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Annual Meeting briefing papers, 1967 - Asia - Briefing papers

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

G. D. Woods's Meetings

Asia Department

Gountry	Date	Time				
Australia	Oct. 4	3:00-4:00				
Burma	Oct. 5	4:00-4:30				
/India	Sept. 11	9:30-11:00				
Andonesia	Sept. 18	4:15-5:15				
Japan	Sept. 15	3:00-4:00				
Japan	Sept. 18	11:30-12:00				
New Zealand	Sept. 13	3:00-4:00				
Pakistan	Oct. 5	11:00-12:00				
Thailand	Sept. 19	11:30-12:15 (00)				



CONFIDENTIAL WBG ARCHIVES
September 14, 1967

BRIEFING PAPER - 1967

AFGHANISTAN

I. MEETING WITH DELEGATION

Management: No meeting planned.

Staff: 11:00 a.m. October 6th with Mr. Cargill.

II. MEMBERS OF DELEGATION

Mr. Abdul Karim Hakimi - Governor (Bank) - Minister of Finance.

Mr. Habibullah Achiczai - Governor (Fund) - Governor da Afghanistan Bank.

Mr. Abdul Aziz Attayee - Alternate Governor (Bank) - President, Treasury Department, Ministry of Finance.

Mr. G. F. Achikzad - Alternate Governor (Fund) - Vice President, The Trading Company of Afghanistan.

III. BANK/IDA PROSPECTIVE OPERATIONS

The only project that is likely to lead to a credit during the coming year is the Highway Maintenance Project, which has been prepared by consultants under a Bank technical assistance grant. An agricultural credit project, prepared under the Bank/FAO cooperative program, was appraised in May but was found to be premature.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff Level:

- Education Credit: The unsatisfactory administration and progress of the Education Project. This credit was signed in November 1964 and the conditions for withdrawal were not met until May 1966. A contract with consultant architects was not signed until November 1966. Since then there have been further delays and differences of view have arisen between the Government and the Consultants on the cost estimates. The project is about three years behind schedule and project costs are estimated to have increased from \$4.5 million to about \$5.4 million at the free market rate of exchange.
- (ii) Highway Maintenance Project: The Government should complete its review of the consultant's report and the project proposed for IDA financing. IDA has suggested a smaller project than that recommended by the Consultants

and has earmarked \$5 million for it. A Transportation Division staff member plans to visit Kabul shortly to discuss the proposed project with the Government and the Consultants. If broad agreement is reached, appraisal could be in late November.

- Agricultural Credit Project: The findings of the appraisal mission will be discussed. The report of the appraisal mission is expected to recommend that a three-year technical assistance program costing about \$255,000 be initiated to reorganize the Agricultural Bank of Afghanistan and train its staff while the credit programs proposed are being prepared. If this approach is acceptable to the Government, the Bank should help prepare a request for UNDP assistance.
- (b) To be raised by Bank at meeting with President or Senior Officer:
 No meeting planned.
- (c) Likely to be raised by delegation:

Other projects for IDA financing during the current 5-year plan. IDA would prefer to concentrate on improving the implementation of the Education Project and bringing the Highway Maintenance Project forward for our consideration before considering new lending proposals. With the Agricultural Credit Project and the Kunduz Khanabad irrigation project being prepared with UNDP assistance, sufficient lending prospects are in sight for the time being.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967:

Loan or				Amount (US\$ million)				
Credit No.	Year	Year Borrower		Bank	IDA	Undisbursed		
68 AF	1964	Kingdom of Afghanistan	Education	-	3.5	3.4		

(b) Technical Assistance Activities

- (i) The Bank financed a reconnaissance survey of irrigation prospects in Kunduz Khanabad basin and assisted the Government in preparing a request to UNDP to help finance the feasibility study of the selected area. The study is expected to be included in the UNDP's 1968 program.
- (ii) A Highway Maintenance Study to prepare a first stage project for possible IDA financing was financed by a Bank grant and was submitted in June. See Section IV (a) (ii).

- (c) Bank 9% Subscription
 \$2.7 million. No release.
- (d) IDA Subscription
 \$0.909 million. No release.
- (e) Holding of Bank Bonds \$1.20 million.
- (f) IFC Industrial Development Bank of Afghanistan

Two IFC missions visited Afghanistan in 1966 to discuss the need for a development finance company and possible IFC investment in it. Following a report on progress achieved, the Afghans were informed on August 22 that IFC is prepared to send a mission to Afghanistan after the Annual Meeting to assist in establishing the company and facilitating an IFC investment.

(g) <u>Settlement of Investment Disputes</u>
Signed September 30, 1966. Not yet ratified.

VI. POLITICAL SITUATION

Afghanistan became a constitutional monarchy in 1923. A new constitution was adopted in 1964 and the first elections held in 1965. The present Government under Mohammad Maywandwal, the Prime Minister, came into power in November 1965. Although effective power still rests with the King who commands the loyalty of the Army and the allegiance of the tribes, some steps towards a more democratic system have been taken. The King has generally supported social and political reforms but progress is hampered by the inexperience of the members of the lower house and a general lack of political organization. While the constitution provides for political parties, none has been organized and no effective opposition has emerged. The prospect is that the present Government will be returned at the elections in 1969. The Government appears to be ready to give increasing encouragement to the private sector and recently passed an investment law providing measures to stimulate private investment. Investors' response has been generally satisfactory.

Externally, Afghanistan pursues a policy of strict neutrality and "positive non-alignment" and is not a member of any defence or mutual security pact. Relations with the USSR are good and appear to be improving with Pakistan.

VII. ECONOMIC SITUATION

(a) Population (1966/67):

15.9 million (official estimate - actually probably much lower)

Per capita GNP:

US\$85 to 110

Gross foreign exchange reserves: US\$45.8 million (May 1967).

(b) Afghanistan's economy is largely agricultural and nomadic. The initiative for economic and social development has very largely come from the Government, the Bank Melli and foreign governments and agencies. Government measures have included social reforms and educational programs intended to modernize society and strengthen the business and professional classes which are still small and weak. These increases are showing some results but for some time to come the effectiveness of Government will continue to be hampered seriously by the lack of qualified personnel.

Apart from the scarcity of administrative capacity the low relative and absolute levels of savings have been a major obstacle to development. Roads, power and irrigation, which comprised the bulk of the Second Plan (ended March 1967), were largely financed and supervised by foreign aid donors. Although about 70 percent of monetized investment under the Second Plan was financed by net capital inflow resulting from loans on very soft terms, voluntary domestic savings were still inadequate and the Government relied heavily on central bank financing through 1965.

Since the Standby Agreement with the IMF in June 1965, recourse to central bank financing has been sharply reduced. The financial situation is now satisfactory to the IMF, and there has generally been a substantial improvement in economic performance during the past two years.

The Third Plan is placing greater emphasis on production rather than infrastructure, concentrating on export expansion and import substitution in order to ease the balance of payments situation. Emphasis is being placed on irrigation as the means of increasing agricultural output. During the Third Plan the problem of mobilizing domestic financial resources will remain. In addition a high and increasing debt service ratio (about 25%), the prospect of a shortfall in foreign aid, less advantageous borrowing terms and a slow growth in production of main export commodities (wool, karakul, fruits and cotton) presage a continuing pressure on the balance of payments.

Foreign debt service during the Third Plan is expected to increase sharply although the size of the Plan and the amount of foreign borrowing are not yet firm.

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BRIEFING PAPER - 1967

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The Third Plan is placing greater emphasis on production rather than infrastructure, concentrating on export expansion and import substitution in order to ease the balance of payments situation. Emphasis is being placed on irrigation as the means of increasing agricultural output. During the Third Plan the problem of mobilizing domestic financial resources will remain. In addition a high and increasing debt service ratio (about 25%), the prospect of a shortfall in foreign aid, less advantageous borrowing terms and a slow growth in production of main export commodities (wool, karakul, fruits and cotton) presage a continuing pressure on the balance of payments.

Foreign debt service during the Third Plan is expected to increase sharply although the size of the Plan and the amount of foreign borrowing are not yet firm.

Burma

BRIEFING PAPER - 1967

BURMA

I. MEETING WITH DELEGATION

Management: No meeting planned.

Staff:

No meeting planned.

II. MEMBERS OF DELEGATION

U Kyaw Nyein

- Chairman, Union Bank of Burma.

U Chit Moung

- Secretary, Ministry of Finance and Revenue.

U Tin Tun

- General Manager, Union Bank of Burma.

III. BANK/IDA PROSPECTIVE OPERATIONS

Since the Ne Win Government took office five years ago Burma has had very little contact with the Bank and no loans have been made since 1961. This year the Permanent Secretary of the Ministry of Finance, a former EDI pupil, sent an invitation to Mr. Cargill suggesting that he should go to Rangoon if he was in that part of the world. Accordingly, Mr. Cargill went there for four days in May. The severe economic deterioration which can almost wholly be attributed to mistaken policies and mismanagement have led many of the senior officials and some of the civilian ministers to cast about for ways of convincing General Ne Win that a return to more orthodox policies is desirable. The disastrous rice crop this year with its extremely damaging affect on the economy is thought to have made the General himself wonder whether his present advisers know what they are doing. The purpose of asking Mr. Cargill to Rangoon was to explain this situation and to enquire about the possibility of a Bank economic mission being sent, even if there were no application for a loan. Mr. Cargill indicated that this would be possible. Whether this idea is advanced any further or not, Bank or IDA lending in the next twelve months is unlikely as the political atmosphere would have to change radically before such operations could effectively be embarked upon or be desired by the Burmese.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff Level:

None

- (b) To be raised by Bank at meeting with President
 No meeting planned.
- (c) Likely to be raised by Delegation.

None.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967:

Credit or								US\$million)
Loan No.	Year	Borr	ower	Purpose		Bank, I	DA	Undisbursed
139 BA 140 BA			of Burma f Rangoon	Railways Port Deve	lor	5.3	-	-
	22			ment		13.9	-	-
274 BA	1961	Burma	Pailways	Railways		13.8	-	0.2
	of which	has be	ellations en repaid	•		33.0 10.9		
	Total no	w outst	anding			22.2		
	mount so		en repaid	2.7		0.5		
T	otal now	held b	y Bank an	d IDA		21.7		
T	otal Und	isburse	ed			0.2		

(b) Technical Assistance

None

(c) Bank 9% Subscription

\$3.6 million, of which \$1.25 million have been released for purchases in Burma and \$0.96 million is on loan.

(d) IDA Subscription

\$1.82 million. No release has been made or requested.

(e) Holdings of Bank Bonds

\$5.0 million. Present holding is \$1.0 million more than in 1966.

(f) IFC

None.

(g) Settlement of Investment Disputes

Burma has given no indication it proposes to accede to the Convention.

VI. POLITICAL SITUATION

Internally little change has taken place in the past year in Burma. Ne Win remains the Chairman of the Revolutionary Council and there appears to be nobody to challenge his authority. Two developments are of interest. First, the Government began to release political leaders who have been under house arrest for the past five years. Of course, political activity on the part of these men is prohibited. Second, relations with mainland China deteriorated sharply resulting in anti-Chinese riots in Rangoon. However, this development has not so far resulted in any change in Burma's formal position in international affairs. There has been no progress in the campaign to suppress the activities of the underground Communist parties nor in the attempts to win the support of the various non Burma ethnic groups. If the current economic crisis continues for long, opposition to the present regime may well become open.

VII. ECONOMIC SITUATION

(a) Population (1966):
GDP per capita:
Gross foreign exchange
reserves:

25.2 million US\$67 (at official exchange rate)

US\$181 million (April 1967)

(b) Despite a considerable potential for development, particularly in agriculture. Burma's economy has stagnated for a number of years and the income per person has declined. Insurgency has had an unsettling effect on rural development but the unsatisfactory performance is largely due to the combined effect of several government policies. Nationalization of the entire distribution system, which was dominated by aliens, brought the country's commercial infrastructure close to collapse. Government control over manufacturing seriously undermined efficiency. A reduction in the Government purchase price for paddy, the country's major crop and source of exchange, adversely affected incentives. Output of paddy declined. Externally, Burma's policy of neutrality meant independence from foreign aid, with the effect that imports - and therefore total development expenditures - had to be kept within the limits of Burma's own resources, which were decreasing.

Declining exports of rice caused total exports to fall in 1966 to a level one-third below the peak of 1963. In order to protect the country's exchange reserves, imports that year were cut by nearly 40% below the 1965 level. This sharp reduction, following several years of roughly constant imports, very seriously affected the availability of raw materials, capital goods and incentives goods, thus reinforcing the basic causes of stagnation. Reported adverse weather conditions in 1966/67 may result in the further reduction of rice exports and thus total imports.

The detrimental effects on development of some of Burma's basic policies appears to have led some members of the Government to seek a way out of the strong policy constraints from which the economy has suffered. Although there has been no basic change in the policy of the "Burmese Road to Socialism," with its emphasis on State-ownership and central control, and on self-sufficiency in the economic and political fields, some pragmatic adaptations have taken place. Last year the purchase price of rice was raised. There has been a cautious move back towards a private distribution system. Aid from West Germany was resumed and initial contact was established with the Bank a few months ago.

Burma's present external debt is small and service amounts to only 4% of export earnings at the low 1966 level. With proper policies Burma should be creditworthy for substantial new borrowing abroad, although should Burma want the Bank group to resume lending, it may be prudent to consider Burma a blend country during the initial phase of policy adjustments which will have to accompany resumption of Bank operations.

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September 14, 1967

BRIEFING PAPER - 1967

CEYLON

I. MEETING WITH DELEGATION

Management: No meeting planned Staff: 12 noon October 4th with Mr. Cargill.

II. MEMBERS OF DELEGATION

Mr. U. B. Wanninayake - Minister of Finance.

Mr. H. J. Samarakkody - Secretary to the Treasury and Permanent Secretary, Ministry of Finance.

Mr. W. Tennekoon - Governor, Central Bank.

Dr. G. Corea - Permanent Secretary, Ministry of Planning and Economic Affairs.

Mr. P. L. N. Liyanage - Private Secretary to Minister of Finance.

III. BANK/IDA PROSPECTIVE OPERATIONS

A loan of \$4 million for the Development Finance Corporation of Ceylon is expected to be presented to the Executive Directors shortly after the Annual Meeting. It has been delayed by several months owing to difficulties encountered in securing the services of a foreign adviser. This would be our first loan to Ceylon since 1961.

The main constraint to a larger lending program in the past year has been the slowness in preparation of suitable projects. However, partly as a result of the technical missions that have been to Ceylon since 1965 when the Aid Ceylon Group was established, there are prospects for a lending program of a reasonable size for the World Bank Group during the next few years. Prospects for Bank/IDA lending in the coming year are as follows:

- (1) <u>Lift Irrigation:</u> About \$4.0 million. The appraisal mission is scheduled for September.
- (2) Drainage and Reclamation Project: About \$3.6 million. The appraisal mission is scheduled for September.

- (3) Road Maintenance Project: \$6-10 million. Project will be prepared by consultants employed by the Bank under a Technical Assistance grant. See V(b).
- (4) Maskeliya Oya II Power Project: About \$12 million. Feasibility study being prepared by consultants under a Canadian government Technical Assistance grant.

The interim report on the first stage of the Mahaweli Ganga multipurpose project prepared by FAO under a UNDP grant has been submitted to the Government. The Government will be discussing the proposed project with the mission which is to visit Ceylon in September to appraise the Lift Irrigation and Drainage and Reclamation Projects.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at Staff level:
- (i) Exchange Rate. Following the IMF consultations in Ceylon in May this year, the Fund published a report commenting adversely on Ceylon's recent performance, in particular the failure to take action on the exchange rate. The Bank and the Fund will discuss this question with the delegation. Meanwhile, plans have been made to send an economic mission to Ceylon immediately after these discussions to prepare a report for the next meeting of the Aid Group provisionally fixed for January/February 1968.
- (ii) Electricity Bill. The Bank Group is not prepared to consider financing a power project until a satisfactory autonomous power authority has been set up. The delegation will be asked about the status of the Bill which has been sent to the Bank in draft for comment.
 - (b) To be raised by Bank at meeting with President or Vice President:
 No meeting planned.
 - (c) Likely to be raised by Delegation:

Arrangements for the next Aid Ceylon Group Meeting. See Section IV(a)(i).

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	P	urpose		unt US\$ Million IDA Undisbursed
101CE 209CE 283CE	1958	Government of Government of Government of	Ceylon	Power Power	15.9 7.3 14.1	
Total (less cancellations) of which has been repaid						
Total now outstanding					29.0	
Amount sold 3.1 of which has been repaid 2.3						
5	Total n	ow held by Bank	and ID	A	28.2	-
	Total u	ndisbursed			-	

(b) Technical Assistance Activities

In May 1967 the Executive Directors approved a grant of \$200,000 to help finance the costs of consultants to prepare a ten-year master plan for the rehabilitation and development of Ceylon's highways and roads, draw up a program for the improvement of highway administration and maintenance and prepare a first stage project comprising urgent bridge replacements and maintenance equipment. The Technical Assistance Agreement and Contract were signed on August 24th.

A Bank mission studied the expansion of the electrical supply industry in Ceylon with particular reference to the northern half of the Island and advised the Government on the setting up of an autonomous electrical authority. (See IV(a)(ii)) Mr. George Naylor, industrial consultant, visited Ceylon to follow up the recommendation in his 1966 report on the operations of the State Corporations and advise on the expansion of Ceylon's cement industry.

(c) Consultative Groups

The Aid Ceylon Group consisting of Australia, Canada, France, Germany, India, Japan, United Kingdom and the United States was established in 1965. The Group met for the third time in April 1967 in Tokyo. Aid pledged now totals about \$140 million. Slow arrival of aid goods has somewhat limited the effectiveness of the Group's efforts but improved procedures have accelerated the flow of aid in recent months.

(d) Bank 9% Subscription

\$7.44 million of which \$0.5 million has been released and is on loan.

(e) IDA Subscription

\$2.727 million. No release made.

(f) Holding of World Bank Bonds

None.

(g) IFC

None.

(h) Settlement of Investment Disputes

Ceylon signed the Convention on August 30, 1967. It has not yet been ratified.

VI. POLITICAL SITUATION

The United National Party, led by Mr. Dudley Senanayake, which was returned to power in the elections in March 1965 after a nine-year period of opposition, continues to govern as the major partner of a coalition which includes three other minor parties, one of which represents the Tamil minority. The continuing severe foreign exchange shortage, caused largely by further falls in export prices and delays in aid disbursements, has made it difficult for the Government to demonstrate to the electorate that they are handling economic policy any better than their predecessors.

Most recent by-elections have shown some increased support for the opposition parties - led by Mrs. Bandaranaike. This trend, however, is not surprising in view of the Government's courageous action taken in December 1966 to reduce the rice subsidy which increased the price of rice to consumers substantially. This move was accomplished with less popular outcry than was expected. However, unless the Government shows some specific and substantial progress over the next two years, they are likely to be in severe difficulties at the next General Election which has to be held before March 1970.

VII. ECONOMIC SITUATION

(a) Population (1967): GNP per capita:

Gross foreign exchange reserve:

11.7 million
US\$142 (equivalent at
official exchange rate)
US\$75 million (June 1967)

(b) The economy of Ceylon has experienced an extended period of near stagnation. When the present Government assumed power in March 1965, the foreign exchange situation left little room for maneuver. A request was made for foreign financial assistance which the Bank was instrumental in organizing through the formation of an Aid Ceylon Group. In addition, the IMF has permitted net drawings of US\$60 million and the Bank Group has indicated its willingness to resume project financing. During the past two years the Government has given considerable attention to putting its house in order. The dispute over the nationalization of foreign oil companies has been settled. Overseas dividend payments have been resumed and a liberal policy has been established for foreign investment. The burden of taxation has been shifted more towards consumption. Budgotary measures included a reduction in the rice subsidy, a slowdown in the increase in current outlays and a reduction in deficit financing. Improved development planning has resulted in a more effective use of foreign exchange for development purposes and promises to raise the quality of investment. Since last year, a concerted drive to expand domestic food production has been underway in order to reduce dependence on imports and provide more exchange for development.

Ceylon's economic situation is precarious and will remain so for several years to come, particularly as foreign exchange will remain extremely scarce. Falling export prices, largely responsible for the 13% drop in export earnings in 1966, are likely to continue to make economic recovery difficult. However, there is a potential for substantial improvements in the long run since imports include a sizeable share of goods which can be produced in Ceylon. If Ceylon succeeds in producing such goods, export earnings, being large in relation to GNP should, together with moderate capital inflows, enable Ceylon to import the producer-goods required to achieve adequate rates of growth. Further efforts are needed, both in the public and the private sectors, to supplement and to make more effective the broad policy measures already taken in promoting import substitution, including investments and wider use of the price mechanism. Such efforts should accelerate economic growth in the next few years.

Ceylon's present external debt is small. However, substantial new borrowing will be required over the next several years to lay the foundation for a more viable economy capable of sustaining adequate growth in the 1970's. In order to avoid additional debt service negating what progress may have been achieved in Ceylon's basic balance of payments position by the early 1970's, new borrowing should, on average, be on very extended terms and at low interest. Ceylon is considered a "soft blend" country for Bank Group lending.

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WBG ARCHSVES

WBG Ptember 14, 1967

BRIEFING PAPER - 1967

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Mr. P. L. N. Liyanage - Private Secretary to Minister of Finance.

III. BANK/IDA PROSPECTIVE OPERATIONS

A loan of \$\(\frac{1}{2}\) million for the Development Finance Corporation of Ceylon is expected to be presented to the Executive Directors shortly after the Annual Meeting. It has been delayed by several months owing to difficulties encountered in securing the services of a foreign adviser. This would be our first loan to Ceylon since 1961.

The main constraint to a larger lending program in the past year has been the slowness in preparation of suitable projects. However, partly as a result of the technical missions that have been to Ceylon since 1965 when the Aid Ceylon Group was established, there are prospects for a lending program of a reasonable size for the World Bank Group during the next few years. Prospects for Bank/IDA lending in the coming year are as follows:

- (1) <u>Lift Irrigation:</u> About \$4.0 million. The appraisal mission is scheduled for September.
- (2) Drainage and Reclamation Project: About \$3.6 million. The appraisal mission is scheduled for September.

- (3) Road Maintenance Project: \$6-10 million. Project will be prepared by consultants employed by the Bank under a Technical Assistance grant. See V(b).
- (4) Maskeliya Oya II Power Project: About \$12 million. Feasibility study being prepared by consultants under a Canadian government Technical Assistance grant.

The interim report on the first stage of the Mahaweli Ganga multipurpose project prepared by FAO under a UNDP grant has been submitted to the Government. The Government will be discussing the proposed project with the mission which is to visit Ceylon in September to appraise the Lift Irrigation and Drainage and Reclamation Projects.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at Staff level:
- (i) Exchange Rate. Following the IMF consultations in Ceylon in May this year, the Fund published a report commenting adversely on Ceylon's recent performance, in particular the failure to take action on the exchange rate. The Bank and the Fund will discuss this question with the delegation. Meanwhile, plans have been made to send an economic mission to Ceylon immediately after these discussions to prepare a report for the next meeting of the Aid Group provisionally fixed for January/February 1968.
- (ii) Electricity Bill. The Bank Group is not prepared to consider financing a power project until a satisfactory autonomous power authority has been set up. The delegation will be asked about the status of the Bill which has been sent to the Bank in draft for comment.
 - (b) To be raised by Bank at meeting with President or Vice President:
 No meeting planned.
 - (c) Likely to be raised by Delegation:

Arrangements for the next Aid Ceylon Group Meeting. See Section IV(a)(i).

- (3) Road Maintenance Project: \$6-10 million. Project will be prepared by consultants employed by the Bank under a Technical Assistance grant. See V(b).
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 No meeting planned.
 - (c) Likely to be raised by Delegation:

Arrangements for the next Aid Ceylon Group Meeting. See Section IV(a)(i).

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits as of July 31, 1967

Loan or Credit No.	Year	Borrower	P	urpose			Undisbursed
101CE 209CE 283CE	1958	Government of C Government of C Government of C	eylon	Power Power	15.9 7.3 14.1		
Т		less cancellatio ch has been repa			37.3 8.3		
Total now outstanding Amount sold 3.1 of which has been repaid 2.3					29.0		
					0.8		
Γ	otal n	ow held by Bank	and ID	A	28.2	-	
7	otal u	ndisbursed			-		

(b) Technical Assistance Activities

In May 1967 the Executive Directors approved a grant of \$200,000 to help finance the costs of consultants to prepare a ten-year master plan for the rehabilitation and development of Ceylon's highways and roads, draw up a program for the improvement of highway administration and maintenance and prepare a first stage project comprising ungent bridge replacements and maintenance equipment. The Technical Assistance Agreement and Contract were signed on August 24th.

A Bank mission studied the expansion of the electrical supply industry in Ceylon with particular reference to the northern half of the Island and advised the Government on the setting up of an autonomous electrical authority. (See IV(a)(ii)) Mr. George Naylor, industrial consultant, visited Ceylon to follow up the recommendation in his 1966 report on the operations of the State Corporations and advise on the expansion of Ceylon's cement industry.

(c) Consultative Groups

The Aid Ceylon Group consisting of Australia, Canada, France, Germany, India, Japan, United Kingdom and the United States was established in 1965. The Group met for the third time in April 1967 in Tokyo. Aid pledged now totals about \$140 million. Slow arrival of aid goods has somewhat limited the effectiveness of the Group's efforts but improved procedures have accelerated the flow of aid in recent months.

(d) Bank 9% Subscription

\$7.44 million of which \$0.5 million has been released and is on loan.

(e) IDA Subscription

\$2.727 million. No release made.

(f) Holding of World Bank Bonds

None.

(g) IFC

None.

(h) Settlement of Investment Disputes

Ceylon signed the Convention on August 30, 1967. It has not yet been ratified.

VI. POLITICAL SITUATION

The United National Party, led by Mr. Dudley Senanayake, which was returned to power in the elections in March 1965 after a nine-year period of opposition, continues to govern as the major partner of a coalition which includes three other minor parties, one of which represents the Tamil minority. The continuing severe foreign exchange shortage, caused largely by further falls in export prices and delays in aid disbursements, has made it difficult for the Government to demonstrate to the electorate that they are handling economic policy any better than their predecessors.

Most recent by-elections have shown some increased support for the opposition parties - led by Mrs. Bandaranaike. This trend, however, is not surprising in view of the Government's courageous action taken in December 1966 to reduce the rice subsidy which increased the price of rice to consumers substantially. This move was accomplished with less popular outcry than was expected. However, unless the Government shows some specific and substantial progress over the next two years, they are likely to be in severe difficulties at the next General Election which has to be held before March 1970.

VII. ECONOMIC SITUATION

(a) Population (1967): GNP per capita:

Gross foreign exchange reserve:

11.7 million
US\$142 (equivalent at
official exchange rate)
US\$75 million (June 1967)

(b) The economy of Ceylon has experienced an extended period of near stagnation. When the present Government assumed power in March 1965, the foreign exchange situation left little room for maneuver. A request was made for foreign financial assistance which the Bank was instrumental in organizing through the formation of an Aid Ceylon Group. In addition, the IMF has permitted net drawings of US\$60 million and the Bank Group has indicated its willingness to resume project financing. During the past two years the Government has given considerable attention to putting its house in order. The dispute over the nationalization of foreign oil companies has been settled. Overseas dividend payments have been resumed and a liberal policy has been established for foreign investment. The burden of taxation has been shifted more towards consumption. Budgotary measures included a reduction in the rice subsidy, a slowdown in the increase in current outlays and a reduction in deficit financing. Improved development planning has resulted in a more effective use of foreign exchange for development purposes and promises to raise the quality of investment. Since last year, a concerted drive to expand domestic food production has been underway in order to reduce dependence on imports and provide more exchange for development.

Ceylon's economic situation is precarious and will remain so for several years to come, particularly as foreign exchange will remain extremely scarce. Falling export prices, largely responsible for the 13% drop in export earnings in 1966, are likely to continue to make economic recovery difficult. However, there is a potential for substantial improvements in the long run since imports include a sizeable share of goods which can be produced in Ceylon. If Ceylon succeeds in producing such goods, export earnings, being large in relation to GNP should, together with moderate capital inflows, enable Ceylon to import the producer-goods required to achieve adequate rates of growth. Further efforts are needed, both in the public and the private sectors, to supplement and to make more effective the broad policy measures already taken in promoting import substitution, including investments and wider use of the price mechanism. Such efforts should accelerate economic growth in the next few years.

Ceylon's present external debt is small. However, substantial new borrowing will be required over the next several years to lay the foundation for a more viable economy capable of sustaining adequate growth in the 1970's. In order to avoid additional debt service negating what progress may have been achieved in Ceylon's basic balance of payments position by the early 1970's, new borrowing should, on average, be on very extended terms and at low interest. Ceylon is considered a "soft blend" country for Bank Group lending.

China

DECLASSIFIED

CONFIDENTIAL WBG ARCHIVES

September 14, 1967

BRIEFING PAPER - 1967

CHINA

I. MEETING WITH DELEGATION

Mr. Cargill on October13 at 10:00 a.m.

II. MEMBERS OF DELEGATION

Mr. Ching-yu Chen, Minister of Finance

Mr. Kuo-Hwa Yu, Chairman of Board, Bank of China

Mr. Kan Lee, Deputy Governor, Central Bank of China

Mr. I.S. Sun, Deputy Governor, Central Bank of China

Dr. R.C. Chen, Executive Director (IBRD)

III. BANK/IDA PROSPECTIVE OPERATIONS

So far in this calendar year the Bank has made three loans in China: \$14.4 million in June for deep-sea fishing vessels; \$17 million in August for telecommunications; and \$15 million in August for a development finance company, the China Development Corporation.

A second railway project has been appraised and negotiations for a \$17.5 million loan are expected to take place in September of this year.

Two years ago the Bank was asked to consider financing the foreign exchange cost of the Tachien Dam Project, consisting of a dam, two power units for a downstream plant and transmission lines, the total of which is expected to amount to about \$45 million. A contract has been signed between the Taiwan Power Company and engineering consultants to review the basic design and estimated cost of the project. It is possible that sufficient data will be available for a mission to go to Taiwan to appraise the project before the end of the year. The Chinese hope to obtain a loan before the end of the fiscal year.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:
 - 1. Progress of the projects currently under consideration will be reviewed.
 - 2. China should be asked to release a portion of its % IBRD capital subscription on a convertible basis. See Section V (d)7.
- (b) To be raised by Bank at meeting with President or Senior Officer:
- (c) Likely to be raised by delegation:

The Government may be expected to make proposals for future borrowing from the Bank. The Bank expects to continue lending to China, and should give favorable consideration to financing suitable projects.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

Loan or	The state of the s	million)				
Credit No.	Year	Borrower	Purpose	Bank	IDA	Undisbursed
6	1961	China	Harbor Dredging		2.2	
7	1961	China	Ground Water		2.0	
6 7 9	1961	China	Water Supply		4.0	
17	1961	China	Industrial Development		4.9	
356	1963	China	Deep-Sea Fishing	7.6		
397	1964	CDC	Industrial Development	15.0		5.8
409	1965	China	Railways	17.8		3.6
498	1967	China	Deep-Sea Fishing	14.4	-	14.4
Total.	net of	cancellations	S	54.8	13.1	
		as been repaid		8		
Total	now outs	standing		54.0	13.1	
	Amount	sold	3.6			
	of wh	nich has been	repaid	3.2		
Total	now held	d by Bank and	IDA	50.8	13.1	
Total	undisbur	rsed		23.8	0	23.8

NOTE: A \$17 million loan for telecommunications and a \$15 million loan for industrial development were signed at the beginning of August, but are not yet effective. Agreement has been reached to sell \$1 million from the telecommunications loan.

(b) Technical Assistance

The Bank organized and financed a transportation survey in 1963/64, which led to one railway loan and consideration of a second.

(c) Access to Private Capital Markets

China has not borrowed in the private markets since the second World War. In view of the marked improvement in the economy, the Government has been discussing with New York bankers since 1965 the possibility of re-entering the private market. But this is not likely to happen in the near future.

(d) Bank 9% Capital Subscription

China's total 9% subscription of \$67.5 million is large relative to the Taiwan economy as it was established before the Government left the Mainland. A full release on a convertible basis is not to be expected, therefore, but with the improved economic situation, particularly on the external side, China can release modest amounts on a convertible basis. To date the Government has released \$3.99 million for purchases in Taiwan, of which \$2.84 million is on loan. The Government should be requested to make the balance of \$1.15 million convertible, and to make arrangements to release an additional amount on a convertible basis over an agreed period of time.

(e) IDA Subscription

China's 90% subscription amounts to \$27,234,000. No release of local currency subscription has been made.

(f) Holdings of Bank Bonds

China holds \$6.65 million of Bank bonds and \$200,000 of borrowers' obligations.

(g) I.F.C.

China is not a member. Preliminary discussions have been held with IFC about joining.

(h) Settlement of Investment Disputes

China signed the Convention on the Settlement of Investment Disputes on January 13, 1966 but has not ratified it yet.

VI. POLITICAL SITUATION

There have been no major changes since last year.

VII. ECONOMIC SITUATION

- (a) Population (end of 1966): 13.6 million

 GNP per capita (1966): \$232 equivalent

 Official gold and foreign exchange reserves(May 1967): \$376 million
- (b) The high rate of growth of Taiwan's economy (about 9 per cent a year since 1958) is still continuing. As a result of the growth process, Taiwan is rapidly being transformed from a traditional agricultural economy to a modern economy with a strong industrial and agricultural base. Fast growing exports, primarily processed agricultural products and light industrial products, provide the main impetus to the growth of the economy. They are chiefly directed to the developed world although exports to Vietnam and to Indonesia have recently gained importance. Expansion of electric power has kept pace with the economy but the transportation network is not adequate. Large investments in roads, railways and ports are planned to prevent this sector from becoming a bottleneck.

The prospects for growth are good. Labor costs are low, domestic savings are on the rise and the investment climate is attractive to local and foreign investors. Foreign exchange reserves have increased, in part due to large exports to Vietnam, and now amount to the equivalent of 7-1/2 months of imports. In view of Taiwan's need for large investment in infrastructure and industry, a sizeable net capital inflow will be needed for a long time to come. The Government has come to look chiefly to the Bank and Japan to cover these long-term needs. The Republic of China is creditworthy for substantial borrowing on conventional terms: existing debt service is low (4% of foreign exchange earnings), performance good and prospects favorable.

India



Record Removal Notice



File Title Annual Meeting briefing papers, 1967 -	Asia - Briefing papers		Barcode No.			
			1070	6813		
Document Date	Document Type					
September 8, 1967	Letter					
Correspondents / Participants From: Burke Knapp, Vice President			,			
To: K.S.S. Rajan, Executive Director				,		
Subject / Title Bank/IDA Lending Procedures in India						
Exception(s)						
Additional Comments Declassification review of this record ma	ay be initiated upon request.		fa a			
		remo Polic	item(s) identified aboved in accordance way on Access to Inconsure policies of the Wo	ith The World Bank nformation or other		
		Ann M	ndrawn by May	Date May 17, 2017		



2052-081/67

BY PRIME MINISTER & FINANCE MINISTER, INDIA.

NEW DELHI, AUGUST 12, 1967.

My dear Goerge:

I thank you for your letter of July 28, 1967. I have been closely following the vicissitudes through which the proposals for this year's debt relief have been passing.

- 2. I appreciate your vigorous efforts to get the maximum possible response. While the results so far do not match the expectations of either of us, I am pleased to know that you hope some results will emerge by the end of the year on the long term debt problem.
- 3. Sundara Rajan has informed me about the dinner on Tuesday, September 12. I thank Louie and you for the invitation. I look forward to the occasion with pleasure.
- 4. I wish you the best in your efforts on IDA replenishment and wish both of you pleasant holidays.

Warm regards to Louie and yourself,

Yours sincerely,

(MORARJI DESAI)

Mr. George D. Woods, President, International Bank for Reconstruction & Development, WASHINGTON D.C. 20433.

July 28, 1967 Dear Morarji: I am disappointed at the results of the strenuous efforts which all of us in the Bank put forth in the effort to alleviate your foreign exchange problem in the current fiscal year. Perhaps there is some comfort in the thought that the magnitude of the debt service and the necessity of considering all possible alternatives for treating with the problem it presents, is now clearly recognized on the decision-making levels of all members of the Consortium. Some result from this fact will, in my judgment, emerge before the end of your current fiscal year. I remember talking to you about the disenchantment of the Consortium members with the situation in the subcontinent, but I must say it is more deep-seated than I had realized. Of course continuing progress on the program of decontrol combined with the buoyancy a good monsoon will bring, could improve the present feeling before the end of the year. I certainly hope this will be the case. Your letter of July 10 and the enclosed staff paper are being examined and carefully considered. I think something constructive will come of this. I would like to confirm that Louie and I are looking forward to seeing you for dinner on Tuesday, September 12. It will be a small group--not more than ten or twelve -- in our apartment, so that we can relax and talk. I have talked to Sundara Rajan about this and believe it is in your schedule. I will be in London during the first few days of August in an effort to reach an agreement on the size of the IDA replenishment. The discussions relative to the replenishment of the IDA fund are proceeding very slowly and I am more and more afraid the outcome may be another disappointment. After the meetings in London I hope to take a holiday in Portugal with Louie, although this will probably be interrupted once or twice by visits to Bonn or Paris on the IDA replenishment matter. Warm regards. Cordially, (Signed) George D. Woods George D. Woods The Honorable Morarji R. Desai Deputy Prime Minister and Minister of Finance Government of India New Delhi, India GDWoods/s Cleared with and cc to Mr. Cargill cc: Mr. Rajan

July 21, 1967

Dear Morarjis

I was most interested to receive your letter of July 10 referring to the question of international vs. domestic procurement of projects in India which are objects of Bank loans or IDA credits.

As you will appreciate, your letter raises a number of considerations related to the Bank/IDA policies on procurement and on the financing of local expenditures, and I have requested that a staff study be prepared on these matters with special reference to the problems posed in your letter. I hope to be writing to you again on this subject in the near future.

With best personal regards,

Yours sincerely,

George D. Woods

His Excellency Morarji Desai Deputy Prime Minister New Delhi, India

cc: Messrs. Aldewereld, Cope, Cargill

JBKnapp:ddv

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

*INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

ROUTING SLIP

Date July 18, 1967

Name	Room No.
Mr. Cargill	
To Mandle	Note and File
To Mandle Appropriate Disposition	Note and File Note and Return
Appropriate Disposition	Note and Return
Appropriate Disposition Approval	Note and Return Prepare Reply

Remarks

Initial

Original has been sent to Mr. Knapp for action and another copy has gone to Mr. Aldewereld.

1. N. H. /5 G.D. Woods

Send On

From



DEPUTY PRIME MINISTER INDIA

NEW DELHI, JULY 10, 1967.

Dear President:

You will recall that during your last visit to India, I had occasion to mention to you briefly the problem that we face in selecting projects for Bank/IDA lending. The problem arises from the reported policy of the Bank that virtually the whole project (not excluding sectors which can be procured in India from indigenous manufacture) should be posed for Bank financing and therefore virtually all procurement for project which is financed in part by a Bank loan should be only on the basis of international competitive tendering. I mentioned to you how in our present stage of development we are able to provide a significant degree of capital equipment and machinery needed for many of our projects out of indigenous production and how it is necessary to use this indigenous capability, for items that can be so managed, instead of going out on international competitive tendering for every single item. You agreed with my approach. I am enclosing a note that sets out more fully our point of view on this problem. I trust that it will be possible to devise procedures that will take care of the problem. I shall appreciate if you could give your attention to this and let me know how you can help.

With warmest regards,

Yours sincerely,

(MORARJI DESAI)

Mr. George D. Woods, President, International Bank for Reconstruction & Development, WASHINGTON D.C. In the past, the lending by the World Bank/IDA for projects/programmes in India has taken one of the three forms mentioned below:

- (i) Financing the foreign exchange cost of import of plant and machinery required to be imported for the projects;
- (ii) financing the full value of those items that have to be imported and in addition reimbursing a part of the rupee expenditure incurred on the projects; and
- (iii) providing foreign exchange for the import content (whether individually identified or notionally indicated by a designated percentage) of indigenously manufactured items that are procured for the project/programme and also foreign exchange for those items which have to be imported in a wholly finished form.
- Calcutta, Bombay and Madras), Koyna Stage I, DVC IV etc. have been financed on the first pattern; the IDA loans for Sone and Purna Irrigation Projects, Highways projects etc. have been on the second pattern; and the Railway and telecommunications loans have been on the third. In all these cases, wherever imports were involved whether of fully manufactured items or import content for indigenous manufacture international competitive tendering was accepted as the basis for procurement. Similarly where procurement was made within the country whether of services or items manufactured indigenously with or without imported raw material and components tenders had to be invited within the country. Where the supply was from only one source as in the case of telecommunication equipment from Indian Telephone Industries, direct procurement was permitted.
- 3. While these patterns have been followed for many years, more recently the representatives of the Bank have been indicating to us that it is necessary to move away from these to asystem of international competitive tendering for all the

^{1/} For the sake of simplicity, only Bank is mentioned in the rest of the paper where reference is to Bank or IDA or both.

major items needed by a Bank financed project; and also that except in respect of a minor part (or where the item of work or supply involved was obviously of such a nature that a foreign bidder will not be interested) no part of the equipment or services should be earmarked for solely indigenous procurement. Thus, when we consider a project for a loan, we will have to consider the project as a whole. We may say that such items of expenditure as on land acquisition, some rudimentary type of civil works etc. are solely in the indigenous category and keep them out of the scope of the Bank loan. Then the balance comes within the scope of the Bank lending, though the Bank may advance a loan to finance only a portion (normally not exceeding 50%) of the expenditure. But every item Of procurement of services or supplies will have to be subject to international competitive tendering. An indigenous bidder can compete and can also be given a price preference agreed in advance with the Bank (and stated specifically in the tender invitation). price preference permitted elsewhere by the Bank is 15%, but this compares the cost of the domestic item with only the c.i.f. cost i.e. before including customs duty. 2/ When an indigenous offer is the lowest (subject to the operation of the price preference formula) it is accepted that it will be treated in the same way as a successful foreign bid for the purpose of financing by the Bank i.e. foreign exchange will be disbursed by the Bank to the borrower as if it were an import.

4. The Bank looks at the new pattern as having substantial merits for the reasons that (i) since practically the whole of the expenditure involved in the project is incurred after international competitive bidding the cost of construction is kept to the minimum and therefore it improves the economics of the project and (ii) by taking the projects as a whole (and not merely the portion which has inevitably to be provided by imports) the Bank is able to provide a larger loan than the actual foreign exchange outgo, thus adding to the net foreign exchange receipts of the country. It is also said that the industrialised countries press for international

^{2/} This can have a curious effect in as much as a project authority may have to accept for the imported article a price, which after including the customs duty element is costlier to them than an indigenous offer - all in the good cause of competitive tendering.

competition wherever Bank funds are used for financing an item. From our point of view the new pattern poses several problems. Recently project after project has come up for consideration (internally within the Government of India) and when considered against the Bank's proposed pattern, has thrown up difficulties on account of which it has not been possible to make firm requests to the Bank for loans.3/ The difficulty can be stated to be the one arising from the need to throw open for international competitive tendering procurement of items that can be produced internally. problem seems to be much more accentuated in our present stage of development than would have been a few years ago, because we have established now production facilities which did not exist before. At that stage of development, where a developing country has little to offer but rudiments of services or material there is no problem with the principle of international tendering. Again at the far end of the scale, a developed country which uses Bank funds for setting up a project should find it difficult to put out every bit of the necessary services and equipment to international tendering. But there is an intermediate stage when a country has started on the road to industrialisation and yet is not industrialised enough to face international competition from old established developed countries.

^{3/} For instance, in the case of the Haldia Port Project, a careful investigation showed that several items of equipment such as the coal and ore handling plants, the cranes tugs etc. could be obtained from indigenous sources, making use of facilities already existing in the country, if only a comparatively small amount of foreign exchange was made available to those units for enabling them to import some essential components. It was felt that a system of international tendering would make it difficult to maximise the use of indigenous capacity. In the case of the Koyna Project Stage III, it was found that the turbo generators could be manufactured indigenously; thus, since the main equipment had to be excluded from International tendering, we could not proceed with the idea of Bank financing for the balance of the foreign exchange cost, amounting to about Rs3.5 crores. In the case of the Marmugao Port Project also, it is seen that several items of equipment such as ore handling facility, floating craft, cargo handling equipment etc. could be obtained from the indigenous sources, if only foreign exchange for import of certain components could be found.

- It is common knowledge that substantial capital investment has been made in recent years in production facilities for capital equipment. Plant and machinery, machine tools, and equipment of a large variety are manufactured in the country. However, all of these are of recent origin. Almost all the facilities have been set up with foreign collaboration, based on foreign technology and know-how. For these manufacturing units, the opportunity of production and supplies arise from other investment in projects coming up in the country, which need such equipment. It is when such opprotunities expand that they can increase their volume of production, utilise the installed capacity, improve experience and efficiency and reach a stage when they could enter the field of competition with foreign manufacturers whether for exports or for domestic supply. But the investment programme in the economy not having proceeded fast enough for keeping these production facilities fully and economically occupied, there is a large volume of underutilised capacity. The uncertainties and inadequacies in relation to their own procurement of raw materials and spare parts have also aggravated the situation regarding the efficient operation of these facilities. Requiring them to win orders through international competition will not at this stage help that healthy growth that is desired. The question is not merely one of fixing the degree of domestic preference for that competition. A flat rate of preference does not help since the extent of protection needed may vary from item to item, from sub-group to sub-group even within a category or a subcategory, as for instance in the case of machine tools. It is as much in the interest of the national economy to use to the maximum extent the potentially productive capital already installed, as it is to economise in the capital yet to be installed. There are also problems such as opportunities for assimilating and utilising technological skills, building up experience etc.
- 7. It is not disputed that the objective of the enterprises that have been set up in this country should be to become competitive, even internationally, by economic operation, effecient management and improved technology and methods of production. The earlier the objectives can be achieved the better. Some of them are better suited to take part in such a competition than others. A few have recently acquired the strength to try to compete in international tendering for securing exports.

Many are now at that stage which these few had reached some years ago. But the position regarding international compotition remains complicated. The Indian manufacturers have to compare their prices not with the price of an average manufacture elsewhere but with that of the lowest bidder; not only the lowest in any country but after taking the lowest from each of the developed countries with the lowest of all of them. lowest could be a distress or "dumping" offer but still the indigenous manufacturers have to face that competition. the Indian enterprise is already facing odds such as lower volume of production, shorter length of experience, absence of an established name and good will for its relatively new products, inability to plan and provide for raw materials on long term competitive basis etc. will be ∞ usiderations which cannot be urged at that stage. By getting out out of opportunities to produce and sell, the Indian enterprises will continue to carry the same handicaps in future too.

- 8. In such a situation, we feel that it is reasonable to examine the import needs of a project with reference to the facilities existing within the country and to take a view of what can reasonably be procured from within the country and what may be imported. The line of demarcation would be based on feasibility as also on an assessment of ∞ sts. Once that is done, only the portion that is marked out as the import category need be put up for international tendering. If an Indian enterpsise is prepared to tender for any item in this category, it will be free to do so and the bid will be considered, subject to a price preference, which should not be less than the customs duty.
- 9. As may be seen from what has been said before, the suggestion regarding earmarking part of the procurement for indigenous manufactures is not a departure from the policy that the Bank has followed in India before. It does not also mean that the Bank financing should then extend only to the imported items. In fact, the Bank policy has been quite flexible in the past and even in the case of several countries which were were at the time far more advanced than India is today, the Bank had advanced loans to finance local cost. For instance, the \$37 million Toan advanced to Japan on June 13, 1958, for financing a Hydro-Electric installation covered foreign exchange expenditures only to the extent of \$6.7 million, the remaining \$30.3 million being applied to domestic expenditures. On

.

January 19, 1962, the Bank advanced a loan to Argentina for \$95 million, of which \$60 million was towards the local currency costs of completing the Gran Buenos Aires Thermal Plant. Italy got on January 24, 1962, a Bank loan for \$222 million for a hydro electric project of which \$189 million was for local expenditure. We would like the Bank to apply, considering the present stage of Indian economic development, such a flexible policy.

- 10. Thus our view of an appropriate pattern of Bank financing for a project/programme can be stated as below.
 - (i) The project/programme may be appraised as a whole.
 - (ii) The goods and services needed will be examined and a view taken on the list of goods to be imported and those to be procured from indigenous sources.
 - (iii) The Bank loan will cover the cost of the imported items and a part of the indigenous cost.
 - (iv) International competitive bid procedure will be followed for the items imported by the project authorities for the project, whether the items are wholly manufactured items or are raw material or components imported by them for processing indigenously. Indian parties can also bid in the international tenders and will be given an appropriate domestic preference settled in advance with the Bank.
 - (v) Indigenous purchases will be done after calling for tenders within the country. (The traditional pattern of lending for the Railways and telecommunications programmes will, however, ∞ntinue).



BRIEFING PAPER - 1967

INDIA

I. MEETING WITH DELEGATION

Mr. Woods and Mr. Knapp will meet the Deputy Prime Minister and Finance Minister, Mr. Morarji R. Desai, on Monday, September 11, from 9:30 to 11:00 a.m.

Mr. Cargill and Asia Department staff will meet the delegation at a time to be determined, probably September 13.

II. MEMBERS OF DELEGATION

* Morarji R. Desai	Governor (IBRD/IMF)
	Deputy Prime Minister and
	Minister of Finance

* L.	K.	Jha	Alternate Gove	Governor ((IMF)		
			Governor, Rese	erve	Bank	of	India	

* I. G. Patel	Chief Economic Adviser
	Ministry of Finance

*S.	Jagannathan	Secretary	
		Ministry of Finance	9

C. S.	Swaminathan	Joint Secretary
		Ministry of Finance

V. Y	Tonpe	Special Assistant to
		Deputy Prime Minister

B. K. Madan	Executive	Director	(IMF)
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* K. S. Sundara Rajan	Executive Director	(IBRD)
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^{*} S. Guhan Alternate Executive Director (IBRD)

A. K. Banerji Alternate Executive Director (IBRD)

III. BANK/IDA PROSPECTIVE OPERATIONS

(a) Bank

- 1. TISCO III Collieries (amount uncertain): In one form or another this project has been under discussion since 1961. The Company has recently decided to proceed with a revised project, but has not yet received Government clearance to approach IBRD for financing.
- 2. Tata Fertilizer (amount uncertain): Very preliminary project data discussed with Bank/IFC recently. Further discussion with Tata and Allied expected soon. Project not likely to be ready for appraisal before April 1968.
- (b) IDA (subject to replenishment).
 - 1. Punjab Drainage and Agricultural Study (about \$10 million): This important agricultural project was ready for negotiation in December 1966, but was deferred pending IDA replenishment.
 - 2. <u>Bangalore Water Supply Project</u> (\$35 million): Further consideration has been postponed pending receipt of evidence that the Board is able to collect tariffs at rates which would assure reasonable earnings on the proposed investment.
 - 3. Bhatsai Water Supply (about \$30 million): The Government of Maharashtra hired consultants in May 1967 (Binnie & Partners) to assist in preparation of a technical report on the project. Appraisal could take place during the first quarter of 1968.
 - Uttar Pradesh Groundwater Development (up to \$40 million): Under discussion since 1964. In May/June 1967 an appraisal mission reviewed this project for intensive development of groundwater resources in two Districts of Uttar Pradesh. Appraisal was not completed, however, because the mission found insufficient data; nature of additional data required will be outlined in the mission's report. The Government of India has been hopeful that IDA would be prepared to finance, as part of the project agricultural inputs, especially fertilizers which are a significant part of the foreign exchange cost.
 - 5. Terai Seeds (about \$10 million): The report of an FAO project preparation mission is expected to be forwarded to India shortly. If the Government acts on the recommendations of this report, appraisal could take place early in 1968.
 - 6. Telecommunications III (about \$55 million): A formal proposal has not yet been presented but it is known that the Government hopes for a third credit to cover P&T foreign exchange requirements for the next 2 3 years. India has been advised

that further IDA financing is contingent on substantial progress toward installation of commercial-type accounting of the telecommunications branch. While the cabinet has recently made some important policy decisions on this issue, overall progress has been slow.

- 7. Railways X (up to \$50 million): No proposal has been made by the Government, but it is expected that further IDA financing will be requested. In the past the Government has been informed that no further financing for Railways could be considered until the Bank is satisfied on overall transport policies.
- 8. Mormugao Port (about \$15 million): Involves installation of modern iron-ore handling facilities. When Government first mentioned this project, it was expected to be ready for appraisal in 1965; however, even today no formal proposal has been presented. This delay is partly attributable to the Government's expectation that IDA's present procurement policies will result in limited local procurement.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level.
 - 1. Lending program and existing problem projects will be discussed.
 - 2. It is expected that IFC will have discussions with the delegation to review the status of various proposals, especially those concerned with fertilizer manufacturing.
 - 3. Settlement of Investment Disputes.
- (b) To be raised by Bank at meeting with Mr. Woods and Mr. Knapp.
 - 1. Local procurement. Mr. Woods may wish to refer to the Deputy Prime Minister's letter of July 10, 1967 (Annex I) and to the Bank staff memorandum dated September 8, 1967, which responds to this letter and its enclosure.

- 2. The role of project lending. Emphasis should be given to the Bank/IDA preference for financing specific projects. If funds available for India are to be fully and properly utilized in the next few years, adequate projects will have to be developed more quickly than in the recent past. The quality of project preparation also needs improvement.
- 3. Economic report. The report of the recent mission is being prepared and may be ready for distribution to consortium members and Executive Directors by early October. The importance of increasing India's export earnings should be stressed.
- 4. Indo-Pakistan economic cooperation. Recent economic reports on both India (May 22, 1967, AS-122b, page 52) and Pakistan (April 19, 1967, AS-124a, page 119) underline the potential benefits from cooperation and list some areas where such cooperation seems promising. Mr. Woods may wish to take this opportunity to reiterate once again the importance he attaches to this subject.
- 5. <u>Fertilizer production</u>. Mr. Woods may wish to review the status of projects under construction as well as those under consideration. The situation with regard to these projects is summarized in Annex II.
- (c) Likely to be raised by delegation.
 - 1. Project aid for 1967/68. India is likely to ask what project aid can be expected from consortium members this year. The economic report which is under preparation will emphasize project aid requirements (as well as non-project aid) but that it is difficult to be specific as to total amount required and the merit of individual projects. The consortium is expected to take up India's 1967/68 project aid requirement at a meeting in October/November if such a meeting is held. However, the prospects for project aid for 1967/68 are not promising.
 - 2. Non-project aid (including debt relief) 1967/68. Except for the United States, Italy and IDA all consortium members have indicated that they are prepared to negotiate non-project aid agreements, and, if this subject is raised, we should inquire what progress the Government has made in these negotiations and in utilizing funds made available as a result. Mr. Cargill has urged Italy to take steps which will facilitate the utilization of old commitments as quickly as possible. The situation regarding debt relief is summarized in Annex III.
 - 3. Present status of IDA replenishment. India will specifically wish to know what the prospects are for further industrial imports credits and the financing of agricultural projects.

V. BACKGROUND INFORMATION

(a) Bank Loans and IDA Credits to India as of July 31, 1967:

	Credit					million)
Number	Year	Borrower	Purpose	Bank	IDA	Undisbursed
269	1960	ICICI	Industry III	19.5	~	0.2
294	1961	Calcutta Port	Equipment II	19.2		1.6
1)1	1961	India	Salandi Irrigation		8.0	3.2
307	1961	IISCO	Coal Mining	19.5		9.5
19	1962	India	Durgapur Power		18.5	3.5
312	1962	ICICI	Industry IV	19.7		1.0
21	1962	India	Sone Irrigation		15.0	0.1
23	1962	India	Purna Irrigation		13.0	1.5
24	1962	India	Koyna Power II		17.5	6.5
27	1962	India	Bombay Port		18.0	9.6
37	1963	India	Kothagudem Power I		20.0	3.2
340	1963	ICICI	Industry V	29.7		3.8
+114	1965	ICICI	Industry VI	50.0		42.7
416	1965	India	Power Transmission	70.0		61.4
117	1965	India	Kothagudem Power II	14.0		4.6
88	1966	India	Railways IX		68.0	27.6
89	1966	India	Beas Equipment		23.0	16.8
₄ 56	1966	IISCO	Balancing Scheme	30.0		29.9
92	1966	India	Industrial Imports I	II	150.0	70.3
97	1966	India	Industrial Imports IV	J	65.0	64.9
	Loans/	Credits ful	ly disbursed	726.6	473.1	
	Toto	l less cance	ollations	998.2	889.1	
		which has		322.3	009.1	
	Tota	l now outst	anding	675.9		
		nt sold Which has l	108.1 been repaid 99.1	9.0	-	
	Tota	l now held	by Bank and IDA	666.9	889.1	

(b) Technical Assistance Activities

The final report of the Planning Commission's Eastern Region Transport Survey, for which the Bank made available six experts at an expected cost of \$285,000, is now substantially completed and is being reviewed by Bank staff.

(c) Bank 9% Capital Subscription

Entire 9% (\$72.0 million) released; \$17.36 million presently outstanding on loan and \$54.64 million available for purchases in India.

(d) IDA Subscription

Part II member. The Indian Government has agreed in principle to release rupees against 50 percent of the value of purchases of goods in India to supply IDA projects outside India, subject to India's approval of individual cases; however, no appropriate use has yet been found for India's 90% (\$36.3 million) subscription.

(e) Holdings of Bank Bonds

\$3 million of IBRD bonds (\$2 million last year) and \$5.7 million of borrower's obligations (\$10 million last year) are now held in India.

(f) International Finance Corporation

IFC is actively exploring various proposals in the fertilizer field, of which two are currently under negotiation: the Goa project sponsored by the Birla group and Armour & Co. (\$15 million requested of IFC) and the Haldia project sponsored by the Phillips Petroleum Company (\$10 million requested of IFC). In addition the first stage of the Tata fertilizer project may be presented to the Bank or IFC in 1968.

Other projects under consideration include the expansion of the Tinplate Company of India, the Salgaccar iron ore pelletizing plant and the South India glass project.

To date IFC has made eight investments in Indian private business undertakings for a total commitment of \$21 million.

(g) Settlement of Investment Disputes

Convention not signed.

VI. POLITICAL SITUATION

The political situation remains fluid. Since its reverses at the general elections last February, the Congress Party has continued to lose ground in the states. A majority of the state governments are now in the hands of non-Congress groups. However, few of these non-Congress governments have been able to formulate effective policy, since in the typical case the governing coalitions consist of ideologically disparate groups. In some places, such as West Bengal, labor relations have become very bitter.

The Union Government has not gained the strength and direction which it had hoped for from the elections. It remains divided between conflicting factions. The Government has been unable to achieve national application of the policies of any faction. On September 5, Mr. M. C. Chagla, Minister of External Affairs, resigned from the Union Government. Administrative reforms, however, particularly in the Planning Commission, are taking place.

VII. ECONOMIC SITUATION

(a) Population (mid-1966) approximately 500 million.

GNP per capita roughly US \$70.

Gold and foreign exchange reserves were about \$600 million at the end of July 1967.

(b) Although the economy is in a recession, prices continue to rise. Among the causes of the recession, the most important have been poor harvests in 1965/66 and 1966/67, which cut the domestic supply of foodgrains and other agricultural raw materials. There has been a consequent cut in real incomes, which has curtailed demand especially for non-food consumer goods. The additional food imports and running down of stocks continued to be inadequate to meet the demand for foodgrains, so food prices soared; and, partly through the mechanism of cost of living allowances, the cycle of rising wages, costs and prices have accelerated. This process of rising prices has not been without benefit, however, and an improvement in the terms of trade of the agricultural sector has resulted which will help implementation of the new agricultural strategy. Many other price adjustments have also been made, often after years of rigidity.

Rising prices, however, caused acute concern to the Government which has attempted to bring them under control primarily by fiscal measures. Public sector development spending in real terms declined in 1966/67, leading to sharp cutbacks in orders for certain capital goods, and the secondary effects of this

cutback are now beginning to spread. Since mid-1966, private investment has also been held back, partly because of uncertainty over the outcome of devaluation and subsequently, because of a credit squeeze. The overall result is that savings and investment in both the private and the public sectors have declined since 1964/65 and real per capita incomes have failed to rise.

The immediate future is thus uncertain and it will probably only be slightly clearer when it becomes known whether marketable food supplies will be adequate to permit reflationary expenditures without excessive further increases in food prices. If satisfactory weather continues, there is a good chance of a record harvest this crop year. However, one good crop may not be enough for a rapid revival of investment and economic activity, considering restocking requirements and the uncertainties of next year's food imports. Probably the best guess is that even with a good current crop it will be well into 1968 before the economy can emerge from the present recession.

At that point, the essential constraint may again quickly shift away from domestic demand to foreign exchange. The export situation is too sluggish to offer much relief in the shorter run. Hence, unless the aid outlook improves, the foreign exchange constraint will limit the extent of recovery at a fairly early stage. This may prove a hard test for the present liberal import policy which, so far, is being maintained in spite of balance of payments uncertainties.

It is unlikely that import demand this year will reach earlier estimates and, therefore, the probable shortfall in total aid will probably not prove to be a major constraint on maintenance imports. What is more likely to be serious is the shortfall in aid in the form of food and free exchange. Large commitments of India's free exchange have already been made for food and other essential imports as well as debt service, freight and similar payments. With reserves falling and no substantial export increases in immediate prospect, India's free exchange position will continue to be difficult this year if aid in the form of debt relief or other "cash" assistance does not materialize on the scale recommended in the last economic report. It also seems clear that renewed emphasis on project aid is needed to complement non-project assistance and to increase total aid flows.

DEPUTY PRIME MINISTER INDIA

NEW DELHI JULY 10, 1967.

Dear President:

You will recall that during your last visit to India, I had occasion to mention to you briefly the problem that we face in selecting projects for Bank/IDA lending. The problem arises from the reported policy of the Bank that virtually the whole project (not excluding sectors which can be procured in India from indigenous manufacture) should be posed for Bank financing and therefore virtually all procurement for project which is financed in part by a Bank loan should be only on the basis of international competitive tendering. I mentioned to you how in our present stage of development we are able to provide a significant degree of capital equipment and machinery needed for many of our projects out of indigenous production and how it is necessary to use this indigenous capability, for items that can be so managed, instead of going out on international competitive tendering for every single item. You agreed with my approach. I am enclosing a note that sets out more fully our point of view on this problem. I trust that it will be possible to devise procedures that will take care of the problem. I shall appreciate if you could give your attention to this and let me know how you can help.

With warmest regards,

Yours sincerely,

/s/

(MORARJI DESAI)

Mr. George D. Woods, President, International Bank for Reconstruction & Development, WASHINGTON D.C.

Government of India Ministry of Finance

In the past, the lending by the World Bank/IDA 1/ for projects/ programmes in India has taken one of the three forms mentioned below:

- (i) Financing the foreign exchange cost of import of plant and machinery required to be imported for the projects;
- (ii) financing the full value of those items that have to be imported and in addition reimbursing a part of the rupee expenditure incurred on the projects; and
- (iii) providing foreign exchange for the import content (whether individually identified or notionally indicated by a designated percentage) of indigenously manufactured items that are procured for the project/programme and also foreign exchange for those items which have to be imported in a wholly finished form.
- 2. Thus the project loans such as for Ports' Development (Calcutta, Bombay and Madras), Koyna Stage I, DVC IV etc. have been financed on the first pattern; the IDA loans for Sone and Purna Irrigation Projects, Highways projects etc. have been on the second pattern; and the Railway and telecommunications loans have been on the third. In all these cases, wherever imports were involved whether of fully manufactured items or import content for indigenous manufacture international competitive tendering was accepted as the basis for procurement. Similarly where procurement was made within the country whether of services or items manufactured indigenously with or without imported raw material and components tenders had to be invited within the country. Where the supply was from only one source as in the case of telecommunication equipment from Indian Telephone Industries, direct procurement was permitted.
- 3. While these patterns have been followed for many years, more recently the representatives of the Bank have been indicating to us that it is necessary to move away from these to a system of international competitive tendering for all the major items needed by a Bank financed project; and also that except in respect of a minor part (or where the item of work or supply involved was obviously of such a nature that a foreign bidder will not be interested) no part of the equipment or services should be earmarked for solely indigenous procurement. Thus, when we consider a project for a loan, we will have to consider the project as a whole. We may say that such items of expenditure as on land acquisition, some rudimentary type of civil works etc are solely in the indigenous category and keep them out of the scope of the Bank loan. Then the balance comes within the scope

^{1/} For the sake of simplicity, only Bank is mentioned in the rest of the paper where reference is to Bank or IDA or both.

of the Bank lending, though the Bank may advance a loan to finance only a portion (normally not exceeding 50%) of the expenditure. But every item of procurement of services or supplies will have to be subject to international competitive tendering. An indigenous bidder can compete and can also be given a price preference agreed in advance with the Bank (and stated specifically in the tender invitation). The price preference permitted elsewhere by the Bank is 15%, but this compares the cost of the domestic item with only the c.i.f. cost i.e. before including customs duty. 2/ When an indigenous offer is the lowest (subject to the operation of the price preference formula) it is accepted that it will be treated in the same way as a successful foreign bid for the purpose of financing by the Bank i.e. foreign exchange will be disbursed by the Bank to the borrower as if it were an import.

- 4. The Bank looks at the new pattern as having substantial merits for the reasons that (i) since practically the whole of the expenditure involved in the project is incurred after international competitive bidding the cost of construction is kept to the minimum and therefore it improves the economics of the project and (ii) by taking the projects as a whole (and not merely the portion which has inevitably to be provided by imports) the Bank is able to provide a larger loan than the actual foreign exchange outgo, thus adding to the net foreign exchange receipts of the country. It is also said that the industrialised countries press for international competition wherever Bank funds are used for financing an item.
- 5. From our point of view the new pattern poses several problems. Recently project after project has come up for consideration (internally within the Government of India) and when considered against the Bank's proposed pattern, has thrown up difficulties on account of

^{2/} This can have a curious effect in as much as a project authority may have to accept for the imported article a price, which after including the customs duty element is costlier to them than an indigenous offer - all in the good cause of competitive tendering.

which it has not been possible to make firm requests to the Bank for loans. 3/ The difficulty can be stated to be the one arising from the need to throw open for international competitive tendering procurement of items that can be produced internally. The problem seems to be much more accentuated in our present stage of development than would have been a few years ago, because we have established now production facilities which did not exist before. At that stage of development, where a developing country has little to offer but rudiments of services or material there is no problem with the principle of international tendering. Again at the far end of the scale, a developed country which uses Bank funds for setting up a project should not find it difficult to put out every bit of the necessary services and equipment to international tendering. But there is an intermediate stage when a country has started on the road to industrialisation and yet is not industrialised enough to face international competition from old established developed countries.

6. It is common knowledge that substantial capital investment has been made in recent years in production facilities for capital equipment. Plant and machinery, machine tools, and equipment of a large variety are manufactured in the country. However, all of these are of recent origin. Almost all the facilities have been set up with foreign collaboration, based on foreign technology and know-how. For these manufacturing units, the opportunity of production and supplies arise from other investment in projects coming up in the country, which

^{3/} For instance, in the case of the Haldia Port Project, a careful investigation showed that several items of equipment such as the coal and ore handling plants, the cranes tugs etc. could be obtained from indigenous sources, making use of facilities already existing in the country, if only a comparatively small amount of foreign exchange was made available to those units for enabling them to import some essential components. It was felt that a system of international tendering would make it difficult to maximise the use of indigenous capacity. In the case of the Koyna Project Stage III, it was found that the turbo generators could be manufactured indigenously; thus, since the main equipment had to be excluded from international tendering, we could not proceed with the idea of Bank financing for the balance of the foreign exchange cost, amounting to about Rs 3.5 crores. In the case of the Marmugao Port Project also, it is seen that several items of equipment such as ore handling facility, floating craft, cargo handling equipment etc. could be obtained from the indigenous sources, if only foreign exchange for import of certain components could be found.

need such equipment. It is when such opportunities expand that they can increase their volume of production, utilise the installed capacity, improve experience and efficiency and reach a stage when they could enter the field of competition with foreign manufacturers whether for exports or for domestic supply. But the investment programme in the economy not having proceeded fast enough for keeping these production facilities fully and economically occupied, there is a large volume of underutilised capacity. The uncertainties and inadequacies in relation to their own procurement of raw materials and spare parts have also aggravated the situation regarding the efficient operation of these facilities. Requiring them to win orders through international competition will not at this stage help that healthy growth that is desired. The question is not merely one of fixing the degree of domestic preference for that competition. A flat rate of preference does not help since the extent of protection needed may vary from item to item, from sub-group to sub-group even within a category or a sub-category, as for instance in the case of machine tools. It is as much in the interest of the national economy to use to the maximum extent the potentially productive capital already installed, as it is to economise in the capital yet to be installed. There are also problems such as opportunities for assimilating and utilising technological skills, building up experience etc.

- 7. It is not disputed that the objective of the enterprises that have been set up in this country should be to become competitive, even internationally, by economic operation, efficient management and improved technology and methods of production. The earlier the objectives can be achieved the better. Some of them are better suited to take part in such a competition than others. A few have recently acquired the strength to try to compete in international tendering for securing exports. Many are now at that stage which these few had reached some years ago. But the position regarding international competition remains complicated. The Indian manufacturers have to compare their prices not with the price of an average manufacturer elsewhere but with that of the lowest bidder; not only the lowest in any country but after taking the lowest from each of the developed countries with the lowest of all of them. The lowest could be a distress or "dumping" offer but still the indigenous manufacturers have to face that competition. That the Indian enterprise is already facing odds such as lower volume of production, shorter length of experience, absence of an established name and good will for its relatively new products, inability to plan and provide for raw materials on long term competitive basis etc. will be considerations which cannot be urged at that stage. By getting out of opportunities to produce and sell, the Indian enterprises will continue to carry the same handicaps in future too.
- 8. In such a situation, we feel that it is reasonable to examine the import needs of a project with reference to the facilities existing within the country and to take a view of what can reasonably be procured from within the country and what may be imported. The line of

demarcation would be based on feasibility as also on an assessment of costs. Once that is done, only the portion that is marked out as the import category need be put up for international tendering. If an Indian enterprise is prepared to tender for any item in this category, it will be free to do so and the bid will be considered, subject to a price preference, which should not be less than the customs duty.

- As may be seen from what has been said before, the suggestion regarding earmarking part of the procurement for indigenous manufactures is not a departure from the policy that the Bank has followed in India before. It does not also mean that the Bank financing should then extend only to the imported items. In fact, the Bank policy has been quite flexible in the past and even in the case of several countries which were at the time far more advanced than India is today, the Bank had advanced loans to finance local cost. For instance, the \$37 million loan advanced to Japan on June 13, 1958, for financing a Hydro-Electric installation covered foreign exchange expenditures only to the extent of \$6.7 million, the remaining \$30.3 million being applied to domestic expenditures. On January 19, 1962, the Bank advanced a loan to Argentina for \$95 million, of which \$60 million was towards the local currency costs of completing the Gran Buenos Aires Thermal Plant. Italy got on January 24, 1962, a Bank loan for \$222 million for a hydro electric project of which \$189 million was for local expenditure. We would like the Bank to apply, considering the present stage of Indian economic development, such a flexible policy.
- 10. Thus our view of an appropriate pattern of Bank financing for a project/programme can be stated as below.
 - (i) The project/programme may be appraised as a whole
 - (ii) The goods and services needed will be examined and a view taken on the list of goods to be imported and those to be procured from indigenous sources.
 - (iii) The Bank loan will cover the cost of the imported items and a part of the indigenous cost.
 - (iv) International competitive bid procedure will be followed for the items imported by the project authorities for the project, whether the items are wholly manufactured items or are raw material or components imported by them for processing indigenously. Indian parties can also bid in the international tenders and will be given an appropriate domestic preference settled in advance with the Bank.
 - (v) Indigenous purchases will be done after calling for tenders within the country. (The traditional pattern of lending for the Railways and telecommunications programmes will, however, continue).

Attached is a table prepared by IFC showing present and anticipated fertilizer capacity through March 31, 1975. The following is a summary of the status of projects being actively considered by IFC.

(a) Goa Fertilizer - Cost of Project - \$62 million Requested of IFC - \$15 million

The project, sponsored by the Birla group and Armour & Co., is to produce 340,000 tons of urea (160,000 tons N). The sponsors are currently undertaking a technical appraisal with the assistance of Arthur D. Little Co. in updating the marketing data. Turnkey bids are expected by October 1967, after which the company will be able to furnish IFC with the technical data needed for an appraisal.

(b) Phillips Fertilizer - Cost of Project - \$100 million Requested of IFC - \$10 million

The project, sponsored by the Phillips Petroleum Company, is to produce 450,000 tons of complex fertilizers (126,000 N; 80,000 P; 39,000 K). Phillips is currently having discussions with the Government on the technical fees and hopes to obtain a license in the near future.

(c) Tata Allied Fertilizer - Cost of Project - \$200 million

The project, sponsored by the Tata group and the Allied Chemical Company of the U.S., is a complicated one in seven stages to produce several types of complex fertilizers based on imported ammonia and phosphoric acid from Allied's Sharpur complex in Iran. The sponsors are revising their data and intend to present for IFC consideration a first stage project which they believe will cost around \$50 million.

IFC ESTIMATE OF INDIAN FERTILIZER PRODUCTION (thousand metric tons of N)

		pacity		/1		s endi	ng Mar		17	
Existing Plants	Present		oletion)	(Actua 1967	1968	1969	1970	ojecte 1971	1973	1975
Public Sector Private Sector	524 134	694 222	(9/69) (12/67)	286 36	108	518 180	601 206	637 207	637 207	637 20 7
TOTAL EXISTING PLANTS	658	916		322	520	698	807	844	844	8444
Plants Under Implementation Public Sector										
1/ Madras (GOI) 2/ Durgapur (FCI) 2/ Cochin (FACT) 2/ Namrup Expansion (- - - FCI)-	152 152 152	(3/70) (10/70) (10/70) (6/71)	-	-	-	5 - -	107 23 23	177 141 141 123	177 141 141 141
2/ Barauni (FCI)		152 798	(9/71)				- 5	153	699	741
Private Sector										
3/ Kanpur	-		(9/70)	-	-	-	57 50	140	196 112	196
4/ Gujarat Expansion 5/ Kota	_	130	(9/69) (4/69)	_	_	_	68	108	121	121
21 110 00	_	450	(4/ 0//	-	-	-	175	332	429	429
TOTAL PLANTS UNDER IMPLEMENTATION		1248		-	-	-	180	485	1128	1170
TOTAL PLANTS EXISTING AND UNDER IMPLE- MENTATION	658	2164		322	520	698	987	1329	1972	2014
Plants Proposed										
Public Sector Trombay Expansion (FCI) Private Sector	-	200	(3/71)	-	-	**	-	-	150	186
6/ Goa	-	160	(3/71)	-	-	-	-	_	120	148
7/ Haldia	_		(3/71)	-	-	-	-	_	107	122
	-	302		-	-	-	-	-	227	270
TOTAL	658	2666		322	520	698	987	1329	2349	2470
1/ AMOCO 2/ Montecatini (equi 3/ ICI 4/ Japanese collabor		nly)	5, <u>7,</u>	/ Mits / Armo / Phil	subishi our lips					

PRESENT STATUS OF 1967/68 CONSORTIUM DEBT RELIEF ACTION

AUSTRIA - has not announced any new debt relief, but as part of the aid announced last year it agreed to refinance half of the principal payments due from India this year.

BELGIUM - has not announced any debt relief but in recognition of India's debt servicing problem has increased the amount of its aid and is offering the new aid on softer terms than in the past.

CANADA - has cancelled completely \$1.2 million of principal and interest due on wheat loans. In addition, \$0.8 million which is the principal due on other loans has been postponed for one year.

FRANCE - has pledged \$17 million as non-project aid for 1967/68 without any reference to whether any of this is available for debt relief. India is trying to negotiate partial release for debt relief.

GERMANY - out of \$62.5 million announced by Germany for 1967/68, agreements for \$43.5 million have been initialed. Of this \$7.5 million is in the form of untied commodity aid and \$7.25 million is in the form of debt rescheduling. This is Rourkela debt where the principal due this year is rescheduled over the closing years of the loan.

<u>JAPAN</u> - has announced the availability of \$6.2 million for debt relief. The terms and form of this are under negotiation between India and Japan.

<u>NETHERLANDS</u> - feels that the amount and terms of its assistance are such that no debt relief is required.

UNITED KINGDOM - has announced \$32.2 million of debt refinancing. This amount being equivalent to principal plus interest payments due in the six-month period from April 1 to September 30, 1967. The new loan is interest free and involves repayment over 25 years including a seven-year grace period.

UNITED STATES - Export-Import Bank started discussions with India only after the Bank approved the temporary special deposit scheme on July 25. The United States is not contemplating any debt relief for 1967/68 and reportedly India has been offered a choice between (a) about \$33 million of quick disbursing program assistance and (b) the combination of \$25 million of program assistance and up to \$20 million for projects. However, given the preliminary nature of these discussions the whole situation is likely to change in the months ahead.

Indonesia

MAY CONFIDENTIAL
WBG September 14, 1967

BRIEFING PAPER - 1967 INDONESIA

I. MEETING WITH DELEGATION

With Mr. Woods on September 18 at 4:15 p.m. for one hour. With Mr. Cargill on September 18 at 10:00 a.m. for one hour.

II. MEMBERS OF DELEGATION

Dr. Frans Seda (G) Minister of Finance

Dr. Salamun Alfian Tjakradiwirja Director General, Ministry of Finance

Mr. Djuana Kusumahardja Deputy Governor, Bank Negara Indonesia

Advisers

Mr. Muhamad Barmawie Alwie Alternate Executive Director

Mr. Byanti Kharmawan Executive Director, Asian Development Bank

Mr. C. Soesmojo Tjokroamidjojo

Assistant to the Minister of Finance, Secretary of Bank Delegation

Mr. Hussein Sesegaff

Assistant to the Governor Bank of Negara Indonesia, Secretary to Fund Delegation

BANK/IDA PROSPECTIVE OPERATIONS

None are yet envisaged

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level

(i) IDA and IFC Membership

Indonesia rejoined the Bank on April 13, 1967 and applied for membership of IFC and IDA on May 26, 1967. Information on action needed to complete membership of IFC and IDA was supplied in June.

(ii) Settlement of Investment Disputes

Indonesia has expressed an interest in the convention for the settlement of investment disputes. The Government has been supplied with information.

(b) To be raised by Bank at meeting with President

None

(c) Likely to be raised by delegation

The delegation is likely to repeat the request made to the economic mission in August for the Bank to undertake a transportation survey in Indonesia. While the Bank accepts the fact that transportation is a serious problem and should be surveyed, the delegation should be told that in the first instance the UNDP should be approached for the financing of such a study, though the Bank would be glad to act as Executing Agency. Should the UNDP not wish to finance this study, the Bank would be prepared to consider it, though its limit for technical assistance is \$ 200,000.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967

None

(b) Technical Assistance

In September/October 1966 a Bank mission visited Indonesia to estimate import requirements for 1967 in the industry, transport, agriculture and power sectors.

As already promised, an economic mission will visit Indonesia in October to follow up the economic reconnaisance mission which visited Indonesia in July/August of this year. The purpose of this forthcoming mission would be to study Indonesia's current economic situation and prospects, examine priorities

of projects already started but now suspended, and examine problems of rehabilitation and new investment in industry, agriculture, transportation and power. This report would be completed in early 1968. It would be primarily for the benefit of the Government and the Inter-Governmental Group on Indonesia.

(c) Consultations with Creditor and Aid-supplying Countries

(i) Debt Rescheduling

Meetings of non-communist creditor countries were held in Tokyo in September 1966 and in Paris in December 1966 to consider debt rescheduling. They were successful in their efforts to defer payments due up to the end of 1967. They will meet again in Paris about October 15 to consider the possibility of relief for payments falling due in 1968 and possibly in the two following years as well. Indonesia held separate bilateral discussions with Yugoslavia, Russia and other Eastern European countries. Agreement in principle has been reached for rescheduling of payments due to the USSR.

(ii) External Assistance

At the invitation of the Netherlands Government, an Inter-Governmental Group on Indonesia met in Amsterdam in February 1967 and in Scheveningen, Holland, in June 1967, to consider Indonesia's needs for external assistance. It has promised \$ 200 million of balance of payments assistance for 1967. The Group consists of countries participating in the Paris debt rescheduling meeting, other interested countries, the Fund and the Bank, and observers from OECD, UNDP and the Asian Development Bank. Its next formal meeting will be held in Amsterdam on November 20 - 22 to consider aid to Indonesia in 1968. The Bank has intimated that it will send staff members to this meeting.

(d) Bank 9% Capital Subscription (\$19.80 million)

No release

(e) IDA Subscription

Arrangements for Indonesia's membership of IDA are not yet complete. The subscription would be \$ 11.1 million. See paragraph IV (a) (i).

(f) Holdings of Bank Bonds

None

(g) IFC

Arrangements for Indonesia's membership of IFC are not yet complete. The subscription would be \$ 1,218,000 (1218 shares). See paragraph IV (a) (i).

A suggestion that the Government-owned development Bank and the private development bank be merged in order to make them suitable for World Bank/IFC assistance was proposed to IFC by the Executive Director on behalf of the Indonesian authorities.

(h) Settlement of Investment Disputes

Indonesia has not so far signed the convention. See paragraph IV (a) (ii).

VI. POLITICAL SITUATION

Since the abortive coup of October 1965, the key Government figures have been General Suharto, Sultan Buwono of Djogjakarta (Economic and Financial Affairs) and Adam Malik (Political Affairs). The central government consists of the Presidium of five Ministers headed by acting President Suharto. Subordinate to the Presidium are some 27 Ministries, seven headed by military officers. The People's Consultative Assembly constitutes the legislative branch and is an appointed body which has probably played a minor role in initiating recent legislation.

The present Government appears to have substantial support from the business and intellectual elements in Indonesia. Coming into power at the height of a very serious inflation, its stabilization policies were popular despite current complaints of tight credit. Longer run political stability may be impaired by rising opposition to the army's police activities particularly from the students. Organized labor is no longer in much evidence following the liquidation of the Communist Party. The development of a stable political structure probably depends on the rejuvenation of one or more political parties, for it is doubtful that the present military leadership is capable of rallying long term popular support. Whether this can be done in time for the promised election of 1968 and whether the postponement of these elections will lead to serious political disturbances are key questions.

Indonesia's chances of attaining the degree of political stability required for sustained economic recovery also hinge on the central Government's ability to strengthen relations with the regions. Indonesia is not now an integrated economy, but a galaxy of economic and geographic entities, widely disparate in cultural and educational levels and with conflicting economic interests. The 28 provinces have considerable financial autonomy, levying numerous taxes and charges which retards the economic integration of the

country. The Government has indicated that it intends to strengthen the provincial authorities. However, how the political need for decentralization can be combined with the economic need for efficiency in the use of resources still remains to be worked out.

As regards its external relations with neighboring countries, Indonesia has taken positive steps to regain their friendship. It has ended its policy of confrontation with Malaysia. Noteworthy also is its participation in ASEAN (Association of Southeast Asian Nations), the new successor of ASA (Association of Southeast Asia) of which Indonesia was not a member.

VII. ECONOMIC SITUATION

When the present Government assumed power in July 1966, economic conditions in Indonesia were chaotic. In the past fifteen months, the Government has done a great deal to re-establish order in the economy. At the core is the stabilization program designed not only to curb inflation and pave the way for the recovery of production and investment, but also to start structural changes in the direction of re-establishing a market economy and encouraging private foreign participation. Approximate balance of the budget in 1967 was sought by a cut in capital expenditures to a level barely enough to maintain existing infrastructures. Almost all on-going projects were suspended. Although there was a considerable budget deficit in the first half of 1967 partly because of shortfalls in foreign aid, the monthly rate of price increases was reduced to 5%, one tenth of the 1966 level. Furthermore, the Government lifted most price controls, removed import controls and replaced them by a fluctuating exchange rate and terminated special privileges and subsidies for state enterprises. A new foreign investment law was approved in December 1966. Most non-Dutch foreign-owned industrial and trading properties, except estates, were returned to their owners. Foreign investors, notably Americans, have shown considerable interest and several substantial investments have been sanctioned, mostly in extractive industries.

Altogether, economic improvement in the past fifteen months has been as good as could be expected. However, Indonesia is still far from full recovery and stability. In order to focus attention on the longer range problems, a group of five leading academic economists has recently been appointed as advisers to the Presidium; Professor Widjojo, the leader of the group, has been made head of the National Planning Council and is undertaking the revival of this body after a dormant period. The crucial element in Indonesia's short and medium-term outlook is the foreign exchange situation. While it is likely that exchange earnings will gradually increase, Indonesia's capacity to import the goods required for rehabilitation and, ultimately, the resumption of growth will largely depend on the amount of aid that will be made available. Moreover, Indonesia's foreign debt of \$ 2.3 billion, 60% of which is owed to Communist

countries, now involves an unmanageable service burden so that realistic re-scheduling of debt service obligations is a necessary part of any solution to Indonesia's foreign exchange problem. Neither the amount of aid so far made available nor the first round of debt re-scheduling (see V (c)) suggest that Aid giving countries are yet set on a course that promises to carry Indonesia through to full recovery.and, ultimately, to development.



Notes on the Possible Japanese Contribution to Proposed Replenishment of IDA

- 1. On the basis of its share in the first replenishment of IDA, Japan's contribution to an IDA replenishment of \$800 million a year would be \$44.3 million. This would require an increase of about \$31 million over the present rate of annual contribution to IDA (\$13,750,000). The \$31 million is less than 1/5th of 1% of the anticipated increase in annual national income between 1965 and 1968 (\$17 billion).
- 2. This would be less than ½ of 1% of its export earnings (\$9,639 million in calendar 1966). It would be less than 1/3 of 1% of its budget expenditure (\$13,284 million in 1966). It would be less than 1/16 of 1% of the national income (estimated to be \$78,280 million in 1966).
- 3. Net official aid to LDCs was \$244 million in 1965, more than double the 1964 level, (but below the peak of 1958). Net private capital flows to LDCs were \$242 million in 1965. The total official and private assistance in 1965 was 0.7% of national income. The Japanese Government has indicated that it expects to raise the total flow to 1% of national income.
- 4. Japan has earned from IDA-financed procurement about 3½ times the value of its cash payments. Estimated total receipts from IDA-financed procurement are \$107.7 million identifiable, or \$141.7 million if estimated indirect effects of disbursements in Part II countries (and unidentified sources), are included, while cash payments to IDA are \$40.4 million, as of June 30, 1967.

^{1/} See Annex B of letter to the Executive Directors from Mr. Woods of April 12, 1967 (IDA/Sec M67-28).

^{2/} OECD, The flow of financial resources to less developed countries, Tables II.2 and II.7.

Part I Countries	Proposed Annual Contribution (\$ million)	Share of Proposed Replenishment (percent)
U.S.A. (unassigned) U.K. Germany Finland France Canada Japan Italy Australia Netherlands Sweden Belgium Denmark Norway Austria South Africa Kuwait Finland Luxembourg	320.0 15.1 103.7 78.0 66.5 44.8 44.3 32.2 21.3 17.7 16.1 8.9 8.1 7.1 5.4 4.3 3.6 2.5 0.4	40.00 1.89 12.96 9.75 - 60 8.31 - 7 5.60 5.54 4.03 2.66 2.21 2.01 1.11 1.01 0.89 0.68 0.54 0.45 0.31 0.05
TOTAL	\$800 million	100%

Economics Department
International Finance Division

September 15, 1967

See Annex B to letter from Mr. Woods to Executive Directors, April 12, 1967 (IDA/Sec M67-28).

MAY CONFIDENTIAL
WBG ARCHIVES
September 14, 1967

ERIEFING PAPER - 1967

JAPAN

I. MEETING WITH DELEGATION

Mr. Cargill on September 15 at 11:00 a.m. Mr. Woods on September 15 at 3:00 p.m.

II. MEMBERS OF DELEGATION

Mr. Mikio Mizuta, Minister of Finance

Mr. Makoto Usami, Governor, The Bank of Japan

Mr. Shichiro Murai, Financial Commissioner, Ministry of Finance

Mr. Yusuke Kashiwagi, Director, International Finance Bureau, Ministry of Finance

Mr. Haruo Mayekawa, Executive Director, The Bank of Japan

Mr. Haruo Nakajima, Financial Minister, Embassy of Japan

III. BANK/IDA PROSPECT OPERATIONS

No further Bank lending to Japan is contemplated.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:
- (b) To be raised by Bank at meeting with President or Senior Officer:

IDA replenishment and other items of common interest.

(c) Likely to be raised by delegation:

V. BACKGROUND INFORMATION

(a) Bank loans (no IDA credits) as of July 31, 1967:

Loan No.	Year	Borrower	Purpose	Amount Bank	
Loans ful	ly dist	oursed		482 00	
357 374 398	1963 1964 1964	Nihon Doro Kodan Nihon Doro Kodan Tokyo Expressway	Roads Roads	75.0 50.0	14.6 19.5
399 413	1965	Corporation EPDC Nihon Doro Kodan	Power Roads	25.0 75.0	12.6
423 460	1965 1966	Hanshin Expresswa; Corporation Nihon Doro Kodan	Roads Roads	25.0	12.3 53.9
		of cancellations has been repaid		857.0 132.3	
Total	l now o	utstanding		724.7	
		unt sold which has been rep	83.6 aid 82.7		
Tota	l now h	eld by Bank		723,8	
Tota	l undis	bursed			172.4

(b) Technical Assistance

None.

(c) Access to Capital Markets

During calendar year 1965, Japan borrowed \$87.5 million in foreign markets, mostly in the United States. In 1966, a proposed \$15 million issue by Nippon Telegraph and Telephone and in June of this year a \$15 million Japan Development Bank issue were withdrawn on account of high interest rates, and generally unsettled conditions in the U.S. market. Japan proposes to resume borrowing in the U.S. and other markets when conditions are more favorable.

(d) Bank 9% Capital Subscription

\$69.53 million. Entire amount released, convertible into any currency.

(e) IDA Subscription

Part I country. Initial subscription \$33.6 million, first replenishment \$41.2 million.

(f) Holdings of Bank Bonds

Japan holds \$20 million of Bank bonds and \$470,000 of borrowers obligations.

(g) I.F.C.

Member, but not considered for IFC operations because of advanced stage of industrialization.

Some Japanese companies are technical partners in IFC projects outside Japan.

(h) Settlement of Investment Disputes

Japan signed the Convention on September 23, 1965 and ratified it on August 17, 1967.

VI. POLITICAL SITUATION

In January of this year elections were held for the House of Representatives, the lower but more important chamber of Parliament. Premier Sato's pro-western Liberal Democratic Party (LDP) won a clear majority of 277 in the 486-seat House, in spite of a series of scandals involving prominent figures in the LDP. The other major party, the Japan Socialist Party, which stood to gain most from the pre-election charges of LDP corruption, lost one seat. The Komeito (Clean Government) Party, which is the political arm of the Buddhist Soka Gakkai sect, won 25 seats in the lower house in its first contest for that chamber. Coupled with its 20 mats in the upper house and its successes in local elections, this new but rapidly growing conservative party may soon pose a threat to the ruling LDP. In the municipal elections in April, the city of Tokyo elected a Socialist Governor, giving the vast metropolist a leftist administration and legislature for the first time.

Reluctant since the war to take a leading role in Asian and Pacific Affairs, Tokyo has recently reversed its position. The country's trade is more oriented to the Pacific region and Japan has now become Australia's biggest customer. The Government is deliberately making itself felt in the councils of Asia, and has developed a substantial foreign aid program. During 1966 Japan's economic aid to developing countries amounted to the equivalent of \$538 million, of which 71% went to Asian countries. Most of the country's aid to Asia is for Southeast

Asia, rather than for India and Pakistan. The ratio of foreign aid to national income was 0.69%, and Japan has undertaken to raise this to 1% of national income as soon as practicable. Japan has joined several consortia and consultative groups, but has made it plain that the aid it gives is part of Japan's independent bilateral relations and not a result of pressure from the Bank or the particular aid group.

An attached note gives the details of the Government's foreign aid program.

VII. ECONOMIC SITUATION

- (a) Population (end 1966): 99.24 million

 GNP per capita: \$980 equivalent

 Foreign exchange reserves (gross June 1967): \$2,099 million.
- (b) In 1966 Japan's economy recovered fast from an unusually prolonged recession which began in 1964. Real GNP increased by 9.7% as compared to only 4% in 1965. Main stimulus for the upswing was the Government's deficit spending policy, including tax cuts and a 20% increase in budget appropriations, combined with an easy money policy. Moreover exports expanded considerably, helped by the Vietnam war and continuing prosperity in the U.S. These factors were reinforced by a secondary expansion in private consumption and, in the latter part of 1966, private investment which recovered at an unexpected speed. Negative developments included a persistent rise in wholesale prices, the biggest since 1956, and the growing shortage of labor. Corporate bankruptcies, predominantly involving small firms, reached a post-war record revealing some of the structural deficiencies inherent in the Japanese economy.

Due to a 16% rise in exports, Japan's balance of payments attained a record trade surplus in 1966 and the current account surplus of \$1,252 million was one-third higher than in 1965. However, net capital outflow nearly doubled reflecting the increase in export credits and financial assistance to developing countries together with the steady rise of overseas investments by Japanese enterprises. Simultaneously, capital inflow from the U.S. and elsewhere declined and there was a considerable net outflow of commercial bank funds attracted by higher interest rates abroad. The net capital outflow was slightly greater than the current account surplus and consequently, official gold and foreign exchange reserves declined.

The boom has gained strength in 1967, owing to the persistent rise in private fixed investment and private consumption. Amid signs that GNP may rise by 12% or more this year, Japanese business is becoming increasingly apprehensive about implications of the present rate of expansion. The Bank of Japan has just raised its official discount rate from 5.475 to 5.480 per cent and has decided to apply controls on increases in commercial bank lendings, in an attempt to restore the balance of payments equilibrium. Japan's traditional balance of payments problem during a boom - slackening exports and rapidly rising imports - became strongly evident again during the first half of 1967 when imports expanded by 23% while exports increased by only 9%. Moreover, the current account deficit which Japan can afford to have now is much less than in the past because of the adverse developments on the capital account. Continuation of the present net inflow of short-term capital caused by the diminishing gap between Western and Japanese interest rates may alleviate somewhat the pressure on the balance of payments. However, the net outflow of long-term capital has further increased and it is likely that the overall capital account will once again be negative this year.

Attachment

JAPAN'S FOREIGN AID

Figures for financial assistance quoted by the Japanese Government usually are for both official and private transactions, and on this basis the amount for fiscal year 1966 (April 1, 1966 - March 31, 1967) amounted to \$538 million, which was 0.69% of Japan's national income. Government aid during the same period was \$285 million (including contributions to the IBRD, IDA, ADB and U.N.) or 0.37% of national income. When Government officials say Japan intends to increase its aid program to 1% of national income, they are referring to combined official and private transactions.

The following table gives the flow of financial resources to less developed countries and multilateral agencies from 1960 to 1966.

1960	1961	1962	1963	1964	1.965	1966
Total official financing (net) 97.7	108.5	88.2	140.3	115.7	243.7	285.3
(of which grants, mostly reparations) 66.9	67.8	74.6	76.6	68.7	82.2	104.7
Total private financing (net) 136.7 (includes direct investment and export credits)	273.8	199.4	127.0	174.1	241.8	253.5

Government aid during 1966, excluding contributions to international organizations, was \$234.7 million, of which \$216 million went to Asia, \$17 million to South America and \$0.75 million to Africa. Government grants and loans to Asian countries from 1960 to 1966 are as follows:

	1960	1961	1962	1963	1964	1965	1966
Burma India Pakistan Indonesia South Korea Philippines South Vietnam Thailand	21.5 16.2 0.2 14.3 27.8 0.9 0.3	13.6 23.2 0.2 30.8 8.5 15.5 0.3	24.5 8.7 1.4 22.0 0.03 7.02 17.3 3.2	27.1 32.5 11.3 17.9 5.5 10.7 7.1 3.2	16.8 34.9 16.2 15.0 0.2 21.3 5.9 3.5	11.8 53.2 32.7 21.5 45.9 35.3 -0.7 3.9	10.3 49.4 21.3 50.6 31.2 30.5 0.6 3.7

Official loans are chanelled through the Overseas Economic Cooperation Fund (OECF) and the Export Import Bank of Japan. In some cases loans from the OECF on preferential terms are combined with loans from the EXIM Bank on commercial terms.

The OECF was established in March 1961 and obtains funds from its own capital and borrowing from the Government. The usual terms of OECF loans are not lower than 3.5% per year for a normal maximum of 20 years, with varying grace periods. Korea and Taiwan, as ex-territories of Japan, are considered special cases and get the lower rate. A loan on these terms has been made recently to Korea for \$200 million with a 7-year grace period to be drawn down over ten years and China has been promised a loan on similar terms for the construction of a multi-purpose dam. Other countries may pay a higher rate, for example, a commitment was made to Malaysia in 1966 for a \$50 million loan, one-third of which would be from the OECF at 4.5% for twenty years. The areas of activity of the OECF are limited to underdeveloped countries and the projects financed do not have to directly benefit Japan's trade, but should be of general value to Japan.

The Export Import Bank of Japan was formed in 1950 and receives its funds through direct Government budgetary allocation. It can borrow from the Ministry of Finance but not from financial institutions, and it cannot issue bonds. It can operate in developed and underdeveloped countries and is run on firm commercial principles, with the object of directly benefiting Japan's exports. The general range of the bank's interest rates is from 5-7%, and loans are usually for an average term of 15 years with a grace period of 3 years. Recent loans include \$60 million to India at 5.75% (\$40 million for 15 years and \$20 million for 18 years) and \$17 million to Iran at 5.75% for 18 years.



BRIEFING PAPER - 1967

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Figures for financial assistance quoted by the Japanese Government usually are for both official and private transactions, and on this basis the amount for fiscal year 1966 (April 1, 1966 - March 31, 1967) amounted to \$538 million, which was 0.69% of Japan's national income. Government aid during the same period was \$285 million (including contributions to the IBRD, IDA, ADB and U.N.) or 0.37% of national income. When Government officials say Japan intends to increase its aid program to 1% of national income, they are referring to combined official and private transactions.

The following table gives the flow of financial resources to less developed countries and multilateral agencies from 1960 to 1966.

1960	1961	1962	1963	1964	1965	1966
Total official financing (net) 97.7	108.5	88.2	140.3	115.7	243.7	285.3
(of which grants, mostly reparations) 66.9	67.8	74.6	76.6	68.7	82.2	1.04.7
Total private financing (net) 136.7 (includes direct investment and export credits)	273.8	199.4	127.0	174.1	241.8	253.5

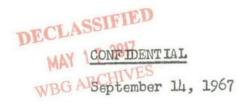
Government aid during 1966, excluding contributions to international organizations, was \$234.7 million, of which \$216 million went to Asia, \$17 million to South America and \$0.75 million to Africa. Government grants and loans to Asian countries from 1960 to 1966 are as follows:

2 23 2 0 3 30 8 8 9 15	.2 8 .2 3 .8 22 .5 7	3.7 32 1.4 11 2.0 17 0.03 5 7.02 10 7.3 7	.5 34.5 .3 16.2 .9 15.0 .5 0.2 .7 21.	9 53.2 2 32.7 0 21.5 2 45.9 3 35.3 9 -0.7	10.3 49.4 21.3 50.6 31.2 30.5 0.6 3.7
	2 23 2 0 3 30 8 8 9 15	2 23.2 8 2 0.2 3 3 30.8 22 8 8.5 7 9 15.5 17	2 23.2 8.7 32 2 0.2 1.4 11 3 30.8 22.0 17 - 0.03 5 8 8.5 7.02 10 9 15.5 17.3 7	2 23.2 8.7 32.5 34.5 2 0.2 1.4 11.3 16.3 3 30.8 22.0 17.9 15.0 - 0.03 5.5 0.3 8 8.5 7.02 10.7 21.3 9 15.5 17.3 7.1 5.3	2 23.2 8.7 32.5 34.9 53.2 2 0.2 1.4 11.3 16.2 32.7 3 30.8 22.0 17.9 15.0 21.5 - 0.03 5.5 0.2 45.9 8 8.5 7.02 10.7 21.3 35.3 9 15.5 17.3 7.1 5.9 -0.7

Official loans are chanelled through the Overseas Economic Cooperation Fund (OECF) and the Export Import Bank of Japan. In some cases loans from the OECF on preferential terms are combined with loans from the EXIM Bank on commercial terms.

The OECF was established in March 1961 and obtains funds from its own capital and borrowing from the Government. The usual terms of OECF loans are not lower than 3.5% per year for a normal maximum of 20 years, with varying grace periods. Korea and Taiwan, as ex-territories of Japan, are considered special cases and get the lower rate. A loan on these terms has been made recently to Korea for \$200 million with a 7-year grace period to be drawn down over ten years and China has been promised a loan on similar terms for the construction of a multi-purpose dam. Other countries may pay a higher rate, for example, a commitment was made to Malaysia in 1966 for a \$50 million loan, one-third of which would be from the OECF at 4.5% for twenty years. The areas of activity of the OECF are limited to underdeveloped countries and the projects financed do not have to directly benefit Japan's trade, but should be of general value to Japan.

The Export Import Bank of Japan was formed in 1950 and receives its funds through direct Government budgetary allocation. It can borrow from the Ministry of Finance but not from financial institutions, and it cannot issue bonds. It can operate in developed and underdeveloped countries and is run on firm commercial principles, with the object of directly benefiting Japan's exports. The general range of the bank's interest rates is from 5-7%, and loans are usually for an average term of 15 years with a grace period of 3 years. Recent loans include \$60 million to India at 5.75% (\$40 million for 15 years and \$20 million for 18 years) and \$17 million to Iran at 5.75% for 18 years.



BRIEFING PAPER - 1967

KOREA

I. MEETING WITH DELEGATION

Mr. Knapp on October 3 at 11:00 - 11:30 a.m.

Mr. Cargill on October 3 at 9:00 a.m.

II. MEMBERS OF DELEGATION

Mr. Bong Kyun Suh, Minister of Finance

Mr. Se Ryun Kim, Governor, The Bank of Korea

Mr. Jae Sul Lee, Director, Foreign Exchange Bureau, Ministry of Finance

Mr. Yun Sae Yang, Director of Investment Promotion, Economic Planning Board

III. BANK/IDA PROSPECTIVE OPERATIONS

Since 1964 the economic performance of Korea has continued to improve. In 1965 the Bank agreed to chair a Consultative Group and to consider suitable projects. The findings of the economic mission presently in Korea will have a bearing on future lending.

A railway project was appraised earlier this year and negotiations for an \$11 million IDA credit began on September 8.

The Korea Development Finance Corporation (KDFC) was organized in April of this year with IFC help; the Bank and IFC expect to start negotiating a \$5 million loan and \$700,000 investment in October.

The IBRD/FAO Cooperative Program has been helping the Government prepare an irrigation project for IDA financing. An FAO mission is scheduled to visit Korea in late September to help prepare a project for appraisal by IDA by the end of the year.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:
 - (i) Progress of projects currently under consideration and two new lending requests from the Government, for another railway project and for education;

- (ii) The timing of and preparation for the Consultative Group meeting expected to be held in early 1968.
- (b) To be raised by Bank at meeting with President or Senior Officer:

None.

(c) Likely to be raised by delegation:

The delegation may ask us to finance additional projects besides the two already put forward. Korea is primarily an IDA country and further credits are not possible until IDA resources have been replenished.

V. BACKGROUND INFORMATION

(a) Bank loans and IDA credits as of July 31, 1967:

				Amo	ount (US\$	million)
Credit No.	Year	Borrower	Purpose	Bank	IDA	Undisbursed
25	1962	Korea	Railways		14.0	

(b) Technical Assistance

A Bank grant of just under \$400,000 financed an overall transportation survey in 1965-66. This survey led to the railway project now being considered and the request for financial assistance for highway feasibility and organizational studies. If the Government follows the recommendations of IDA and the consultants regarding the establishment of a Bureau of Public Roads and a transport coordinating agency, highway construction loans or credits may be forthcoming.

(c) Consultative Groups

The first meeting of the Consultative Group was held in Paris in December 1966 and was attended by representatives of Australia, Belgium, Canada, China, France, Germany, Italy, Japan and the United States. The United Kingdom attended as an observer, and has since joined the Group.

The economic mission presently in Korea will assess the progress of the Second Five Year Plan in preparation for the second meeting of the Consultative Group, planned for early 1968.

(d) Bank 9% Capital Subscription

The entire \$2.25 million has been released for purchases in Korea.

(e) IDA Subscription

No release has been made of the \$1,134,000.

(f) Holdings of Bank Bonds

As of June 30, 1967 Korea held \$1 million of Bank bonds.

(g) I.F.C.

IFC has no direct investment in Korea as yet, but is considering a project to produce 20,000 tons of newsprint and 10,000 tons of printing and writing papers from imported waste paper at a total cost of \$7 million. Prospects also include a petrochemical project which is in an early stage.

(h) Settlement of Investment Disputes

Korea signed the Convention on April 18, 1966 and ratified it on February 21, 1967.

VI. POLITICAL SITUATION

1967 was election year in Korea. In the Presidential elections on May 3, President Chung Hee Park was re-elected by a decisive margin. In the parliamentary elections on June 8 the President's party, the Democratic Republican Party (DRP), won more than two-thirds of the 175 seats in the National Assembly, the only legislative chamber, against the combined efforts of the opposition parties. There was considerable unrest and some rioting after the parliamentary elections on account of the obvious rigging of the election of certain candidates. It is generally agreed that the rigging was unnecessary, and a bad blunder on the part of the DRP, because the President's party would have won a majority in any case.

The Government is civilian in form and substance, apparently representative of the people, and has strong Army support. The recent personal triumph of Park in the Presidential elections, and the marked improvement in economic conditions have contributed to the political stability of the country. Recently there have been a number of armed clashes with North Korean infiltrators in the northern provinces of South Korea. However, for the forseeable future, internal stability seems to be assured.

VII. ECONOMIC SITUATION

(a) Population: 29.1 million

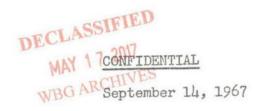
GNP per capita: \$123

Gold and foreign exchange reserves (end of June): \$305 million

(b) The spectacular growth rate of the Korean economy has continued in 1966 and 1967. The increase of GNP in real terms was almost 13 per cent in 1966 and, if good weather continues to favor agriculture, will be over 10 per cent in 1967. Fast increase in manufacturing production, especially for exports, is the main cause of the boom. The capacity of the infrastructure (power, transport, construction industry) is being expanded very fast, but only just fast enough to prevent these sectors from becoming bottlenecks to the general growth of the economy.

The upsurge of activity is accompanied by a sharp rise in capital formation. In 1967 this is expected to amount to 20 per cent of GNP as against 14 per cent during 1963-65. The increase in capital formation is financed by rapidly rising domestic savings of the Government and the private sector. Thanks to the reduction of monetary instability in recent years and increased public confidence in the future of the economy, domestic savings have jumped from less than 5 per cent of GNP in the early 1960's to about 10 per cent of GNP in 1966. As a result the relative dependence on foreign finance has dropped, although the absolute magnitude of the current account deficit has not declined and at around \$250 million a year is still large. This used to be covered almost entirely by U.S. grant aid. In recent years, however, an increasing part of foreign resources - about 40 per cent in 1966 and 1967 - has come to consist of private and official loans. Indebtedness, especially to foreign equipment suppliers, is rising but with peak debt service at about 10 per cent of prospective foreign exchange earnings, it is well manageable and Korea could prudently assume further debt. As far as the Bank Group is concerned, Korea is a soft blend country and eligible for IDA credits on grounds of poverty and good performance. The Government's intention to maintain ultra-rapid growth (10 per cent during 1968) raises concern over financial stability.

(The economic mission presently in Korea will be able to provide a brief note on its findings before the scheduled meetings with the Korean delegation.)



BRIEFING PAPER - 1967

LAOS

.I. MEETING WITH DELEGATION

None

II. MEMBERS OF DELEGATION

H. E. Sisouk Na Champassak (G)

Minister of Finance

Advisers

Mr. Oudong Souvannavong

Governor, Banque Nationale du Laos

Mr. Sitha Sisombat

Director, Foreign Department, Banque Nationale du Laos

III. BANK/IDA PROSPECTIVE OPERATIONS

No prospective operations.

IV. TOPICS FOR DISCUSSION

No meetings.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967
None

(b) IDA Credits as of July 31, 1967

None

(c) Technical Assistance Activities

None (other than assistance as Administrator of the Nam Ngum Development Fund).

The Bank is the Administrator of the Nam Ngum Development Fund providing for the Nam Ngum Hydro-Electric Project. Participating

countries are Australia, Canada, Denmark, France, Japan, the Netherlands, New Zealand, Thailand and the United States. The Governments have been advised that latest project costs estimates now exceed the amount in the Fund (about \$25 million) but the Bank has proposed issuing tender documents and receiving bids to ascertain more exactly the probable cost of the project. If as now appears likely, the cost will exceed the amount of the Fund, a meeting of the Contributing Governments will be called. All countries have agreed.

(d) Bank 9% Capital Subscription (\$0.90 million)

No release

(e) IDA Subscription (\$0.45 million)

No release

(f) Holdings of Bank Bonds

None

(g) IFC

Not a member

(h) Settlement of Investment Disputes

Laos has not signed the Convention

VI. POLITICAL SITUATION

The Government established as a tripartite coalition of Rightists, Neutralists and Pathet Lao after the Second Geneva Agreement of 1962 never became really effective. Elections in January 1967 have confirmed Prince Souvanna Phouma in power as Prime Minister, supported by substantial Western aid, but substantial parts of the country are not under his control and fighting between the Central Government and the Pathet Lao forces continues sporadically. This, however, has been overshadowed in importance by external attacks on areas being used by North Vietnamese forces as a supply route to South Vietnam.

VII. ECONOMIC SITUATION

(a) Population:

about 2.5 million

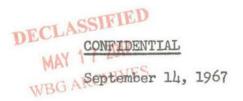
GNP Per Capita:

\$50 - 60

Gross Foreign Exchange Reserves (April 1967):

\$6.3 million

(b) Production, distribution and capital investment continue to be adversely affected by the lack of communication and economic relations between the Royal Government and Pathet Lao controlled regions and by the lack of security. During the past year, programs were started to increase agricultural production, particularly rice, which over time may make the economy more viable. For the time being, maintenance of the economy is dependent on massive aid, in the order of US\$60 million annually (excluding military assistance) to finance practically all imports, including large purchases of gold. In 1967, some revenue measures were taken which kept the large budget deficit, resulting primarily from heavy military expenditures, roughly the same in FY 1966/67 as in the preceding year, though that had been 90% greater than in the year before. The deficit was met essentially by central bank credit. The expansionary effect was offset during January-May 1967 by official grants of foreign exchange from abroad, and the level of money supply remained steady. Consumer prices rose slightly, but this was mainly due to shortage of rice resulting from floods which destroyed 20-30% of the crop in September 1966. More rice had to be imported, putting pressure on the resources of the Foreign Exchange Operations Fund (FEOF), set up in 1964 to intervene in the free exchange market and to counteract the expansionary effect of the budget deficit. fund, which is replenished annually by the U.S., U.K., France, Australia and Japan, received additional contributions in September 1966 which raised its total resources last year to nearly US\$20 million. It will require additional replenishing this year if sales continue at their present rate, to maintain the kip at its free exchange rate since 1964 of Kip 500 = US\$1. The budget deficit in FY 1967-68 is expected to be about the same as in 1966-67, with consequent continued pressure on the FEOF.



BRIEFING PAPER - 1967 MALAYSIA

I. MEETING WITH DELEGATION

II. MEMBERS OF DELEGATION

Tun Tan Siew Sin

Minister of Finance

Tan Sri Ismail bin Mohamed Ali Governor, Central Bank of Malaysia

Tan Sri Sharif Mohamed bin Abdul Samad Secretary to the Treasury

Advisers

Mr. Chong Hon Nyan

Under-Secretary to the Treasury

Mr. Lin See Yan

Assistant Chief Economist, Central Bank of Malaysia

III. BANK/IDA PROSPECTIVE OPERATIONS

These are diversifying, as the Government is gradually overcoming the project preparation bottleneck.

- (a) Telecommunications (up to \$9 million): Already appraised; Government reluctant to set up independent Board. Part of this project may, however, be suitable for bilateral financing.
- (b) Jengka Triangle First Stage (\$15 million): Already appraised. Excellent project, prepared by consultants under Bank grant, but with very low foreign cost (\$5 million direct, \$9 million including capitalized interest). Negotiations October/November 1967.
- (c) Education (about \$20-25 million): Just appraised. Negotiations early 1968. Also low foreign cost.
- (d) Kuala Lumpur Water Supply: Awaiting replies to questionnaire. The project and the organization of the borrower have yet to be defined. Negotiations mid-1968.

- (e) Port Swettenham Expansion: The Finance Minister has indicated he may approach the Bank for finance.
- (f) Malaysian Industrial Development Finance, Ltd.: A second loan may be negotiated early in 1968 if the utilization of the first loan speeds up.

IV. TOPICS FOR DISCUSSION

- (a) To be raised at staff level:
 - (i) Consultative Group: Meeting set for December 11 and 12.

 Bank should stress that the main responsibility for the success of this meeting, and for success in aid utilization, rests with the Government. Arrangements with visiting delegations, to introduce them to problems on the spot, should be made bilaterally by the Government, and the Malaysian submission to the Consultative Group meeting must be well prepared. Bank still feels that progress regarding aid utilization is unnecessarily slow. The aid staff and organization in the Malaysian Government should be strengthened.
- (b) To be raised by Bank at meeting with President or Senior Officier:

 Courtesy meeting.
- (c) Likely to be raised by Delegation at macting with staff:
 - Adviser on External Financing: The Government requested an advisor and we have proposed Mr. Alfred Matter. The Finance Minister has indicated that he wishes to discuss this proposed appointment. Mr. Matter can help the Government remove the external aid bottleneck but the Government, on its part, needs to decide where in the Government Mr. Matter will work. A more detailed determination of Mr. Matter's Terms of Reference could be made after Mr. Matter has become familiar with Malaysian problems.
 - (ii) Port Swettenham: The Finance Minister may indicate that he is interested in Bank financing for Port Swettenham.

 No decision on this can be made until it is clear from the Malaysia Transport Survey that the proposed Port Swettenham investment is economically justified. The UK consultants on Port Swettenham should coordinate their work with that of the Malaysia Transport Survey.

(iii) Telecommunications: The Government will make a case against setting up an independent entity but will agree to install a commercial accounting system.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967 1/

M\$ Million

				TO TILLION				
Vonn	Loan	Borrower	Purpose	Amount less Cancellations		Undisbursed Balance		
Year	No.	DOLLOMGI.	Turpose	Carro	STIAUTOIN	Daranoo		
1958	210	National Electricity Board	Power	\$	28.6	-		
1963	348	Malaysian Industrial Development Finance Limited	Industrial Finance		8.0	3.0		
1963	350	National Electricity Board	Power		51.9	12.2		
1965	434	Malaysia	Irrigation		45.0	40.7		
1966	458	National Electricity Board	Electric Power		37.0	33.5		
1967	500	Malaysia	Irrigation		10.0	10.0		
	Tota	1			180.5			
	of	which has been repaid			3.9			
	Tota	l outstanding			176.6			
		nt sold which has been repaid	7.8 2.1		5.7			
	Tota	l now held by Bank			170.9			
					-			
	Tota	l undisbursed				99.4		

^{1/} Excluding a loan to Singapore guaranteed by Malaysia.

(b) IDA Credits as of July 31, 1967

None

(c) Technical Assistance

Consultants financed by a Bank grant (\$507,000) have completed work on a Land Development Scheme of which the Jengka Triangle Project, First Stage is a part. The Bank is Executing Agency for the UNDP Malaysia Transport Survey. This survey will study all modes of transport and from it should evolve a detailed program of coordinated transport investment for the years 1969 through 1975 and the perspective program for 1976 through 1985. The consultants started field work early in September. The Government has also asked the Bank for further assistance in implementing the Agricultural Credit Scheme recommended by an earlier Bank mission.

(d) Consultative Group

The first full meeting was held in May 1966 in London and the second meeting is scheduled to be held in Kuala Lumpur on December 11 and 12, 1967

(e) Access to Capital Markets

Malaysia raised 1/5 million on the London market in 1963 and US\$25 million on the New York market in 1965. Terms have ranged from three to ten years.

(f) Bank 9% Capital Subscription

Amount: \$12.0 million, entirely released, convertible into any currency; unused balance available in annual installments of \$1.50 million through March 1, 1970.

(g) IDA Subscription

Amount \$0.909 million. No release.

(h) Holdings of Bank Bonds

\$4.5 million.

(i) IFC

In 1963 IFC invested \$818,000 in MIDFL (Malaysian Industrial Development Finance Limited). Subsequently, and in conjunction with MIDFL, IFC made an investment in a cement plant, and has just made a loan of \$2.45 million and an equity investment of

\$1.0 million in the Malayawata Steel mill. A reappraisal mission is scheduled to visit MIDFL in November in preparation for a possible second Bank loan. Mr. Svoboda has agreed to an extension of his contract as General Manager of MIDFL of up to two years, from September 15, 1966 with the proviso that the contract could be terminated after the first year of such extended contract if a suitable Malaysian is available to take his place. A new Deputy was appointed recently, but it is not yet clear when he will succeed Mr. Svoboda.

(j) Settlement of Investment Disputes

Ratified August 8, 1966.

VI. POLITICAL SITUATION

The ruling Alliance Party continues to dominate the internal political scene in Malaysia. In West Malaysia the various opposition parties of the left and right do not constitute an effective opposition. Communal tension over the past year has been low. The strong, right-wing, nationalistic group within the Alliance Party, which was an important element in the expulsion of Singapore in 1965, appears to have lost its power for the time being to the moderate leadership. There is, however, a quiet but continuous battle for the succession to the Tunku. The latter is beginning to lose his influence and recently, for the first time, has been unable to command the support of the Cabinet on some minor issues. In East Malaysia the Central Government's objective has been to create local Alliance parties loyal to Kuala Lumpur. This objective has been attained but not without creating much disgruntlement and latent opposition within Borneo. External relationships have been highlighted by the resumption of diplomatic relations with Indonesia and by participation in the new association of South East Asia nations. Relations with Singapore have remained rather cool.

VII. ECONOMIC SITUATION

(a) Total Population (1966):

9.7 million

GNP Per Capita:

US\$310

Foreign Exchange Reserves (June 1967): US\$780 million

(b) Malaysia's growth performance has been generally good. In 1966 growth continued to be brought about largely by a rapid rise in domestic demand (for consumption as well as investment)

and output increased by 6%, roughly the average rate achieved since 1960. Reflecting the growing strength of the domestic economy, the striking feature of the expansion in recent years has been that, in contrast to the historical pattern, it occurred despite the fact that exports grew only very slowly. Over the same period there was an investment boom in both the private and public sectors, raising investment to over 18% of GNP as compared to 13 to 14% in the late 1950's. Thus the stage appeared to be set for a growing external deficit.

Actual events began to move strongly in this direction only towards the end of 1966. In 1965 exports, and consequently domestic savings, were unexpectedly large and exchange reserves rose. However, in 1966 exports did not rise appreciably and, although public investment fell far short of expectations, reserves declined by US\$45 million, mainly during the last quarter. This year, reserves fell by US\$75 through April. They levelled off subsequently, but further declines are now following the catastrophic fall in the price of rubber in recent weeks, although the extent of the fall may be mitigated somewhat by a cut-back in private investment.

In the public sector, financing has become the major bottleneck in implementing the First Malaysian Plan. This has arisen largely because Malaysia relied fairly heavily on external financing for public investment, but found that it was not yet administratively equipped effectively to use bilateral financial sources. As a result, delays ensued. Unless this problem is solved, Malaysia will experience either continuing substantial short falls in public investment to the detriment of growth or an excessive drop in reserves. Internally, there is the need to supplement the commendable effort that has been made in raising revenue by curtailing the rapid expansion of current outlays. If these twin problems are resolved satisfactorily, the prospects for establishing a sound basis for future growth are good, and Malaysia appears to have adequate creditworthiness for substantial borrowing abroad.

MAY 17 2017
WBG ARCHIVES
September 14, 1967

BRIEFING PAPER - 1967

NEPAL

I. MEETING WITH DELEGATION

Management: No meeting planned.

Staff: 10 a.m. October 6th with Mr. Cargill.

II. MEMBERS OF DELEGATION

Mr. Kirti Nidhi Bista

Vice Chairman, Council of Ministers

Dr. Bhekh Bahadur Thapa

Governor, Central Bank

Mr. Navaraj Subedi

Assistant Minister

III. BANK/IDA PROSPECTIVE OPERATIONS

In late 1966 the possibility of a small telecommunications project was raised. Nothing more has been heard from the Government about this.

An irrigation project in the Terai Plain being prepared under a UNDP grant might be ready for IDA consideration in about two years.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff level:

<u>Telecommunications Project</u>: Where does the project now stand and is the Government still interested in IDA assistance?

(b) To be raised by Bank at meeting with President or Senior Officer:
No meeting planned.

(c) Likely to be raised by delegation:

The delegation may ask about our interest in the Karnali hydroelectric project. The feasibility study of this project, financed by a UNDP grant, was completed in May 1966. A further study of the power market has been proposed. The Bank supported this, but since the power would be sold mainly in India, felt that until an agreement with India had in principle been reached, further evaluation of the feasibility study would be premature other than adjusting costs and prices to reflect the devaluation of the Indian Rupee. Although the Indian Government has expressed interest, as far as we know, Karnali has not been included in India's future power plans.

V. BACKGROUND INFORMATION

- (a) Bank loans and IDA credits as of July 31, 1967
 None
- (b) <u>Technical Assistance Activities</u>
 None
- (c) Bank 9% Capital Subscription
 \$0.9 million no release
- (d) IDA Subscription
 \$0.450 million no release
- (e) Holding of Bank Bonds

None

(f) IFC

(g) Settlement of Investment Disputes
Signed September 28, 1965, but not yet ratified

VI. POLITICAL SITUATION

Effective political power rests with King Mahendra, although there is a National Panchayat - or non-party legislature. Political parties are not permitted. Recently, a number of candidates in the recent National Panchayat election demanded a revival of political parties. The Government reacted sharply and arrests were made. It is difficult to say whether the pressures for a revival of parliamentary government are likely to move the Government in this direction.

Nepal's policy of friendship with her giant neighbors, India and China, continues, although relations with India are made more difficult by Nepalese fear of Indian domination. This has led Nepal to develop direct economic and political relationships with the outside world. Nepal receives substantial amounts of foreign aid from a variety of sources - both Eastern and Western.

VII. ECONOMIC SITUATION

(a) Population (1967):

Per capita GNP:

Gross foreign exchange reserves:

US\$70

US\$44.6 million (May 1967)

(b) 93 percent of Mepal's population is in agriculture. High mountains divide the country and hamper communication. A potential for improvement exists in the agricultural and forest resources which are not intensively utilized. There are hydroelectric power resources and possibilities for light industry and tourism. Realization of this potential will require considerable investment and strong efforts to monetize and intensify agriculture.

Considerable progress has been made in a drive towards modernization since the early 1950's. Early emphasis was correctly placed on infrastructure and is being gradually shifted to other sectors. Effective results in the agricultural sector have been undistinguished, which is not surprising considering the topographical obstacles and the traditional nature of the society. Emphasis on irrigation was supplemented by land reform and coupled with a compulsory saving scheme, rural credit expansion, a livestock improvement program and a beginning in the establishment of an extension service. Results in the industrial sector have been much more impressive largely because its initial size was very small and considerable scope for import substitution existed. Although several public factories have been established, largely with foreign aid, official policy is to encourage private investment through tax and other incentives.

Budget receipts at 6 percent of GDP cover current expenditures by a considerable margin. They are, however, inadequate to finance increasing development expenditures without recourse to bank credit, although Nepal has received considerable amounts of foreign aid, largely in grant form and in Indian rupees. The result has been a substantial rise in prices which was aggravated by a sharp increase in unrecorded exports of foodgrains to India during the last two years. There is, therefore, a need to generate more internal savings and to reduce the impact of factors leading to an expansion in the money supply. Large unrecorded transactions with India make it impossible to evaluate the balance of payments situation. Recorded foreign trade shows a large deficit which is financed by foreign aid. Foreign exchange reserves in May 1967 represented about seven months' recorded imports.

Nepal's public external debt is only US\$7.1 million, but uncertain development prospects and heavy dependence on foreign assistance make Nepal not creditworthy for Bank loans.

New Zealand

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MAY 17CONFIDENTIAL

WBG ARCSeptember 14, 1967

BRIEFING PAPER - 1967

NEW ZEALAND

I. MEETING WITH DELEGATION

Mr. Woods on September 13 at 3:00 p.m.
Mr. Cargill on September 14 from 12 noon - 12:30

II. MEMBERS OF DELEGATION

The Hon. R.D. Muldoon, Minister of Finance

Mr. N.R. Davis, Secretary to the Treasury

Mr. A.R. Low, Governor, Reserve Bank of New Zealand

Mr. N.V. Lough, Assistant Secretary to the Treasury

III. BANK/IDA PROSPECTIVE OPERATIONS

No further lending is contemplated.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:
Progress of current projects.

- (b) To be raised by Bank at meeting with President or Senior Officer:
 - 1. Membership in IDA. New Zealand should be asked to join. Government officials have indicated that New Zealand is not prepared to join IDA at this time because of the present balance of payments difficulties.
 - 2. The release of the 9% Bank subscription in tranches over five years should be requested. However, in view of the present balance of payments difficulties the Government will not be prepared to release the full amount now.

(c) Likely to be raised by delegation:

The resumption of Bank lending to New Zealand. For the record the delegation will ask for more loans but knows that the answer will be negative. The present advanced stage of the country's economic development precludes consideration of further loans but if New Zealand's economic condition should deteriorate substantially, the Bank would reconsider.

V. BACKGROUND INFORMATION

(a) Bank loans (no IDA credits) as of July 31, 1967:

Loan No.	Year	Borrower	Purpose	Amount Bank	(US\$ million) Undisbursed
364 371 438 439	1963 1964 1965 1965	New Zealand New Zealand New Zealand New Zealand	Ports Power Railways Power	7.1 32.5 42.0 20.5	0.8 0.0 25.7 8.7
		ancellations been repaid		102.1	
Total	now outst	anding		101.1	
	Amount so	ld h has been repaid	6.0	4.9	
Total	now held	by Bank		96.1	
Total	undisburs	ed			35.2

(b) <u>Technical Assistance</u>

An economic mission visited New Zealand in August to discuss long-term strategy for economic policy and development, and diversification of production and exports.

(c) Access to Capital Markets

Since the last Annual Meeting the Government has had four bond issues in the European and Euro-dollar markets: \$10 million Euro-dollar issued in September 1966; I-12 million issued in Iondon in October 1966; I-7 million sterling/Deutschmark issued in February 1967; and \$20 million Euro-dollar issued in July 1967. The Government has not obtained the approval by the U.S. Treasury necessary to float bonds in the U.S. market.

- (d) Bank 9% Capital Subscription \$15.0 million. No release.
- (e) <u>IDA Subscription</u>
 Not a member.
- (f) Holding of Bank Bonds
 None.
- (g) <u>I.F.C.</u>

 IFC has no investments in New Zealand.
- (h) Settlement of Investment Disputes

 New Zealand has not signed the Convention.

VI. POLITICAL SITUATION

The general election held in New Zealand in November of last year returned the National Party for a third term. They lost one seat, however, to the Social Credit Party which showed surprising strength throughout the country. The Vietnam war was the major election issue. The National Party was committed to maintain the small contingent of New Zealand troops in Vietnam, while the opposition wanted to withdraw the troops but substantially increase civilian aid.

Domestically, the Government is taking measures to correct the unsatisfactory balance of payments situation, which may well cause the Government to lose some popularity with the electorate.

VII. ECONOMIC SITUATION

(a) Population (mid-1966): 2.7 million

GNP per capita: US\$2,060

Foreign exchange reserves (incl. Treasury securities, mid-August): US\$250 million

(b) Between mid-1965 and the end of 1966 reserves have fallen rapidly as export receipts failed to continue growing while imports continued to rise because, for domestic political reasons, the Government allowed demand to increase at a very fast rate. When wool prices began to fall towards the end of 1966, the resultant loss in export income -

exports in the first half of 1967 were 13% below last year's - seriously aggravated an already difficult situation. In an effort to maintain external liquidity, the Government borrowed heavily abroad on short-term and medium-term, including a drawing on the IMF of \$29 million in May. The Government also recognized that the situation demanded vigorous remedial action. This is reflected in the 1967-1968 budget which provides for cuts in spending, the removal of certain subsidies, and an increase in taxation. Banks were required to reduce the amount of credit outstanding below the level of early 1966. Import allocations for the current year were reduced below last year's and further restrictions were imposed on certain invisible payments.

These restrictive measures are considered in New Zealand to be fairly severe, especially since they led to the creation of some unemployment for the first time in three decades, and the Government is under heavy attack from the opposition. The Government expects the present recession to reduce imports, and thus relieve the pressure on the balance of payments. The major immediate uncertainty facing the Government is the price of wool; if this does not improve in the near future, a large current account deficit will persist, unless additional corrective measures are taken. In any case, the Government is very actively searching for more external borrowing, possibly in the United Kingdom and the Euro-bond markets. A drawing of the second credit tranche from the IMF is likely to be negotiated in September.



BRIEFING PAPER - 1967

PHILIPPINES

I. MEETING WITH DELEGATION

Mr. Knapp on October 3 at 3:00 p.m.

II. MEMBERS OF DELEGATION

Mr. Andres V. Castillo - Governor, Central Bank of the Philippines

Mr. Eduardo Z. Romualdez - Secretary of Finance

Mr. Roberto S. Benedicto - President, Philippine National Bank

III. BANK/IDA PROSPECTIVE OPERATIONS

In April 1967 the Bank made a loan of \$12 million to the National Power Corporation to help finance the Bataan Thermal Plant and the addition of a 50-MW unit to the Maria Cristina Hydro Station. The Government wants financial help for two irrigation projects:

- (i) The Upper Pampanga Dam, to provide for irrigation, flood control, fisheries and perhaps power. A revised feasibility report is with the Bank for review and comment.
- (ii) A package of 16 smaller irrigation works, whose foreign exchange component has not been established but may come to \$6 million. Feasibility studies on some of these works have been received, and comments have been sent to the Philippines.

Prior to the \$12 million power loan, the Government was told that any further Bank lending would be contingent on a greatly expanded tax effort designed to increase public savings and reduce the need for a tight money policy directed against the private sector. The Bank's views are shared by most people in the Administration. President Marcos informed Mr. Knapp in March that he would seek Congressional approval for new tax measures calculated to produce PhOO million a year. This was done but, as far as we know, no bills have yet been passed. According to the latest information, the Government is hopeful that about a quarter of the President's tax program will be enacted some time this year. Aside from getting Congress to pass new taxes, the fiscal record of the Marcos Administration has been reasonably good and it should be able to mount a sizeable development program this year from improved collections on existing taxes.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at staff level:

Progress of projects currently being implemented. A request to extend the Closing Date (December 31, 1967) for the Manila Metropolitan Water Project is expected. The Bank proposes to tell the Delegation that the operating performance of the National Waterworks and Sewerage Authority (NAWASA) has been unsatisfactory and unless improvements are made in operations no extension of the Closing Date will be considered.

(b) To be raised by Bank at meeting with President or Senior Officer:

Government's efforts to increase public savings, a review of pending and/or completed legislation and its effect upon revenues.

- (c) Likely to be raised by Delegation:
 - (i) Mr. Romualdez may urge the Bank to consider further lending on the basis of the accomplishment of the Marcos Administration in raising additional revenues from existing taxes of about 18 percent in 1966/67. He may also refer to the new foreign investment bill which the Congress is believed to have passed and say that he expects that part of the President's tax program will be enacted shortly. While these developments are sufficiently encouraging to warrant investigating projects, new loans will not be recommended until new tax measures are enacted.
 - (ii) The delegation may ask the Bank again to organize and chair a consultative group for the Philippines. The Bank is not at present initiating new consultative groups and in any case does not feel that the Philippines have produced an adequate development program or a set of economic policies that would justify the organization of a consultative group.

V. BACKGROUND INFORMATION

(a) Bank loans (no IDA credits) as of July 31, 1967

Loan No.	Year	Borrower	Purpose	Amoun 5	(US\$ million) Undisbursed
183	1957 1961	National Power Corp. Philippines	Power (Binga) Port	18.4	-
297		National Power Corp.	Power (Angat)	34.0	2.1
	1962	National Power Corp.		3.7	0.6
331	1963	Fhilippine National Bank	Industry (PDCP)	14.9	1.7
386	1964	National Waterworks & Sewerage Authority	Water Supply	20.2	14.3
393	1964	Philippines	Education	6.0	5.3
432	the state of the s	Central Bank	Agriculture	5.0	3.8
467		Philippine National Bank	Industry (PDCP)	25.0	23.2
491	1967	National Power Corp.	Power (Bataan)	12.0	12.0
		net of cancellations hich has been repaid		146.6 9.0	
	Total now outstanding			137.6	
		Amount sold of which has been rep	11.4 aid 6.1	5.3	
	Total	now held by Bank		132.3	
	Total	undisbursed			63.1

(b) Technical Assistance Activities

The Government has asked for the Bank's assistance in preparing a request to UNDP for a comprehensive transport survey of the Philippines. A consultant for the Bank is presetly in the Philippines in response to this request.

(c) Bank 9% Capital Subscription

\$9.0 million. \$2.70 million paid and lent in dollars.

(d) IDA Subscription

\$4.536 million. No release.

(e) Holdings of Bank Bonds

The Philippines holds \$970,000 of Bank bonds.

(f) I.F.C.

In 1963 IFC purchased 80,000 shares (US\$205,128) of Private Development Corporation of the Philippines. \$\mu_1,856\$ shares have been sold, reducing IFC's investment to 38,144 shares or \$P381,440 (US\$97,805). Sale of the balance of IFC's holding is under negotiation. In 1966 IFC invested \$12 million in Meralco, \$8 million in the form of a loan and \$4 million in equity, of which about \$10 million has been disbursed. An application for an investment of \$2 million to finance the purchase of vessels is now being considered.

(g) Settlement of Investment Disputes

A Committee has been appointed by President Marcos to look into the legal aspects. The Bank has been told that the Government might propose the legislation required next year.

VI. POLITICAL SITUATION

President Marcos came to power in January 1966 with a reform program, the principal features of which were to bring under control rampant smuggling and thus increase revenues; vigorous execution of the development projects which were lagging because of lack of funds and poor administration; to make the country self-sufficient in food within a few years; to reorganize the overgrown and cumbersome bureaucracy; and to implement land reform so as to deal with the growing resurgence of civil unrest (the Huk problem). Where improvements could be brought about by presidential fiat, the record is encouraging. Smuggling has been curtailed and tax administration improved. The men appointed to important posts in the National Irrigation Authority, the Port and Harbor Administration, the Department of Public Works and the National Water Works and Sewerage Authority, are improvements. The allocation for the development program has been more than doubled and some success has been achieved in increasing rice production, though rice imports still require large foreign exchange outlays.

The principal failures of the Marcos Administration are its inability thus far to secure the necessary legislative authority in the fields of government reorganization and taxes and the lack of a meaningful or effective development program. Congress is about evenly split between the two major political parties, and the leadership of the President's own party (The Nacionalista) is speaking out against some of his policies.

One-third of the Senate (which seems to be the real bottleneck to legislative progress at present) is up for election this November, and this is complicating the passage of the tax and other programs. Unfortunately, time is running out on the Marcos Administration since the last two years of each presidential term is normally given over to preparing for the next presidential election, which is due in 1969.

VII. ECONOMIC SITUATION

(a) Population (mid 1966): 33.4 million

GNP per capita (1966): U.S. \$160 equivalent

Foreign exchange reserves

(Gross: August 1967): U.S. \$195 million (Net: August 1967): U.S. \$ 10 million

(b) Economic performance in the Philippines has continued to be disappointing in many respects. Real GNP increased by only about 4 percent in 1966 so that income per capita rose by less than 1 percent. Most of the growth occurred in manufacturing and export agriculture. Manufacturing recovered somewhat from the protracted difficulties from which it had suffered since the early 1960's. Smuggling has been reduced to a scale where it no longer cuts deeply into the market for Philippine manufacturers. Restrictions on credit to the private sector were relaxed in 1966. Actual credit was slow to respond but in the last quarter of the year it jumped by 10 percent and in early 1967 it continued to rise at an annual rate around 20 percent. Pressure on prices and the balance of payments increased, and in June the Central Bank had to reimpose strong credit restrictions. As a result of rapidly rising imports, including large purchases of rice abroad, and aggravated by the decline in exports which set in in late 1966, the balance of payments deteriorated considerably after the middle of 1966. Nevetheless, net invisible receipts, mainly from U.S. payments of veteran and war damage claims, kept the current account roughly in balance. However, there was also a large outflow of private capital which caused a sharp decline in net reserves. In August official international reserves amounted to \$195 million. However, the Central Bank also owed \$185 million in short and medium-term obligations abroad. Latest reports indicate that net reserves are negative as compared with a positive balance of \$74 million in June 1966.



BRIEFING PAPER - 1967 SINGAPORE

I. MEETING WITH DELEGATION

No Washington meeting planned.

II. MEMBERS OF DELEGATION

Dr. Goh Keng Swee

Minister of Finance

Adviser

Mr. Ong Yik Chai

III. BANK/IDA PROSPECTIVE OPERATIONS

A Sewerage Project (\$4-6 million) has been appraised. No serious problems have emerged and negotiations should be possible in November/December. Less far advanced is a Highways Project, for two major urban expressways. Consultants' feasibility studies are in progress and the Pan-Island Expressway may be ready for Bank appraisal in early 1968. The East Coast Expressway is unlikely to be ready for financing for some time. The Education Project is dormant, requiring further project preparation by the Government.

IV. TOPICS FOR DISCUSSION

No Washington meeting planned.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

Year	Borrower	Purpose	Amount less Cancellations		Undisbursed Balance	
1963	State of Singapore	Electric Power	\$	14.4	0.1	
1965	Public Utilities Board	Water Supply		6.8	1.9	
1966	Port of Singapore Authority	Port Expansion		15.0	14.4	
1966	Public Utilities Board	Electric Power		10.0	1.7	
1967	Public Utilities Board	Electric Power a	and	23.00	23.0	
	Total		\$	69.2		
	of which has been repaid			0.6		
	Total now outstanding			68.6		
	Amount sold of which has been	\$ 3.3 repaid				
	Total now held by B	\$	65.3	**********		
	Total undisbursed				41.1	

A loan of \$3 million to the Singapore Telephone Board for a Telecommunications Project was approved by the Executive Directors on September 7.

(b) IDA Credits as of July 31, 1967 None

(c) <u>Technical Assistance</u> None

(d) <u>Consultative Groups</u> Not applicable

(e) Access to Capital Markets

No market issues

(f) Bank 9% Capital Subscription

Amount: US\$2.88 million, entirely released, convertible into any currency; unused balance available in annual installments of \$576,000 through March 1, 1971.

(g) IDA Subscription

Not a member

(h) Holdings of World Bank Bonds

\$2.0 million

(i) IFC

Not a member

(j) Settlement of Investment Disputes

Not a signatory

VI. POLITICAL SITUATION

The principal concerns of Singapore since it became independent in August 1965 have been to establish a distinct identity, and to alleviate the unemployment problem. Under the able and dynamic leadership of its Prime Minister, Mr. Lee Kuan Yew, the country has registered substantial success in accomplishing the first objective. Unfortunately, however, Singapore's relations with Malaysia have not improved. The hope entertained at the time of separation in 1965 that in matters concerning defense, foreign policy and economic cooperation, the two States would act in concert has been disappointed. However, Singapore's relations with its other neighbor, Indonesia, have improved. Since the end of confrontation in June 1966 Government and the business community have made an effort to restore commercial links with Indonesia, although trade has increased only slowly because of Indonesian reluctance to rely on Singapore. In order to broaden its trade and economic relations, Singapore also entered into trade agreements last year with the USSR, Bulgaria, Poland, Rumania, Hungary, North Korea and Zambia.

Internally, the ruling People's Action Party (PAP) maintains a dominant position in the absence of an overt opposition. It has continued to emphasize the multiracial and multilingual character of the State with an accent on the creation of "Singaporean" consciousness. There have been no open manifestations of communal tensions in the country since independence.

VII. ECONOMIC SITUATION

(a) Total Population:

1.9 million

Per Capita GNP:

US\$520

Foreign Exchange Reserves (December 1966): US\$360 million

(b) In recent years the progress of industrialization, leading to substantial increases in manufacturing output, for the Singapore market and for export, and the growth of the economy have been impressive. Furthermore, the end of Indonesia's "confrontation" with Malaysia and the partial resumption of Singapore-Indonesia trading relations has raised entrepot activity and improved prospects for further expansion. Reflecting these favorable developments, Singapore's GNP has risen in recent years at an annual rate of 6% and exports of Singapore products have gone up even faster. This rapid expansion has been managed without disturbing Singapore's traditionally stable finances.

Despite this impressive record, uncertainty surrounds Singapore's ability in the long run to sustain rapid economic growth which will hinge on Singapore's success in establishing itself as an industrial center while continuing its role in entrepot trade. Although Singapore has considerable advantages to offer, including favorable Government policies, it is still quite uncertain whether it has all the ingredients for a thriving industrial future. Recent events have aggravated these uncertainties.

Political separation from Malaysia in August 1965, and the associated changes in Singapore-Malaysian relations, have dashed the hopes that were pinned on an integrated market as a strong stimulus to industrialization in Singapore. More recently, Britain's decision to withdraw from its large military base in Singapore by the mid-1970's has added to the uncertainties. For Singapore, this decision entails the prospect of a considerable loss of income from British military spending which now accounts directly for about 16% of Singapore's gross domestic product, and of an even more difficult employment

situation. These developments have contributed to the hesitation which presently characterizes the Singapore investment scene. An economic mission is planned for early next year to assess Singapore's prospects.

Meanwhile, there is no question of Singapore's creditworthiness. Service on present external debt is only 2% of exchange earnings, including net income from entrepot trade. Uncertainty about Singapore's economic future is not as between stagnation and growth but rather between growth at a moderate or rapid rate. Expansion at a pace sufficient to support substantial additional debt is not in question.

Thailand

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BRIEFING PAPER - 1967

THAILAND

I. MEETING WITH DELEGATION

- (a) With Mr. Woods 11:30 a.m., Tuesday, September 19
- (b) With Mr. Woods 3:00 p.m., Tuesday, September 26 (Dr. Puey)
- (c) With Mr. Cargill 3:00 pm., Tuesday, September 19

II. MEMBERS OF DELEGATION

H. E. Dr. Serm Vinicchayakul Minister of Finance

Dr. Puey Ungphakorn Governor, Bank of Thailand

Mr. Boonma Wongswan Under-Secretary of State for Finance

Mrs. Suparb Yossundara (Temp.) Director, Assistant to the Governor,

Bank of Thailand

Advisers

Mr. Yune Huntrakoon Senior Economist, Bank of Thailand

Mr. Manas Leeviraphan Acting Economic and Financial Counselor,

Royal Thai Embassy, Washington

Mr. Pandit Bunyapana Secretary to the Minister of Finance

Vichitr Sachchavedha Secretary to the Governor, Bank of

Thailand

Prasit Ujchin Fiscal Policy Office, Ministry of

Finance

III. BANK/IDA PROSPECTIVE OPERATIONS

No IDA operations are contemplated. The Government has been advised that, in view of Thailand's high and rising exchange reserves, the Bank could not for the time being consider more than token commitments for projects. On this basis, the following projects could be the subject of Bank lending:

- Phasom Dam Project: \$26 million

 Bank of Thailand will purchase a strip of maturities in the amount of \$16 million. Negotiations completed in March 1967. Presentation to Executive Directors postponed because only one bid, substantially above estimate, received. Project to be re-bid following meetings with potential contractors in August. Scheduled for presentation to Executive Directors on September 14, 1967.
- (b) Telecommunications Project: \$19.5

 Bank informed Government that it would consider loan of \$2

 million or of \$19.5 million, if Bank of Thailand purchases

 \$17.5 million strip of maturities. Government requested

 postponement of negotiations, but now ready provided Bank does

 not insist on formal amendment of the Telephone Organization

 of Thailand Act (see IV (c) (i)). Reappraisal necessary because
 report now out-dated.
- (c) Third Highway Project: \$37 million
 Appraisal report being prepared. Negotiations likely in November.
- (d) Fourth Railway Project: \$20 million
 Project is part of a larger program, having total foreign exchange cost of \$41 million, for which Government is also seeking assistance from other sources. Appraisal tentatively scheduled for October.
- (e) Phasom Power Project: \$15 million
 Feasibility report being prepared by consultants. Negotiations possibly in second quarter of 1968.

Government has also mentioned to the Bank a Feeder Road and a Sewerage and Drainage project. Feasibility studies likely to be completed towards end-1967.

A mission to up-date economic report and prepare for Consultative Group meeting in December will visit Thailand in October.

IV. TOPICS FOR DISCUSSION

- (a) To be raised by Bank at staff level:
 - (i) Consultative Group (see V (d)): Bank does not see
 Thailand needing major new commitments before late 1968,
 but believes that the Group should be kept alive in view
 of Thailand's long-term needs for external assistance. The
 Government should be asked whether it agrees with Bank's
 assessment and how it sees the foreign exchange situation
 developing. The Government should propose topics for the
 agenda of the December meeting and be asked specifically
 whether efforts to obtain commitments on minimum terms for
 suppliers' credits warrant further discussion.

- (ii) Availability of 9% Capital: The Government will be urged to release, if necessary by installments, the 9% of the increased capital subscription (\$3.72 million).
- (iii) Release of IDA 90% Local Currency Subscriptions: \$2.727
 The occasion will be used to urge a release.
- (iv) IFCT (To be raised at a meeting with Mr. Rosen).

 The question of the sale of IFC's shares in IFCT in a manner that would not be detrimental to IFCT.
- (v) Settlement of Investment Disputes: The delegation will be asked whether the Government still stands by its earlier refusal to accede to the Convention.
- (b) To be raised by Bank at meeting with President:
 - (i) Express appreciation of the Bank of Thailand's continuing support for the IBRD's issues of Two-Year Bonds (see V (h)).
- (c) Likely to be raised by delegation:
 - (i) At meeting with staff: Telecommunications Project: The delegation is likely to ask whether the Bank would be willing to go along with the Government's proposal that instead of amending the Telephone Organization of Thailand Act, the existing law be interpreted by way of agreements with the Bank which would enable the Bank's objectives to be met.

The Bank should be prepared to consider this approach but a new appraisal of the project is needed in any case before we can proceed with negotiations.

(ii) At meeting with President: Bank lending policy towards Thailand: The delegation is likely to plead for a more flexible lending policy than the present 10% rule. They will probably argue their case on three grounds: first, that the fiscal situation will become quite difficult unless more capital can be obtained abroad; second, that while they are making strong efforts to arrange financing through sources other than the Bank, they look to the Bank as lender of last resort for more help if these efforts are not as successful as hoped; third, that with respect to difficult projects a 10% contribution by Bank is not likely to be regarded as sufficiently attractive by some elements in the Government to accept the conditions necessary to make these projects sound; in such cases, a larger contribution by Bank, balanced if necessary by a smaller one for easier projects, would help strengthen the position of those in the Government who are committed to sound development.

The Bank's lending will be determined by Thailand's balance of payments position rather than the fiscal situation; if the latter is more difficult than the country's overall financial position, internal financial policies should be adjusted along lines suggested in Bank's last economic report. Bank has repeatedly stressed flexibility of its approach and is ready to raise its percentage contribution if and when Thailand's balance of payments situation so warrants. The Bank's October mission and the Consultative Group meeting in December should enable the Bank to assess Thailand's need for Bank assistance in the months ahead. Beyond that, another review of economic prospects is planned around May 1968.

(iii) Voting for Executive Directors: The delegation will probably inform the Bank that the members of ASEAN, including Thailand, decided to re-group their votes for the election of Executive Directors in 1968.

V. BACKGROUND INFORMATION

(a) Bank Loans as of July 31, 1967

-			(0	S \$ Millio	Un-
77	**			Principal	dis-
Year	No.	Borrower	Purpose	Amount	burse
1950	35-TH	Kingdom of Thailand	Railway Rehabilitation	\$ 3.0	-
	37-TH	Kingdom of Thailand	Port Improvement	4.4	-
	36-TH	Kingdom of Thailand	Irrigation	18.0	-
1955	128-TH	State Railways	Railway Rehabilitation	12.0	-
1956	151-TH	Port Authority	Port Improvement	3.3	-
1957	175-TH	Yanhee Electricity			
		Authority	Multi-purpose	65.8	-
1961	280-TH	State Railways	Railway Rehabilitation	14.6	1.7
1962	327-TH	Kingdom of Thailand	Petchburi Irrigation	3.4	.7
	328-TH	Kingdom of Thailand	Third Chao Phya		
			Irrigation	5.6	.8
1963	333-TH	Yanhee Electricity	-		
		Authority	Power	6.6	
	341-TH	Kingdom of Thailand	National Highways	25.0	11.3
1964	370-TH	Industrial Finance			
		Corporation of			
		Thai land	Industry	2.5	1.4
	394-TH	Kingdom of Thailand	Meklong Irrigation	22.0	11.6
1965	406-TH	Yanhee Electricity			
		Authority	Power	6.0	.6
1966	455-TH	Kingdom of Thailand	National Highways	36.0	32.1
	471-TH	Kingdom of Thailand	Vocational Education	6.0	6.0
1967	489-TH	Yanhee Electricity			
		Authority	Power	5.0	5.0
Total	(Tess c	ancellations):		\$239.2	
		s been repaid:		41.2	
01	WALL CAL TIC	is seen repart.		Top all V Co	
Total	now out	standing:		\$198.0	
	t sold:		\$ 16.7	+-/	
		s been repaid	9.3	7.4	
-					
Total	now hel	d by the Bank:		\$190.6	-
					71.2
					1705

(b) IDA Credits as of July 31, 1967

None

(c) Technical Assistance Activities

None in progress at this time. The Bank acted as Executing Agency for UNDP (Special Fund) studies concerning siltation and port development at Bangkok harbor. Final reports have been submitted to UNDP.

(d) Consultative Groups

Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, United Kingdom and United States are members of the Consultative Group for Thailand. Two meetings have been held, the last one in May 1966. The next meeting, originally planned for mid-1967, was postponed because, with high and rising exchange reserves, Thailand was not in urgent need of external financing. Members have now agreed to meet in Kuala Lumpur on December 13, immediately following the meeting of the Malaysian Group. (See IV (a) (i)).

(e) Access to Private Capital Market

The Government has made no attempt in recent years to issue bonds abroad.

(f) Bank 9% Capital Subscription (\$9.12 million)

\$5.40 million to be paid in dollars in annual installments of \$605,000 through October 25, 1968. No release yet of \$3.72 million in respect of increased capital subscription. (See IV (a) (ii)).

(g) IDA Subscription (\$2,727 million)

No release. (See IV (a) (iii)).

(h) Holdings of World Bank Bonds

\$34 million. Thailand applied for \$20 million, and was allotted \$10 million, of the Two-Year Bonds issued in September 1967.

(i) IFC

IFC's only investment consists of \$193,108 in ordinary shares of the Industrial Finance Corporation of Thailand. In February 1967, the Government was informed that IFC had decided to sell this investment because it was uncertain about IFCT's contribution and prospects while IFCT continued under present management. Timing and arrangements for the sale have yet to be determined. (See IV (e) (iv)). Inquiries have been received on two projects but these are at a very early stage.

(j) Settlement of Investment Disputes

Thailand has not signed the convention (See IV (a) (v)).

IV. POLITICAL SITUATION

The political situation continues to be stable. The position of the ruling military group has not been effectively challenged either from within or without the group. For several years, the Constituent Assembly has been deliberating about a new Constitution which is now said to have been drafted. However, there are indications that the Government does not consider this an opportune time to promulgate the Constitution and schedule elections. The Government is firmly aligned with the U.S. war effort in Vietnam and is becoming increasingly involved in that conflict. In Thailand itself, insurgent activity in the border areas is reported to have increased, causing the Government to step up police and military action. A new defense plan, providing for substantially higher military outlays and possibly requiring a cut-back in development spending, is reportedly under consideration. A sizeable program aimed at raising incomes and bringing more and better public amenities to the border areas has also been launched.

V. ECONOMIC SITUATION

(a) Population (mid-1967)

34.5 million

GDP per capita

\$133

Net foreign exchange reserves (July 1967):

\$919 million

(b) The Thai economy continues its impressive record of economic growth. GDP in 1966 increased by 7.6%, roughly the average rate during 1962-66. During the past five years per capita income has risen by about 4% a year. Investment rose from 16% of GDP in 1958 to 22% in 1966. Domestic savings and export earnings also have grown remarkably, providing nearly all the finance required for the expansion of investment. At the same time there has been a net inflow of capital at a rate more than double the average yearly resource gap. As a result, Thailand's

net foreign exchange reserves have risen considerably; they reached \$919 million by July 1967, a sharp increase of \$227 million since the beginning of 1966 which is largely related to the build-up of U.S. military expenditures in Thailand. Reserves are now equivalent to about ten months' current payments, and afford a comfortable margin of safety. After years of stability prices increased significantly in 1966. This was in part due to special factors, such as the sharp rise in world rice prices, but also reflected pressures resulting from the high level of economic activity, including U.S. military construction. These pressures will probably continue into 1968 because rice is likely to remain in short supply in the world market and U.S. expenditures are not likely to decline before late 1968 at the earliest. For the same reasons, reserves are likely to continue increasing during 1967 and 1968.

The level of public external debt is low, and there is no question about Thailand's creditworthiness for substantial borrowing abroad. In 1967-71, Thailand is expected to need a commitment of \$400-450 million, of which \$230-250 million may be disbursed during this period, assuming that exchange reserves will be drawn down during 1969-71 by an amount equal to the build-up during 1967-68. This estimate presupposes that U.S. military spending in Thailand will decline after 1968 and that export earnings will not keep pace with the rapid growth of imports needed to meet the high rate of economic growth which the economy has proved capable of achieving. There are many uncertainties in this forecast of public borrowing, particularly regarding U.S. military expenditures, and present estimates will have to be reviewed again next year. In any event, net commitments required from the Bank as lender of last resort are likely to be relatively small through 1968, provided the expectations of the Thai Government of obtaining sizeable commitments elsewhere, including suppliers' credits, are fulfilled. Whether this expectation is realistic, should become clearer at the meeting of the Consultative Group in December.

Viet-Nam

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BRIEFING PAPER - 1967

VIETNAM

I. MEETING WITH DELEGATION

Meeting with Mr. Cargill at 3:00 p.m. on October 5, 1967.

II. MEMBERS OF DELEGATION

Nguyen Huu Hanh Minister of Economics and Finance;

Governor, National Bank of Vietnam

Tran Cu Uong (Temp.) Director of Cabinet, Ministry of

Economics and Finance

Nguyen Bich Hue (Temp.) Deputy Director General, National

Bank of Vietnam

Advisers

Ha Kuan Trung Adviser; Charge de Mission, National

Bank of Vietnam

Buu Hoan Adviser; Alternate Director, Asian

Development Bank

III. BANK/IDA PROSPECTIVE OPERATIONS

While the war in Vietnam continues, Bank/IDA operations are not practicable.

IV. TOPICS FOR DISCUSSION

(a) To be raised by Bank at Staff Level: none

(b) To be raised by Bank at meeting with President or Senior Officer: none

(c) Likely to be raised by delegation:

The Delegation may repeat a request for periodic visits by a Senior Economist to review the economic situation from time to time. The first such visit could take place next Spring.

V. BACKGROUND INFORMATION

- (a) Bank Loans as of July 31, 1967
- (b) IDA Credits as of July 31, 1967
- (c) Technical Assistance Activities
 None
- (d) Bank 9% Capital Subscription (\$2.7 million)

 \$2.7 million released for purchases in Vietnam subject to consultation.
- (e) IDA Subscription (\$1.359 million)
 No release
- (f) Holdings of Bank Bonds \$10.5 million
- (g) IFC

Vietnam joined IFC this year, and its subscription of \$166,000 has been paid in. IFC has as yet no existing investments and no active applications.

(h) Settlement of Investment Disputes

Vietnam has not signed the Convention.

VI. POLITICAL SITUATION

A new constitution has been prepared, and elections for the Presidency and Senate were held on September 3rd. The elections were marked by a heavy voter turnout and Viet Cong terrorism. The military candidates obtained about 35% of the vote, with the peace candidate receiving 17% of the votes. The elections were described by observers as "reasonably fair" although some losing candidates are charging fraud.

VII. ECONOMIC SITUATION

(a) Population : about 16 million in 1965

G.N.P. per capita : about \$75

(b) While the war continues, Vietnam is not creditworthy nor suitable for IDA operations. An assessment of the present economic situation has not been attempted.