sent its notification of participation in IDA7. The ED's office informed us that the Italian Parliament is expected to approve Italy's participation in IDA7 in September 1985. Once legislative approval for participation in IDA7 is obtained, the Treasury could decide on the waiver of commitment restriction on the second tranche.

6) Netherlands, Yugoslavia

Netherlands has not yet notified us of its participation in IDA7. The ED's office informed us that parliament approval authorizing participation in IDA7 is not expected until October.

Yugoslavia has not responded as yet.

7) Finland, Iceland

The ED's office has sent positive recommendations to the two Governments but has not received any response as yet.

8) Australia, New Zealand and Korea

ED's office has communicated our request to the three countries but no response has been received as yet. The Australians, however, have informally indicated to us that they would be making a supplementary contribution of A$ 60 million, formal notification for which is expected in September 1985.

9) Belgium, Austria

Belgium has not notified us of its participation in IDA7. We understand, however, that parliament approval has recently been obtained and formal notification is expected shortly. Belgium's position regarding the waiver for the commitment restriction on the second tranche is still not clear.

Austria is not likely to waive the second tranche commitment restriction, because of reasons similar to those of Germany. Hungary and Luxembourg have not responded.

10) Saudi Arabia, Kuwait, and UAE

Saudi Arabia and Kuwait are not likely to waive the second tranche commitment restriction. U.A.E., which has not yet notified of its participation in IDA7, is also not likely to react positively to the waiver proposal. The Saudi Minister of Finance had requested additional information regarding the reasons for the present shortfall. We assisted the ED's office in preparing a telex reply to the Minister explaining the reasons for the shortfall.

11) Brazil, Colombia, and Mexico: No response received.

FPAFS
8/30/85

IDA COMMITMENT AUTHORITY PROJECTION

(SDR Million)

	Actual		Projection				
	07/31/85	08/30/85	10/31/85	12/31/85	03/31/86	06/30/86	06/30/87
Resources Made Available !a	2,658	3,105	3,693	5,659	5,659	5,659	8,355
Transfer From FY84 IBRD Net Income	96	96	96	96	96	96	96
Transfer From FY85 IBRD Net Income			144	144	144	144	144
Transfer From FY86 IBRD Net Income							144
Total Commitment Authority Made Available	2,754	3,201	3,933	5,899	5,899	5,899	8,739
Less: IDA Deficit in 2nd half of FY85	31	31	31	31	31	31	31
IDA Deficit in FY86	4	7	14	21	32	42	42
IDA Deficit in FY87							34
Total Authority Available for Commitment	2,719	3,163	3,888	5,847	5,836	5,826	8,632
Less: FY85 Credits Approved "Unconditionally"	2,157	2,175	3,047	3,047	3,047	3,047	3,047
Less: FY86 Credits Approved "Unconditionally"		13	805	1530	2197	2197	3,036
Less: FY87 Credits Approved "Unconditionally"							2,549
Balance Available for Priority Projects	562	975	36	1,270	592	582	0
Less: FY85 Credits Approved "Conditionally"	890	872	0	0	0	0	0
FY86 Credits Approved "Conditionally"	373	390	0	0	0	839	0
FY87 Credits Approved "Conditionally"							640
Surplus (Shortfall) in Commitment Authority	(701)	(287)	36	1,270	592	(257)	(640)

!a At August 26, 1985 exchange rates; including SDR 150.3 million from IDA6, and SDR 77.8 million from FY84 Account; and assuming Australia will make a supplementary contribution of A$ 60 million in September 1985.

FPAFS
August 30, 1985

Q.6 What are the amounts of other resources for commitment during 1985-87, namely, a carryover from FY84, the United States' last payment of its IDA6 contribution, a transfer of IBRD FY84 net income, the proposed transfer from FY84 net income and possible transfers from net income in future years? (para.2.21, p.11-12)

Answer: The following amounts of resources would be available for commitment during 1985-87 in addition to resources provided by the IDA Seventh Replenishment.

Item	Amount (SDR milliion)
Carryover from FY84	77.8
US last payment to IDA6	150.3
Transfer of IBRD net income:	
FY84	96.0
FY85	144.0 a/
FY86	144.0 a/ b/
Total	612.1

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a/ Subject to Board approval.

b/ Subject to change due to the exchange rate development.

Q.7 What were the criteria in cutting back the IDA lending plan from the one based on $12 billion IDA7 to the one based on $9 billion IDA7? In this regard, what is the rationale for reducing planned IDA lending to India and China most seriously? Would it imply that there have been less priority operations in these countries? (para.2.19, p.11)

Answer: Since Sub-Saharan Africa is considered the most severely affected region during the economic environment of the past decade, the Bank Group has attached top priority to that region as far as its lending for rehabilitation, and economic reforms and adjustments are concerned. As a result, IDA lending was maintained as planned for Africa. China is a relatively new Bank Group member. In order to build up a lending program leading to a certain desirable IBRD/IDA blend to China no reduction in planned lending could be accommodated there. In the end it was India, traditionally the largest IDA recipient, where planned IDA lending had to be reduced significantly. However, there were no less priority operations in any of the IDA recipient countries including India. In fact, for India, it was decided that, since there was still room for expanding IBRD lending in the foreseeable future, it be allocated increased IBRD lending in order to keep total Bank Group lending to the country at the previously planned levels.

Q.8 Would the fact that management has cut back IDA lending to industry, telecommunications, transportations and energy sectors due to the reduced size of IDA7 indicate the management's judgement that projects in these sectors are more suited to less concessional funding due to their financial returns? Don't you think this would support the idea of introducing a differentiation of terms by types of projects? (para. 2.19, p. 11)

<u>Answer</u> The reorientation of IDA lending towards projects which impact more directly on the poor sections of the community reflect primarily a change in perceptions of the development process. Economic development as it relates to improving the lot of the poor is recognized now to be a much more complex process than it was in the 1960s and early 1970s. The sectors like education and agriculture are now recognized as playing a pivotal role in development. It is for this reason that the share of IDA lending in more traditional lending sectors has fallen. This change in lending pattern does not therefore support the notion that lending terms should be differentiated.

Q.9 What countries in Sub-Saharan Africa have rescheduled their debt? What is the amount of debt rescheduled for these countries? (para. 2.22, p. 12)

Answer: The answer to this question can be gleaned from the table below taken from the briefing note "Adequacy of Financing in Africa".

Table I. Past and Projected Medium- and Long-term Capital Flows
($ billion)

	1980–83 Average All SSA	1984 All SSA	1985–87 Average All SSA
Gross disbursements	17.3	13.9	15.2
Official	10.6	10.1	
Concessional	7.4	7.2[a]	
Nonconcessional	1.9	1.9[b]	
IMF	1.4	1.0	
Private	6.7	3.8[c]	
Amortization	3.5	4.2	7.5
Official	1.0	1.6	
Concessional	0.2	0.3[f]	
Nonconcessional	0.5	0.8	
IMF	0.3	0.5	
Private	2.5	2.6[c]	
Net Capital Flows	13.8	9.7	7.7
Official	9.6	8.5	
Concessional	7.2	6.9	
Nonconcessional	1.3	1.1	
IMF	1.1	0.5	
Private	4.2	1.2[c]	
Interest Payments	2.8	3.5[d]	3.1[f]
Official	0.7	1.3[d]	
Concessional	0.2	-	
Nonconcessional	0.5	-	
IMF	0.28	0.5[d]	
Private	1.8	2.1[d]	
Net Transfer	11.0	6.2[f]	4.6[f]
Official	8.9	7.2	
Concessional	7.0	6.9	
Nonconcessional	0.8	1.1	
IMF	0.8	0.0	
Private	2.4	-0.9	

Notes: Totals may not add because of rounding. Includes Food Aid and grants.
a. Based on estimated 1.4% nominal increase in ODA.
b. Projected from pipeline plus 20%.
c. Projected from pipeline.
d. Figures for 1984 World Debt Tables, 1984/85, and Estimates.
e. For details see Table 3.8
f. Estimates

Source: SOA, OECD, IMF

Q.10 Table 2.2 shows that net transfer from IDA to pure IDA countries in Africa declined from $402 million in 1982 to $363 million in 1983. What is the main reason for such a decline? (para. 2.23, p. 12)

<u>Answer</u> The bulk of the decline results from a change in private capital flows, mostly to Nigeria. Flows from the IMF and other official sources are also declining. The decline results primarily from a fall in gross flows compounded by a marked increase in amortization. The table below illustrates in detail the movements in the underlying factors affecting net transfers.

Table F. <u>Multilateral Debt Renegotiations, by Country, 1975-85</u>
(US$ millions)

Sub-Saharan Africa	Number of Reschedulings	1975-1980		1981		1982		1983		1984			1985	
		Paris Club	Commer. banks	Paris Club	Commer. banks	Paris Club	Commer. banks	Paris Club	Commer. banks	Paris Club	Commer. banks	Commer. banks agreed in princ.	Paris Club	Commer. banks
Zaire	7	1594	402	574	.			(1317)					(375)	
Malawi	3					24		(30)	59					
Uganda	2			(56)		(22)								
Niger	3							33		(22)	28			
Somalia	1												(100)	
Central African Rep.	2			55				(13)						
Togo	6	170	68	(92)				114	74	(55)				
Madagascar	5			142		103				(120)	(195)		(120)	
Sierra Leone	4	68								88		(25)		
Sudan	5	373			638	174		502		(245)				
Mozambique	1									(200)				
Senegal	5			77		84		64			(97)		(85)	
Liberia	6	30		25			27	18		(17)		(71)		
Mauritania	1												(72)	
Zambia	3							(285)		(150)		(75)		
Ivory Coast	2									(153)	(306)			
Nigeria	1								(1920)					
Gabon	1	105[a]												
TOTALS	58	2340	470	1021	638	407	27	2376	2053	1050	626	171	752	

Notes: Data cover arrangements signed through May 31, 1985 plus commercial bank reschedulings agreed in principle but not signed through December 31.
Figures indicate renegotiated amounts as reported by the countries, or if in parenthesis, as estimated by staff members.
a. Denotes an agreement of a special task force.

Q.11 What is the status of proposals to reactivate the IMF Trust Fund? What is the outlook on the possibility that such a proposal will increase net transfer to Sub-Saharan African countries? (para. 2.24, p. 12)

<u>Answer</u> The IMF Trust Fund is currently under review at the IMF Board. Trust Fund lending to SSA can help fill the financing gap. It can also play a catalytic role for other lenders. SDR 2.7 billion is expected to be available and it is proposed that it be lent again at terms of 10-year maturity, 0.5% interest and 5.5 years grace. The Trust Fund loans require less conditionality (First tranche conditionality) than normal fund programs and are designed for countries in balance of payments need. No decision has been taken yet on allocation and so it is unclear how much will be available for SSA specifically.

Q.12 What do you project would be the level of ODA to Sub-Saharan African countries necessary to maintain their import and investment at 1980-83 levels in real terms during 1985-1987? (para.2.24, p.12)

Answer: According to the "Joint Program of Action" at a minimum, net capital flows to Sub-Saharan Africa should be kept at their 1980-82 level in real terms, if there is to be any prospect of adequately supporting Sub-Saharan African countries undertaking the necessary policy reforms and restructuring their development and investment programs. The Program projects that, if bilateral donors can be expected to roll over about half the amortization due to Sub-Saharan African countries, about $2 billion additional bilateral and multilateral disbursements will be required over the existing commitment authority of donor agencies.

Q.13 On what basis did the management judge that India's creditworthiness was enhanced, when it decided to harden blends in India significantly in recent years? (para. 3.05, p. 15)

<u>Answer</u> With substantial industrial base and a very low level of external indebtedness, India appeared an attractive lending proposition for the private capital markets. Given that the private markets were prepared to lend substantial sums to India, it was clear that the country was perceived as being creditworthy. India was also considered creditworthy, on the same grounds, for a larger volume of IBRD lending.

Q.14 The Mid-Term Review paper refers to the cap that were applied to India, Pakistan and China. What are other countries who were subject to such a cap in the past? (para.3.08, p.15)

Answer: Capping was applied to Indonesia and Bangladesh, in addition to India, Pakistan and China. The history of capping is as follows:

	India (%)	Pakistan (%)	Indonesia (%)	Bangladesh (%)	China (%)	Total (%)
FY68 a/	45	16	-	-	-	61
FY69-71 b/ (IDA2)	40	12	-	-	-	52
FY73 c/ (IDA3)	40	5	11	6	-	66
FY75-77 d/ (IDA4)	40	-	-	-	-	40
FY80-83 e/ (IDA6)	40	-	-	-	-	40

a/ President's Memorandum on the Review of IDA Policies, dated June 24, 1968.
b/ Chairman's statement on Discussion of IDA Policies at the Meeting of Financial Policy Committee, July 23, 1968 (Confidential), IDA/SECM68-75, dated July 31, 1968.
c/ IDA Lending Policies, IDA/R73-7, dated February 7, 1973.
d/ IDA Allocations Criteria, IDA/R77-72(Rev), dated July 8, 1977.
e/ Stretching IDA Resources, Mr. Ernest Stern's memorandum to Mr. D. Joseph Wood, dated October 30, 1980.
f/ In the IDA7 negotiation it was concluded that a realistic maximum would need to be placed on lending to India and China, while no specific figure for such a ceiling was agreed. See, Additions to IDA Resources: Seventh Replenishment, IDA/R84-513, dated May 22, 1984.

Q.15 Table 3.1 of the Mid-Term Review paper shows that the allocation of IDA funds for technical assistance will account for less share in the total IDA operation during the period FY85-87 than during FY81-84. What is the reason for such reduction? Would this go against the frequently publicized emphasis on technical assistance in total IDA operations? (para.3.15, p.17)

Answer: As in the past, the largest element of technical assistance was that financed under the lending program, and particularly as a component of loans for other purposes. More than 90 percent of loans and credits now have some provision of technical assistance. As experience in the development process deepened, the Bank increasingly focus on addressing issues of macroeconomic and sectoral policies and to include institutional development concerns crucial to the success of investments. An increasing number of borrowrs, on the other hand, improved the ability to prepare, appraise and supervise individual projects, and this made possible a significant increase in sector lending and loans to financial intermediaries. More recently, the Bank has introduced structural adjustment and sector adjustment lending in support of broad gauged policy changes.

Along this line of development, it is expected that free-standing technical assistance will become less as technical assistance will be increasingly incorporated into a component of loans for other purposes. What can be observed in the Table 3.1 is a sign of such development.

Q.16 What do you think about the possibility that too much emphasis on performance criteria might satisfy the U.S. but weaken support among others such as Nordics? (Germany)

Answer: Our informal consultations with major donor countries have revealed that most of them support the increased emphasis on performance criteria.1/ While some Nordic countries have expressed their concern about too much emphasis on performance criteria, the need to focus on recipients' policy is increasingly felt in Nordic countries.

1/ Specifically, the United States, Japan, Germany, the United Kingdom, France, Italy, the Netherlands and, with certain condition, Finland.

Q.17 What is your prospect for increasing the share of Sub-Saharan Africa to the IDA allocation to about 50%? (France)

Answer: At this moment it is difficult to talk about specific shares of certain country groups in the total IDA allocation. It should be noted, however, that, while majority of donors support increased focus on Sub-Saharan African countries, informal discussions with other donors have revealed that few of these countries favor sharp reductions in the shares of India and China. Similarly, in its final report the Task Force on Concessional Aid Flows has stated that it is neither feasible nor desirable to squeeze much more from IDA recipients in order to benefit others.

Q.18 What are the views of major donor countries on the proposal to integrate the African Facility and IDA? (France)

Answer: There are complicated problems associated with any formal integration of the African Facility and IDA and therefore it may be most appropriate to let the African Facility expire and take into account Africa Facility commitments in the first year of IDA8 allocations. We have said publicly that we would not seek an extension of the African Facility.

Not many donors have expressed this position on this issue. So far only France and the Netherlands want to integrate the African Facility as IDA in some form or other so that IDA allocation to Sub-Saharan Africa would be maintained or increased.

The French strongly supported an increased share for Africa, perhaps to about 50%; the French would welcome Mr. Qureshi's proposal to integrate IDA and the African Facility.

It was the view of the United Kingdom that trying to integrate formally the African Facility and IDA8 would likely be too complicated, and we should leave well enough alone.

Italy told us that it would be best to simply let the African Facility expire without formally integrating it with IDA.

According to the Dutch authorities there is strong political support for aid to Africa. Therefore, if the African Facility is terminated, it would be important to fully justify this to the Dutch Parliament, and this would mean fully compensating for the loss of the African Facility by an appropriate increase in Africa's allocation from IDA8 in terms of the total dollar value of the allocation to Africa and not merely Africa's share in IDA."

Q.19 Allocations for the African Facility may be taken into account to deciding Africa's share in the first year of IDA8. What is your view on this point? (Italy)

Answer: While the issue should be discussed by donor countries, we believe that it may be most appropriate to let the African Facility expire and take into African Facility commitments in the first year of IDA8 allocations. It is our hope, however, that more attention be paid to the adequacy of total dollar value of the allocation to Africa than the share of Sub-Saharan African countries.

Q.20 What is the position of the U.S. on IDA allocation to India and China? What is the pace of change with respect to India and China required to induce substantial U.S. participation in IDA8? (Germany)

Answer: In view of the reduction in India's share in IDA credits from 40 percent over the period of IDA5 (FY78-80) to 28 percent in FY84 and 22 percent over the period of IDA7 (FY85-87), the U.S. seems more sympathetic to maintaining a reasonable allocation for India. It is noteworthy that political perceptions of India have improved in the US in recent months. While it maintains less positive position towards IDA allocation to China, it also indicates that IDA must remain a global institution in order to maintain any appeal with Congress.

So far the U.S. authorities have not indicated specific shares of India and China in the IDA8. Similarly, we have received no signal from the U.S. on the pace of change with respect to India and China required to induce substantial U.S. participation in IDA8. It should be noted, however, that on May 16, 1985 Secretary Baker stated before the House Subcommittee on Foreign Operations of the Committee on Appropriations that while India had been receiving a full 40 percent of all IDA credits, India's share dropped to 28.0 percent by FY84 and was expected to decline further during IDA7. In his remarks circulated in February 1984, Congressman Jack Kemp argued that India's share in IDA7 should be no more than 15 percent and questioned the IDA lending to China.

Q.21 How has the blended grant element been changed for China? (para.3.25, p.20)

Answer: The blended grant element for China has changed from 39% in FY81 to 31% in FY85.

Q.22 What are the ten blend countries other than India and China? (para.3.26, p.20)

Answer: The ten countries other than India and China are: Bolivia, Guyana, Kenya, Malawi, Pakistan, Sri Lanka, Yemen A.R., Zambia, Lesotho and Mauritania.

Note:

(1) Mr. Husain's memorandum to Mr. Yamaguchi of May 10, 1985 specifies ten blend countries including China and India. The difference from the above list are Lesotho and Mauritania that are designated as IDA countries in the memorandum.

(2) IMF paper entitled "Use of Resources of the Special Disbursement Account Arising from Termination of the Trust Fund - Preliminary Considerations" lists seven countries as blend. The difference from above memorandum is Yemen A.R., Bolivia and Guyana, who are classified as IDA in the IMF paper.

Q.23 What are domestic savings ratios of India and China? (para.3.27, p.20)

Answer: India's domestic savings ratio averaged 22-33% during the past five years upto 1984, while its domestic investment averaged 24-25% of GDP. China's domestic savings ratio averaged 29-30% of GDP during.

Q.24 What is the level of current ODA flows to India by source of funds? (Germany)

Answer: According to the "Geographical Distribution of Financial Flows" by DAC, the level of current ODA flows (net disbursement base, in CY83) to India by source of funds is as follows:

	Amount (US$ million)	Share of Total %
DAC bilateral	725	42
Of which: United Kingdom	145	8
Germany	140	8
Japan	130	8
Multilateral	1127	66
Of which: IDA	899	52
EEC	80	5
OPEC	-133	-8
Total	1720	100

Q.25 Why would it be impossible to finance the domestic investment required to generate greater resources in India and China on wholly IBRD terms? (para.3.27, p.20)

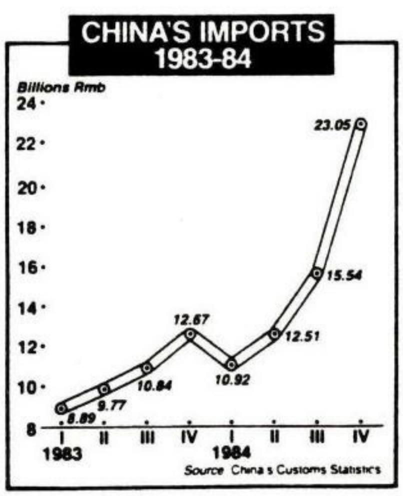
Answer: It would not be impossible in the short-run to provide more lending to India and China on IBRD terms. Moreover, IBRD lending is subject to financial prudence which would require it to take into account not only the need for portfolio diversification but also the limitation on its loan portfolio in any single country. Therefore, unless these countries reach such a stage that their development and creditworthiness enables the IBRD to include their IBRD loans of reasonable size in the loan sales program, lending to them cannot be expanded once portfolio limits there are reached.

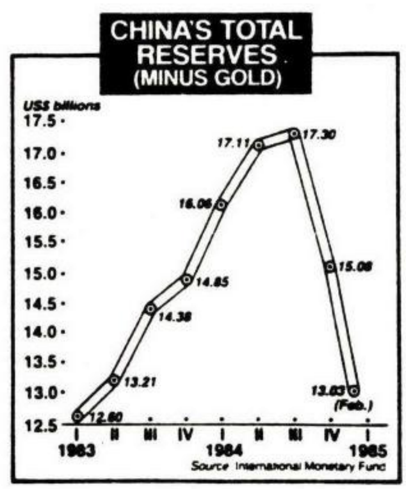
Q.26 To what extent has China's external position eroded recently?

Answer As the charts below illustrate, there has recently been a sharp increase in China's imports. This in turn has led to a fall in China's total foreign reserves.

Symptoms of macroeconomic instability are most striking in China's external accounts. After two years of large current account surpluses, the balance of payments situation deteriorated markedly in late 1984, and China appears to be headed toward a significant current account deficit in 1985. The 1984 current account surplus (estimated at $2.0 billion) was less than half that of 1983 ($4.4 billion), with most of the decline occurring in the last part of the year. In the first half of 1985 a merchandise trade deficit of $6.4 billion was reported, implying a current account deficit in the range of about $5 billion. During the last few months of 1984 and first part of 1985, China's foreign exchange reserves dropped sharply at a rate of roughly US$1 billion per month, from a peak of $17 billion (not including gold) in May-October 1984 to $12 billion in March 1985. In April the situation stabilized somewhat, but the large trade deficit in the first half of 1985 suggests that there may have been further declines in reserve subsequently.

Trade deficits have been caused primarily by a sharp increase in imports; exports continued to grow substantially in 1984 (18%) though they stagnated in the first half of 1985. Imports, on the other hand, increased by about 29% in 1984 and by a spectacular 50% in the first half of 1985. The increase in imports was basically across-the-board; among the main imported commodities, only grain and cotton saw significant declines in 1984. The biggest increases were in machinery and transport equipment, including both consumer goods like TVs and capital goods like office equipment. But there were also large increases for other commodities, such as iron and steel (up were also large increases for other commodities, such as iron and steel (up 34% in tonnage in 1984). The bulk of the absolute increase in imports was accounted for by capital goods rather than consumer goods.





Q.27 Could you provide a table that shows Bank Group lending to India and China by sector and by source of funds (IBRD & IDA)? (para.3.32, p.22)

Answer:

Bank Group Lending to India & China, FY83-85
(% of lending)

	India			China		
Sector	All Funds	IDA Credits	IBRD Loans	All Funds	IDA Credits	IBRD Loans
Agriculture	28	63	6	16	38	3
Education & PHN	1	3	0	17	41	3
Urban & Water	6	15	1	3	8	0
Rural & Social Sectors	35	81	7	35	86	6
Industry & DFCs	7	0	11	12	10	14
Energy	43	11	61	28	0	45
Transport	16	7	21	24	3	36
Commercial Sectors	65	18	93	65	13	94
Non-project & TA	0	0	0	0	1	0
Total	100	100	100	100	100	100

Note: The figure for India cited in the Mid-Term Review Paper--65%--should be corrected to 81%.

Q.28 Can IDA credits to Sub-Saharan Africa be maintained over the period of IDA8 at the level of the aggregate amount of IDA lending over the IDA7 and lending by the African Facility? (para.3.45, p.25)

Answer: This question inevitably relates to the size of IDA8. It is our hope, of course, that the amount of IDA credits to Sub-Saharan African countries under IDA8 would exceed the level provided by both IDA7 and the African Facility.

	FY85	FY86	FY87	FY85-87	FY88
IDA	1,109	1,079	1,224	3,412	n.a.
African Facility a/	0	609	362	971	362
Total to Africa	1,109	1,688	1,586	4,383	n.a.
Total IDA Credits	3,047	3,036	3,189	9,270	n.a.

Memo: Total credits to Sub-Saharan African countries account for 43% of the aggregate amount of IDA and the African Facility if only African Facility credits in FY86 and FY87 are taken into account. They account for 45% if total amount of African Facility credits over the period of FY85-88 are taken into account.

a/ It is presumed that the size of the African Facility could be about SDR1,333 million (based on the exchange rate of August 28, 1985), including the Special Joint Financing for Japan over three years of SDR213.6 million.

Q.29 What is the position of the United States and other major donor countries on the issue of restructuring IDA's terms? (United Kingdom)

Answer: In the recent consultation mission to Europe our perception was that most donors would prefer to leave IDA's terms unchanged. In the course of negotiations, however, some donors may be prepared to give way on some points of restructuring, in order to keep the United States on board. The United Kingdom and France stated that they could accept shorter maturities. It is expected that Japan, Germany and Canada would go along with this. The United States is interested in both shortening maturities and adding an interest rate. It is also keen on differentiating by project. Canada was interested in establishing a Third Window but no other donors are in favor.

Q.30 What were the level of market interest rates on average over the last ten years and during the previous ten? (para.4.05, p.27)

Answer: London interbank offer rate (LIBOR) to which a certain spread is added for Eurocurrency lending averaged 6.6% during 1963-73. The average LIBOR for 1974-84 period was 10.8%. The average spread over LIBOR charged to the developing countries during 1974-84 was 1.31 and there are indications that the average spread over LIBOR charged to developing countries was also lower during 1963-73.

Q.31 DAC has encouraged its member countries to provide bilateral assistance to the poorest developing countries on a grant basis. Would a hardening of terms of IDA credits go against this direction? (para.4.06, p.27)

Answer: Yes.

Q.32 What are the countries who have already graduated from IDA but still have outstanding IDA credits? (para.4.07, p.27)

Answer As of June 30, 1985 IDA credits of $2,244 million are outstanding at 27 countries who have graduated from IDA. Egypt has the largest amount of IDA credits outstanding of $771 million (34% of the total), followed by Cameroon ($225 million) and Turkey ($179 million). please refer to Attachment I.

Attachment I

OUTSTANDING CREDITS OF IDA GRADUATES AS OF JUNE 30, 1985

(US$ Thousand)

IDA Graduates	Development Credit Outstanding
Egypt	770,984
Cameroon	224,522
Turkey	179,227
Korea	107,976
Papua New Guinea	104,630
Thailand	100,523
Jordan	82,560
Honduras	81,280
Philippines	74,815
Tunisia	65,798
Congo	64,287
Nicaragua	58,728
Paraguay	46,241
Morocco	42,938
Nigeria	35,268
Ecuador	35,104
Zimbabwe	27,121
El Salvador	25,994
Dominican Republic	21,348
Mauritius	19,903
Colombia	18,365
Chile	18,009
Botswana	15,015
Swaziland	7,628
Ivory Coast	7,350
Costa Rica	4,285
Dominica	3,993
Total	2,243,892

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Q.33 Could you explain the "administrative complexity and general unworkableness" cited in the Mid-Term Review paper as grounds of rejecting a "trigger" mechanism? (para.4.07, p.27)

Answer: Agreement on the terms and conditions of IDA credits is an essential part of the credit agreement between the Association and a borrower. A "trigger" mechanism requires changes in such an agreement. Accordingly, even if a "trigger" mechanism would be agreed by donor countries, or even by the Board, changing terms and conditions of a specific IDA credit would necessitate a new agreement with the recipient on changing terms. Unless individual recipients would agree to the change of terms and condition, practically, a "trigger" mechanism would be unworkable. It should be further noted that it would be extremely difficult to arrive at an agreement on a specific criterion which would be applied in order to trigger the change of terms.

Q.34 When do you project would the repayment to IDA become a significant substitute for replenishment of IDA's resources? (para.4.08, p.28)

Answer: Repayments to IDA over the FY84-91 are earmarked to finance IDA's operating deficits in the FY84-87 period and IDA4/IDA5 shortfall in FY87-91. Projected IDA repayment over the period of FY92-95 is about $400 million per annum. Without a speicified size of IDA8 it is impossible to project the amount of repayments to IDA beyond FY99.

PROJECTED IDA REPAYMENTS
(US$ million)

Fiscal Year	Annual Repayment a/	"Pre-empted" Repayments b/	"Free" Repayments
1986	121	121	
1987	158	158	
1988	160	160	
1989	190	190	
1990	228	228	
1991	278	278	
1992	319		319
1993	363		363
1994	422		422
1995	478		478
Total	2,717	1,135	1,582

a/ Includes maturities of approved development credits under IDA1 to IDA5, IDA6, FY84 Account and IDA7.

b/ Earmarked to finance projected operating deficits and IDA5 cash shortfalls.

Q.35 What is the development of the proposal on changing terms in the negotiation of regional banks such as ADB and IDB? (Nordics)

Answer: The management of ADB and IDB has not made any proposal on changing terms. In the meantime, a proposal on changing terms has been put forward in the ADF negotiation by the United States. In the meeting of the Fourth Replenishment of the ADF (ADFV) in June 1985, Mr. James Conrow, Deputy Assistant Secretary of Treasury for Developing Nations, stated that the United States would like to see the effects on the Bank's reflows over a twenty year period of hardening the terms to, say, 3-4 percent interest during the grace period and 5-7 percent thereafter as well as a shortening of the grace period from 10 years to 7 years and the repayment period reduced from 40 years to 25 years.

Q.36 What are the assumptions for the blended lending rate of around 7.2% at present? (para.4.13, p.28)

Answer: As is mentioned in the paragraph 4.30 of the Mid-Term Review paper, with a 30% blend (the projected average for FY85-87), the blended interest rate is 7.2%. The shares of IDA credits in the Bank Group's lending to blend countries over the period of FY81-84 are as follows.

	FY81	FY82	FY83	FY84
Share of IDA credits in Bank Group lending to blend countries (%)	52.6	45.5	45.1	40.2

Q.37 Why have the years of 8 years, 17 years, and 26 years been chosen in examining the cumulative volume of reflows? (para.4.15, p.29)

Answer: Choosing a specific year in examining the cumulative volume of reflows is a matter of judgement. Assuming that the period which would be covered by a single future IDA replenishment would be 3 years, the cumulative volume of reflows available 8 years after the commitments for IDA8 begins would indicate the amount of financial resources potentially available for commitments for IDA11 (covers FY97-99), while volume of reflows available 17 years after and 26 years after would correspond to the amount of financial resources potentially available for commitments for IDA14 (FY2006-2008) and IDA16 (FY2012-2014), respectively.

Q.38 Could you give us projected cumulative amount of reflows by FY88 (that is, possibly the starting year of IDA8), FY91 (IDA9) and FY94 (IDA10)? (para.4.15, p.29)

Answer: Projected amounts of reflows in each fiscal year by FY94 are as follows.

Q.39 How have reflows to IDA been used? What is the amount of reflows outstanding at the end of FY85? (para.4.15, p.29)

Answer: Until FY83 repayments for IDA credits have been recommitted. In 1983 the Association's management recommended in the FY84 Budget Memorandum that a "resource fund" to cover the projected IDA4/IDA5 shortfall be built up gradually. Repayments of credits over the period of FY84-91 are one of the sources being set aside towards such a "reserve". Accordingly, at the end of FY85 there is no outstanding free reserve.

Q.40 What would be the grant elements for IDA credits with shorter maturities and higher interest costs shown in Table 4.2 if the DAC reporting method of grant elements will be used? (para.4.20, page 33)

The grant element of IDA credits with maturity of 25 years, grace period of 6 years and interest rate of 5% is about 36.7% according to the DAC formula.

Q.41 What is the extent of hardening IDA terms needed to induce US support for substantial allocation to India and China? (Germany)

Answer: Informal consultations have revealed that the United States would like to see both shortening of maturities across the board and some interest charges on a selected group of IDA recipients and/or a selected types of projects. The United States would not demand for further reduction in India's share but they view that China's share of 13% is too high. It is not clear at this point to what extent hardening of terms would induce US support for substantial allocation to India and China.

Q.42 Should the differentiation of terms be applied to India and China only or all blend countries? What is the criteria to categorize countries to which harder terms will be applied? (Nordics, United Kingdom)

Answer: This is a very sensitive issue which should be decided primarily by IDA Deputies and formally by the Board of Executive Directors.

(Please note that in the Mid-Term Review paper, we use the category of "pure IDA" and "Blend", and that Mr. Manning, the alternative ED for the UK, claimed that there should be equal treatment between India and Pakistan.)

Q.43 Should we assume that a hardening of blend through an increase in IBRD lending would encounter the same kind of constraints, that is, ceiling on the IBRD loans outstanding to individual borrowrs, which the Third Window concept is likely to encounter? (para.4.25, 4.52, p.35, p.47)

Answer: Yes. (For the projection of IBRD loans outstanding to major borrowers, see Q.75)

Q.44 The Mid-Term Review paper explains (in paragraph 4.29) that under the hardest combination of terms shown, a 35 year maturity for all borrowers coupled with a 5% interest rate for blend countries (on a 30-year maturity loan), reflows of interest and capital exceed the size of the original replenishment by the 26th year. While it is true on nominal terms, would it mean a smaller amount than the size of the original replenishment on real terms? (para.4.29, p.37)

Answer: No. Theoretically, if we were to convert future reflows of interest and capital into real terms using a certain future inflation and exchange rate factor, then for comparative purposes we would also have to convert original replenishment into real terms by using the same inflation and exchange rate factor.

Q.45 What is the grant element of an IBRD loan? (para.4.30, p.39)

Answer: According to the DAC formula of calculating grant elements, the grant element of an IBRD loan with maturity of 20 years, grace period of 5 years and interest rate of 8.82% is 6.54. However, since an IBRD loan is not qualified for ODA, in the Mid-term Review paper, the grant element of an IBRD loan is assumed to be zero.

Q.46 Differentiation of terms by type of projects seems to have advantage over differentiation of terms by country, because the latter would involve more political argument and differentiation according to the life of the project may be more attractive from the viewpoint of the U.S. than country differentiation. Should this option be further studied by the management? (Italy)

Answer: A discussion of this proposal has been included in the Mid-Term Review. In principle, a shortening of maturities for projects in sectors such as energy and industry which may be worth reviewing given their relatively short paback periods, high financial returns, and foreign exchange earnings. Such differentiation could increase reflows to IDA. However, it is difficult to establish criteria for differentiation that are both objective and equivable and do not undermine countries' external financial positions, or distort their investment priorities. While there are limits to the extent to which it is desirable to harden project terms, we are studying ways in which IDA terms might be restructured that might be acceptable to the recipients.

For instance, Table 3.2 shows that about 22% of all IDA credits to pure IDA countries supported projects in energy, industry and telecommunication, while about 13% of all IDA credits to blend countries supported projects in these sectors. The concentration has been even smaller for India (11%) and China (10%). (Please note projects in telecommunications are included in the industry sector in Table 3.2)

Q.47 What country provided contribution to the 1976 Third Window and what country did not? (para. 4.02, p.26)

Answer: The following 15 countries provided contribution to the 1976 Third Window.

(Expressed in United States dollars)

Contributions

Country	Date Received	Actuarial a/ Value	Amount
Australia	8/09/76	$ 4,786,351	$ 4,942,400
Belgium	9/01/77	3,368,280	3,800,000
Canada	2/10/76	20,109,347	20,000,000
Denmark	3/11/76	3,004,794	3,000,000
France	1/14/77	18,784,808	20,104,543
Kuwait	3/22/76	20,000,000	20,000,000
Luxembourg	1/14/77	112,123	120,000
Netherlands	9/22/75	20,604,981	20,000,000
Norway	3/22/76	4,000,000	4,000,000
Qatar	1/07/76	2,021,137	2,000,000
Saudi Arabia	9/04/75	25,827,711	25,000,000
Switzerland	2/17/76	5,906,822	5,880,739
United Arab Emirates	10/21/75	5,114,177	5,000,000
United Kingdom	3/22/76	10,000,000	10,000,000
Venezuela	3/31/76	9,979,084	10,000,000
Total Contributions		$ 153,619,615	$ 153,847,682

a/ Adjusted to their acturial value as of the due date for payment (March 22, 1976).

Major donor countries who did not contribute to the 1976 Third Window are the United States, Japan, Germany, Italy and Sweden.

Q.48 Why did major donor countries such as the United States, Germany and Japan not provide funding to the 1976 Third Window? (para.4.02, p.26)

Answer: The principal reasons why major donor countries such as the United States, Japan and Germany did not participate in the 1976 Third Window are as follows:

(i) The United States even opposed to Mr. McNamara's proposal of transferring some portion of the Bank's profits to the Third Window. Mr. Simon stated that he had severe reservations on the use of Bank profits to finance the interest subsidy, and he would like to look carefully at the proposal. This reservation was consistent with the notion that the United States did not want to do anything that would jeopardize IDA. He was concerned that the Bank transfer of resources to the Third Window would be directly competitive with transfers to IDA and would be perceived in his country as such. There was also some feeling in his country in favor of the Bank transferring more of its profits to IDA each year.

(ii) Japan, while accepting the concept of intermediate terms, was skeptical of starting interest subsidy even by resorting to the outside resources for its financing.

(iii) Germany thought that under the Third Window proposal resources provided by contribution will be foregone for ever.

(iv) Sweden felt tht they could use their development funds in more effective ways than through contributions to the Third Window.

Actual distribution of Third Window loans was as follows:

Per Capita Income Level	Actual %
Up to $200	54
$201 - $375	42
Above $375	4
	100
Geographical Distribution	
India	23
Other Asia	25
Africa	43
Western Hemisphere	9
	100
Sectoral Distribution	
Agriculture	14
Rural Development	37
Power	14
Transportation	9
Urban Development	3
Tourism	4
Education	11
Population	1
Reconstruction	3
Other	4
	100

Q.49 Were there any eligibility and/or allocation criteria for the 1976 Third Window? (para.4.02, p.28)

Answer: A Board paper dated December 16, 1975 specified the following four eligibility criteria for 1976 Third Window.

(a) Poverty Criterion. Third Window loans be extended to countries with 1972 per capita income below $375 (the then IDA limit). As in the case of IDA credits, a per capita income level criterion would not entirely preclude other countries at higher levels from receiving assistance now would it guarantee assistance to those below.

(b) Performance. As in the case of both IBRD and IDA lending, Third Window loans would only be extended to those countries regarded as making reasonable development efforts in relation to the resources base and development potential of the country.

(c) Ability to Repay. Although Third Window resources would contain a substantial concessionary element, potential recipient countries must be judged able to repay the loans on intermediate terms, taking account of the deterioration of their terms of trade and other factors affecting their long-run capacity to repay loans in foreign exchange.

(d) Access to Alternative Sources of Capital. Given the limited resources likely to be available, it would also seem relevant to take into account the access of a country to alternative sources of capital. Thus, even if a country is eligible for Third Window loans on poverty and performance grounds and in terms of its ability to repay, it would not necessarily receive Third Window loans if it has access to alternative sources of capital on terms which are reasonable in relation to its development prospects."

In addition to these criteria, the needs of countries for assistance on concessional terms were taken into account to arrive at the following approximation of the distribution of Third window loans.

1972 per capital income	Per Cent
Less than $200	51
$200-$375	47
Greater than $375	2
Total	100

Q.50 What does the difference between the present value of cost to donors and present value of benefits to blend borrowers in the Table 4.9 stand for? (para.4.50, p.45)

Answer: It stands for repayments to IDA.

Q.51 Why could it take between \$1.3 billion and \$1.5 billion in new commitment through ISA mechanism to yield the same grant equivalent as \$1 billion of IDA loans on harder terms? (para.4.51, p.48)

Answer: The way by which figures of "between \$1.3 billion and \$1.5 billion" were arrived at is as follows:

Case I: Rate after subsidy is 3%

$$\frac{\text{Grant Equivalent of Harder IDA Terms}}{\text{Grant Equivalent of Interest Subsidy}} = \frac{290}{198} \text{ or } \frac{267}{198} = 1.46 \text{ or } 1.34$$

Case II: Rate after subsidy is 5%

$$\frac{\text{Grant Equivalent of Harder IDA Terms}}{\text{Grant Equivalent of Interest Subsidy}} = \frac{191}{129} \text{ or } \frac{175}{129} = 1.48 \text{ or } 1.36$$

Q.52 What is the present status of IBRD loans outstanding to individual borrowers? What is the projection of IBRD loans outstanding to India and China? (para.4.52, p.47)

Answer: The status and projection of IBRD loans outstanding to major borrowers is as follows:

PORTFOLIO SHARES OF MAJOR BORROWERS
(in % of total IBRD loans outstanding)

Country	Actual FY85	Projected FY88	Projected FY93	Projected FY98
Brazil	10.5	11.9	9.8	7.5
Mexico	7.9	6.5	4.8	4.6
Korea	7.4	5.3	4.0	3.7
Indonesia	6.7	7.9	8.5	8.8
Turkey	6.6	6.7	6.5	6.4
Philippines	4.8	4.8	4.2	4.3
Yugoslavia	4.5	3.7	2.0	0.8
Columbia	4.4	4.1	4.3	5.2
India	4.3	7.8	10.9	10.0
Thailand	4.3	3.9	3.1	2.8
Romania	3.5	1.6	1.0	0.6
Nigeria	2.5	2.8	4.2	6.1
China	0.6	2.6	6.9	10.0

Note: Actual FY85 figures are calculated from 1985 Bank Annual Report. Projected figures are from "1985 Review of Country Creditworthiness and Bank Loan Portfolio Issues" (Confidential) dated May 24, 1985.

REPORT OF TASK FORCE ON CONCESSIONAL FLOWS

International Development Association

FOR OFFICIAL USE ONLY

IDA/SecM85-298

FROM: Vice President and Secretary

September 25, 1985

REPORT OF THE TASK FORCE ON CONCESSIONAL FLOWS

Attached is the Report of the Task Force on Concessional Flows, which constitutes a background document for the Development Committee meeting on October 7, 1985. The Report is being circulated to IDA Deputies for their information.

Distribution

Messrs. Al-Sultan, Boehmer, Coates, Dean, de Groote, de Maulde, Draghi, Foster, Gutierrez-Castro, Haxthausen, Lankester, Potter, van Dam, Yamaguchi, and Mrs. Gonzalez

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REPORT OF THE

DEVELOPMENT COMMITTEE

TASK FORCE ON CONCESSIONAL FLOWS

August 1985
Washington, D.C.

Foreword
by
John P. Lewis, Chairman

"Concessional flows" is a synonym for official development assistance (ODA). Economic aid of this kind goes from developed to developing countries either directly, i.e., bilaterally, or through international, i.e., multilateral, institutions. It has a grant element of at least 25 percent* and is defined as being given for development-promoting purposes.

Such ODA is essentially a post-World War II phenomenon. Previously, governments of sovereign states rarely made concessional transfers to other independent states with which the donors had no juridical connection. But some three dozen governments now engage in this practice, some having done so for 35 years, many more for 20-25 years.

Development assistance, therefore, has become a major aspect of the international community's effort to promote third-world development. It has been a matter of continuing concern to the Development Committee, a ministerial committee on "the transfer of real resources to developing countries." In early 1981 a number of governments concluded that special attention should be given to concessional flows through the mechanism of a Development Committee task force. The initiative came from the Nordic countries, the Netherlands, and Canada.

The Committee had commissioned two previous task forces -- one on private foreign investment, the other on nonconcessional flows to developing countries. Each engaged in study and discussion over an extended period before reporting to the Committee. After deciding in principle at its meeting in Libreville in May 1981 that a similar exercise should be conducted with respect to concessional flows, the Committee formally established the Task Force on Concessional Flows at its May 1982 meeting in Helsinki. Eighteen countries, divided equally between industrialized and developing countries, comprised the Task Force and I, as someone not currently in governmental employ but acceptable to the members, was recruited to chair the group. **

All concerned agreed that the Task Force should draw on but not duplicate the work of OECD's Development Assistance Committee (DAC). A fact motivating the establishment of the Task Force and differentiating it from DAC was the joint participation in the Task Force of aid-supplying and aid-receiving countries -- 11 of the former, including nine DAC members and two Arab-OPEC countries, together with seven aid recipients.

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* In most ODA the grant-equivalent fraction is much higher.

** Seventeen of the eighteen members were Canada, China, Costa Rica, Dominican Republic, Finland (on behalf of the four Nordic countries), France, Germany, India, Indonesia, Japan, Kuwait, Netherlands, Saudi Arabia, Senegal, Tanzania, United Kingdom, and United States. In addition, Italy and Belgium shared representation.

I quote the terms of reference given to the Task Force by the Development Committee.

1. "The Task Force will carry forward and widen the continuing study of the problems affecting the volume and quality and effective use of concessional flows, both in the shorter and longer-term.

2. The Task Force will evaluate the effects of concessional flows in the developing countries and on international economic developments in general, bearing in mind other relevant factors.

3. The Task Force will examine:
   (a) possibilities for increasing concessional assistance to developing countries, including -- inter alia -- measures which could facilitate the approval through the budgetary processes of the appropriate levels of ODA;
   (b) possible ways and means of improving the quality of ODA;
   (c) actions which it might be appropriate to take in order to improve the effective use of concessional assistance, including measures for enhanced absorptive capacity;
   (d) the deployment of concessional flows, including the possibilities of directing an increased proportion to the low-income countries and consideration of sectoral priorities;
   (e) the complementarity between concessional assistance, other official flows and private sector involvement; and
   (f) measures designed to generate public interest in and support of development cooperation.

4. The Task Force will make appropriate arrangements to avoid duplication of efforts undertaken by other multilateral fora.

5. The Task Force will present the results of its endeavors and possible recommendations to the Development Committee."

In the three years during which the work of the Task Force was carried out, some of its principal representatives from member countries served throughout; others changed. The various participants are listed in the supporting materials to the report. The Task Force held eight meetings in the period from October 1982 to August, 1985.

The World Bank provided a secretariat headed by Mr. S. J. Burki. The secretariat, particularly Mr. Robert L. Ayres, prepared a great variety of background and issues papers, literature searches, drafts, and other materials. I am also grateful to Mr. Percy Mistry, the World Bank's representative on the Task Force, for his many contributions. The Task Force was also assisted by materials supplied by consultants it retained -- in particular, a group of experts headed by Professor Robert Cassen of the Institute of Development Studies, Sussex, on the subject of aid effectiveness. The costs of the effectiveness study, which is described in the volume of the report's supporting materials (see below), were covered by contributions from a number of the governments of the Task Force and from the World Bank.

The world has changed significantly in the three years the Task Force has been at work. Much of this time the global economy has been in recession and many developing countries have been in economic crisis. Problems of debt, drought, famine, and, in places, weakening development have darkened the developing-country scene. While the needs for ODA have been mounting, so, for many donors, have the difficulties of supplying it. Thus while the Task Force has been at work, its assignment has taken on even greater salience.

Yet our terms of reference have remained appropriate and obliged the Task Force to give consideration to three broad subjects. They are aid effectiveness, public support for aid, and aid volume.

We saw from the beginning that the three subjects are intricately interlinked. Thus there is no single logical sequence for discussing them. Volume depends importantly on public support; the latter depends in part on effectiveness; effectiveness can promote support and volume, and sometimes partly substitute for volume; a more generous supply of aid makes possible more effective operations and, with their successes, can reinforce the appreciation that both lenders and their publics have for the aid enterprise.

The report is one I view with considerable satisfaction. Not only have its inputs been worthy and extensive -- from the secretariat, the consultants, member-government agencies, and from the deliberations of the members themeselves -- but the product is also substantial and timely. It reports the most searching review of the effectiveness issue yet made by a joint recipient-donor body (a review that is candid, that recognizes failures as well as successes, and that, while assessing the past positively, emphasizes the extent to which donors and recipients share oppportunities to improve effectiveness). The Task Force goes on to a balanced examination of public and governmental support for aid in donor countries. While emphasizing the country-to-country diversity of what I sometimes call "aid politics," the report draws some lessons that seem to apply across all donors. One of these is that, while public support for aid is relatively diffuse and quiescent, there is -- as responses to the current African emergency suggest -- a potential for more enthusiastic support.

The Task Force then turns to the question of volume. It finds a probable "mismatch" between the needs for ODA, especially of the low-income countries, during the balance of the 1980's and the supplies that now seem likely from donors. In this period of budgetary constraints and ODA scarcity, most members of the Task Force have had a very real concern to find other ways to meet needs without pushing appropriated ODA above the growth path now predicted for it. Thus in the report a variety of "coping options" are carefully examined. We concluded that there is considerable potential mileage in several of them, but not enough.

Hence the Task Force concludes by asking for increased, as well as more imaginative, efforts to raise traditional appropriated ODA (including that channelled through some multilateral institutions) during the years ahead. The needs are great -- but so are the opportunities for funding major progress by recipients toward self-reliance.

This would be a strong, provocative report if it came from 18 individuals. It is even stronger as a statement unanimously adopted by a wide array of senior governmental representatives. The delegates to the Task Force deserve great credit for their efforts to find a common ground. They also share considerable enthusiasm for the persuasiveness of their common case.

It took all of our meeting time to achieve full consensus on the language of the present report, which sets forth a number of briefly argued conclusions. However, much more extensive materials were prepared in the course of reaching these conclusions. They could be brought fully into line with the conclusions only after the final meeting of the Task Force, and it has not been possible, therefore, to present them to the members for their approval. However, the Task Force has authorized the secretariat, under my guidance and responsibility, to organize these supporting materials into a companion volume to the present report.

On behalf of the Task Force, it remains to thank the members of its secretariat and other contributors to its work, to convey its gratitude to all of those who provided venues for its meetings, and to express the hope that the Development Committee will find this report constructive and useful.

NOTE: John P. Lewis is Professor of Economics and Public Affairs at the Woodrow Wilson School of Public and International Affairs, Princeton University. He has been a member of the U.S. President's Council of Economic Advisers, Minister-Director of USAID/India, and Chairman of the Development Assistance Committee of the Organization for Economic Cooperation and Development.

Main Conclusions of the Task Force on Concessional Flows

Aid Effectiveness

1. Most aid has been productive and helpful to development.

2. There is considerable room for improvement in the way in which aid is provided by donors and used by recipients. Effectiveness can be increased by: (i) donor policies and procedures (e.g., greater awareness of the impact of donor aid and economic policies on the development prospects of recipient countries, learning from their own experience and those of other donors); (ii) recipient actions (e.g., institutional and policy reforms); (iii) more effective dialogue, where needed, between donors and recipients on policies and actions needed to promote development; and (iv) better coordination of aid by donors and recipients.

3. There is an effectiveness case for channelling a high level of ODA through multilateral aid agencies.

4. Communicating the effectiveness of aid in meeting developmental objectives can contribute to strengthening public support for aid in both donor and recipient countries.

Public Support for Aid

5. Public support for aid varies across countries, and even within countries, at different points in time and for different forms of aid. However, available evidence suggests that, while general and diffuse, such support has not weakened in recent years. In some countries there is strong public support for aid, and in some cases this has been translated into increased ODA transfers. Support is particularly strong to alleviate poverty and respond to emergency situations.

6. Some governments have demonstrated relatively weak support for aid while others have placed aid high in their scale of priorities. In some cases governments have increased aid substantially in advance of high levels of public support for aid. If executive and legislative leaders strongly support aid, this can be expected to strengthen further the public support that exists.

7. Maintaining and strengthening public support for aid can be facilitated by more effective communication of its role in the development process and the successes that, in combination with recipients' own self-help efforts, aid has achieved. In this endeavor, development education programs and non-governmental organizations (NGO's) have major roles to play.

Volume

8. The circumstances impeding the sustained development of ODA-receiving countries require consideration of a variety of actions, including an increase in ODA flows. Such actions are needed to support the extraordinary efforts being made by these countries.

9. Against the background of the major development challenges which ODA recipients now confront, official development assistance today is forecast to grow in real terms by only about 2% annually during the balance of this decade.

10. All concerned in both developed and developing countries should try to help ODA recipients cope with increased needs for resources by one or more of the following options:

a. increasing the effectiveness of official aid;
b. changing present country allocations of ODA;
c. concentrating the expected increments in ODA on low-income countries;
d. combining ODA with less concessional flows -- mainly "other non-concessional official flows" -- in ways which would result in a higher overall volume of external resources; and
e. supplementing ODA flows by encouraging one or more of the following:
   - increased flows of voluntary contributions (from PVO's/NGO's);
   - contributions of ODA from new donors, who should be actively encouraged to join in the ODA effort;
   - earnings from trade;
   - foreign private investment.

Each of these options was examined carefully by the Task Force.

11. Although aid effectiveness should be improved under any circumstances, in practice there are clear limits to the extent to which it can substitute for increases in volume. Indeed, there can be complementarity between increased effectiveness and increased flows of aid.

12. In considering prospects for the reallocation of ODA, a distinction should be drawn between:

- The possibilities for reallocation to low-income countries from other ODA recipients; and
- The possibilities for reallocation within the low-income country group.

On development grounds, reallocation of ODA to low-income countries is highly desirable and would make a major contribution to meeting their needs. But the scope for such reallocations, in practice, is likely to be limited. The possibilities for further reallocation within the group of low-income countries is also limited.

13. Concentrating increases in ODA flows on low-income countries offers interesting but limited possibilities.

14. There are various ways of combining highly concessional ODA with nonconcessional flows in order to achieve a higher volume of combined external flows to ODA-recipient countries. It was apparent that the options considered offered only limited possibilities.

15. A re-examination of "non-traditional" options for raising concessional resources outside national budgets suggests that there is no real scope for increasing ODA flows from these sources.

16. Private voluntary organizations now play an important role all over the world in providing development services. They have demonstrated their ability to raise additional resources and deploy them effectively, both during emergency situations and for long-term development. But there are inherent limitations on their financial resources.

17. Opportunities for significantly expanding private flows and earnings from trade are mainly limited to middle-income countries and a few low-income countries at the present time. Donors and recipients should be encouraged to adopt policies which would enhance the flow of these resources over the long run, although expectations about the expansion that can be achieved over the short run can only be modest.

18. A number of developing countries, many of whom have received or are receiving ODA, have become donor countries. Others should be welcomed. While ODA flows from such sources may be modest in the immediate future, such countries should be encouraged to share in the international responsibility for ODA.

19. We conclude that no single one of the measures considered above, nor any combination of them, will cope adequately with the challenge of development in the low-income countries. Since there is no escaping the need for predominant reliance on traditional, appropriated concessional assistance, donor governments should exert redoubled efforts to increase the supply of ODA as a matter of urgency.

20. For all its flaws, the aid revolution has been one of the great innovations of the second half of the twentieth century. In an increasingly interdependent global economy that is deeply fragmented politically, the practice of development assistance has raised the norms of international conduct.

Report of the Development Committee
Task Force on Concessional Flows

Introduction

0.1 The record of many developing countries over the last thirty years, based principally on their own efforts and resources, has been one of great achievement and development; in some others much less has been achieved. In the early years of official development assistance (ODA) the case for giving aid to virtually all developing countries was compelling. Poverty was endemic -- mass poverty in the poorest countries, significant pockets in those that were more advanced economically. The need to boost food production argued for substantial aid to agriculture. Domestic savings and investment, though substantial given the poverty of these countries, were still inadequate to promote long-term development.

0.2 In some respects, great progress in meeting these challenges has been made. As a group, developing countries have shown remarkable performance. Their overall growth rate has been much faster than that achieved by today's industrial countries at a comparable stage of their development. Life expectancy has risen by nearly 50% since 1950, infant mortality rates have been cut in half, literacy has more than doubled and per capita cereal production has increased by nearly one percent annually since 1970. Average per capita incomes in today's middle-income countries have risen almost 2-1/2 times in real terms over the past 30 years; many of these countries have advanced to the point where, while still classified as developing, they no longer require ODA.

0.3 And yet a staggering number of people still live in absolute poverty. For some countries food security is still an elusive goal, exacerbated by rapid population growth. Unemployment and under-employment contribute to a growing number of migrants, both within and between countries. Per capita income in low-income countries rose only by about one-half, from $150 (1980 dollars) in 1950 to $230 in 1980, a gain of only $80 per person in 30 years. For some countries, the recent world recession has has not only slowed growth, but caused per capita incomes to decline; some countries have lost a decade of growth. Thus, development is seen to be much more complex than when ODA was in its infancy.

0.4 Aid can be a powerful catalyst for constructive change, but more often than not it is but one of many factors determining development outcomes. The principal responsibility lies, as it always must, with the developing countries themselves. By mobilizing domestic resources and by adopting growth-oriented domestic policies, countries have a far more profound influence upon their development than can the resources and technical assistance provided by donors. At the same time, developing countries' growth and development are importantly affected by changes in their external environment and the availability of external flows.

0.5 With this background in mind, the Task Force on Concessional Flows has unanimously reached the following conclusions on the major issues it considered concerning aid effectiveness, public support for aid and aid volume.

Aid Effectiveness

1.0 **Most aid has been productive and helpful to development.**

1.1 We carefully examined aid's contribution to development. Based on available evidence, including that assembled by independent consultants commissioned by the Task Force, we are convinced that aid has clearly and importantly contributed to growth and development. While it has had mixed success in alleviating poverty, when properly used it has led toward self-reliance at rising levels of welfare. The evidence of many specific successes of aid programs leads us to conclude, even though it is difficult to quantify scientifically, that the overall aid record is comparable to that of many large domestic programs in industrialized countries.

1.2 Aid can claim successes in many areas; for example, in agricultural research and development, in the provision of essential physical infrastructure, and in institution-building and human resources development through health, population, education and training programs. Vast numbers of poor people have benefited from programs designed to alleviate poverty in rural and urban areas.

1.3 Aid is closely connected with bilateral donors' foreign policies. As such it is both intended to help development and to serve other objectives in donors' relationships with recipient countries. The assessment of these other non-developmental goals was beyond the scope of the Task Force. Nevertheless, the fact that in such a context aid has played a productive developmental role overall serves to emphasize its basic effectiveness.

1.4 The general conclusion that aid has effectively contributed to development should not obscure the fact that there are aid failures as well as successes. This is not surprising given the extremely difficult environment within which aid efforts are undertaken. But despite this setting, the number of failures can be reduced, and donors and recipients alike should emphasize the need to increase the effectiveness of ODA. Their aid managers owe such a concern equally to the people they seek to assist and to the taxpayers whose funds they administer.

2.0 **We concluded that there is considerable room for improvement in the way in which aid is provided by donors and used by recipients. Effectiveness can be increased by: (i) donor policies and procedures (e.g., greater awareness of the impact of donor aid and economic policies on the development prospects of recipient**

countries; learning from their own experience and those of other donors); (ii) recipient actions (e.g., institutional and policy reforms); (iii) more effective dialogue, where needed, between donors and recipients on policies and actions needed to promote development; and (iv) better coordination of aid by donors and recipients.

2.1 Donors and recipients have been learning to improve aid's effectiveness and more can be done. Experience has taught perceptive aid managers a number of ways donors can increase the desired impact of their assistance, e.g., by simplifying procedures, by being more attentive to lessons learned by other donors, and by recognizing the ways in which the donor community's non-aid (for example, trade) policies can modify aid outcomes. Certain lessons for recipients have become equally plain: external resources need to complement, not substitute for, indigenous resource raising; resources of all kinds can be swamped by bad policies; good policies can only issue from and be nurtured and implemented by sound institutional structures; and effective institutions depend on adequate human resources development.

2.2 In this connection, the consultants' report commissioned by the Task Force contains many useful conclusions and recommendations, among which the following should be highlighted:

2.3 Learning from experience requires a functioning evaluation system and an effective feedback mechanism; the establishment of a more systematic international exchange of information would be of great assistance. Donors and recipients are urged to increase their capacity to learn from their own experience and that of others; this would be helped if evaluation mechanisms were built into the design of all projects. It is, for example, particularly important, based on the experience found in evaluation reports, to pay greater attention to socio-cultural factors, including the important role of women in development. We applaud the efforts of the DAC Evaluation Experts Group to encourage greater exchange of evaluation lessons.

2.4 Reaching the poorest people is an exceedingly difficult development task but one which deserves increased attention by recipient countries and donors alike. The consultants' report suggests several measures which may help address the problem more directly (e.g., incorporating poverty impact in project design, directing a higher proportion of aid to poverty-oriented projects).

2.5 Donors should be more aware of the impact of their aid and economic policies on the development prospects of recipients. A generous ODA policy may be undermined by some donor macroeconomic policies. We are aware, for example, that trade and aid policies are frequently developed without reference to each other and urge donor governments to pay greater attention to coordinating their actions. We further note the findings of our consultants that aid tying reduces the effectiveness of many concessional transfers; we urge further attention to this problem.

2.6 Recipient attention to institutional and policy reforms is critical to aid effectiveness. The consultants' report emphasizes the importance of strengthening institutions and of adopting appropriate economic policies. One lesson which emerges clearly from a study of aid successes and failures is that distortions in a country's economic policies (agricultural pricing policies and/or exchange rates are examples in some cases) can frustrate economic development and the alleviation of poverty.

2.7 The rate of future economic development also depends in large part upon increasing the efficiency of productive sectors, strengthening physical infrastructure and improving human resources. Because many aid recipients need to revise their public investment priorities, the agencies that evaluate and choose among proposed public investments must be strengthened. This would help assure that investment decisions are consistent with priorities necessary to achieving national development objectives. Policy dialogue and donor assistance, particularly technical assistance, should continue to support improvements in these areas. Policy dialogue can only succeed where it is a truly collaborative exercise.

2.8 Aid coordination mechanisms need to continue to be strengthened. The growth of many bilateral and multilateral aid programs has created a new challenge to aid effectiveness. The multiplicity of donors and of donor projects imposes a sometimes overwhelming burden on the developing-country ministries required to coordinate them. The coverage and effectiveness of World Bank-led Consultative Groups and UNDP Roundtables need to be further enhanced; greater attention should also be given to in-country coordination. The recipient country should take the central role in such coordination, but in many cases technical assistance is needed to develop the coordination functions. Where appropriate, a leading donor, bilateral or multilateral, should be asked to assume a coordination role in a specific sector or subsector.

3.0 There is an effectiveness case for channelling a high level of ODA through multilateral aid agencies.

3.1 The advantages of multilateral development agencies which led to their creation and growth are widely acknowledged. Among these are:

- In general they are able to sustain a comprehensive, well-informed view of overall economic and sectoral conditions in a wide array of countries. This information is widely disseminated and actively used in program and project design.
- The multilateral agencies can give greater weight to developmental criteria in allocation of resources between and within countries since they have no national commercial or strategic interest to serve; this also helps in more efficient utilization of aid resources.
- Some of the multilateral organizations are in a position to play a leading role in policy dialogue with recipients and in the coordination process among donors and recipients.

- These characteristics, along with their high volume of operations, also permit some multilateral agencies to take the lead on issues and programs which are too difficult or too large for individual bilateral donors to undertake.
- Some multilateral organizations have specialized functions which enable them to provide vital technical and related assistance based on their wide experience and high-quality international expertise.
- Through multilateral channels donors are able to participate in major programs in many countries. This is a particular advantage for smaller donors with limited administrative resources for their assistance programs.

3.2 While multilateral assistance agencies have many advantages, they, like other large organizations, also have weaknesses. Positive efforts should be made to avoid the ill-effects which may arise from lack of direct accountability, resistance to change, inadequate coordination with other multilateral and bilateral donors or excessive bureaucratic concerns. Each multilateral organization should be judged on rigorous standards of effectiveness and efficiency. While these standards should relate to the specific developmental mission of each organization, criteria of effectiveness might address: project design and implementation, policy environment, use of non-governmental modes of assistance, and the like. The performance of each institution should have a direct bearing on its future levels of funding.

4.0 **Communicating the effectiveness of aid in meeting developmental objectives can contribute to strengthening public support for aid in both donor and recipient countries.**

4.1 In many cases citizens are not well informed about the nature, scope and effectiveness of a country's assistance program -- possibly thinking it is larger than it is or confusing developmental and humanitarian assistance with other foreign policy objectives. Aid failures are news. Unfortunately, aid success stories have less immediacy and, as a result, are less newsworthy. While conveying our conclusions about the effectiveness of aid may be difficult given its complexities, both donors and recipients should make strong efforts to do so. In this connection the role of development education is particularly important (see item 7 below).

Public Support for Aid

5.0 **Public support for aid varies across countries, and even within countries, at different points in time and for different forms of aid. However, available evidence suggests that, while general and diffuse, such support has not weakened in recent years. In some countries there is strong public support for aid, and in some cases this has been translated into increased ODA transfers. Support is particularly strong to alleviate poverty and respond to emergency situations.**

5.1 The politics of aid vary from country to country, and as a result lessons about the "mandate" for aid can be transferred from one donor country to another only selectively and with care. In some donor countries, publics, catalyzed by pro-aid interest groups, further the cause of development assistance with legislatures and executive leadership. In other countries, governments feel constrained by public opinion and the relative lack of strong interest-group activity on behalf of aid. The scope for initiatives of political leadership on aid is influenced by the broad framework of aid politics in particular countries.

5.2 We reviewed available evidence from various opinion surveys about aid. We found that levels of public support are generally high in donor countries and have not changed much in recent years. The support varies across countries, however, and is relatively weak in some of them. In most countries support is not well articulated; it is rather general and diffuse. While the majority of people generally say they are "in favor" of aid, opinion polls also suggest that aid ranks low in the scale of the public's priorities in many countries. While the public has a generally positive predisposition toward aid, in most countries this stops short of being a "mandate" in the usual sense of the term (in the sense, for example, that an overwhelming electoral victory is said to provide a political leader with a "mandate"). Nevertheless, obvious evidence of continuing support appears in the 1980s' growth in the amount of ODA being provided by most donors despite unfavorable domestic economic conditions.

5.3 Public expressions of support for aid in donor countries increase when the appeal is phrased in terms of humanitarian concern or the alleviation of world poverty and hunger. The recent public attention and response to the drought and famine in Sub-Saharan Africa are a particularly vivid demonstration of this. A key issue deserving greater attention is how to convert this reservoir of support into support for long-term development assistance efforts.

6.0 **Some governments have demonstrated relatively weak support for aid while others have placed aid high in their scale of priorities. In some cases governments have increased aid substantially in advance of high levels of public support for aid. If executive and legislative leaders strongly support aid, this can be expected to strengthen further the public support that exists.**

6.1 The aid level which a government can provide is a function of general public support as well as its own priorities. In general, public opinion provides the maneuvering room within which governments make their decisions. In determining what levels of aid can be provided, political leaders take into consideration economic and fiscal conditions, the priority attached to development assistance, and other governmental priorities.

6.2 Political leadership can play a major role in strengthening the mandate for aid. The priority that leadership assigns to aid is an important factor. In a number of cases, governments have sought and won public support for substantially increased aid levels. In other cases increases in aid have come about mainly through the initiatives of the interested public, aid lobbies, or political parties.

7.0 Maintaining and strengthening public support for aid can be facilitated by more effective communication of its role in the development process and the successes that, in combination with recipients' own self-help efforts, aid has achieved. In this endeavor, development education programs and non-governmental organizations (NGO's) -- or as they are sometimes called, private and voluntary organizations (PVO's) -- have major roles to play.

7.1 The essence of the challenge is to assure that the public, including the taxpayers in donor countries who are the ultimate providers of aid resources, understand the purposes of assistance, know the facts about aid, and appreciate the record of its effectiveness. Only in this manner can they make informed judgments about the priority to be accorded development assistance expenditures. Such public understanding can be enhanced by the efforts of both private and public organizations in communicating aid's important role in development.

7.2 Broadly speaking, public support for aid appears greater in countries with substantial programs of development education. We urge a strengthening of such programs. Effective programs can increase the public's awareness of the nature of interdependence between developed and developing countries, promote a better understanding of development problems, and contribute to an appreciation of the role of aid in alleviating them. Such programs should provide information and understanding about the efforts being undertaken by developing countries themselves to further their own development. They can, without infringing upon legislative constraints on official efforts, also help to assure that the electorate receives sufficient information about foreign assistance so as to avoid the obvious negative effects upon public support when opinions are based primarily upon media reports of aid failures. Strong nationwide efforts of development education exist in a number of countries and others can learn from their achievements.

7.3 There is a special scope for continuing and enhancing the active development education role of non-governmental organizations, especially those which are themselves engaged in development work overseas. We call upon both bilateral and multilateral aid agencies to work closely with these organizations in providing a better understanding of development problems and the role of aid in alleviating them.

7.4 Official aid agencies, both bilateral and multilateral, also need to communicate effectively the record of performance they have achieved. Our findings are that development assistance has been effective. We believe public agencies should be vigorous in telling the story of their record. This would help to increase support for aid.

7.5 Countries that receive aid have a role to play as well. Their publics also need to be well informed about the role of aid. Moreover, their actions to assure a timely flow of information about aid's achievements to donor governments and their publics can play an important part in increasing public support for aid in donor countries.

Volume

8.0 **The circumstances impeding the sustained development of ODA-receiving countries require consideration of a variety of actions, including an increase in ODA flows. Such actions are needed to support the extraordinary efforts being made by these countries.**

8.1 Over the past several decades, the developing countries have increased their growth rates and improved their standards of living, largely through their own efforts. For example, they have redirected their own resources to increase the portion of output going into investment from 19% in 1965 to 24% in 1983. Net inflows of foreign savings in the form of public and private concessional and nonconcessional flows have added an important but relatively small 2% to the total resources available for investment each year to the developing nations. Such inflows, however, had a much greater impact in relieving foreign exchange constraints. These averages, of course, mask considerable individual differences. While net inflows of foreign savings declined for some countries -- especially the upper middle-income countries -- they increased in Sub-Saharan Africa from 2% of domestic output in 1965 to 8% in 1983.

8.2 Taking into account the very different problems facing low-income and lower middle-income countries, we have identified four key areas for which concessional assistance is urgently needed:

-- to tackle the fundamental problems of poverty, particularly in the poorest countries. These are especially persistent, for example, in many African countries; real incomes and food production per capita have been falling and, in part due to the surge in debt-servicing requirements, net inflows of resources have been heavily eroded during the past three years, turning negative in many countries.

-- to help a variety of developing countries complete needed structural adjustments. Many countries have shown courage in pursuing difficult policy changes in recent years. To keep the pain of these adjustments within politically tolerable levels and to restore development momentum, these countries, in particular the low-income countries, need additional amounts of ODA.

-- to sustain investment and growth in low-income countries that pursue effective policies and succeed in establishing some development momentum. Development efforts and policies are not solely concerned with avoiding disaster. Some poor countries, including the two largest, China and India, have made outstanding economic progress in the past few years by combining effective policies and concessional assistance with the application of human energies. Further concessional flows to them now, in addition to being justified on humanitarian grounds, are good investments and can assist these countries to move to a position of self-sustaining growth.

-- <u>to respond to emergencies in developing countries</u> -- both natural and man-made disasters of a short-term nature and the more enduring crises currently afflicting many of the poorest countries.

8.3 In the longer term, developing countries' progress requires increased reliance on their own resources and less on external official support. We recognize that these countries must ultimately achieve self-sustaining growth without recourse to concessional finance. The time required to achieve economic "independence" will obviously vary from country to country. Developing countries should be encouraged to progress as rapidly as possible toward this end; it is equally important, however, that donor expectations be realistic about what can be achieved in the face of the daunting realities and that needed support not be withheld or curtailed prematurely.

8.4 We acknowledge that the present situation of developing countries poses a serious impediment to accelerated growth and development. Under these circumstances, stagnant or declining ODA flows threaten to weaken and, in some cases, disrupt developing countries' efforts to achieve long-term sustainable growth and, eventually, self-sufficiency. This situation calls for consideration of a variety of actions, including an increase in ODA flows.

9.0 **Against the background of the major development challenges which ODA recipients now confront, official development assistance is forecast to grow in real terms by only about 2% annually during the balance of this decade.**

9.1 Donor efforts have produced real rates of growth in ODA of 4% in the 1960's and 6% in the 1970's. As a result, ODA flows rose to over $36 billion in 1980 and 1981 but declined in the following two years, falling to $33.7 billion in 1983 (all figures in 1983 prices and exchange rates). Reductions in assistance from OPEC donors contributed to this decline although their aid still remained very high by DAC standards. In 1984 total ODA flows increased by 6% over the relatively low 1983 level. As a result, total ODA levels from 1980-84 remained essentially stagnant, although some DAC donors registered significant increases during this period. Exchange rate fluctuations also obscure the fact that several donors increased their aid contributions in national currency terms.

9.2 Growth of overall ODA in the 1960's was largely attributable to increases in aid programs, growing from previously low levels, of several DAC donors. Growth in the 1970's featured the significantly enlarged role of OPEC donors - especially the Arab OPEC countries - as major contributors. Indeed, as a proportion of their GDP's, their aid efforts exceeded by a multiple the aid contributions of DAC members. As already noted, in the 1980's OPEC donor contributions have fallen although their ODA/GNP ratios remain well above those of most DAC members. Over the same period DAC contributions to ODA grew at 3.3% annually.

9.3 Projections for the future are difficult to make, but a significant portion of future flows (i.e., between 1986-90) is determined by commitments already made. In recent years there has been a substantial decline in commitments which will be reflected in lower future disbursements. Also, as some donors initiated programs from a small base, rapid expansion could be expected in the early stages - as has happened in recent years. As donors reach a higher level of ODA, however, the rate of growth could be expected to decline.

9.4 With these factors in mind, a real growth rate in total ODA of about 2% has been projected for the rest of this decade by the DAC Secretariat based on estimates received from some donors. Inevitably this projection is highly speculative, especially since indications of future supply are not available for some large donors.

9.5 Before proceeding with our conclusions, it is important to characterize the line they follow. Based on our previous conclusions -- that ODA-recipient countries face critical challenges (which may, inter alia, call for increased ODA) and that, under present indications, total ODA is likely to grow more slowly than during the 1970's -- we might have immediately reached the conclusion that ODA should be pushed to higher levels than those DAC is forecasting. We do not make that jump. We know this is not an era of easy ODA expansion. Therefore, logically, the first step in confronting the apparent imbalance between needs and supply is to look for answers to the dilemma other than extra supply.

10.0 **All concerned in both developed and developing countries should try to help ODA recipients cope with increased needs for resources by one or more of the following options:**

a. increasing the effectiveness of official aid;
b. changing present country allocations of ODA;
c. concentrating the expected increments in ODA on low-income countries;
d. combining ODA with less concessional flows, mainly "other non-concessional official flows" in ways which would result in a higher overall volume of external resources; and
e. supplementing ODA flows by encouraging one or more of the following:
- **increased flows of voluntary contributions (from PVO's/NGO's);**
- **contributions of ODA from new donors, who should be actively encouraged to join in the ODA effort;**
- **earnings from trade;**
- **foreign private investment.**

10.1 The contributions that each of these "coping options" might make toward meeting the development challenge are reviewed in turn below.

11.0 **Although aid effectiveness should be improved under any circumstances, in practice there are clear limits to the extent to which it can substitute for increases in volume. Indeed, there can be complementarity between increased effectiveness and increased flows of aid.**

11.1 We concluded above that most aid has been helpful and productive, having achieved most of the developmental objectives for which it has been provided. Nevertheless, we have also recognized that there have been failures and there is room for improvement in the ways in which aid is provided by donors and used by recipients. There is particular scope for improvement in the low-income countries of Sub-Saharan Africa where evidence shows declining rates of return on aided projects in recent years. As noted in the effectiveness section above, many lessons have been learned from thirty-five years of aid experience, and as we continue to learn, more needs to be done to share and apply that learning more widely.

11.2 Such improvements are necessary in their own right, but gains will be gradual and incremental and there are clear limits to the extent to which enhanced effectiveness can substitute for increased volume. Many of the problems experienced by aid programs are a reflection of the difficult conditions under which aid is delivered - an especially severe problem in the poorest countries. Countries struggling to develop a basic infrastructure where, for example, primary education has only recently expanded to reach a majority, are challenging environments in which to work.

11.3 Another set of constraints on effectiveness derives from the circumstances which motivate some assistance. Where commercial export-promotion motivations predominate, or where assistance is guided by political or strategic considerations, achievement of these goals may conflict with those of developmental effectiveness.

11.4 In many cases there is a complementarity between increased effectiveness and larger flows of aid. Very tight budgeting may inhibit experimentation and risk-taking that can increase effectiveness. Similarly, a greater availability of aid may be needed to encourage and underwrite policy reforms that enhance efficiency. In some situations, however, the provision of too much aid could weaken development efforts. Where ODA exceeds absorptive capacity, "aid dependency" may be created. Excessive food aid, for example, has at times undermined incentives to farmers to increase agricultural development.

11.5 Overall, increased attention to effectiveness - in project concept and design, in implementation, in policy environment and in coordination - is essential. Aid delivery, while generally effective, can be made better and we urge donors and recipients alike to accept the challenge.

11.6 Increased effectiveness can help "stretch" ODA and speed up development; it is a necessary, but not sufficient, response to the needs of development.

12.0 In considering prospects for the reallocation of ODA, a distinction should be drawn between:

- **(A) The possibilities for reallocation to low-income countries from other ODA recipients; and**
- **(B) The possibilities for reallocation within the low-income country group.**

(A) On development grounds, reallocation of ODA to low-income countries is highly desirable and would make a major contribution to meeting their needs. But for the reasons discussed below, the scope for such reallocations, in practice, is likely to be limited.

12.1 In the context of acknowledged concessional resource scarcity, we discussed the possibility of diverting a greater portion of ODA flows to low-income recipients. Such a shift appeared attractive because it would -- if it could be achieved practically -- go some distance toward alleviating the pressures on donors to increase ODA contributions to meet the urgent needs of the low-income group. We acknowledged that if traditional developmental criteria -- poverty, creditworthiness (or lack thereof) and performance -- were to be strictly applied, the low-income group, and especially the poorest and least-developed countries, would deserve higher priority for allocations of scarce ODA than middle-income countries.

12.2 In considering the issue, however, we recognized that there are practical limitations on how much ODA could be moved away from middle-income countries. One reason is that a number of donors have already gone quite far in this direction. This is clearly evident in the case of several European donors whose bilateral programs are already concentrated on the low-income group (as is the collective regional effort through the EEC), particularly those whose ODA contributions have increased rapidly in recent years. There is little scope left, therefore, for further reallocation from this large source of ODA. Also, as most multilateral ODA is already concentrated on low-income countries there is, again, little opportunity for further reallocation from middle-income recipients.

12.3 Second, under present economic conditions, it is difficult to conclude that ODA flows to lower middle-income countries could be reduced without disruptive developmental effects. Many of these countries face major problems of indebtedness and of structural adjustment. Following the 1980-82 recession some have lost a decade of growth and their commercial credit standing has been seriously impaired. Moreover, as the consultants' report on aid effectiveness demonstrates, they have by and large used aid productively.

12.4 Third, some donors' ODA allocations to middle-income countries are based on other than purely developmental considerations. They are made for political, strategic, security, historical or commercial reasons. These reasons provide essential underpinnings for domestic political support for aid and a diversion of such allocations might well result in diminished support. We considered that in such cases donors might actually find it politically easier to increase overall aid budgets than to reallocate bilateral aid away from certain long-standing middle-income recipients.

12.5 All donors should be encouraged to do what they can to make further shifts of ODA toward the low-income countries; we do not, however, believe that this measure by itself would have an appreciable result.

(B) **The possibilities for reallocation within the group of low-income countries are also limited.**

12.6 The constraints on reallocations within the low-income group are ones of equity and welfare. Here the issue, in practical terms, is whether there is still scope for transferring ODA from those low-income countries that have been faring relatively well in terms of growth and self-reliance in recent years and what the implications of such a transfer might be.

12.7 To judge the scope for and appropriateness of reallocations within the low-income group, it is necessary to recall and reaffirm the basic developmental criteria used for allocating scarce ODA resources. The primary criterion is poverty, and on this score the recently more successful low-income countries have approximately as strong a claim as the poorest countries, African and others. In sheer numbers, of course, the poor of India and China far exceed those in Africa. There are, however, also two other criteria. On the one hand, there is the question of development performance (closely related to so-called "absorptive capacity"). By this criterion those low-income countries that have been performing well lately have the edge. Counterposed to the performance standard is the issue of creditworthiness. While the "good performers" merit ODA as a reward for performance, those countries that lack creditworthiness also require substantial ODA. This is virtually an issue of national survival in countries like Bangladesh and many of those in Sub-Saharan Africa. Under these circumstances the poorest countries, which have no real alternative to ODA for their external resources, must be accorded preferential allocations.

12.8 The principal consideration in assessing prospects for further reallocation within the low-income group, however, is that preferences in favor of the poorer, weaker countries already have been at work. During the past fifteen years, the per capita aid receipts of the poorest countries in Africa and elsewhere have been relatively high, and of the better performing low-income countries relatively low. China only lately has started receiving modest amounts of ODA. Since 1970 India's aid share has declined roughly by half. African countries now receive about eight times the per capita ODA levels going to India (and a far greater multiple than China).

12.9 Our deliberations took into account the fact that some of the larger low-income countries have shown more impressive investment, savings and growth performance than have many middle-income countries during this decade. Their economic structures are larger, more diversified and stronger than, for instance, those of several smaller middle-income economies, and their prospects appear brighter. On the other hand, we would like to emphasize that these low-income countries are heavily burdened with large populations, a significant proportion of which exist in absolute poverty. Their resources are still much too limited to make the major social investments needed to provide barely acceptable living standards for most of their people. Their continuing efforts to overcome poverty must command sustained support from the development community. Their recent achievements hold out considerable promise for a better future. They have made major and very costly efforts in undertaking policy reforms to enhance economic efficiency. These efforts are paying off and need sustained support if the gains achieved are not to be swiftly dissipated.

12.10 These large low-income countries have also shown remarkable performance in achieving very high domestic savings rates at extremely low per capita income levels. They cannot, therefore, be faulted on the grounds of becoming permanently "aid-dependent." At the same time, it is clear that there are considerable risks in imposing a premature restriction on their access to aid. For all of these reasons we believe that the concessional resource allocations to these large poor countries should be based on their broader economic situation and should not in effect constitute a "penalty for performance".

12.11 The external capital requirements of this particular sub-group of low-income countries are now substantial. The development community therefore should consider various ways in which the limited concessional resources received by these countries could be combined with other official flows (OOF) and with non-official flows. The objective would be to achieve additional flows of external resources commensurate with achievable investment and growth rates, at an overall cost which is acceptable and which would not result in creating unmanageable debt-servicing difficulties in future years.

12.12 We judge, therefore, that the remaining scope for reallocation within the low-income group is about exhausted -- at least for the near future. The creditworthiness of the better-performing low-income countries is positive but fragile. Further reductions in their ODA are likely to jeopardize both their access to and ability to service commercial credit. Indeed, it is clear that their ability to borrow nonconcessional financing, especially from commercial sources, would be weakened if their access to concessional flows were diminished further.

13.0 Concentrating increases in ODA flows on low-income countries offers interesting but limited possibilities.

13.1 A proposal to allocate all of the estimated 2% growth in ODA to the low-income countries is unlikely to prove practical, largely because allocation of the increment will be influenced to some extent by the same considerations that have established the existing patterns of aid distribution. However, it should not be assumed that all increments to ODA must simply repeat this pattern. If donors could direct an increased share of the increment to low-income countries, substantial growth in their ODA could be achieved. Thus, donors should attempt to allocate as much of their ODA increases to low-income countries as is practical.

14.0 There are various ways of combining highly concessional ODA with nonconcessional flows in order to achieve a higher volume of combined external flows to ODA-recipient countries. It is apparent, however, that the options considered offer only limited possibilities.

14.1 We reviewed the opportunities for achieving additionality in aggregate external flows by deploying ODA in different ways and associating it with nonconcessional financing (either informally or through formally structured devices). Specifically, the following alternatives were considered.

14.2 (A) The first is straightforward blending, which, as normally practiced, results in concessional and nonconcessional funds being combined by the same donor -- for example, by providing a borrower with a combination of hard loans and soft credits for financing a particular program or project. This has been a common means of providing a package of assistance funds on appropriate terms, and, where development objectives can be achieved, the practice should be expanded.

14.3 (B) A second "blending" approach which should be explored is for bilateral-multilateral combinations of resources -- with nonconcessional loans from multilateral institutions being combined with concessional flows from bilateral agencies in financing projects or programs through appropriately structured cofinancing agreements.

14.4 (C) A third possibility which might be considered is to encourage bilateral donors to increase the grant elements of their ODA flows and to maximize the concessionality of the ODA mixed into various creditworthiness-graded blends. However, because the average grant element in the case of DAC donors is already over 90%, the scope for increasing this aspect of ODA quality may be limited.

14.5 (D) Quite apart from "blending," which essentially is an informal and discretionary admixture of concessional and nonconcessional funds, Task Force members considered the prospects for a more formal mixture, e.g., re-introducing the "Third Window" which had been experimented with earlier in some multilateral institutions. This vehicle involves using ODA to provide the subsidy needed to on-lend, at semi-concessional rates, capital borrowed in the market at market rates. Proponents considered that this device might be one way of alleviating the financial pressures on some lower middle-income countries. An examination of various types of interest rate subsidy schemes suggested that the value of such schemes depends largely on how they are constructed and financed. The most efficient schemes, from the viewpoint of leverage and additionality, are those which are financed by immediate cash contributions from donors. Whether third-window operations would result in genuine additionality for eligible countries is a difficult question to answer, as are questions of whether they would result in real reductions in the total cost of combined flows or achieve significant improvements in average terms. Under specific circumstances and for limited, well-defined periods of time, interest rate subsidy schemes might be helpful in expanding the capacity of certain multilateral institutions to channel a larger volume of flows to a limited number of countries. Such schemes have, however, not been free of controversy about what they really achieve and at what cost.

14.6 (E) With prudential considerations in mind, official multilateral lenders should consider to what extent they might:

(i) relax lending limits on single large low-income borrowers. These limits usually take the form of maximum permissible percentages of the lender's total disbursed and outstanding loan portfolio. But this can only increase access to nonconcessional official flows and further "harden" the combined concessional-nonconcessional blend. It does not diminish the cost of the nonconcessional component. Such relaxation also raises concerns about some countries pre-empting too large a share of a given lender's resources; and

(ii) lengthen the maturities of some of the nonconcessional official finance made available to low-income borrowers.

15.0 **A re-examination of "non-traditional" options for raising concessional resources outside national budgets suggests that there is no real scope for increasing ODA flows from these sources.**

15.1 We reviewed the work of a study group of Dutch and Nordic experts established under the auspices of the Task Force to look at the possibilities for raising concessional resources by various "non-traditional" means -- for example, seabed royalities and international taxes -- that would not impose claims on donors' national budgets. We have concluded that, at the present time, there is no real scope for increasing ODA by such means.

16.0 **Private voluntary organizations now play an important role all over the world in providing development services. They have demonstrated their ability to raise additional resources and deploy them effectively both during emergency situations and for long-term development. But there are inherent limitations on their financial resources.**

16.1 Total development assistance from private voluntary organizations was estimated to total about $2.6 billion in 1984, a sizeable sum by anyone's measure and equal to about 8 percent of the amount of official development assistance. PVO's serve many functions -- from relief in times of emergency, to poverty alleviation, to developmental activities at the grassroots level. They are active in many sectors: e.g., health, population, nutrition, education, agricultural development, and private sector commercial development. They play an important role and are a useful complement to official aid programs.

16.2 Such organizations are also very effective mechanisms for the management of certain developmental activities funded by official donors. While in this role they do not increase ODA, they can be instrumental in increasing aid effectiveness.

16.3 It is difficult to measure the potential for expansion of aid flows from private sources. In the light of recent events -- when, for example, about $75 million were raised in a single weekend to support famine relief operations in Sub-Saharan Africa -- this potential cannot be underestimated. Innovative fundraising techniques, of which those inspired by public entertainers are but one example, suggest that higher aid levels from private contributions may well be possible. In addition, many active PVO's have been widely known for years and have long received substantial public support.

16.4 We welcome increased flows of aid from private sources and urge further examination of ways in which such flows can be enhanced. For example, providing income-tax deductions for individual contributions to private voluntary agencies or official programs may increase the amount of resources that can be raised by these organizations. Providing "seed money" or "matching grants" from official sources to private agencies could also add to their resources. However, as noted, there are practical limits on the amount of incremental aid resources that can be expected from private sources.

17.0 **Opportunities for significantly expanding private flows and earnings from trade are mainly limited to middle-income countries and a few low-income countries at the present time. Donors and recipients should be encouraged to adopt policies which would enhance the flow of these resources over the long run, although expectations about the expansion that can be achieved over the short run can only be modest.**

17.1 As a group, developing countries expanded their exports considerably in the 1970's, from about 13% of their combined GDP in 1970 to over 23% in 1983. The major exception was low-income countries in Africa, where the share of exports in GDP fell sharply -- a result which reflects inappropriate policies in such countries as well as worldwide trade policies and changes in aggregate demand in industrial countries.

17.2 The experience of the early 1980's was extremely discouraging for developing nations' exports. But 1984 brought a marked acceleration: a 7.5% increase in total export earnings, a 15% increase in total non-fuel export earnings, and a 12% increase in non-fuel export volume. These gains were primarily due to sharp increases in exports to the industrial countries, but reflected also a revival of trade among developing countries. However, since this growth occurred from very depressed 1983 levels it cannot be seen as establishing a long-term trend -- unless a fairly dramatic change occurs in the domestic policies of both industrial and developing countries. Also, there was not a significant amount of improvement in developing countries' terms of trade. After declining in 1982 and 1983, they improved by only 1% in 1984. With these considerations in view, donors and recipients should review their trade policies to assure that they are supportive of development priorities.

17.3 Over the past two decades two major shifts in international capital flows have occurred: from equity investment to debt, and from official to private finance. The more advanced developing countries have obtained the bulk of commercial capital. However, even in low-income countries the share of private flows increased. Increased lending by commercial banks was the main reason for the dramatic increase in external financing. While direct private investment continued to increase in nominal terms, its share in total external finance declined from 20% in 1970 to less than 9% in 1983.

17.4 This result is unfortunate since direct investment from abroad has many advantages over loans; for example, equity capital provides resources that do not involve fixed repayments. It often includes the transfer of new technologies as well as management and marketing skills and facilities. It leads to employment creation. Developed and developing countries alike should make a concerted effort to create a hospitable climate to encourage the growth of foreign direct investment in developing countries in such a manner as to serve developing-country needs.

18.0 **A number of developing countries have become donor countries. Others should be welcomed. While ODA flows from such sources may be modest in the immediate future, such countries should be encouraged to share in the international responsibility for providing aid.**

18.1 The success of aid has materially benefited the peoples of many countries. As developing countries reach levels of self-sustaining growth, it is appropriate that they should seek to join in assistance programs for those countries still struggling in poverty. Already two upper middle-income countries have achieved GNP per capita levels exceeding one of the significant DAC donors. Several have become net donors in some of the regional development banks and UN agencies. We welcome "new donors" and encourage them. While we do not anticipate large ODA flows from these sources, it is not unrealistic to expect that, over the next 5 to 10 years, ODA from such new donors could contribute a share of the increase in ODA levels desired. Further, we note that one major bloc of developed countries has not joined in the universal effort of development assistance with the same enthusiasm as DAC and OPEC countries. We hope that, in the years ahead, the nations of the Council for Mutual Economic Assistance will also become significant sources of development and humanitarian aid.

19.0 **We conclude that no single one of the measures considered above, nor any combination of them, will cope adequately with the challenge of development in the low-income countries. Since there is no escaping the need for predominant reliance on traditional, appropriated concessional assistance, donor governments should exert redoubled efforts to increase the supply of ODA as a matter of urgency.**

19.1 Sustained development of low-income countries is currently impeded by various factors. We believe, however, that opportunities exist for significant advances toward self-sustaining development in many countries. Providing additional resources now would help recipient countries to take advantage of these opportunities.

19.2 Some donor countries are making contributions toward development assistance well above the UN target (ODA as 0.7% of GNP). Others can do more. Taking into account aid's demonstrated effectiveness and the broad public support that exists, governments in these latter countries should exert redoubled efforts to increase the supply of ODA as a matter of urgency.

19.3 We have considered the alternatives carefully before reaching the conclusion that donors should seriously consider exceeding the currently forecasted rates of ODA expansion. The coping mechanisms which have been examined can only help to supplement and support traditional ODA flows appropriated from donors' budgets. They do not offer a substitute for an increase in such flows. Attempts to put in place such coping mechanisms should not serve as a reason for delaying action on increasing ODA volume. These efforts need to be made simultaneously and not sequentially. The need for an increase in ODA volume is now known and unmistakable.

19.4 Each donor should adopt the most effective means for improving its own performance. Aid targets are not the be-all and end-all of aid enhancement. They are useful only as they affect country-by-country decision-making. Nevertheless, the 0.7% target has proved to be a very valuable norm for the international community. It has encouraged improved performance by many DAC donors and some have reached or even exceeded this target; some OPEC donors have greatly exceeded it. All donor governments which have declared a timetable for reaching the 0.7% ODA/GNP target should be encouraged to achieve their stated objectives. For other donors and for those who have accepted the target without any commitment to timing, various self-imposed targets may be helpful. At minimum, they could seek to avoid any decline in their ODA/GNP ratios. This would mean that their aid at least would keep pace with their economic growth.

19.5 In recent years a clear relationship has been observed between the adoption of internal ODA targets by donors and their subsequent provision of ODA. Some, as in the past, will find it useful to adopt interim plans to achieve a DAC-average ratio of their aid to their GNP or a doubling of their absolute aid within a specified period; or they may resolve to give their aid budgets preferential treatment relative to their total national government budgets. Targets approved by national legislatures, promoted by national leaders and aid agencies, and supported by the public should increase the predictability and level of donors' contributions. In the last decade, targets have influenced the policies of many donor countries and have proven to be a useful yardstick for measuring relative aid performance and inspiring more continuous official and public support for aid.

20.0 **For all its flaws, the aid revolution has been one of the great innovations of the second half of the twentieth century. In an increasingly interdependent global economy that is deeply fragmented politically, the practice of development assistance has raised the norms of international conduct.**

20.1 Few governments have been enticed into prolonged flights of selfless service. But many have had some of their nationalism sublimated into more constructive and enlightened kinds of self-seeking. Collectively, aid donors and aid recipients have succeeded substantially in pursuing their declared purpose of promoting development. Growth has been accelerated. Poverty has been alleviated. The quality of life has been improved. In the process we have learned how to make future development assistance still more effective.

20.2 In a number of countries aid has already proven that it can be a self-terminating exercise -- as recipients have been helped to establish themselves on paths of self-supporting growth. But the low-income countries still need concessional assistance and the poorest among them need more of it more than ever.

20.3 Aid's present supply crisis is only a crisis of commitment. Objectively, there are no major obstacles to doing what is needed. The costs are modest. This most civilized of the half-century's policy achievements should not be permitted to subside, simply because of eroded priorities -- particularly at a time when the needs for it have taken on new urgency and the quality of the instrument is being enhanced.

MOV PAPER

AIDE MEMOIRE

IDA7: Maintenance of Value

1. At the final meeting of IDA7 Deputies, it was agreed that the U.S. dollar equivalent of shares accepted by donors, applied to a $9 billion replenishment, would be converted into national currency obligations, using the six-month average exchange rates versus the U.S. dollar over the period June 10, 1983, to December 9, 1983. As a result of exchange rate movements during this period and thereafter, effective shares of many donors have dropped significantly. This is particularly the case for the Latin American group. The table below shows that the value of IDA7 contributions and subscriptions in dollar terms for this group has fallen by two-thirds or by US$52.2 million equivalent.

VALUE OF IDA CONTRIBUTION AND SUBSCRIPTION

	As of August 26, 1985		As Agreed at Negotiations		
	U.S. Dollars (Million)	Share of IDA7 (%)	U.S. Dollars (Million)	Share of IDA7 (%)	Change in Value (%)
Brazil	2.27	0.03	22.17	0.25	-89.8
Argentina	0.30	-	18.75	0.21	-98.4
Mexico	6.73	0.08	15.00	0.17	-55.1
Venezuela	12.80	0.15	15.00	0.17	-14.7
Colombia	4.08	0.05	7.50	0.08	-45.6
Sub-total	26.18	0.31	78.42	0.88	-66.6
IDA7 Total Allocated	8378.10	97.26	8764.30	97.38	-4.4
Unallocated	235.70	2.74	235.70	2.62	-
IDA7 TOTAL	8613.80	100.0	9000.00	100.00	-4.3

2. In February 1984, a technical note was prepared on this issue and discussed with the Executive Directors or their representatives from Argentina, Brazil, Colombia, Mexico, and Venezuela. Tentative agreement in the form of a Memorandum of Understanding was reached in May 1984 on a

compensation scheme to maintain the value of their contributions (allowing a gap of no more than 8% between indicated and effective shares).1/ A copy of this Memorandum is attached as Annex 1. Formal agreement from the respective Governments, however, was never obtained. It was envisaged that other countries whose contributions and subscriptions had suffered a significant drop in value, would also participate in a similar scheme.

3. Now that the Seventh Replenishment has become effective and payments are being made, it becomes important to formalize the understanding that we reached. Further there has been an unintended marked reduction in the real share of the countries shown above due to exchange rate fluctuations, which does not reflect the respective countries' actual willingness and agreement on the real shares that were negotiated at the time of negotiations. The table above shows the change in aggregated share for these countries to be from 0.88% to 0.31%, again close to a two-thirds reduction in share. A compensatory arrangement is needed to offset such a loss, and to reflect more closely the intended shares of these countries.

1/ Eight percent was the maximum loss of value among major donors due to the conversion scheme, representing France.

MONTHLY REPORT
IDA AND AFRICA FACILITY

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 4, 1985

TO Messrs. Moeen A. Qureshi, Ernest Stern, and D. Joseph Wood
Through Mr. David R. Bock, Director, FPA

FROM Alexander E. Fleming, Acting Chief, FPAFS

EXTENSION 74785

SUBJECT IDA Commitment Authority

1. In response to our request, Canada, Denmark, Greece, Norway, South Africa, Spain, Sweden, and South Africa have released their second installments of IDA7 for commitment before November 1, 1985 (the "trigger" date for release of the second tranche). The Greek authorization was received in July and the others (SDR 448 million) in August 1985. As a result of these releases, IDA commitment authority shortfall decreased from SDR 701 million on July 31, 1985 to SDR 287 million by August 30, 1985, as shown below.

IDA COMMITMENT AUTHORITY AS OF AUGUST 30, 1985

	SDR Million a/
Resources made available b/	3,105
Transfer from FY84 IBRD Net Income	96
Total commitment authority made available	3,201
Less: IDA deficit in 2nd half of FY85	31 c/
Estimated deficit for FY86	7
Total authority available for commitment	3,163
Less: FY85 credits approved on "unconditional" basis d/	2,175
FY86 credits approved on "unconditional" basis d/	13
Balance available for priority projects	975
Less: FY85 credits approved on "conditional" basis d/	872
FY86 credits approved on "conditional" basis d/	390
Shortfall in IDA commitment authority as of August 30, 1985	287

a/ At August 26, 1985 exchange rates; and including IDA6 resources of SDR 150.3 million, and FY84 Account contributions of SDR 77.8 million, all of which were fully committed in FY85.

b/ For details, see Annex 1.

c/ US$31.7 million, as per unaudited financial statements for FY85.

d/ For details, see Annex 2.

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2. If no additional waivers are received, IDA's commitment authority shortfall will increase in the following months, given that about fifteen credits, totalling SDR 402 million, are expected to be approved between now and November 1, 1985 when the second tranche of IDA7 becomes available for commitment. Consequently, credit signings would continue to be limited to priority operations until November. However, Japan is expected to release its second installment of SDR 547 million by September, and the Australian supplementary contribution of A$ 60 million (SDR 41 million) may be available before November. Further, at the Annual Meetings in October, the Board of Governors are expected to approve the proposed transfer of US$150 million from FY85 IBRD net income to IDA. Resources should thus be adequate to cover all the credits scheduled for Board Presentation until November 1, 1985.

3. Credit signings could resume on a normal basis as soon as Japan releases its second installment, but in any case by November when the second tranche becomes available for commitment. This situation, however, would be short-lived because the proposed FY lending is expected to exceed the increase in commitment authority. If the presently programmed FY86 lending program of SDR 3,036 million is implemented, IDA would again face a commitment authority shortfall by April/May 1986, and we may need to request donors to release their third installments sometime in the spring.

Attachments

cc: Messrs. Mistry, van Puymbroeck, and Kotegawa
Mrs. Smith (o/r)

RBhan:efs

IDA7 : STATUS OF CONTRIBUTIONS

Donor	IDA7 Contributions		Value of IDA7 Contributions on August 26, 1985			IDA7 Contributions Released as of August 30, 1985		IDA7 as Agreed		
	Currency of Obligation	Amount (Million)	U.S.$ (Million)	SDR (Million)	Share (%)	Notification Date	SDR (Million)	U.S.$ (Million)	SDR (Million)	Share (%)
Argentina	N. Curr.	0.24	0.30	0.29	.00			18.75	9.34	0.21
Australia	N. Curr.	200.00	140.84	135.92	1.64	11/01/84	45.31	178.52	175.38	1.98
Austria	N. Curr.	1187.28	61.26	59.12	0.71	01/21/85	19.71	61.20	57.62	0.68
Belgium	N. Curr.	8042.33	143.90	138.87	1.67			151.20	134.84	1.68
Brazil	N. Curr.	15531.41	2.27	2.19	0.03	10/26/84	0.73	22.17	14.93	0.25
Canada	N. Curr.	499.70	368.08	355.22	4.27	06/30/85	236.82	405.00	388.15	4.50
Colombia	N. Curr.	617.30	4.08	3.94	0.05			7.50	6.67	0.08
Denmark	N. Curr.	1025.40	102.30	98.73	1.19	10/05/84	65.82	108.00	96.91	1.20
Finland	N. Curr.	357.08	60.61	58.50	0.70	09/20/84	19.50	63.00	57.89	0.70
France	N. Curr.	4738.68	562.62	542.98	6.53	02/05/85	180.99	594.00	529.70	6.60
Germany	SDR	932.94	966.69	932.94	11.22	03/31/85	310.98	1035.00	932.94	11.50
Greece	N. Curr.	408.64	3.12	3.01	0.04	04/03/85	2.00	4.50	3.84	0.05
Hungary	N. Curr.	454.07	8.96	8.64	0.10	04/29/85	2.88	10.00	9.69	0.11
Iceland	N. Curr.	75.33	1.84	1.78	0.02	12/28/84	0.59	2.70	2.48	0.03
Ireland	N. Curr.	8.33	9.40	9.07	0.11			9.90	8.83	0.11
Italy	N. Curr.	611736.58	330.30	318.77	3.83			387.00	345.21	4.30
Japan	N. Curr.	402206.30	1700.30	1640.93	19.74	09/14/84	546.98	1683.00	1660.82	18.70
Korea	N. Curr.	7052.63	8.01	7.73	0.09	06/24/85	2.58	9.00	8.59	0.10
Kuwait	N. Curr.	18.38	60.97	58.84	0.71	10/31/84	19.61	63.00	60.65	0.70
Luxembourg	N. Curr.	239.36	4.28	4.13	0.05	06/18/85	1.38	4.50	4.01	0.05
Mexico	N. Curr.	1941.54	6.73	6.50	0.08	01/14/85	2.17	15.00	12.92	0.17
Netherlands	N. Curr.	797.17	256.90	247.93	2.98			270.00	242.59	3.00
New Zealand	N. Curr.	11.40	5.55	5.35	0.06			7.52	7.21	0.08
Norway	N. Curr.	845.37	103.30	99.69	1.20	09/21/84	66.46	114.30	103.18	1.27
Portugal	N. Curr.	641.90	3.88	3.75	0.05			5.25	4.57	0.06
Saudi Arabia	U.S.$	315.00	315.00	304.00	3.66	11/13/84	101.33	315.00	301.75	3.50
South Africa	N. Curr.	12.18	4.83	4.66	0.06	10/09/84	3.11	10.80	9.41	0.12
Spain	N. Curr.	6196.33	38.11	36.78	0.44	07/19/85	24.52	41.09	37.18	0.46
Sweden	N. Curr.	1757.68	213.35	205.90	2.48	09/20/84	137.27	225.00	206.86	2.50
U.A.E.	N. Curr.	218.06	59.40	57.33	0.69			59.40	57.56	0.66
United Kingdom	N. Curr.	401.52	562.73	543.08	6.53	02/26/85	362.05	603.00	544.78	6.70
United States	N. Curr.	2250	2250.00	2171.44	26.12	11/08/84	723.81	2250.00	2180.11	25.00
Venezuela	N. Curr.	182.35	12.80	12.35	0.15			15.00	13.70	0.17
Yugoslavia	N. Curr.	1484.63	5.39	5.21	0.06			15.00	11.45	0.17
Sub-total			8378.10	8085.56	97.26		2876.59	8764.30	8241.76	97.38
Unallocated			235.70	227.47	2.74			235.70	475.20	2.62
GRAND TOTAL			8613.80	8313.03	100.00		2876.59	9000.00	8716.96	100.00

FPAFS
August 30, 1985

FY 85-86 IDA CREDITS APPROVED AS OF AUGUST 30,1985

Credit Number	FY 85 Projects Financed By IDA6	Amount SDR (Million)	Amount U.S. $ (Million)	Approval Dates
1540	Zaire-Lulua Agricultural Development	12.6	12.5	01/08/85
1544	India-Bombay Urban Development	137.7	138	01/29/85
	Total IDA6 Credits approved in FY 85	150.3	150.5	

Credit Number	FY 85 Projects Financed By FY 84 Account	SDR (Million)	U.S. $ (Million)	Approval Dates
1510	Uganda-Water Supply and Sanitation	26.9	28	07/19/84
1538	Somalia-Northwest Region Agricultural Development	10.7	10.6	01/08/85
1541	Madagascar-Industrial Assistance	40.2	40	01/15/85
	Total FY 84 Account Projects Approved in FY 85	77.8	78.6	

Credit Number	FY 85 Projects Financed By IDA7	SDR (Million)	U.S. $ (Million)	Approval Dates
1509	Ethiopia-Sixth Telecommunications	38.70	40.00	07/19/84
1511	Niger-Power Engineering & Technical Assistance	7.20	7.50	07/19/84
1512	Lesotho-Fourth Education	9.70	10.00	07/31/84
1513	Sudan-Petroleum Technical Assistance	11.60	12.00	07/31/84
1514	India-Kerala Social Forestry	30.60	31.80	07/31/84
1515	Nepal-Third Highway	44.70	47.50	08/28/84
1516	China- Second Agriculture Research	24.30	25.00	09/11/84
1517	Guinea Bissau-Technical Assistance	6.00	6.00	09/11/84
1518	Djibouti-Urban Development	4.90	5.00	09/11/84
1519	Zaire-Technical Assistance and Training	8.60	9.00	09/11/84
1520	Ethiopia-Sixth Education	67.30	70.00	09/11/84
1521	Ethiopia-Agricultural Research	21.10	22.00	09/11/84
1522	Ethiopia-Technical Assistance	3.90	4.00	09/11/84
1523	India-National Agricultural Extension	38.60	39.10	10/02/84
1524	Tanzania-Fourth Technical Assistance	9.90	10.00	10/16/84
1525	Sudan-Stock Route Project	5.50	5.50	10/16/84
1526	Madagascar-Cyclone Rehabilitation Project	14.80	15.00	10/30/84
1527	Haiti-Fourth Power	21.80	22.10	11/20/84
1528	Malawi-Urban	14.80	15.00	11/27/84
1529	Zambia-Fisheries Development	7.10	7.10	11/27/84
1530	Benin-Technical Assistance	5.10	5.00	12/13/84
1531	Guinea-Bissau-Reconstruction Import	10.10	10.00	12/13/84
1532	Pakistan-Left Bank Outfall Drain Stage I Project	147.60	150.00	12/13/84
1533	Pakistan-Baluchistan Agricultural Extension	8.20	8.30	12/13/84
1534	Nepal-Agricultural Manpower Development	8.50	8.40	12/13/84
1535	Nepal-Industrial Development	7.50	7.50	12/13/84
1536	Tanzania-Port Rehabilitation	26.20	27.00	12/13/84
1537	Sri Lanka-Major Irrigation Rehabilitation	17.00	17.00	12/20/84
1539	Uganda-Agricultural Development	10.00	10.00	01/08/85
1542	Solomon Islands-Guadacanal Road Improvement Project	2.00	2.00	01/22/85
1543	Djibouti-Education	5.10	5.00	01/22/85
1545	Zambia-Agricultural Rehabilitation	24.70	25.00	01/29/85
1546	Rwanda-Agricultural Research	11.70	11.50	02/12/85
1547	Yemen Arab Republic-Second Industrial	8.00	8.00	02/12/85
1548	Equatorial Guinea-Cocoa Rehabilitation	9.10	9.30	02/19/85
1549	Malawi-National Agricultural Research	24.30	23.80	02/19/85
1550	Burkina Faso-Fertilizer	13.80	13.70	02/26/85
1551	China-Second University Development	148.00	145.00	02/26/85
1552	India-Narmada River Dev.(Gujarat) Sadar Sarovar Dam & Power	99.70	100.00	03/07/85
1553	India-Narmada River Dev. (Gujarat) Water Delivery & Drainage	149.50	150.00	03/07/85
1554	Senegal-Water Supply Project in Eleven Centers	24.10	24.00	03/07/85
1555	Guyana-Upper Demerara Forestry - Supplement to Loan 1623	8.70	8.80	03/07/85
1556	Yemen Arab Republic-Technical Assistance	4.70	4.70	03/07/85
1557	Yemen PDR-Agricultural Research & Extension	5.10	5.00	03/14/85
1558	Grenada-Agricultural Rehabilitation & Crop Diversification	5.00	5.00	03/14/85
1559	Guinea-Technical Assistance Project for Economic Management	9.70	9.50	03/14/85
1560	Uganda-Second Power	29.50	28.80	03/19/85
1561	Uganda-Petroleum Exploration Promotion	5.20	5.10	03/19/85
1562	Sri Lanka-Fourth Tree Crops	56.50	55.00	03/21/85
1563	Liberia-Second Water Supply	5.10	5.00	03/21/85
1564	Ghana-Accra District Rehabilitation	22.50	22.00	03/21/85
1565	Rwanda-Tech. Assist. for Improv. of Pub. Finance Management	4.90	4.80	03/21/85
1566	Kenya-Nairobi Third Water Supply Engineering	6.20	6.00	03/26/85
1567	Mauritania-Public Enterprise Tech. Assist. & Rehab.	16.90	16.40	03/26/85
1568	Togo-Educational Improvement	12.80	12.40	03/26/85
1569	India-Second National Agricultural Extension	50.26	49.00	03/26/85
1570	Nepal-Agricultural Extension Project II	7.40	7.20	03/26/85
1571	Mauritania-Small Scale Irrigation	7.70	7.50	03/26/85
1572	Mauritania-Industrial & Artisan Development	5.40	5.25	03/26/85
1573	Ghana-Second Reconstruction Imports Credit	61.60	60.00	03/28/85
1574	Bangladesh-Second Primary Education	80.10	78.00	03/28/85
1575	Zambia-Fourth Railway	20.50	20.00	03/28/85
	IDA7 Projects Approved through 03/31/85	1577.06	1579.55	

Credit Number	FY 85 Projects Financed By IDA7 (continued)	Amount SDR (Million)	Amount U.S. $ (Million)	Approval Dates
1576	Ethiopia-Drought Recovery Program	31.30	30.00	04/09/85
1577	China-Seeds Project	41.70	40.00	04/11/85
1578	China-Rural Water Supply	82.10	80.00	04/11/85
1579	Cape Verde-Industrial Finance & Promotion	4.10	4.00	04/11/85
1580	Liberia-Second Petroleum Technical Assistance	2.70	2.60	04/11/85
1581	Central African Republic-Second Technical Assistance	8.40	8.00	04/16/85
1582	Western Samoa-Development of Western Samoa	2.10	2.00	04/23/85
1583	Burundi-Fourth Highway	18.90	18.10	04/23/85
1584	Yemen Arab Republic-Wadi Al-Jawf Agri. Development	10.50	10.00	04/23/85
1585	Lesotho-Health & Population	3.70	3.50	04/23/85
1586	Bangladesh-Second Gas Development	112.90	110.00	04/30/85
1587	Bangladesh-Flood Rehabilitation	31.30	30.00	04/30/85
1588	Nepal-Fourth Telecommunication	20.70	22.00	04/30/85
1589	Madagascar-Irrigation Rehabilitation	12.60	12.00	04/30/85
1590	Sao Tome & Principe-Economic Rehab. & Modernization	5.30	5.00	05/07/85
1591	Bangladesh-Third Flood Control & Drainage	50.10	48.00	05/07/85
1592	Haiti-Fourth Education & Training	10.40	10.00	05/07/85
1593	Burundi-Power Transmission & Distribution	12.90	12.30	05/09/85
1594	China-Highway Project (Joint)	30.30	30.00	05/14/85
1595	Guinea-Second Power Engineering & Technical Assistance	8.40	8.00	05/16/85
1596	Bhutan-Calcium Carbide	9.40	9.00	05/16/85
1597	Mali-Mopti Area Development Project	19.70	19.50	05/21/85
1598	Burkina Faso-Primary Education Development	21.80	21.60	05/21/85
1599	Togo-Second Structural Adjustment Program	28.10	27.80	05/30/85
1600	Togo-Third Technical Assistance	6.30	6.20	05/30/85
1601	Ghana-Road Rehabilitation & Maintenance	40.40	40.00	06/04/85
1602	Pakistan-Second Primary Education	53.00	52.50	06/06/85
1603	Pakistan-Second On-Farm Water Management	34.80	34.50	06/06/85
1604	Tanzania-Petroleum Sector Technical Assistance	8.10	8.00	06/06/85
1605	China-Forestry Development	47.80	47.30	06/11/85
1606	China-Pishihang-Chaohu Area Development	75.70	75.00	06/11/85
1607	Burkina Faso-Health Services Development	26.90	26.60	06/11/85
1608	Zaire-Sixth Highway	55.50	55.00	06/13/85
1609	Zaire-Seeds Projects	15.10	14.90	06/13/85
1610	Mozambique-Rehabilitation Program	45.50	45.00	06/18/85
1611	India-National Social Forestry	166.40	165.00	06/18/85
1612	Somalia-Agricultural Inputs Program	10.10	10.00	06/18/85
1614	Sudan-Drought Recovery Program	20.20	20.00	06/20/85
1615	Burma-Timber Distribution Project	18.00	17.75	06/20/85
1616	Burma-Second Seed Development	14.60	14.50	06/20/85
1617	Yemen PDR-Fourth Highways Project	14.60	14.40	06/20/85
1618	Niger-Irrigation Rehabilitation	9.60	9.30	06/25/85
	Total IDA7 Credits Approved in FY 85	2819.06	2798.90	
	FY 86 Projects Financed By IDA7			
1619	India-West Bengal Minor Irrigation	101.00	99.00	07/02/85
1620	Burundi-Second Forestry	13.00	12.80	07/16/85
1621	India-Maharashtra Composite Irrigation	164.20	160.00	07/16/85
1622	India-Kerala Water Supply & Sanitation	42.70	41.00	07/16/85
1623	India-Fourth Population Project - West Bengal	51.50	51.00	07/23/85
1624	Sudan-Power Rehabilitation	30.30	30.00	08/27/85
	Total IDA7 Credits Approved in FY 86	402.70	393.80	
	TOTAL CREDITS APPROVED AS OF AUGUST 30, 1985	3449.86	3421.80	

FPAFS
August 30, 1985

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 5, 1985

TO Messrs. Moeen A. Qureshi, Ernest Stern and D. Joseph Wood
(Through Mr. David Bock, Director, FPA)

FROM Alex Fleming, Acting Chief, FPAFS AFF

EXTENSION 74785

SUBJECT FY86 African Facility Commitment Authority

1. The current value of African Facility resources made available for commitment as of August 28, 1985 is SDR335 million, of which SDR300 million are direct contributions and SDR35 million special joint financing.[a/] During August no additional notifications had been received. Austria and Spain have however deposited statements of intent to participate in the Facility. It is likely that a special joint financing agreement with the United Kingdom will be signed in September while a similar agreement with Switzerland is likely to be signed in October - at the Annual Meetings in Seoul. The status of contributions and notifications are shown in detail in Attachment 1, and the status of negotiations with special joint cofinanciers in Attachment 2.

2. At the end of August 1985, two African Facility credits of SDR 20.2 million had been approved for projects in Togo and Ghana. In addition, Germany agreed to provide Special Joint Financing of DM16.5 million (SDR5.4 million equivalent) to the project in Togo. Attachment 3 shows the African Facility credits approved and planned to be submitted to the Executive Directors for approval through September 1985. It is expected that by the end of September 1985, an additional SDR124.4 million in African Facility Credits will be submitted for Board approval.

FY86 AFRICAN FACILITY COMMITMENT AUTHORITY AS OF JULY 31, 1985
(SDR million) a/

Source	Amount
1. Resources made available through direct contribution	299.8
Less: African Facility credits approved	20.2
Balance as of July 31, 1985	279.6
2. Resources made available through Special Joint Financing (Germany)	34.8
Less: Special Joint Financing on African Facility credits already approved by the Board	5.4
Balance as of August 31, 1985	29.4
3. Total balance as of August 31, 1985	309.0

a/ Valued at August 28, 1985 exchange rates.

Attachment

cc: Messrs. Mistry, El-Fishawy, de la Renaudiere, Birnbaum, Kiermayr, Gillette, Hoopengardner, Duarte and Benedito
Mmes. Smith, Meigher, Lichtenstein, and Farrell

DKotegawa:mb

Annex I

SPECIAL FACILITY FOR SUB-SAHARAN AFRICA: STATUS OF CONTRIBUTION
(As of August 28, 1985)

		Amounts to be Contributed (in millions)					Notification of Participation				
		SDR Equivalent		US$ Equivalent					Amounts in millions		
Donor	National Currency	@ 2/1/85	@ 8/28/85	@ 2/1/85	@ 8/28/85	Statement of Intent to Contribute (Date Received)	Date Received	Percent of Donor's Contribution	National Currency	SDR Equivalent @ 8/28/85	US$ Equivalent @ 8/28/85
Direct Contributions											
Austria	222.8	10.3	11.1	10.0	11.5	8/12/85					
Canada	100.0	77.3	70.9	75.3	73.5	7/24/85	7/13/85	25.00	25.0	17.7	18.4
Denmark	170.0	15.4	16.2	15.0	16.9	6/20/85	6/20/85	100.00	170.0	16.2	16.9
Finland	78.0	12.1	12.7	11.8	13.2	7/16/85	7/16/85	100.00	78.0	12.7	13.2
France	1,500.0	158.7	171.1	154.6	177.4		6/20/85	100.00	1,500.0	171.1	177.4
Ireland	1.5	1.5	1.6	1.5	1.7						
Italy a/	300,000.0	157.4	155.5	153.3	161.3						
Netherlands	350.0	100.1	108.3	97.5	112.3	6/28/85	6/28/85	25.00	87.5	27.1	28.1
Norway b/	265.0	29.7	31.1	28.9	32.3	7/03/85	7/03/85	66.79	177.0	20.8	21.6
Spain	1,627.0	9.6	9.6	10.0	10.0	8/07/85					
Sweden	440.0	50.0	51.3	48.7	53.2	6/24/85	6/24/85	66.59	293.0	34.1	35.4
IBRD	-	154.0	144.6	150.0	150.0						
		776.1	784.1	756.6	813.1					299.8	310.9
Special Joint Financing											
Germany c/	300.0	97.1	104.5	95.0	108.4	7/08/85	7/08/85	33.33	100.0	34.8	36.1
Japan d/	17,500.0	70.3	71.2	70.0	73.8						
Saudi Arabia	360.0	103.3	95.2	100.0	98.8						
Switzerland	80.4	30.7	34.2	30.0	35.5						
United Kingdom e/	75.0	86.8	101.5	85.0	105.2						
		388.2	406.6	380.0	421.6					34.8	36.1
Total		1,164.3	1,190.7	1,136.6	1,234.7					334.6	347.0

Countries Which May Contribute or Provide Joint Financing

Belgium f/
South Africa

Countries Reserving Their Positions and Possible Contributors

Algeria
Kuwait
Luxembourg
New Zealand
Portugal

Countries Represented in Paris but not Expected to Participate

Australia (made special IDA contribution in lieu)
United States

a/ Italian authorities have sent their statement of intent in August, which we have not received yet.
b/ Includes investment income of NKr. 4 million.
c/ DM100 million for the first year; similar amount to be requested in second and third years.
d/ Y17,500 million for the first year; amounts for subsequent years to be determined.
e/ L75 million to be disbursed over a five year period.
f/ Contribution to the Facility is under consideration.

JLu/FPAFS
FILENAME:STATUS

Attachment II

Special Facility for Sub-Saharan Africa:
Status of Negotiation on the Special Joint Financing
(As of the end of August 1985)

Germany	Agreement was signed on July 8, 1985.
Japan	Three agreements are to be signed - an "umbrella" letter, two exchange of notes on yen loans and grants. The final draft for the umbrella letter is almost completed. Consultations with Japanese authorities on draft agreements on yen-loans and grants are taking place in the first week of September.
Saudi Arabia	A draft agreement has been submitted to Saudi authorities and we expect their comments and reactions.
Switzerland	The final draft has been agreed upon by both parties and consultation with direct donors has been completed. We have formally been advised that Swiss Federal Council has approved the arrangement of Special Joint Financing between Switzerland and the IDA. Switzerland plans to sign the agreement at the time of Annual Meetings in Seoul.
United Kingdom	A draft agreement has been finalized and circulated to direct donors for review. The agreement will be likely to be signed in September 1985.

AFRICAN FACILITY CREDITS: STATUS OF APPROVAL
(As of the end of August, 1985)

Country-Purpose	Approval Date	African Facility[a/b/] Credits SDR mn.	African Facility[a/b/] Credits $ mn.	IDA Funds[a/c/] SDR mn.	IDA Funds[a/c/] $ mn.	Total Lending[a/] SDR mn.	Total Lending[a/] $ mn.
Actual							
Ghana-Road Rehabilitation & Maintenance	8/85	10.1	10.0	40.1	40.0	50.5	50.0
Togo-Structural Adjustment Credit II	8/85	10.1	10.0[d/]	28.1	27.8	39.2	37.8
Subtotal		20.2	20.0	68.5	67.8	89.7	87.8
Planned							
Zaire - Highway Rehabilitation Credit	9/85	24.1	25.0	53.0	55.0	77.1	80.0
Zambia - Industrial Reorientation Credit	9/85	53.0	55.0	19.3	20.0	72.4	75.0
Zambia - Agricultural Rehabilitation Credit	9/85	19.3	10.0	24.1	25.0	43.4	45.0
Ghana - Reconstruction Import Credit II	9/85	39.0	40.0	57.9	60.0	96.4	100.0
Somalia - Agricultural Rehab. Credit I	9/85	14.5	15.0	9.6	10.0	24.1	25.0
Guinea-Bissau - Recons. Import Credit	9/85	9.6	10.0	9.6	10.0	19.4	20.0
Subtotal		124.4	129.0	173.6	180.0	332.7	345.0
Total: 1st Qtr. of FY86		144.6	149.0	242.1	247.8	422.4	432.8

a/ Actual figures are based on the figures in the Board paper, which is valued at the time of negotiation of the projects. Planned figure are valued at August 28, 1985 exchange rates.

b/ Actual amounts of African Facility Credits do not include Special Joint Financing resources, while planned figures include Special Joint Financing resources.

c/ All projects except the Industrial Rehabilitation Credit in Zambia has already been approved for IDA financing.

d/ In addition, Germany agreed to provide Special Joint Financing of DM16.5 million (SDR 5.4 million and US$5.6 million equivalent) to the Structural Adjustment Lending in Togo.

IDA RESOURCE SHORTFALL PAPER

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 4, 1985 FIS/MC 85-45

TO: Managing Committee
Through Mr. Moeen A. Qureshi, SVPFI

FROM: David R. Bock, Director, FPA

EXTENSION: 78342

SUBJECT: IDA7 Commitment Authority Shortfall

1. The purpose of this note is to bring the Committee up to date on the status of IDA7 commitment authority. As the Committee is aware, the Association is experiencing a temporary shortfall in commitment authority due largely to the delays in notifications, the "trigger" provisions of the IDA7 Agreement, and exchange losses. IDA commitment authority at the end of FY85 was about SDR 340 million less than the amount of approved credits. By July 31, 1985, as a result of additional credits approved, this shortfall had increased to about SDR 700 million, and credit signings continue to be limited to priority operations.

2. In June, donor countries were asked to authorize IDA to commit their second installment payments before November 1, 1985, (the "trigger" date for release of the second installment). To date, Canada, Denmark, Greece, Norway, South Africa, Spain, Sweden, and the United Kingdom have responded favorably, increasing commitment authority by SDR 449 million, and as a result, decreasing IDA shortfall to SDR 287 million. IDA's commitment authority status as of August 30, 1985, is shown in the following table.

IDA COMMITMENT AUTHORITY AS OF AUGUST 30, 1985

	SDR Million a/
Resources made available b/	3,105
Transfer from FY84 IBRD net income	96
Total commitment authority made available	3,201
Less: IDA deficit in 2nd half of FY85	31 c/
Estimated deficit for FY86	7
Total authority available for commitment	3,163
Less: FY85 credits approved on "unconditional" basis d/	2,175
FY86 credits approved on "unconditional" basis d/	13
Balance available for priority projects	975
Less: FY85 credits approved on "conditional" basis d/	872
FY86 credits approved on "conditional" basis d/	390
Shortfall in IDA commitment authority as of August 30, 1985	287

a/ At August 26, 1985 exchange rates; and including IDA6 resources of SDR 150.3 million, and FY84 Account contributions of SDR 77.8 million, all of which were fully committed in FY85.
b/ For details, see Annex 1.
c/ US$31.7 million, as per unaudited financial statements for FY85.
d/ For details, see Annex 2.

P 1856

3. If no additional waivers are received, IDA's commitment authority shortfall will increase in the following months, given that about fifteen credits, totalling SDR 402 million, are expected to be approved between now and November 1, 1985, when the second tranche of IDA7 becomes available for commitment. However, Japan is expected to release its second installment payment of SDR 547 million by early September, and the Australian supplementary contribution of A$ 60 million (SDR 41 million) may be available before November. In addition, the transfer of FY85 IBRD net income will become available once the Governors vote on the resolution at Seoul. Resources should thus be adequate to cover all the credits scheduled for Board Presentation until November 1, 1985. Although Germany and France initially appeared reluctant to release their second installments at this time, we have requested them to re-examine the issue. Responses of the other countries are included in Annex 3.

4. Even though credit signings could resume on a normal basis after the second tranche payments become available for commitment in November, this situation would be short-lived because the proposed FY86 lending is expected to exceed the increase in commitment authority. More important, the Association does not at present have a full SDR 9 billion in potential commitment authority for the IDA7 period. The SDR 9 billion figure was made up of donor contributions of SDR 8,717 million as of the date of the resolution, expected IBRD transfers, and a small carryover of commitment authority from earlier years. However, the depreciation of the U.S. dollar expected by the donors at the time IDA7 was agreed has not taken place; donors contributions and subscriptions are thus still worth only SDR 8,313 million. Of this figure, SDR 227 million is unallocated. Even with full subscription by all donors, IDA7 commitment authority would be only SDR 8086 million at today's exchange rates. The U.S. dollar would have to depreciate by about 27% for this to increase to SDR 8717, the value of the Replenishment at the time of agreement.

5. IDA7 commitment authority may yet be pushed up by depreciation of the U.S. dollar. We are also examining the extent to which it would be prudent to commit against future cash flows. And, we continue to press donors to subscribe to the replenishment. To date, only twenty-three of the thirty-four donors, accounting for 86.9% of the total replenishment of US$9.0 billion, have submitted their notifications. Countries that have not notified as yet are: Argentina, Belgium, Colombia, Ireland, Italy, Netherlands, New Zealand, Portugal, United Arab Emirates, Venezuela, and Yugoslavia. Belgian notification is now expected in September, and those of Italy, the Netherlands and New Zealand in October.

6. IDA's commitment authority during IDA7 is closely connected with the Association's operating deficits and with the IDA4-5 shortfall. These issues will be discussed in detail in the context of an "IDA Financial Review", to be submitted for Board review in November.

7. The following chart provides a projection of IDA's commitment authority through FY87 compared to presently scheduled credit approvals.[1] If the presently programmed FY86 lending program of SDR 3,036 million is implemented, IDA would again face a commitment authority

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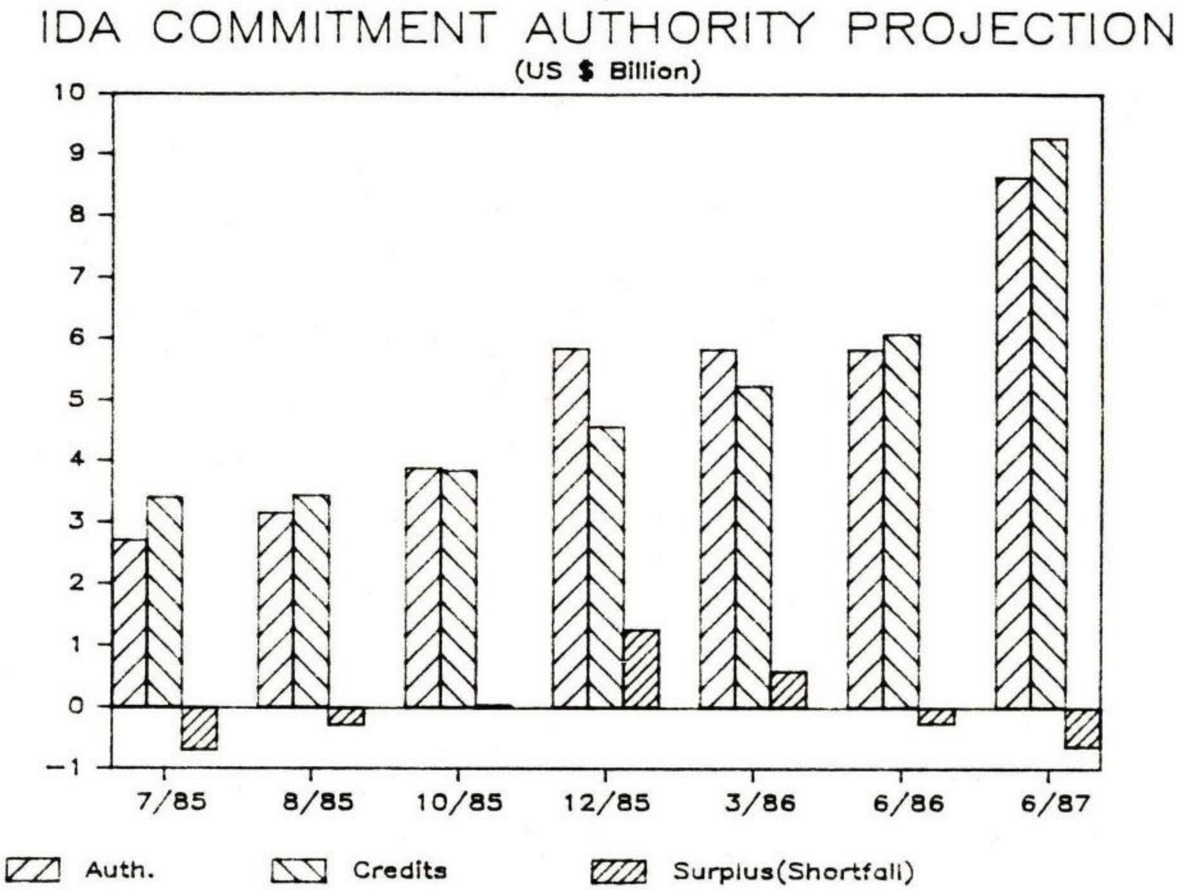
1/ Detailed commitment authority projections and assumptions are shown in Annex 4.

shortfall by April/May 1986, and we may need to request donors to release their third tranche contributions sometime in spring.

8. In the absence of any action/events to bring IDA7 commitment authority back to SDR 9 billion, FY87 IDA commitments would have to be limited to about SDR 2.5 billion, or about 22% below the presently proposed level (SDR 3189 million), and 18% below the FY85 level.



Attachments

cc: Messrs. Wood, Mistry, van Puymbroeck, Kotegawa
Mrs. Smith (o/r)

RBhan/DBock:cce:efs

IDA7 : STATUS OF CONTRIBUTIONS

	IDA7 Contributions		Value of IDA7 Contributions on August 26, 1985			IDA7 Contributions Released as of August 30, 1985		IDA7 as Agreed		
Donor	Currency of Obligation	Amount (Million)	U.S.$ (Million)	SDR (Million)	Share (%)	Notification Date	SDR (Million)	U.S.$ (Million)	SDR (Million)	Share (%)
Argentina	N. Curr.	0.24	0.30	0.29	.00			18.75	9.34	0.21
Australia	N. Curr.	200.00	140.84	135.92	1.64	11/01/84	45.31	178.52	175.38	1.98
Austria	N. Curr.	1187.28	61.26	59.12	0.71	01/21/85	19.71	61.20	57.62	0.68
Belgium	N. Curr.	8042.33	143.90	138.87	1.67			151.20	134.84	1.68
Brazil	N. Curr.	15531.41	2.27	2.19	0.03	10/26/84	0.73	22.17	14.93	0.25
Canada	N. Curr.	499.70	368.08	355.22	4.27	06/30/85	236.82	405.00	388.15	4.50
Colombia	N. Curr.	617.30	4.08	3.94	0.05			7.50	6.67	0.08
Denmark	N. Curr.	1025.40	102.30	98.73	1.19	10/05/84	65.82	108.00	96.91	1.20
Finland	N. Curr.	357.08	60.61	58.50	0.70	09/20/84	19.50	63.00	57.89	0.70
France	N. Curr.	4738.68	562.62	542.98	6.53	02/05/85	180.99	594.00	529.70	6.60
Germany	SDR	932.94	966.69	932.94	11.22	03/31/85	310.98	1035.00	932.94	11.50
Greece	N. Curr.	408.64	3.12	3.01	0.04	04/03/85	2.00	4.50	3.84	0.05
Hungary	N. Curr.	454.07	8.96	8.64	0.10	04/29/85	2.88	10.00	9.69	0.11
Iceland	N. Curr.	75.33	1.84	1.78	0.02	12/28/84	0.59	2.70	2.48	0.03
Ireland	N. Curr.	8.33	9.40	9.07	0.11			9.90	8.83	0.11
Italy	N. Curr.	611736.58	330.30	318.77	3.83			387.00	345.21	4.30
Japan	N. Curr.	402206.30	1700.30	1640.93	19.74	09/14/84	546.98	1683.00	1660.82	18.70
Korea	N. Curr.	7052.63	8.01	7.73	0.09	06/24/85	2.58	9.00	8.59	0.10
Kuwait	N. Curr.	18.38	60.97	58.84	0.71	10/31/84	19.61	63.00	60.65	0.70
Luxembourg	N. Curr.	239.36	4.28	4.13	0.05	06/18/85	1.38	4.50	4.01	0.05
Mexico	N. Curr.	1941.54	6.73	6.50	0.08	01/14/85	2.17	15.00	12.92	0.17
Netherlands	N. Curr.	797.17	256.90	247.93	2.98			270.00	242.59	3.00
New Zealand	N. Curr.	11.40	5.55	5.35	0.06			7.52	7.21	0.08
Norway	N. Curr.	845.37	103.30	99.69	1.20	09/21/84	66.46	114.30	103.18	1.27
Portugal	N. Curr.	641.90	3.88	3.75	0.05			5.25	4.57	0.06
Saudi Arabia	U.S.$	315.00	315.00	304.00	3.66	11/13/84	101.33	315.00	301.75	3.50
South Africa	N. Curr.	12.18	4.83	4.66	0.06	10/09/84	3.11	10.80	9.41	0.12
Spain	N. Curr.	6196.33	38.11	36.78	0.44	07/19/85	24.52	41.09	37.18	0.46
Sweden	N. Curr.	1757.68	213.35	205.90	2.48	09/20/84	137.27	225.00	206.86	2.50
U.A.E.	N. Curr.	218.06	59.40	57.33	0.69			59.40	57.56	0.66
United Kingdom	N. Curr.	401.52	562.73	543.08	6.53	02/26/85	362.05	603.00	544.78	6.70
United States	N. Curr.	2250	2250.00	2171.44	26.12	11/08/84	723.81	2250.00	2180.11	25.00
Venezuela	N. Curr.	182.35	12.80	12.35	0.15			15.00	13.70	0.17
Yugoslavia	N. Curr.	1484.63	5.39	5.21	0.06			15.00	11.45	0.17
Sub-total			8378.10	8085.56	97.26		2876.59	8764.30	8241.76	97.38
Unallocated			235.70	227.47	2.74			235.70	475.20	2.62
GRAND TOTAL			8613.80	8313.03	100.00		2876.59	9000.00	8716.96	100.00

FPAFS
August 30, 1985

FY 85-86 IDA CREDITS APPROVED AS OF AUGUST 30,1985

Credit Number	FY 85 Projects Financed By IDA6	Amount SDR (Million)	Amount U.S. $ (Million)	Approval Dates
1540	Zaire-Lulua Agricultural Development	12.6	12.5	01/08/85
1544	India-Bombay Urban Development	137.7	138	01/29/85
	Total IDA6 Credits approved in FY 85	150.3	150.5	

Credit Number	FY 85 Projects Financed By FY 84 Account	SDR (Million)	U.S. $ (Million)	Approval Dates
1510	Uganda-Water Supply and Sanitation	26.9	28	07/19/84
1538	Somalia-Northwest Region Agricultural Development	10.7	10.6	01/08/85
1541	Madagascar-Industrial Assistance	40.2	40	01/15/85
	Total FY 84 Account Projects Approved in FY 85	77.8	78.6	

Credit Number	FY 85 Projects Financed By IDA7	SDR (Million)	U.S. $ (Million)	Approval Dates
1509	Ethiopia-Sixth Telecommunications	38.70	40.00	07/19/84
1511	Niger-Power Engineering & Technical Assistance	7.20	7.50	07/19/84
1512	Lesotho-Fourth Education	9.70	10.00	07/31/84
1513	Sudan-Petroleum Technical Assistance	11.60	12.00	07/31/84
1514	India-Kerala Social Forestry	30.60	31.80	07/31/84
1515	Nepal-Third Highway	44.70	47.50	08/28/84
1516	China- Second Agriculture Research	24.30	25.00	09/11/84
1517	Guinea Bissau-Technical Assistance	6.00	6.00	09/11/84
1518	Djibouti-Urban Development	4.90	5.00	09/11/84
1519	Zaire-Technical Assistance and Training	8.60	9.00	09/11/84
1520	Ethiopia-Sixth Education	67.30	70.00	09/11/84
1521	Ethiopia-Agricultural Research	21.10	22.00	09/11/84
1522	Ethiopia-Technical Assistance	3.90	4.00	09/11/84
1523	India-National Agricultural Extension	38.60	39.10	10/02/84
1524	Tanzania-Fourth Technical Assistance	9.90	10.00	10/16/84
1525	Sudan-Stock Route Project	5.50	5.50	10/16/84
1526	Madagascar-Cyclone Rehabilitation Project	14.80	15.00	10/30/84
1527	Haiti-Fourth Power	21.80	22.10	11/20/84
1528	Malawi-Urban	14.80	15.00	11/27/84
1529	Zambia-Fisheries Development	7.10	7.10	11/27/84
1530	Benin-Technical Assistance	5.10	5.00	12/13/84
1531	Guinea-Bissau-Reconstruction Import	10.10	10.00	12/13/84
1532	Pakistan-Left Bank Outfall Drain Stage I Project	147.60	150.00	12/13/84
1533	Pakistan-Baluchistan Agricultural Extension	8.20	8.30	12/13/84
1534	Nepal-Agricultural Manpower Development	8.50	8.40	12/13/84
1535	Nepal-Industrial Development	7.50	7.50	12/13/84
1536	Tanzania-Port Rehabilitation	26.20	27.00	12/13/84
1537	Sri Lanka-Major Irrigation Rehabilitation	17.00	17.00	12/20/84
1539	Uganda-Agricultural Development	10.00	10.00	01/08/85
1542	Solomon Islands-Guadacanal Road Improvement Project	2.00	2.00	01/22/85
1543	Djibouti-Education	5.10	5.00	01/22/85
1545	Zambia-Agricultural Rehabilitation	24.70	25.00	01/29/85
1546	Rwanda-Agricultural Research	11.70	11.50	02/12/85
1547	Yemen Arab Republic-Second Industrial	8.00	8.00	02/12/85
1548	Equatorial Guinea-Cocoa Rehabilitation	9.10	9.30	02/19/85
1549	Malawi-National Agricultural Research	24.30	23.80	02/19/85
1550	Burkina Faso-Fertilizer	13.80	13.70	02/26/85
1551	China-Second University Development	148.00	145.00	02/26/85
1552	India-Narmada River Dev.(Gujarat) Sadar Sarovar Dam & Power	99.70	100.00	03/07/85
1553	India-Narmada River Dev. (Gujarat) Water Delivery & Drainage	149.50	150.00	03/07/85
1554	Senegal-Water Supply Project in Eleven Centers	24.10	24.00	03/07/85
1555	Guyana-Upper Demerara Forestry - Supplement to Loan 1623	8.70	8.80	03/07/85
1556	Yemen Arab Republic-Technical Assistance	4.70	4.70	03/07/85
1557	Yemen PDR-Agricultural Research & Extension	5.10	5.00	03/14/85
1558	Grenada-Agricultural Rehabilitation & Crop Diversification	5.00	5.00	03/14/85
1559	Guinea-Technical Assistance Project for Economic Management	9.70	9.50	03/14/85
1560	Uganda-Second Power	29.50	28.80	03/19/85
1561	Uganda-Petroleum Exploration Promotion	5.20	5.10	03/19/85
1562	Sri Lanka-Fourth Tree Crops	56.50	55.00	03/21/85
1563	Liberia-Second Water Supply	5.10	5.00	03/21/85
1564	Ghana-Accra District Rehabilitation	22.50	22.00	03/21/85
1565	Rwanda-Tech. Assist. for Improv. of Pub. Finance Management	4.90	4.80	03/21/85
1566	Kenya-Nairobi Third Water Supply Engineering	6.20	6.00	03/26/85
1567	Mauritania-Public Enterprise Tech. Assist. & Rehab.	16.90	16.40	03/26/85
1568	Togo-Educational Improvement	12.80	12.40	03/26/85
1569	India-Second National Agricultural Extension	50.26	49.00	03/26/85
1570	Nepal-Agricultural Extension Project II	7.40	7.20	03/26/85
1571	Mauritania-Small Scale Irrigation	7.70	7.50	03/26/85
1572	Mauritania-Industrial & Artisan Development	5.40	5.25	03/26/85
1573	Ghana-Second Reconstruction Imports Credit	61.60	60.00	03/28/85
1574	Bangladesh-Second Primary Education	80.10	78.00	03/28/85
1575	Zambia-Fourth Railway	20.50	20.00	03/28/85
	IDA7 Projects Approved through 03/31/85	1577.06	1579.55	

Credit Number	FY 85 Projects Financed By IDA7 (continued)	Amount SDR (Million)	U.S. $ (Million)	Approval Dates
1576	Ethiopia-Drought Recovery Program	31.30	30.00	04/09/85
1577	China-Seeds Project	41.70	40.00	04/11/85
1578	China-Rural Water Supply	82.10	80.00	04/11/85
1579	Cape Verde-Industrial Finance & Promotion	4.10	4.00	04/11/85
1580	Liberia-Second Petroleum Technical Assistance	2.70	2.60	04/11/85
1581	Central African Republic-Second Technical Assistance	8.40	8.00	04/16/85
1582	Western Samoa-Development of Western Samoa	2.10	2.00	04/23/85
1583	Burundi-Fourth Highway	18.90	18.10	04/23/85
1584	Yemen Arab Republic-Wadi Al-Jawf Agri. Development	10.50	10.00	04/23/85
1585	Lesotho-Health & Population	3.70	3.50	04/23/85
1586	Bangladesh-Second Gas Development	112.90	110.00	04/30/85
1587	Bangladesh-Flood Rehabilitation	31.30	30.00	04/30/85
1588	Nepal-Fourth Telecommunication	20.70	22.00	04/30/85
1589	Madagascar-Irrigation Rehabilitation	12.60	12.00	04/30/85
1590	Sao Tome & Principe-Economic Rehab. & Modernization	5.30	5.00	05/07/85
1591	Bangladesh-Third Flood Control & Drainage	50.10	48.00	05/07/85
1592	Haiti-Fourth Education & Training	10.40	10.00	05/07/85
1593	Burundi-Power Transmission & Distribution	12.90	12.30	05/09/85
1594	China-Highway Project (Joint)	30.30	30.00	05/14/85
1595	Guinea-Second Power Engineering & Technical Assistance	8.40	8.00	05/16/85
1596	Bhutan-Calcium Carbide	9.40	9.00	05/16/85
1597	Mali-Mopti Area Development Project	19.70	19.50	05/21/85
1598	Burkina Faso-Primary Education Development	21.80	21.60	05/21/85
1599	Togo-Second Structural Adjustment Program	28.10	27.80	05/30/85
1600	Togo-Third Technical Assistance	6.30	6.20	05/30/85
1601	Ghana-Road Rehabilitation & Maintenance	40.40	40.00	06/04/85
1602	Pakistan-Second Primary Education	53.00	52.50	06/06/85
1603	Pakistan-Second On-Farm Water Management	34.80	34.50	06/06/85
1604	Tanzania-Petroleum Sector Technical Assistance	8.10	8.00	06/06/85
1605	China-Forestry Development	47.80	47.30	06/11/85
1606	China-Pishihang-Chaohu Area Development	75.70	75.00	06/11/85
1607	Burkina Faso-Health Services Development	26.90	26.60	06/11/85
1608	Zaire-Sixth Highway	55.50	55.00	06/13/85
1609	Zaire-Seeds Projects	15.10	14.90	06/13/85
1610	Mozambique-Rehabilitation Program	45.50	45.00	06/18/85
1611	India-National Social Forestry	166.40	165.00	06/18/85
1612	Somalia-Agricultural Inputs Program	10.10	10.00	06/18/85
1614	Sudan-Drought Recovery Program	20.20	20.00	06/20/85
1615	Burma-Timber Distribution Project	18.00	17.75	06/20/85
1616	Burma-Second Seed Development	14.60	14.50	06/20/85
1617	Yemen PDR-Fourth Highways Project	14.60	14.40	06/20/85
1618	Niger-Irrigation Rehabilitation	9.60	9.30	06/25/85
	Total IDA7 Credits Approved in FY 85	2819.06	2798.90	
	FY 86 Projects Financed By IDA7			
1619	India-West Bengal Minor Irrigation	101.00	99.00	07/02/85
1620	Burundi-Second Forestry	13.00	12.80	07/16/85
1621	India-Maharashtra Composite Irrigation	164.20	160.00	07/16/85
1622	India-Kerala Water Supply & Sanitation	42.70	41.00	07/16/85
1623	India-Fourth Population Project - West Bengal	51.50	51.00	07/23/85
1624	Sudan-Power Rehabilitation	30.30	30.00	08/27/85
	Total IDA7 Credits Approved in FY 86	402.70	393.80	
	TOTAL CREDITS APPROVED AS OF AUGUST 30, 1985	3449.86	3421.80	

FPAFS
August 30, 1985

Response of Donor Countries to IDA Request for Authorization to Commit Second Installment Payments Before November 1, 1985

Subsequent to Mr. Qureshi's memorandum of June 24, 1985, we have coordinated closely with the offices of the Executive Directors of the donor countries to answer any questions that they may have, and to stay abreast with any new developments that may arise. So far, Canada, Denmark, Greece, Norway, Spain, South Africa, Sweden, and the United Kingdom have responded favorably and have agreed to release their second tranche of IDA7 for commitments before November 1, 1985. Greek authorization (SDR 1 million) was received in July and the others (SDR 448 million) in August 1985. Responses of the other donors are as follows:

1) France

The French ED's office was concerned about the impact of the waiver on France's payment schedule. We reassured them that the payment schedule was independent of the waiver (memo of July 29, 1985 to Mr. Claude Desneux). Mr. Moulonguet of the French Finance Ministry, who was visiting Washington, was also contacted. Although the French had initially indicated their inability to release their second tranche of IDA7 due to their "parliamentary process", we have requested them to reconsider the matter.

2) Germany

So far indications from Germany are that it cannot meet our request for authorization to commit the second installment while other contributors have not yet fulfilled their obligations concerning the first installment. However, we are still trying to persuade them to release their second installment, on the basis that the delay by certain members in submitting their notifications is not the only cause of the present shortfall. Other reasons for the shortfall are exchange rate fluctuations and the tranching arrangement which results in a time lag between credit-approvals and release of commitment authority.

3) Japan

We have been in contact with their authorities and have been trying to persuade them to release their second tranche before November 1, 1985. It appears that they may release their second tranche in early September.

4) Ireland

Ireland has not yet notified IDA of its participation in IDA7 and its response to the waiver proposal is also not known.

5) Italy

Italy has not yet sent its notification of participation in IDA7. The ED's office informed us that the Italian Parliament is expected to approve Italy's participation in IDA7 in September 1985. Once legislative approval for participation in IDA7 is obtained, the Treasury could decide on the waiver of commitment restriction on the second tranche.

6) Netherlands, Yugoslavia

Netherlands has not yet notified us of its participation in IDA7. The ED's office informed us that parliament approval authorizing participation in IDA7 is not expected until October.

Yugoslavia has not responded as yet.

7) Finland, Iceland

The ED's office has sent positive recommendations to the two Governments but has not received any response as yet.

8) Australia, New Zealand and Korea

ED's office has communicated our request to the three countries but no response has been received as yet. The Australians, however, have informally indicated to us that they would be making a supplementary contribution of A$ 60 million, formal notification for which is expected in September 1985.

9) Belgium, Austria

Belgium has not notified us of its participation in IDA7. We understand, however, that parliament approval has recently been obtained and formal notification is expected shortly. Belgium's position regarding the waiver for the commitment restriction on the second tranche is still not clear.

Austria is not likely to waive the second tranche commitment restriction, because of reasons similar to those of Germany. Hungary and Luxembourg have not responded.

10) Saudi Arabia, Kuwait, and UAE

Saudi Arabia and Kuwait are not likely to waive the second tranche commitment restriction. U.A.E., which has not yet notified of its participation in IDA7, is also not likely to react positively to the waiver proposal. The Saudi Minister of Finance had requested additional information regarding the reasons for the present shortfall. We assisted the ED's office in preparing a telex reply to the Minister explaining the reasons for the shortfall.

11) Brazil, Colombia, and Mexico: No response received.

FPAFS
8/30/85

IDA COMMITMENT AUTHORITY PROJECTION

(SDR Million)

	Actual		Projection				
	07/31/85	08/30/85	10/31/85	12/31/85	03/31/86	06/30/86	06/30/87
Resources Made Available /a	2,658	3,105	3,693	5,659	5,659	5,659	8,355
Transfer From FY84 IBRD Net Income	96	96	96	96	96	96	96
Transfer From FY85 IBRD Net Income			144	144	144	144	144
Transfer From FY86 IBRD Net Income							144
Total Commitment Authority Made Available	2,754	3,201	3,933	5,899	5,899	5,899	8,739
Less: IDA Deficit in 2nd half of FY85	31	31	31	31	31	31	31
IDA Deficit in FY86	4	7	14	21	32	42	42
IDA Deficit in FY87							34
Total Authority Available for Commitment	2,719	3,163	3,888	5,847	5,836	5,826	8,632
Less: FY85 Credits Approved "Unconditionally"	2,157	2,175	3,047	3,047	3,047	3,047	3,047
Less: FY86 Credits Approved "Unconditionally"		13	805	1530	2197	2197	3,036
Less: FY87 Credits Approved "Unconditionally"							2,549
Balance Available for Priority Projects	562	975	36	1,270	592	582	0
Less: FY85 Credits Approved "Conditionally"	890	872	0	0	0	0	0
FY86 Credits Approved "Conditionally"	373	390	0	0	0	839	0
FY87 Credits Approved "Conditionally"							640
Surplus (Shortfall) in Commitment Authority	(701)	(287)	36	1,270	592	(257)	(640)

/a At August 26, 1985 exchange rates; including SDR 150.3 million from IDA6, and SDR 77.8 million from FY84 Account; and assuming Australia will make a supplementary contribution of A$ 60 million in September 1985.

FPAFS
August 30, 1985

CRITERIA

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 27, 1985

TO Mr. Moeen A. Qureshi

FROM David R. Bock

EXTENSION 78342

CONFIDENTIAL

SUBJECT Support for Policy Reform within IDA8

As you know, the US is proposing to use the resources of IDA and the African Facility as joint financing with the IMF Trust Fund. In this connection they are giving thought to seeking an extension of the African Facility. As you and I have discussed, this is not a particularly attractive proposition because of its likely negative effects on IDA8. Accordingly, we want to make the case for using IDA regular resources as the vehicle for supporting structural adjustment and policy reform in Africa.

I don't know at this stage how explicit the US plans to be in Seoul on possible sources of finance for its Trust Fund initiative. However, I think we should be prepared to orchestrate the IDA Deputies' discussion in a way that leads to a consensus that priority should be given to IDA8 at this time, perhaps leaving open for later review whether an extension of the African Facility might be necessary. In other words, we will want the Deputies to reaffirm support for IDA's global focus, for dealing with the problems of Africa through IDA, and for the one-shot nature of the African Facility.

The attached tables (prepared by Shinji Asanuma's staff) show the planned allocation of IDA7 and African Facility lending by country group. They also indicate possible allocation within IDA8. It seems likely that the allocation constraints in IDA8 will be: (a) maintaining at least the same nominal level of lending to Africa; and (b) providing for a level of policy based lending at least equal to the amount that would be provided by the IMF Trust Fund if concentrated entirely on Africa. The questions that then arise are the resultant share for India and China and the adequacy of funding for traditional operations in Africa.

The attached tables assume an IDA8 of only SDR10.5b, roughly the same nominal size as IDA7 plus the African Facility. Allocation issues will be most acute if IDA8 is this small.1/ As Table 1 shows, Africa would receive 43% of IDA8; India and China together, about 30%. Setting aside SDR1.65b for policy based lending in Africa would leave about SDR2.85b for

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1/ At present, the lending program calls for full commitment for the African Facility during the FY86-87 period. Table 1 attached shows regional allocations assume this takes place; Table 2 assumes that one-third of the African Facility spills over into FY88.

traditional operations. This represents an increase of SDR0.6b over what is expected to take place during IDA7. In other words, it is not out of the question to try to provide an amount of lending in IDA8 sufficient to match the IMF Trust Fund (assumed to be SDR550m per annum). The absolute level of IDA lending to India and China would, however, be frozen at the IDA7 level and their share of IDA8 would be sharply reduced from that in IDA7 by itself. Naturally, a larger IDA8 would relieve some of these constraints possibly permitting only increased absolute lending for India and China to perhaps some modest higher share than 30-31%.

Attachments
cc: Messrs. Wood (o/r)
Asanuma
Mistry

DRB:ba

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 27, 1985

CONFIDENTIAL

TO: Mr. David Bock, Director, FPA

FROM: Shinji Asanuma, Director, PBD

EXTENSION: 75456

SUBJECT: IMF Trust Fund and Bank Participation

1. Following our meeting yesterday on the above subject, I attach the expanded material we agreed to provide:

- o Table 1 shows IDA-7, IDA-8, and SFA programs under the following assumptions: (a) SFA funds will be committed by end-FY87; (b) IDA-8 will amount to SDR 10.5 billion; and (c) the SSA share of IDA-8 will be about 42%, and that of India and China about 30%;

- o Table 2 presents a variation of Table 1 where about two-thirds of SFA will be committed by end-FY87 and about one-third by end-FY88;

- o Table 3 lists eligible and non-eligible SFA countries and shows their FY86-87 programs.

2. Please note that the SFA allocations shown in detail in Table 3 and summarized in Tables 1 and 2 are only tentative and not yet approved by Mr. Stern. Also note that we have not attempted to estimate policy-based lending outside Africa for IDA-8.

Attachments

cc: Messrs. Wood (o/r)
Mistry
Jansen
Mrs. Smith

CONFIDENTIAL

Table 1: IDA-7, IDA-8, and SFA COMMITMENTS a/
(SDR million)

IDA-7 b/

	FY86-87															
	IDA						SFA		IDA + SFA							
	Trad. Project		Policy-based		Total				Trad. Project		Policy-based		Total			
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%		
Eastern Africa	1002	21	430	35	1432	24	650	56	1002	21	1080	44	2082	29		
Western Africa	466	10	380	31	846	14	520	44	466	10	900	37	1366	19		
Total SSA	1468	31	810	65	2278	38	1170	100	1468	31	1980	82	3448	48		
India and China	1974	41	68	5	2042	34	-	-	1974	41	68	3	2042	28		
Others	1341	28	364	29	1705	28	-	-	1341	28	364	15	1705	24		
TOTAL	4783	100	1242	100	6025	100	1170	100	4783	100	2412	100	7195	100		

	FY85-87											
	IDA						IDA + SFA					
	Trad. Project		Policy-based		Total		Trad. Project		Policy-based		Total	
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1560	21	582	37	2142	24	1560	21	1232	45	2792	27
Western Africa	734	10	511	33	1245	13	734	10	1031	38	1765	17
Total SSA	2294	31	1093	70	3387	37	2294	31	2263	83	4557	44
India and China	3099	41	66	4	3165	36	3099	41	66	2	3165	31
Others	2122	28	398	26	2520	27	2122	28	398	15	2520	25
TOTAL	7515	100	1557	100	9072	100	7515	100	2727	100	10242	100

a/ Assumes SFA funds will be committed by end-FY87.
b/ Based on actual FY85 and current lending programs.

PBDCP
September 26, 1985

CONFIDENTIAL

Table 1: IDA-7, IDA-8, AND SFA COMMITMENTS a/
(SDR million)

	IDA-8					
	FY88-90 c/					
	Traditional Projects		Policy-based Lending		Total	
	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1900	21	900	55	2800	27
Western Africa	950	11	750	45	1700	16
Total SSA	2850	32	1650	100	4500	43
India and China	3200	36	-	-	3200	30
Others	2800	32	-	-	2800	27
TOTAL	8850	100	1650	100	10500	100

c/ Estimates based on a three-year, SDR 10.5 billion IDA-8. Assumes no policy-based lending for India and China, and Others.

PBDCP
September 25, 1985

Table 2: IDA-7, IDA-8, and SFA COMMITMENTS a/
(SDR million)

IDA-7 b/

FY86-87

	IDA						SFA		IDA + SFA					
	Trad. Project		Policy-based		Total				Trad. Project		Policy-based		Total	
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1002	21	430	35	1432	24	430	56	1002	21	860	43	1862	27
Western Africa	466	10	380	31	846	14	340	44	466	10	720	36	1186	17
Total SSA	1468	31	810	65	2278	38	770	100	1468	31	1580	79	3048	45
India and China	1974	41	68	5	2042	34	-	-	1974	41	68	3	2042	30
Others	1341	28	364	29	1705	28	-	-	1341	28	364	18	1705	25
TOTAL	4783	100	1242	100	6025	100	770	100	4783	100	2012	100	6975	100

FY85-87

	IDA						IDA + SFA					
	Trad. Project		Policy-based		Total		Trad. Project		Policy-based		Total	
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1560	21	582	37	2142	24	1560	21	1012	43	2572	26
Western Africa	734	10	511	33	1245	13	734	10	851	37	1585	16
Total SSA	2294	31	1093	70	3387	37	2294	31	1863	80	4157	42
India and China	3099	41	66	4	3165	36	3099	41	66	3	3165	32
Others	2122	28	398	26	2520	27	2122	28	398	17	2520	26
TOTAL	7515	100	1557	100	9072	100	7515	100	2327	100	9842	100

a/ Assumes that about two-thirds of SFA funds will be committed by end-FY87 and one-third by end-FY88.
b/ Based on actual FY85 and current lending programs.

FBDCP
September 26, 1985

Table 2: IDA-7, IDA-8, and SFA COMMITMENTS a/
(SDR million)

	IDA-8 c/															
	FY88-90															
	IDA						SFA		IDA + SFA							
	Trad. Project		Policy-based		Total				Trad. Project		Policy-based		Total			
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%		
Eastern Africa	1900	21	900	55	2800	27	220	55	1900	21	1120	55	3020	28		
Western Africa	950	11	750	45	1700	16	180	45	950	11	930	45	1880	17		
Total SSA	2850	32	1650	100	4500	43	400	100	2850	32	2050	100	4900	45		
India and China	3200	36	-	-	3200	30	-	-	3200	36	-	-	3200	29		
Others	2800	32	-	-	2800	27	-	-	2800	32	-	-	2800	26		
TOTAL	8850	100	1650	100	10500	100	400	100	8850	100	2050	100	10900	100		

c/ Estimates based on a three-year, SDR 10.5 billion IDA-8. Assumes no policy-based lending for India and China, and Others.

PBDCP
September 26, 1985

Table 3: FY86-87: Sub-Saharan Africa - IDA and SFA Commitments /a

(Amounts in SDR million)

	FY86-87						
				Policy Oriented		Traditional	
	IDA (A)	SFA (B)	IDA+SFA (A)+(B) (C)	Amount	% of (C)	Amount	% of (C)
Eastern & So. Africa							
Eligible							
Burundi	49	40	89	50	56.2	39	43.8
Kenya	136	25	161	45	28.0	116	72.0
Madagascar	80	60	140	110	78.6	30	21.4
Malawi	89	70	159	110	69.2	49	30.8
Rwanda	71	45	116	75	64.7	41	35.3
Somalia	62	30	92	50	54.3	42	45.7
Sudan	129	30	159	60	37.7	99	62.3
Tanzania	126	50	176	90	51.1	86	48.9
Uganda	161	65	226	100	44.2	126	55.8
Zaire	157	140	297	235	79.1	62	20.9
Zambia	90	95	185	155	83.8	30	16.2
Total	1150	650	1800	1080	60.0	720	40.0
Non-Eligible							
Comoros	7	-	7	-	-	7	100.0
Ethiopia	216	-	216	-	-	216	100.0
Lesotho	8	-	8	-	-	8	100.0
Mozambique	42	-	42	-	-	42	100.0
Total	273	-	273	-	-	273	100.0
Western Africa							
Eligible							
Benin	46	20	66	30	45.5	36	54.5
Cape Verde	3	2	5	5	100.0	0	0.0
CAR	17	20	37	25	67.6	12	32.4
Chad	39	25	64	50	78.1	14	21.9
Eq. Guinea	10	6	16	12	75.0	4	25.0
Gambia	15	10	25	12	48.0	13	52.0
Ghana	225	120	345	250	72.5	95	27.5
Guinea	60	48	108	58	53.7	50	46.3
Guinea Bissau	19	20	39	35	89.7	4	10.3
Liberia	44	20	64	52	81.3	12	18.8
Mali	121	41	162	61	37.7	101	62.3
Mauritania	13	20	33	25	75.8	8	24.2
Niger	115	65	180	129	71.7	51	28.3
Sao Tome & Prin.	7	2	9	7	77.8	2	22.2
Senegal	59	50	109	60	55.0	49	45.0
Sierra Leone	16	30	46	40	87.0	6	13.0
Togo	27	21	48	48	100.0	0	0.0
Total	836	520	1356	899	66.3	457	33.7
Non-Eligible							
Burkina Faso	19	-	19	-	-	19	100.0
Sub-Saharan Total	2278	1170	3448	1979	57.4	1469	42.6

/a Current IDA programs and tentative allocation (not yet approved by SVPOP) of SFA funds.

PBDCP
9/26/85

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

DATE September 27, 1985

TO Mr. Moeen A. Qureshi

FROM David R. Bock

EXTENSION 78342

SUBJECT Support for Policy Reform within IDA8

As you know, the US is proposing to use the resources of IDA and the African Facility as joint financing with the IMF Trust Fund. In this connection they are giving thought to seeking an extension of the African Facility. As you and I have discussed, this is not a particularly attractive proposition because of its likely negative effects on IDA8. Accordingly, we want to make the case for using IDA regular resources as the vehicle for supporting structural adjustment and policy reform in Africa.

I don't know at this stage how explicit the US plans to be in Seoul on possible sources of finance for its Trust Fund initiative. However, I think we should be prepared to orchestrate the IDA Deputies' discussion in a way that leads to a consensus that priority should be given to IDA8 at this time, perhaps leaving open for later review whether an extension of the African Facility might be necessary. In other words, we will want the Deputies to reaffirm support for IDA's global focus, for dealing with the problems of Africa through IDA, and for the one-shot nature of the African Facility.

The attached tables (prepared by Shinji Asanuma's staff) show the planned allocation of IDA7 and African Facility lending by country group. They also indicate possible allocation within IDA8. It seems likely that the allocation constraints in IDA8 will be: (a) maintaining at least the same nominal level of lending to Africa; and (b) providing for a level of policy based lending at least equal to the amount that would be provided by the IMF Trust Fund if concentrated entirely on Africa. The questions that then arise are the resultant share for India and China and the adequacy of funding for traditional operations in Africa.

The attached tables assume an IDA8 of only SDR10.5b, roughly the same nominal size as IDA7 plus the African Facility. Allocation issues will be most acute if IDA8 is this small.[1/] As Table 1 shows, Africa would receive 43% of IDA8; India and China together, about 30%. Setting aside SDR1.65b for policy based lending in Africa would leave about SDR2.85b for

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1/ At present, the lending program calls for full commitment for the African Facility during the FY86-87 period. Table 1 attached shows regional allocations assume this takes place; Table 2 assumes that one-third of the African Facility spills over into FY88.

traditional operations. This represents an increase of SDR0.6b over what is expected to take place during IDA7. In other words, it is not out of the question to try to provide an amount of lending in IDA8 sufficient to match the IMF Trust Fund (assumed to be SDR550m per annum). The absolute level of IDA lending to India and China would, however, be frozen at the IDA7 level and their share of IDA8 would be sharply reduced from that in IDA7 by itself. Naturally, a larger IDA8 would relieve some of these constraints possibly permitting ~~only~~ increased absolute lending for India and China to perhaps some modest higher share than 30-31%.

Attachments
cc: Messrs. Wood (o/r)
Asanuma
Mistry

DRB:ba

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 27, 1985

CONFIDENTIAL

TO Mr. David Bock, Director, FPA

FROM Shinji Asanuma, Director, PBD

EXTENSION 75456

SUBJECT IMF Trust Fund and Bank Participation

1. Following our meeting yesterday on the above subject, I attach the expanded material we agreed to provide:

- o Table 1 shows IDA-7, IDA-8, and SFA programs under the following assumptions: (a) SFA funds will be committed by end-FY87; (b) IDA-8 will amount to SDR 10.5 billion; and (c) the SSA share of IDA-8 will be about 42%, and that of India and China about 30%;

- o Table 2 presents a variation of Table 1 where about two-thirds of SFA will be committed by end-FY87 and about one-third by end-FY88;

- o Table 3 lists eligible and non-eligible SFA countries and shows their FY86-87 programs.

2. Please note that the SFA allocations shown in detail in Table 3 and summarized in Tables 1 and 2 are only tentative and not yet approved by Mr. Stern. Also note that we have not attempted to estimate policy-based lending outside Africa for IDA-8.

Attachments

cc: Messrs. Wood (o/r)
Mistry
Jansen
Mrs. Smith

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WBG ARCHIVES

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Table 1: IDA-7, IDA-8, and SFA COMMITMENTS a/
(SDR million)

IDA-7 b/

FY86-87

Region/Country	IDA Trad. Project Amt.	%	IDA Policy-based Amt.	%	IDA Total Amt.	%	SFA Amt.	%	IDA + SFA Trad. Project Amt.	%	IDA + SFA Policy-based Amt.	%	IDA + SFA Total Amt.	%
Eastern Africa	1002	21	430	35	1432	24	650	56	1002	21	1080	44	2082	29
Western Africa	466	10	380	31	846	14	520	44	466	10	900	37	1366	19
Total SSA	1468	31	810	65	2278	38	1170	100	1468	31	1980	82	3448	48
India and China	1974	41	68	5	2042	34	-	-	1974	41	68	3	2042	28
Others	1341	28	364	29	1705	28	-	-	1341	28	364	15	1705	24
TOTAL	4783	100	1242	100	6025	100	1170	100	4783	100	2412	100	7195	100

FY85-87

Region/Country	IDA Trad. Project Amt.	%	IDA Policy-based Amt.	%	IDA Total Amt.	%	IDA + SFA Trad. Project Amt.	%	IDA + SFA Policy-based Amt.	%	IDA + SFA Total Amt.	%
Eastern Africa	1560	21	582	37	2142	24	1560	21	1232	45	2792	27
Western Africa	734	10	511	33	1245	13	734	10	1031	38	1765	17
Total SSA	2294	31	1093	70	3387	37	2294	31	2263	83	4557	44
India and China	3099	41	66	4	3165	36	3099	41	66	2	3165	31
Others	2122	28	398	26	2520	27	2122	28	398	15	2520	25
TOTAL	7515	100	1557	100	9072	100	7515	100	2727	100	10242	100

a/ Assumes SFA funds will be committed by end-FY87.
b/ Based on actual FY85 and current lending programs.

PBDCP
September 26, 1985

CONFIDENTIAL

Table 1: IDA-7, IDA-8, AND SFA COMMITMENTS a/
(SDR million)

	IDA-8					
	FY88-90 c/					
	Traditional Projects		Policy-based Lending		Total	
	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1900	21	900	55	2800	27
Western Africa	950	11	750	45	1700	16
Total SSA	2850	32	1650	100	4500	43
India and China	3200	36	-	-	3200	30
Others	2800	32	-	-	2800	27
TOTAL	8850	100	1650	100	10500	100

c/ Estimates based on a three-year, SDR 10.5 billion IDA-8.
Assumes no policy-based lending for India and China, and Others.

PBDCP
September 25, 1985

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Table 2: IDA-7, IDA-8, and SFA COMMITMENTS a/
(SDR million)

IDA-7 b/

	FY86-87															
	IDA						SFA		IDA + SFA					
	Trad. Project		Policy-based		Total				Trad. Project		Policy-based		Total	
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1002	21	430	35	1432	24	430	56	1002	21	860	43	1862	27
Western Africa	466	10	380	31	846	14	340	44	466	10	720	36	1186	17
Total SSA	1468	31	810	65	2278	38	770	100	1468	31	1580	79	3048	45
India and China	1974	41	68	5	2042	34	-	-	1974	41	68	3	2042	30
Others	1341	28	364	29	1705	28	-	-	1341	28	364	18	1705	25
TOTAL	4783	100	1242	100	6025	100	770	100	4783	100	2012	100	6975	100

	FY85-87											
	IDA						IDA + SFA					
	Trad. Project		Policy-based		Total		Trad. Project		Policy-based		Total	
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Eastern Africa	1560	21	582	37	2142	24	1560	21	1012	43	2572	26
Western Africa	734	10	511	33	1245	13	734	10	851	37	1585	16
Total SSA	2294	31	1093	70	3387	37	2294	31	1863	80	4157	42
India and China	3099	41	66	4	3165	36	3099	41	66	3	3165	32
Others	2122	28	398	26	2520	27	2122	28	398	17	2520	26
TOTAL	7515	100	1557	100	9072	100	7515	100	2327	100	9842	100

a/ Assumes that about two-thirds of SFA funds will be committed by end-FY87 and one-third by end-FY88.
b/ Based on actual FY85 and current lending programs.

FBDCP
September 26, 1985

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Table 2: IDA-7, IDA-8, and SFA COMMITMENTS a/
(SDR million)

	IDA-8 c/															
	FY88-90															
	IDA						SFA		IDA + SFA							
	Trad. Project		Policy-based		Total				Trad. Project		Policy-based		Total			
Region/Country	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%		
Eastern Africa	1900	21	900	55	2800	27	220	55	1900	21	1120	55	3020	28		
Western Africa	950	11	750	45	1700	16	180	45	950	11	930	45	1880	17		
Total SSA	2850	32	1650	100	4500	43	400	100	2850	32	2050	100	4900	45		
India and China	3200	36	-	-	3200	30	-	-	3200	36	-	-	3200	29		
Others	2800	32	-	-	2800	27	-	-	2800	32	-	-	2800	26		
TOTAL	8850	100	1650	100	10500	100	400	100	8850	100	2050	100	10900	100		

c/ Estimates based on a three-year, SDR 10.5 billion IDA-8. Assumes no policy-based lending for India and China, and Others.

PBDCP
September 26, 1985

Table 3: FY86-87: Sub-Saharan Africa - IDA and SFA Commitments /a

(Amounts in SDR million)

	IDA (A)	SFA (B)	IDA+SFA (A)+(B) (C)	Policy Oriented Amount	Policy Oriented % of (C)	Traditional Amount	Traditional % of (C)
Eastern & So. Africa							
Eligible							
Burundi	49	40	89	50	56.2	39	43.8
Kenya	136	25	161	45	28.0	116	72.0
Madagascar	80	60	140	110	78.6	30	21.4
Malawi	89	70	159	110	69.2	49	30.8
Rwanda	71	45	116	75	64.7	41	35.3
Somalia	62	30	92	50	54.3	42	45.7
Sudan	129	30	159	60	37.7	99	62.3
Tanzania	126	50	176	90	51.1	86	48.9
Uganda	161	65	226	100	44.2	126	55.8
Zaire	157	140	297	235	79.1	62	20.9
Zambia	90	95	185	155	83.8	30	16.2
Total	1150	650	1800	1080	60.0	720	40.0
Non-Eligible							
Comoros	7	-	7	-	-	7	100.0
Ethiopia	216	-	216	-	-	216	100.0
Lesotho	8	-	8	-	-	8	100.0
Mozambique	42	-	42	-	-	42	100.0
Total	273	-	273	-	-	273	100.0
Western Africa							
Eligible							
Benin	46	20	66	30	45.5	36	54.5
Cape Verde	3	2	5	5	100.0	0	0.0
CAR	17	20	37	25	67.6	12	32.4
Chad	39	25	64	50	78.1	14	21.9
Eq. Guinea	10	6	16	12	75.0	4	25.0
Gambia	15	10	25	12	48.0	13	52.0
Ghana	225	120	345	250	72.5	95	27.5
Guinea	60	48	108	58	53.7	50	46.3
Guinea Bissau	19	20	39	35	89.7	4	10.3
Liberia	44	20	64	52	81.3	12	18.8
Mali	121	41	162	61	37.7	101	62.3
Mauritania	13	20	33	25	75.8	8	24.2
Niger	115	65	180	129	71.7	51	28.3
Sao Tome & Prin.	7	2	9	7	77.8	2	22.2
Senegal	59	50	109	60	55.0	49	45.0
Sierra Leone	16	30	46	40	87.0	6	13.0
Togo	27	21	48	48	100.0	0	0.0
Total	836	520	1356	899	66.3	457	33.7
Non-Eligible							
Burkina Faso	19	-	19	-	-	19	100.0
Sub-Saharan Total	2278	1170	3448	1979	57.4	1469	42.6

/a Current IDA programs and tentative allocation (not yet approved by SVPOP) of SFA funds.

PBDCP
9/26/85

SUMMARY ANALYSIS OF POSSIBLE CHANGES IN IDA TERMS

Possible Alternatives	Approximate Proportion of New IDA Lending Affected	Advantages	Disadvantages	Effect on G.Element (77.2% for Existing loans)	Conclusions
(1) Generalized shortening of maturities from 50 to 35 years for all countries.	100%	Would have a positive but longer term impact on reflows to IDA. Would permit IDA to redirect its funds quicker.	Impacts on the poorest countries as well as the blend. GE would begin to fall off sharply below 35 years maturity.	68.3% for all borrowers.	A possible option but not strongly recommended because of the impact of the faster repayment schedule on the poorest countries.
(2) Shortening of maturities (to 35 years) for blend countries only.	40%	Concentrated on countries most able to pay. Not a significant impact on the GE.	Slow and small impact on reflows to IDA.	68.3% for blend borrowers on their IDA funds, 77.2% for the remaining countries.	Recommended because it would be consistent with seeking to limit IDA exposure to the blend countries when they graduate. Leaves poorest countries unaffected.
(3) Differentiation of terms (shortened maturity and on interest rate) by type of operation.	20%	Recognizes that some loans have distinctly different characteristics from others, and seeks to take account of that in pricing.	Can create wrong motives by penalizing adjustment efforts (terms on SALs might be hardened). Prevents the country from appropriating some of the benefits of quick payback terms. Could have an adverse effect on the poorest countries with a high concentration of such loans.	A 25-year maturity with 5% interest and six years grace has GE of 24.1%.	Not recommended for differentiation by operation has too many associated disadvantages (see earlier column).
(4) Shortening of maturities for blend countries only + a differentiation of terms by operation for all borrowers (=(2)+(3)).	40-60%	Offers a means of hardening which focuses on the countries most able to repay and on the projects, which yield the fastest returns.	Shares the disadvantages of (2) and (3).		Not recommended for same reasons as in (3).
(5) A shortening of maturities and an increase in interest charges for all borrowers.	100%	The addition of an interest rate leads to a sharp increase in the volume of reflows to IDA.	Leads to a sharp fall in concessionality which could adversely impact on borrowers, especially the very poorest.	A 35 year loan with an 8-year grace period and 3% interest charge would reduce the G.E. to 45%.	Not recommended because it would have too severe an impact, particularly on the poorest borrowers.
(6) A shortening of maturities for all borrowers and increase in interest charges for blend countries only.	100% for maturities. 40% for interest charges.	Boosts reflows to IDA. May help to smooth the transition to IBRD terms where the limits of blending have already been reached.	Has the disadvantages of (1) for the poorest countries. Could reduce creditworthiness and hence the attractiveness of blend countries for nonconcessional funds.	For the blend countries it has the same effect as (5); for the poorest countries it has the same effect as (1).	A possible option but not strongly recommended because of the impact of the faster repayment schedule on the poorest countries. Might impact adversely on blend countries' creditworthiness.
(7) A shortening of maturities for blend countries and an increase in interest charges for blend countries.	40%	Same as (6).	As in (6) might adversely affect debt service profiles in some instances, and reduce creditworthiness.	Has same effects as (5).	Recommended, but not as strongly as option (2) because of the adverse potent effect of the interest charges on the blend countries.

AFleming/cce
September 1985