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DRAFT

3/27 ~~March 19, 1970~~

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Approved, assuming Burke has concurred in the draft.

Subject: Pearson Commission Recommendation No. 5 Concerning Refinancing of Export Credits

Recommendation

"Regional development banks, in cooperation with other international agencies, should take the lead in making available special funds for the refinancing of export credits granted by developing countries, and in establishing regional export credit insurance facilities."1/

Background

This recommendation is one of several that derived from the Commission's analysis of the trade problems of the developing countries.2/ The Commission found that while several developing countries are acquiring a capacity to produce competitively priced capital goods, they are hampered in their efforts to sell such goods abroad, generally to other developing countries, by their inability to offer export credits (or credits to purchasers) on terms comparable to those offered by suppliers in developed countries who have access to highly developed export credit schemes.

The lack of adequate credit insurance arrangements was also cited by the Commission as a factor inhibiting the growth of export credits and thus of exports of capital goods from the developing countries. It pointed out that, although some developing countries have succeeded in establishing export credit insurance facilities, others have been hampered by high costs. "In this area", it said, "there are large economies of scale, and most developing countries would find it advantageous to participate in multinational and regional export credit insurance schemes."3/

1/ Report, page 98.

2/ See also the memoranda analyzing Recommendations Nos. 3 and 4.

3/ Report, page 96.

Analysis

This recommendation is addressed primarily to the regional development banks. However, it relates to a problem that is also of concern to the World Bank. The Commission correctly observes that "The granting of export credits amounts to a medium- to long-term loan to the importers by the exporting country" and that most developing countries can ill afford to forego the foreign exchange earnings from their capital goods exports for the periods covered by such credits.[1/]

A facility for refinancing the credits extended to exporters of capital goods by national agencies in the developing countries would enable such countries to realize promptly their foreign exchange earnings from capital goods exports. This is clearly desirable, both to strengthen their current payments balances, and to encourage further diversification of their exports by promoting the production and sale of capital goods which they are able to produce at competitive prices. As the broad objective of the international development finance institutions is to encourage the development of the whole economy of each of their member countries towards a greater degree of viability, it would seem to be entirely appropriate for such institutions to use some of their resources to promote facilities for refinancing export credits and thus encourage production for export.

It is probable that most of the export credits covered by any refinancing scheme would be in the range of 3 to 10 years' duration. While the individual export credits would, therefore, lie in the short sector of the range of credits normally made by international development finance institutions, the refinancing credits themselves need not be directly related to the terms of the individual export credits granted by the national institutions. Such

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1/ Ibid.

refinancing credits would be analogous to the credits frequently extended by this Bank and by regional development banks to agricultural credit agencies and development finance companies.

The size of the problem should not, however, be exaggerated. There are relatively few developing countries in a position to produce competitively significant quantities of potentially exportable capital goods requiring financing of the export credit type, although a substantially larger number produce some goods of this character. [As the Commission notes, several of the more industrially advanced developing countries already have institutional arrangements for financing such exports, but they are hampered by foreign exchange stringency as to the amount and terms of the credits they are able to provide ~~without external assistance.~~] omit this sentence? No

The problem under consideration first became serious in some of the larger Latin American countries in the late 1950s. In response, the Inter-American Development Bank (IADB), in 1963, established a facility for refinancing export credits granted by institutions in its member countries for sales within the region of items on a prescribed list of capital goods; the amount of refinancing for any export credit under this scheme is limited to 70% of the invoiced price. Under this facility the IADB, as of December 31, 1969, had extended 11 lines of credit, totalling $41 million. Both the Asian Development Bank and the African Development Bank have been studying the problem of refinancing export credits granted by their member countries, although no decision to mount such a program has yet been taken by either organization.

Check what happened at Israel.

If the regional development banks are prepared to take the lead in this area of financing, I believe that the World Bank should be willing to provide such appropriate assistance as the regional banks may request. The IADB already has gained considerable experience in this field and it would seem clearly undesirable for us to duplicate the facility it has created for the Latin American countries. The other regional banks have sufficient financial resources to create similar facilities for their members, and since neither we nor they have yet acquired expertise in this field of financing, I see no reason for us to seek to develop it if they are prepared to do so.

Having said that, however, I would not preclude the possibility that one or more of our developing member countries might apply to the World Bank Group for assistance in financing some appropriate institutional mechanism designed to facilitate export sales of capital goods produced within the country. If, in such a case, the member country cannot obtain necessary financing from a regional development bank, and if the financing requested fills a priority need in the light of the country's over-all development program, I believe we should be prepared to consider providing it.

There remains for consideration that part of the Commission's recommendation relating to the establishment of regional export credit insurance facilities. The U.N. Secretariat, which recently prepared a descriptive analysis of export credit and export credit insurance schemes of ~~eleven~~ 11 developing countries, is in the process of bringing that analysis up to date, and adding material on a twelfth country. At a later stage, the Secretariat plans to evaluate the adequacy of these arrangements. But so far as I am aware, there exists at present no analysis of the extent to which facilities of national institutions in the developing countries are adequate to protect exporters against the risk of loss on export credit, or the extent to which the absence or inadequacy of such facilities discourages producers of capital goods from selling to foreign buyers on credit~~s~~ terms. Clearly, if there is a need to supplement such national insurance facilities as may be available to exporters within the developing countries, this is an appropriate field for action, as the Commission suggests, for the regional development banks, particularly as a complement to such export credit refinancing facilities as they may decide to establish. The Commission did not suggest that the World Bank should take action in this field and I do not propose that we should.

Conclusion

I hope that, in accordance with the Commission's recommendation, the regional development banks will take the lead in providing facilities for refinancing export credits extended by the developing countries and, if they find it desirable, in creating regional export credit insurance facilities. If there is any assistance which the regional banks feel that this Bank can extend in this matter, I believe that we should offer our cooperation. I ~~believe, further, that, in appropriate cases, if the need cannot~~ be satisfied by a regional bank, the World Bank Group should itself be prepared to consider providing finance directly to export financing institutions established by its developing member countries.

Robert S. McNamara

3/27 To Mr. Demuth

711/5/22

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: March 26, 1970

FROM: Richard H. Demuth

SUBJECT: Pearson Commission Recommendations

Attached are drafts of five more memoranda analyzing six Pearson Commission recommendations: No. 3, on financing of buffer stocks; No. 5, on refinancing of export credits; No. 8, on assistance in appraising the terms of export credits; No. 11, on an "early warning" OK system; and Nos. 20 and 21 (combined) on financing for technical OK assistance.

The "early warning" memorandum has been cleared with the IMF. I have also asked Ed Martin for his comments on that memorandum, in view of DAC's interest and the reference to OECD in the recommendation. His comments have been dispatched but not yet received. I have no reason to think that they will suggest any change in substance, but of course I shall let you know if they do.

The position is now that 14 memoranda, covering 15 recommendations, have gone to the Board; nine more (including the attached), covering 10 recommendations, have been submitted to you. That leaves eight to go.

Attachments (5)

President has seen

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Approved as modified, on the assumption it has been cleared by Knapp and Friedman (or Kavanaugh) and, where appropriate, Schweitzer.

RMcN

DRAFT
February 6, 1970

3/29 Approved as modified (on the assumption it has been cleared by Knapp & Friedman (or Kamarck) & Reid informally). Dean

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Recommendation No. 11 Concerning an "Early Warning System"

Recommendation

"In regard to the possible excessive use of export credits, a strong 'early warning system' based on external debt reporting should be evolved by the OECD and the World Bank."1/

Background

The recommendation appears in the context of the Commission's review of some of the problems arising from the increasing volume of export credits extended to developing countries, particularly as a consequence of the fact that these credits are obtainable with relative ease and that they sometimes are accepted without adequate scrutiny of the price of the goods financed or of the purposes for which the goods are to be used. The Commission, while commenting that export credits have a part to play in development, adds that their imprudent use involves very real dangers, and notes that excessive extension of such credits to developing countries has in some cases given rise to acute debt crises.2/

The report suggests that the World Bank fix ceilings on export credits to countries which are "in the danger zone from the standpoint of debt liabilities and interest burden", and that credits beyond the ceilings should be given "significantly less favorable treatment than other claims" in any debt rescheduling.3/

1/ Report, page 123.

2/ Report, page 16.

3/ Report, pages 121-2.

This suggestion was not incorporated in the formal recommendation quoted above because, we are informed by members of the Commission's staff, the Commission recognized that it would be difficult to establish a ceiling, to determine precisely which credits exceeded the ceiling, and to arrange that these credits be given relatively unfavorable treatment in debt reschedulings. The Commission hoped, however, that the suggestion might be useful as a starting point for consideration of an expanded role for the World Bank in making recommendations concerning the appropriate volume and terms of all types of long-term capital flows to all countries which have a debt problem. The report also proposes that the World Bank be given responsibility for "issuing definitive recommendations against further encouragement of export credits to countries which are in the danger zone." 1/

Staff members have informed us that the Commission was aware that the International Monetary Fund (IMF) already performs some of the proposed functions - for example, it frequently recommends ceilings on certain types of credit for countries seeking IMF stand-by arrangements. They added that there had been a reference to the IMF, as well as to the Bank, in an earlier text of the recommendation, but that it had been inadvertently omitted from the final version.

Analysis

I welcome the Commission's action in calling attention to the disruptive consequences of an injudicious use of export credits and excessive reliance upon them, and I agree that the World Bank can, and should, play a role in helping to avert debt crises. ~~However,~~ I believe that we can be most effective in

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1/ Report, page 121.

this matter if our counsel is addressed to our developing country members rather than to the creditor countries. Debtor governments are in many cases poorly informed of the extent of the country's indebtedness, notably where large public or private corporations are able to make commitments without a government guarantee. And even where some officials are well aware of the debt situation, a warning from a relatively impartial external source could strengthen the hand of those who favor corrective action.

Creditor countries, on the other hand, do not appear to expect or to need warnings of impending debt crises from the World Bank to supplement those which they receive from other sources. The Berne Union of export credit insurance agencies already provides a kind of early warning through its work in identifying sharp increases, or "surges", in the use of export credits. Members of the Union exchange information on outstanding credits of this character at regular meetings, where they also compare data on terms and conditions for different borrowers and evaluate data on other economic variables in a country with a surging inflow of such credits.

There are good reasons why a surge in the flow of export credits is a useful (although not a certain) indicator of debt difficulties. The pressures of sales competition often assure the continued availability of export credits, even at times of obvious financial crisis. (A) ~~They~~ Export credits can thus usually be obtained more quickly and more easily than official credits, which are normally extended only after a careful look at the prospective borrower's ability to repay.

Insert A

Th~~e~~is problem is complicated by the fact that governments of countries which are the principal sources of export credits often have little control over the more or less autonomous institutions which actually grant or guarantee export credits. (Exporters in these countries exert continuous pressure on such institutions to make credits easily available without reference to the position of borrowing countries.)

Commercial bank credit is also very sensitive to changes in the market evaluation of a country's creditworthiness. Thus, with other sources of credit unavailable, a country whose shortage of foreign exchange is becoming acute is likely to resort to export credit financing for imports of equipment and other goods, especially for projects under way; a surge of export credits to that country is often the result, and it may occur before delays in service payments give a more definite sign of financial difficulty. Insert B

Attempts have been made in the past to bring about organized international cooperation by creditor countries in establishing mechanisms or reaching agreement on principles for dealing with problem cases.[1/] These efforts have been largely unsuccessful. Instead of undertaking joint efforts, individual Berne Union members have generally adopted a variety of restrictive measures, e.g., raising premium rates and reducing the proportion of insurance coverage on export credit transactions with the debtor country concerned. The normal "float" of short-term bank credit is likely to be reduced at the same time. But while these measures help to limit the exposure of the financing and insuring agencies, they do not prevent the occurrence of a debt crisis and indeed may even provoke one.

1/ See a recent IMF study, prepared at the request of the U.N. Conference on Trade and Development (UNCTAD), "The Use of Commercial Credits by Developing Countries for Financing Imports of Capital Goods," SM/69/203, December 31, 1969, page 57 et seq. See also a study by the staff of the Bank, also prepared at the request of UNCTAD, "Suppliers' Credits from Industrialized to Developing Countries," Revised edition, April 3, 1967, pp. 8-10.

Insert B

This ~~By bringing about~~ regularly

This whole range of problems is being reviewed in the Development Assistance Committee of the OECD. A regular exchange of information and views among governments of countries which provide export credits to developing countries can help them to identify difficult debt situations and plan timely remedial action.

As the Commission notes, "Fundamentally, the task of preventing the excessive use of export credits for projects of low priority must be that of the individual developing country."1/ There are, however, a number of things which the Bank can and, I believe, should do to assist those developing countries determined to prevent their debt problems from reaching an acute stage.

First, we can help member governments to improve their debt management and reporting systems; we are in fact doing this through special missions in some cases and through country economic missions in others. Second, we can continue our efforts to improve the scope and quality of our information on long-term debt, from both the creditor and debtor sides. Missions, both the special missions referred to above and country economic missions, are one vehicle for improving the collection and quality of data from the debtor countries; we also receive and provide information through arrangements with the regional banks. The joint system for collecting data on long-term loans from the creditor governments, agreed a few years ago between the Bank and the OECD, is beginning to be productive, and we are working with the IMF in trying to obtain statistics on short-term debt. Third, because lack of information and divided counsel can contribute to delay in a debtor country's decision to deal with an impending debt crisis, we can, in cooperation with the IMF, help to assure that appropriate officials in borrowing countries are informed, fully and in good time, when a debt crisis appears to be looming. Finally, at the invitation of the

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1/ Report, page 121.

borrowing country and its creditors, the Bank and the IMF can help to formulate a corrective program.

The last two steps would respond directly to the Commission's recommendation. The first two are necessary pre-conditions. The annex to this memorandum describes the analytical work on debt being undertaken by the World Bank in cooperation with the IMF. It should be possible for the two institutions, on the basis of that work and the financial data available to them, in some cases to identify debt problems before the stage of dangerous surges in export credits or of delay in service payments is reached, and to warn the debtor. Warnings about debt must, of course, be given in confidence. A public warning of impending debt difficulty can become a self-fulfilling prophecy; by encouraging creditor country restrictions on credit and insurance, or by discouraging lenders and insurers even without the imposition of such restrictions, it can provoke a crisis which might otherwise have been postponed or even avoided.

Once a debt problem is identified, the World Bank and the IMF could also, if the interested parties wish them to do so, work out a corrective program, indicating both the financial measures to be taken by the debtor and targets for the mix of financial flows to be sought from creditors (e.g., a recommended upper limit to flows on conventional terms and a recommended minimum for flows on concessional terms). ~~The Bank and the IMF are in fact already separately engaged in helping to formulate elements of corrective programs.~~ Under its standby arrangements the IMF has frequently worked out, with a prospective borrower, a plan to limit external borrowings to a level consistent with progress toward a solution of that country's debt problem.

Similarly, the Bank has on occasion, usually in the framework of a consortium or consultative group, suggested the amount and the terms of external financial flows which would be appropriate to the recipient country's financial situation. I believe that the two institutions could usefully combine their efforts, where appropriate, to deal with developing debt crises. The Managing Director of the IMF shares this view.

Conclusion

I believe that the Bank can play a useful role in providing information, with due regard to confidentiality, to individual developing country members in the early stages of an impending debt crisis. We shall, accordingly, continue to work with the IMF to improve the timeliness of warning signals which can be given to those members with respect to the accumulation of external debt, particularly in the form of export credits. Our projections of the debt service ratio and use of other analytical techniques, together with the steadily improving financial information available to us and to the IMF, should provide a basis for estimating the likelihood that a debt crisis will develop. Together, the two institutions should be able, when invited to do so, to help in the formulation of the two principal components of a corrective program: financial plans for the debtor and aid plans for the creditors. We shall also continue to keep in close touch with the Development Assistance Committee of the OECD, which is very much concerned with the problems discussed in this memorandum.

Robert S. McNamara

March 12, 1970

ANNEX

The analytical work done by the World Bank staff suggests that one of the most significant indicators of the growth of a debt problem at an early stage is the debt service ratio of the country concerned. Attached is a table which gives summary information on 22 debt reschedulings arranged for 12 developing countries between 1964 and 1969; it compares the debt service ratios of the latter with those of 35 other developing countries for which data are readily available.

The debt service ratios in the year in which a rescheduling occurred and in the following year presumably reflect approximately the consensus among creditors as to what the debtor could reasonably be expected to pay. The ratios in those years averaged about 17%, ranging from around 24% in the upper quartile to about 9% in the lower. The average of 17% for cases of rescheduling may be compared with a 7% average for countries which did not reschedule in the period. Only one country, Mexico, succeeded in sustaining an average debt service ratio higher than 17% without a rescheduling during the period. While the data are not conclusive, they suggest that the risk of debt crisis is relatively high for a country with an average debt service ratio in the general range of 15% and above.

It should be noted, on the other hand, that much lower debt service ratios have been associated with several reschedulings. It may be concluded that there are limitations on the usefulness of the data on debt service ratios as indicators of the burden of debt. One of the limitations is that the debt service ratio is normally defined to exclude short-term debt of maturity below one year as well as unguaranteed private debt;

these types of debt can contribute significantly to a crisis. A second limitation is that it may not be the most appropriate index for countries which are members of a larger currency area; in such cases the pressure of debt service on the government budget alone may be the critical problem, rather than any shortage of foreign exchange for the economy as a whole. A third limitation is that a number of circumstances may affect the ability of a country to service its debt, e.g., the level of its reserves (including access to IMF resources), the availability of new capital, the rate of growth of GNP, the degree of fluctuation of exports, and the ability to restrict imports. Different combinations of such factors have been and are being tested for their predictive value by World Bank staff, by the Development Assistance Committee of the Organisation for Economic Co-operation and Development, and by other bodies. Variants of the debt service ratio are also being tested, taking account, for example, of the level of debt outstanding and of the proportion of debt attributable to export credits.

The quality and completeness of the debt statistics affect our ability to analyze debt situations. We are working closely with OECD in an attempt to improve statistics on medium and long-term debt. Extension of our information on the short-term end of the maturity spectrum could be particularly valuable. Through various channels we have already received some information on this, and we are now consulting with the IMF on ways of amplifying and systematizing it.

In addition to examining the historical record of debt service ratios, the staff is undertaking long-range forecasts of these ratios and other

February 20, 1970

ANNEX cont'd

economic variables, as an aspect of our ~~regular~~ creditworthiness analyses. This forecasting, like the warnings to debtor countries, must of course be conducted in confidence. The earlier years of the long-range projections can be particularly useful for the purposes of "early warning". After these projections are considered in conjunction with the country-by-country analyses which the World Bank and the IMF prepare, it should be possible to arrive at a reasonable estimate of the likelihood of a debt crisis for each developing member country.

DEBT SERVICE RATIOS (DSR) a/

Showing cases of debt renegotiation (R) b/

47 Countries	DSR Average 1964-1968	1964	1965	1966	1967	1968	1969	Debts Renegotiated: Classes g/	Debts Renegotiated: Amounts (Millions of US $)	Debts Renegotiated: Auspices
Brazil c/	26.6	R 25.0	21.6	26.6	37.2	22.5	24.1	S	200	multilateral
Mexico	25.0	24.0	24.0	27.0	28.0	22.0	22.0	-	-	-
Argentina	24.3	26.8	R 18.8	23.9	27.0	25.2	30.2 p/	O;S	70	multilateral
Mali d/	23.5	20.0	23.1	R n.a.	n.a.	R 27.5	n.a.	S	n.a.	bilateral
Tunisia	20.3	n.a.	n.a.	18.0	19.0	24.0	24.0 p/	-	-	-
U.A.R.	19.5	n.a.	n.a.	R n.a.	R n.a.	R 19.5	R n.a.	B;O;S	n.a.	bilateral
Yugoslavia e/	19.0	n.a.	n.a.	R n.a.	n.a.	R 19.0	23.0	B;O;S	70;25	bilateral
India	18.3	12.6	17.7	18.6	22.6	R 20.0	R 23.3	I;O;S	100;105	multilateral
Chile	17.5	18.5	R 16.9	17.8	18.6	15.9	n.a.	O;S	90	multilateral
Turkey	16.6	19.0	R 17.0	16.0	15.0	16.0	17.0	O;S	210	multilateral
Uruguay	14.2	10.5	6.7	R 11.7	20.7	21.2	23.5	B;S	135	bilateral
Pakistan	13.0	10.7	11.3	11.8	14.6	16.6	17.7	-	-	-
Bolivia	12.2	13.4	11.5	11.6	11.5	13.2	8.5 p/	-	-	-
Indonesia	11.6	n.a.	n.a.	R n.a.	R n.a.	R 11.6	7.4	O;S	310;110;80	multilateral
Dominican Republic	10.8	3.0	21.0	13.0	8.0	9.0	10.0 p/	-	-	-
Colombia	10.2	8.4	8.2	10.1	10.6	13.7	13.0	-	-	-
Costa Rica	9.5	7.4	8.1	10.3	10.4	11.1	9.2 p/	-	-	-
Sierra Leone	9.3	n.a.	n.a.	7.4	11.6	8.8	n.a.	-	-	-
Peru	8.8	6.0	7.0	9.0	13.0	R 9.0	R 11.0	B;O;S	50;85	multilateral
Ecuador	8.2	8.0	8.0	8.0	8.0	9.0	12.0 p/	-	-	-
Ethiopia	8.1	6.1	6.1	7.8	10.0	10.3	n.a.	-	-	-
Morocco	8.0	4.3	4.7	11.4	7.5	12.1	9.5	-	-	-
Ghana	7.6	n.a.	n.a.	R 4.0 f/	5.7	R 13.1	n.a.	S	170;100	multilateral
Kenya	7.5	10.7	5.8	6.0	7.3	7.6	n.a.	-	-	-
Sudan	7.0	n.a.	7.0	n.a.	7.0	n.a.	n.a.	-	-	-
Philippines	7.0	3.5	7.5	8.8	8.0	n.a.	n.a.	-	-	-
Guatemala	6.6	6.6	5.1	5.4	9.6	6.2	7.6 p/	-	-	-
Greece	6.3	5.5	5.4	5.1	9.3	6.4	6.2 p/	-	-	-
Paraguay	5.9	6.6	4.1	3.6	5.6	9.4	11.3 p/	-	-	-
Nigeria	5.3	4.1	5.7	4.6	5.7	6.4	n.a.	-	-	-
Korea	5.3	n.a.	n.a.	2.9	5.7	7.2	11.3	-	-	-
Nicaragua	4.6	3.9	4.1	4.8	5.4	5.0	5.2 p/	-	-	-
Tanzania	4.6	3.9	4.4	4.0	4.8	6.0	n.a.	-	-	-
Ceylon	4.6	4.9	3.0	2.6	5.5	6.8	10.0	-	-	-
Guyana	4.2	4.1	4.4	3.8	4.1	4.6	3.8 p/	-	-	-
Trinidad Tobago	3.9	7.0	3.4	2.8	2.8	3.3	4.1	-	-	-
China	3.7	2.2	2.8	4.3	5.6	n.a.	5.2 p/	-	-	-
Thailand	3.6	3.4	3.5	3.3	3.8	4.2	3.5	-	-	-
El Salvador	3.4	4.2	3.6	3.7	2.7	3.0	3.0 p/	-	-	-
Panama	3.2	3.7	3.5	2.7	2.6	3.6	5.4	-	-	-
Jordan	2.7	2.5	2.2	3.3	n.a.	n.a.	n.a.	-	-	-
Cyprus	2.4	n.a.	n.a.	3.0	2.3	2.0	n.a.	-	-	-
Honduras	2.3	2.9	2.6	2.2	2.1	1.7	2.1 p/	-	-	-
Jamaica	2.3	1.7	1.9	2.2	2.5	3.3	3.9 p/	-	-	-
Spain	1.9	2.1	2.0	1.6	1.6	2.2	n.a.	-	-	-
Malaysia	1.6	1.3	1.2	1.3	2.0	2.2	3.1 p/	-	-	-
Venezuela	1.5	2.3	1.1	1.2	1.4	n.a.	n.a.	-	-	-

a/ Service payments on external official and officially guaranteed debt of maturity of one year or more, as a percentage of exports of goods and services.
b/ Includes all debt renegotiations on which comparable data have thus far been collected. (Liberia had bilateral renegotiations in 1963 and 1969, but DSR information on a comparable basis is not available.)
c/ Includes service on short-term and unguaranteed private debt.
d/ Based on exports of goods only.
e/ Based on earnings in convertible currencies only.
f/ Ghana's debt problem in 1966 was mostly in maturities of less than 1 year, which are not included in the DSR.
g/ B(Commercial Bank loans); I(IBRD loans); O(Official loans); S(Suppliers' Credits).
p/ Projected on basis of incomplete data for 1969.

Source:
DSR data compiled by Comparative Data Division (Economics Department) from Country Program Papers. The data are subject to continuous updating and revision.

Development Finance Studies
March 9, 1970

F11/5/21

DRAFT
March 11, 1970

3/29 Approved as modified, [illegible]

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendations Nos. 20 and 21 Concerning Financing for Technical Assistance

Recommendations

"Donors should give financial assistance for local recurring expenditures and for equipment, transport, and other supplies in connection with technical assistance projects."1/

"Loans for projects should include a greater component of technical assistance."2/

Background

These recommendations appear in the portion of the Commission's report which is devoted to consideration of ways in which technical assistance, both bilateral and multilateral, might be reoriented to make it contribute more effectively to economic development.3/

The first of the two recommendations is preceded by the Commission's observation that technical assistance which is offered "ostensibly" as a grant may in fact "represent a considerable cost" to the recipient country, which must not only contribute to the salaries of expatriate experts but also provide them with housing, local transport and office facilities. The Commission suggests that, "As a measure to offset the large and growing costs to recipients, donors should, in supplying experts and teams of technicians, commit themselves to provide the needed equipment, supplies,

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1/ Report, page 190.

2/ Ibid.

3/ See also the memoranda analyzing Recommendations Nos. 19 and 22.

and operational support necessary to make technical assistance fully effective."[1/]

The considerations which led to the second of the recommendations do not emerge clearly from the immediate context. However, read in the light of the full discussion of technical assistance in the report and against the background of papers prepared for the Commission by its staff, the recommendation appears to reflect not only concern that recipients do not appreciate the true cost of technical assistance but also concern that technical assistance is not always related, or is insufficiently related, to specific development objectives and priorities. The Commission felt that the relevance of technical assistance, as well as the recipient's commitment to such assistance as an instrument of development, might often be better assured if the assistance were provided as part of a project loan.

It appears that in making these recommendations the Commission had primarily in mind technical assistance from bilateral sources. However, the recommendations are in principle equally applicable to the international agencies.

Analysis

I am in complete agreement with the Commission that developing countries should be made aware, before accepting technical assistance, of the true cost to them of such assistance. But I also believe that the way to maximize the development contribution of technical assistance, from whatever source and on whatever terms it may be provided, is to assure that

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1/ Report, pages 182-3.

the assistance is directed to a specific and priority development objective. So directed, the benefits of the assistance to the recipient government should more than justify the government's contribution to its cost.

As stated in my memorandum analyzing the Commission's Recommendation No. 19,[1/] the relevance and priority of technical assistance can most effectively be assured if it is integrated with capital assistance in the framework of an overall development strategy. That is a principal purpose of our expanded program of country economic missions, with which representatives of the UNDP and of other specialized agencies are being associated: we are helping the governments of developing country members to draw up development programs covering every major sector of the economy and including an analysis of both investment and preinvestment priorities. To facilitate the preparation of these integrated country development programs, World Bank economic missions will be collecting information on current and proposed preinvestment studies and related technical assistance. The reports of these missions, which are to be made available not only to the government concerned but to other sources of capital and technical assistance, bilateral and multilateral, will include recommendations concerning the principal preinvestment surveys and studies required to carry out the country's development program and the relative priority of those requirements.

As for the manner of financing technical assistance, I agree with the Commission that an effective technique to assure the desired relevance and priority is to incorporate funds for technical assistance in a project loan or credit. More and more this is becoming ~~This is in fact~~ our normal practice when a borrower needs

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1/ SecM70-92, dated March 6, 1970.

assistance in administering or operating the project being financed, in planning for future expansion of that project, or in preparing additional similar or closely related projects. We ~~have financed~~ are financing in this way a variety of technical assistance: training abroad of nationals of the borrowing country; services of engineering, management, accounting or financial consultants; employment of expatriate staff for advisory, operational or training services;and feasibility studies for future expansion.

In fiscal year 1969, 54 project loans and credits aggregating $747 million (out of the year's total financing of $1.78 billion in 122 loans and credits) included $39.5 million for technical assistance. Of this amount, $29 million was provided for the services of experts or consultants to help in the execution of the project being financed during its early stages, $9.1 million for feasibility studies designed to identify possible future projects, and $1.5 million for overseas training and fellowships. In the first six months of the current fiscal year, 16 project loans and credits aggregating $241 million (out of a total of 35 loans and credits aggregating $636 million) have included a total of $8 million for technical assistance: $5.1 million for experts and consultants, $2.6 million for feasibility studies and $212,000 for training and fellowships. We have found that the inclusion, in a loan or credit, of funds to finance technical assistance not only achieves the objectives identified by the Commission, but expedites project implementation and encourages the efficient use of consulting services, often by affording continuity from one project to another. It seems likely that, as our lending program expands, the technical assistance component of lending operations will increase.

When a country is in need of technical assistance unrelated to a project being financed by the World Bank or IDA, as for example a sector study or a feasibility study for an entirely new project, it is our policy~~, as the Executive Directors are aware,~~ to ascertain whether the United Nations Development Programme (UNDP) is prepared to provide financing and, if so, to help the government concerned in arranging for it. The UNDP is the member of the United Nations family with primary responsibility for financing preinvestment studies, and finances them on a grant basis. Since current UNDP procedures now permit quick approval of small projects and early initiation of larger projects, any World Bank Group financing of technical assistance outside of a project loan or credit is likely to be undertaken only in very exceptional circumstances.

The recommendation concerned with financing of local recurring expenditures has relevance principally for such technical assistance as support of education and training facilities or applied research institutes, which involve sizeable recurring costs of operation and maintenance. This type of assistance, although a major component of UNDP preinvestment activity, has so far played only a minor role in technical assistance projects which we have financed, or for which we have served as Executing Agency for the UNDP. The principal item of expense in the technical assistance which we provide is the foreign exchange cost of the services of expatriate consultants and experts. In any event, it has consistently been Bank policy to require the recipient country to contribute to the cost of technical assistance, as an earnest of the government's seriousness of purpose and its commitment to the undertaking for which the assistance is provided. I believe that this policy should continue. Moreover, since development assistance funds are not unlimited, to the extent that donors finance the local recurring costs of technical assistance projects, as the Commission suggests, the funds available for other priority projects are reduced.

The Commission has ~~also~~ proposed that donors should finance equipment, transport and other supplies associated with a technical assistance project. It is customary World Bank practice to meet all foreign exchange costs of such projects. These include, in addition to the principal item of experts' services, the costs of transporting personnel (and their families) to and from the recipient country, and of purchasing vehicles imported for transport within the country in connection with the project, and other equipment and supplies not available locally. Governments are called upon to provide only those services, materials, equipment and supplies available within the country.1/

Conclusion

I believe that the World Bank ~~is~~ will effectively help~~ing~~ to achieve the objectives of the two recommendations to which this memorandum is directed by its ~~through~~ ~~its~~ emphasis on integrated country development programs. Insofar as these identify the technical assistance projects required to implement priority investment projects, they will help to assure that technical assistance offered to the developing countries is relevant to the needs of those countries and

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1/ Similarly, the UNDP requires a counterpart contribution and a contribution toward local operating costs.

JOINT BANK-FUND LIBRARY

As for technical assistance closely related to World Bank Group projects, I believe provision for the financing of such assistance should be included in our loans and credits. It seems likely that, as our lending program expands, the technical assistance component of our lending operations will increase.

closely related to World Bank Group projects, I believe provision for the financing of such assistance should be included in our loans and credits.

that their contributions to the cost of technical assistance are well spent. As for technical assistance ~~financed by the Bank itself, I believe that we should continue to follow current practice with respect to incorporating funds for such assistance in~~ our project loans and credits~~, and, in those exceptional cases where we finance technical assistance independent of a project loan or credit, that we should continue to require a local currency contribution by the recipient.~~

Robert S. McNamara

It seems likely that, as our lending program expands, the technical assistance component of our lending operations will increase.

711/5/20 [AcN copy]

draft

~~January 13, 1970~~ March

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 19 Concerning Integration of Technical and Capital Assistance

Recommendation

"We recommend that multilateral and bilateral technical assistance be more closely intgrated with capital assistance."1/

Background

This recommendation appears in the context of the Commission's consideration of ways to make aid more effective, and is one of several proposals concerned with technical assistance.2/ The Commission comments that technical assistance "often develops a life of its own, little related either in donor or recipient countries to national or global development objectives". It adds that technical assistance "should form part of any development aid program both at the sectoral level and at the project level", that it is "often necessary in advance of project selection to ensure that the right choices are made and that necessary preparations take place", and that it "must often continue throughout the construction stage and well beyond in order to ensure that the investment comes to full fruition."3/

1/ Report, page 181.

2/ See also the memoranda analyzing Recommendations Nos.20, 21 and 22.

3/ Report, page 180.

Analysis

I agree completely with the Commission's view of the importance of assuring a proper relationship between technical and financial assistance. Most of the technical assistance which the Bank provides is given in the normal course of its financing activity and is accordingly completely integrated with capital assistance. We consider all aspects of a project -- economic, technical, managerial, organizational, commercial, financial -- in the course of appraising it for possible Bank Group support, and make suggestions, where this seems indicated, for improvements of the initial plans in any of these respects. And, as the Executive Directors are well aware, it is our standard practice to do all we can to ensure that the projects we finance are properly carried out. This is accomplished through periodic visits to the project by the Bank staff, periodic reporting by the borrower, and frequent consultations to anticipate problems or to work out solutions when problems nevertheless arise.

In the last few years we have given increased emphasis to the formulation, and to the earlier step of identification, of projects suitable for financing by the Bank or IDA. We are doing this through the work of our own staff, including economic missions; through the cooperative programs with Unesco and FAO; by allocating part of a project loan or credit for studies designed to identify other projects which the Bank Group might finance; through loans or credits for sector and feasibility studies, 1/ carried out generally by consultants whose services

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1/ A "sector study" is the analysis of a particular sector of the economy looking to the preparation of a coordinated investment program for the sector and the identification of projects within it. A "feasibility study" determines whether projects already identified are economically justified and technically feasible.

include training of local personnel; through grants, of up to $200.000, for smaller preinvestment studies. It is our practice, unless the circumstances are exceptional, to finance only those studies which appear likely, if the conclusion is affirmative, to lead to Bank Group financing. We have also stationed staff members in developing countries with responsibility for providing assistance to governments in project identification and preparation, i.e., the Permanent Missions in Eastern and Western Africa, and the Resident Staff in Indonesia. Similar activities are carried out in the framework of our agricultural and water development program for East Pakistan.

The U.N. Development Programme (UNDP) asks the Bank to comment on all requests from governments for UNDP financing of preinvestment studies and other technical assistance, and takes the Bank's comments into account in determining its response to the requests. Applicants for UNDP assistance are asked to indicate, among other things, how the development of the economic sector involved fits into present or proposed Bank Group operations and how the specific study or other activity for which UNDP assistance is sought fits into that sector. The Bank, in providing the UNDP with information relevant to the latter's evaluation of the request, typically also deals with this issue.

As the Executive Directors know, the Bank itself has served as Executing Agency for UNDP-financed preinvestment studies, 10 of which have already led to Bank Group project financing of about $719 million. Normally, our willingness to serve as Executing Agency depends upon the extent of our operational interest in the country or program for which UNDP assistance is sought, and upon the availability within the Bank of the knowledge and technical competence required to organize and supervise the particular study.

Where there is a reasonable prospect that a UNDP-financed study will lead to a project suitable for Bank Group financing, but where it is unlikely that the Bank will be Executing Agency, we express "special interest" in the proposed study when responding to the UNDP request for comments. The UNDP will then instruct the Executing Agency to consult with us during the preparation and execution of the project, to submit draft terms of reference for the study and the plan of operation for Bank review, and to provide the Bank with copies of all reports pertaining to the study. The purpose of these arrangements is to help to assure that our criteria for project identification and preparation will be met by the Executing Agency and accordingly to facilitate and expedite the possibility of Bank Group project financing.

As the Executive Directors know, we are expanding the scope of inquiry of our comprehensive country economic missions to include program ~~an analysis of the principal~~ preinvestment surveys and studies required to carry out the development program of each developing country and of the relative priority of those requirements. The~~se~~ reports of the missions will be made available to other international institutions, to governments and to the coordinating groups for which the Bank provides economic reporting services.[1] They should, we believe, help to insure preparation of an integrated country development program, including both preinvestment and investment projects, for consideration by not only the Bank Group but other sources of finance, bilateral as well as multilateral. In this work we have enlisted the cooperation of the U.N. Development Programme, whose Resident Representatives will be associated with the missions and will play a central role in formulating technical assistance and preinvestment programmes ~~proposals,~~ and of the specialized agencies particularly concerned with the Bank's operations - FAO, ILO, Unesco and WHO.

1/ See the memorandum analyzing Recommendation No. 12, on aid coordination.

Conclusion

I agree with the Commission that the coordination of technical and financial assistance is an essential element in achieving the greatest possible developmental effectiveness of capital assistance. I believe that present Bank policy and practice, as well as the directions we plan for the future, are fully consistent with the Commission's recommendation,

Robert S. McNamara

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

3/4

To Mr. Demuth

Dick asks you have questions regarding my suggested changes; please go ahead & publish & distribute these 3 memos to the ED's.

[illegible]

I 11/5/19

draft
~~January~~ March 19, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 22 Concerning Creation of International Technical Assistance Corps

Recommendation

"We recommend, therefore, that international technical assistance be strengthened by the creation of national and international corps of technical assistance personnel with adequate career opportunities."1/

Background

The recommendation appears in the context of the Commission's consideration of ways to increase the effectiveness of development aid. The Commission believes that some redirection of technical assistance is called for and makes a number of suggestions to that end. It notes that, although it is reasonable to look forward to increases in the developing countries' supply of trained manpower -- scientific, technical, administrative and educational personnel -- the indications are that these countries' requirements cannot for some time be met entirely from their own populations. At the same time, it adds, the supply in donor countries of persons competent to provide technical assistance overseas is limited, and competition for their services is keen; in consequence, the average quality of those offering their services"has tended to deteriorate".2/ The Commission also comments

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1/ Report, page 185.

2/ Report, pages 183-4.

that the short-term employment contracts offered to experts recruited for field work by U.N. agencies often fail to attract qualified personnel and, in any event, serve to deprive the organization of the benefits of continuity. 1/ One of several measures which the Commission proposes as a means of reversing this trend is the recommendation to which this memorandum is addressed. The Commission points out that a permanent corps of development personnel with adequate career opportunities would offer the elements of continuity and commitment; it might therefore succeed in attracting greater numbers of qualified personnel. Moreover, the corps itself, together with cooperating "national teams", could accelerate the integration of multilateral, technical and capital assistance, an objective which the Commission also endorses. 2/

Analysis

This recommendation is not explicitly directed to the Bank; the Commission does not propose that the Bank take the initiative to establish an international technical assistance corps. In fact, it appears from the papers prepared by the Commission's staff that the U.N. Development Programme (UNDP) may have been envisaged as the most appropriate situs. In his study of the "capacity" of the United Nations system, submitted to the Administrator of the UNDP in September 1969, Sir Robert Jackson likewise proposed that

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1/ Report, page 217.

2/ See Recommendation No. 19, the subject of a separate memorandum.

a "career service" be established for the permanent staff engaged in planning and administering the "development cooperation" activities within the U.N. system, and that the UNDP take the initiative in establishing it.[1/]

Our experience confirms both the Commission's view of the importance of competent technical assistance and its appraisal of the supply situation in developing and developed countries. We have consistently emphasized to our borrowers that sound management is essential to the success of a project. We have normally considered a "management" position to be one which, if unfilled or filled by an unsuitable individual, would have a significantly adverse effect on the outcome or objectives of a project.[2/] Our own expanded lending program is adding to the demand for management assistance. We have on occasion tried to help our borrowers to find qualified personnel, through bilateral technical assistance programs and the international program, the UNDP's Operational Assistance (OPAS) and its predecessor OPEX. But assistance

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1/ A Study of the Capacity of the United Nations Development System, United Nations, Geneva, 1969. Vol. 1, p. 39. The Study comments that this proposal is "in keeping" with the Commission's recommendation for a technical assistance corps.

2/ Thus, the term is viewed as including either an individual or a team, and such functions as the chief executive of a power authority, the director of a highway department or other transport entity, a technical or engineering director, a financial manager, managers or advisers of development finance companies, a chief accounting officer, specialists in agricultural credit or livestock management, educators or educational administrators, sector economists, architect-administrators, commercial or marketing specialists, superintendents of highway maintenance, and the like.

under bilateral programs, although theoretically available, may be unacceptable in practice for political considerations. As for the international program, both OPAS and its predecessor have been subject to a number of limitations, including in particular the fact that they have not been able to offer career opportunities.

Because of the difficulties encountered in finding qualified managers, particularly for the agricultural projects which play such a large role in the economies of developing countries, the Bank itself set up an Agricultural Development Service (ADS) in 1966 to provide or retain managers, through secondment, for agricultural projects in East Africa,1/ and subsequently itself employed and seconded managers for several livestock projects in Latin America where there appeared to be no suitable alternative. In planning prospective Bank Group operations for the next several years, the Projects Departments reviewed the need for managers to operate the projects scheduled in the program, and concluded that for a large number of positions no qualified local managers would be available. There is some reason to believe that, for one or another of the reasons identified by the Commission, it may not be possible to fill all these positions with qualified expatriates, whether through direct employment by the prospective borrower or through the existing bilateral or international programs. The projected shortage of managerial talent might well impede the successful implementation of our lending program in a number of countries. To avert this danger, we have under review within the staff the desirability of establishing, on an experimental basis, a program (additional to the ADS) under which the Bank would hire and second, on an

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1/ See SecM65-170.

ad hoc basis, a limited number of managers for Bank-financed projects. Should we conclude that this would be advisable, I shall put a proposal to the Executive Directors for approval.

The existence of a corps of technical assistance personnel such as the Commission recommends might well have obviated the need for the Bank to consider taking such a step. I believe that it would be feasible to create such a corps and that the career opportunities it would provide would serve, perhaps not immediately, but over time, to attract the wide range of competence for which there is need. I have no doubt that there would be occasion for the Bank Group, among others, to draw upon a soundly organized corps.

Conclusion

I fully agree with the Commission that the availability of an international corps with career possibilities could significantly improve the effectiveness of technical assistance. I believe that the Bank should encourage creation of such a corps under the auspices of the U.N. Development Programme.

Robert S. McNamara