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THE WORLD BANK
Washington, D.C.

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The World Bank
1818 H Street NW
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McNamara Paper

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Visit to U.K., Switzerland and Spain
April 21--May 1, 1971

Fds

	<u>Local Time</u>	<u>GMT</u>		<u>Remarks</u>
4/21 (Wed)	1845	2345	Depart Washington--Dulles	PA106 (DC8) nonstop (RSMcN & LEC)
4/22 (Thur)	0755 1300 <i>1815 Jenkins + Hunt + 1000 Jackson</i>	0655	Arrive London Lunch with Lord Howick, CDC Possibly unofficial meetings in afternoon	Stay at Claridge's
<hr/> Mrs. McNamara only:				
4/22 (Thur)	1915	0015	Depart N.Y.--JFK	TWA830 via Zurich
4/23 (Fri)	1015	0915	Arrive Geneva	--chauffered car at airport --day room at Hotel des Bergues
<hr/> Mr. McNamara (in London): <i>1015 Rappan</i>				
4/23 (Fri)	1100		Richard Wood, Minister of Overseas Development	
	1200		Meeting with Prime Minister (private) followed by lunch	
	1530		Sir Alec Douglas Home, Foreign Secretary	
	1630		Mr. Barber, Chancellor	
	1825	1725	Depart London	SR815 nonstop
	1950	1850	Arrive Geneva	Mrs. McNamara will meet plane at airport with private car
	2015		Depart by private car	
	2130		Arrive Ouchy/Lausanne	Hotel Beau Rivage
4/24 (Sat)	1100		Tidewater Conference	
	1300		Lunch at Hotel Beau Rivage	
	1530		Afternoon session	
	2000		Dinner given by Federal Councillor, E. Brugger	
4/25 (Sun)			Tidewater Conference (cont'd)	
	1300		Lunch at Hotel Beau Rivage	
	1731		Depart Lausanne by train	Swiss railway #175
	1857		Arrive Berne	Stay at Bellevue Palace Hotel
4/26 (Mon)	1000		ACC Meeting	
			Lunch open	
	1500		ACC afternoon session	
	2000 (?)		Dinner hosted by Swiss Federal Authorities	
4/27 (Tues)	1000		ACC meeting	
	1300		Lunch hosted by Director General, Universal Postal Union	
	1443		Depart Berne by train	Swiss Railway #124
	1623		Arrive Geneva	
	1820	1720	Depart Geneva airport	SR656 nonstop
	2000	1900	Arrive Madrid	Stay at Ritz Hotel
			Dinner free	

4/28 (Wed)	1000	General Franco	
	1100	Prince Juan Carlos	
	1200	Vice President (Admiral Carrero Blanco)	
	1300	Meeting with Finance Minister	
	1400	Private lunch with Finance Minister	
	1600	Minister of Planning, Mr. Lopez-Rodo	
	1700	Minister of Education	
	1800	Minister of Agriculture	
	1900	Minister of Public Works and President of Railway Corporation (RENFE)	
		Dinner free	
4/29 (Thur)	0800	Depart Madrid airport by private plane	accompanied by Minister of Agriculture
	0900	Arrive Seville	
	0930	Agency for Livestock Development	
	1015	Livestock breeders	
	1115	Visit to farms and city of Seville	
	1300	Depart from Seville by private plane--lunch on plane	
	1500	Arrive Barcelona	
	1530	University of Barcelona	
	1700	Chamber of Commerce	
	1930	Private visit to Picasso Museum	Stay overnight at Hotel Avenida Palace
		Dinner free	
4/30 (Fri)	0800	Depart Barcelona by private plane	
	0845	Arrive Madrid	
	0915	University of Madrid	
	1030	Mr. Silva Munoz, President of CAMPSA (National Petroleum Co.)	
	1130	Meeting with industrialists	
	1400	Lunch with Minister of Industry, Mr. Jose Maria Lopez de Letona, and President of INI (Inst. of National Industry) Mr. Claudio Boada	
	1700	Meeting with group of bankers	
	1900	Governor of Bank of Spain	
	2100	Official Black Tie Dinner	
5/1 (Sat)	0800	Individual meetings at hotel with	
and	0900	two prominent non-Government personalities	
	1000	Special visit to Prado Museum	
	1230	1130 Depart Madrid	IB951 nonstop
	1510	1910 Arrive N.Y.--JFK	
	1700	2100 Depart N.Y.--JFK	BN101 nonstop
	1819	2219 Arrive Washington--Dulles	



CONFERENCE BOARD



A

Mr. McNamara's Visit to London

The following points were mentioned by Mr. Clark on the telephone to me this morning:

Advance Contributions to IDA

The British Government had been somewhat shocked to receive the correspondence regarding the need for advance contributions. The IDA Bill had already been sent to Parliament and an emergency action had to be undertaken to retrieve the Bill. A new Bill was now being prepared regarding advance contribution. The Ministers had been irritated with the U.S. position on this matter. It had been recommended that perhaps Sir Denis should travel to the other European countries to solicit their advance agreement to provide advance contributions. The U.K. wanted reassurances that they would not be alone in contributing in this manner. They would very much hope to be informed of the date at which the U.S. IDA Bill was, or will be, presented to Congress since this was a point which was likely to come up during discussions in Parliament.

Pakistan and Ceylon

The Foreign Secretary was likely to wish to discuss the political situation in these two countries.

LDC Expropriations

The Government appeared to be very interested in what the Bank had been doing with respect to lending to UAR. They thought the Bank had done a good job on this point and would be interested in hearing whether the Bank intended to pursue the same line in other LDCs.

The Prime Minister

He appears at the moment to be most interested in Edmund de Rothschild's proposal on providing fresh water supplies for the Arabs in the Middle East. There should be some documentation in the Bank on this proposal.

Untying of Aid

The ODA would be interested in hearing whether the Bank is prepared to police the untying of aid.

Geographic Distribution of IDA Credits

There does not appear to be any opposition to the recent increase in IDA credits to Indonesia and Latin America. There were queries, however, as to why French Africa deserved as much as they now were getting.

Debt Rescheduling

The Treasury would argue that, while understanding the Bank's position on this matter, they still felt it was better to participate in a debt moratorium when such action was required to prevent the country from defaulting.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 15, 1971

FROM: Denis Rickett

SUBJECT: Agenda for Meetings with U.K. Ministers

We have been told that the following are the topics which are most likely to be raised by U.K. Ministers during your visit to London:

- (1) Third Replenishment of IDA
- (2) Pakistan Aid Problems
- (3) IBRD/IDA Lending Policies and Lending Criteria
- (4) World Bank and Population Activities
- (5) World Bank Policies on Expropriation and Nationalization
- (6) Debt Relief

Of these questions, we are told that the first four are likely to be raised by Mr. Richard Wood, Minister for Overseas Development, Question 5 by the Foreign Secretary, and Question 6 by the Chancellor. It is also being suggested to the Foreign Secretary that he should give you his views on the political situation in Pakistan and Ceylon.

2. Topics which U.K. Ministers will be glad to discuss with you if you wish to raise them include the following:

- (1) IBRD Borrowing in the London Market
- (2) IFC and Private Overseas Investment
- (3) The Link
- (4) Supplementary Financial Measures
- (5) The World Bank Role in the Second Development Decade and Its Relations with the UNDP

The Prime Minister may of course wish to raise any of these topics with you over luncheon or in a private talk immediately afterwards. He is known to be interested in the question of supplementary finance since it was he who made the proposal in conjunction with the Swedish representative at the first UNCTAD Conference at Geneva.

3. Short notes on each of these topics are attached below. A note is also attached dealing with U.K. aid policies.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

OFFICE OF THE PRESIDENT

UK goal. if other major donors
will

with best understanding
that if conditions do they
will with UK as basis

Others

ask UK to approach them
the Emb.

Japan will follow a lead
but they don't give one -

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 15, 1971

FROM: Denis Rickett

SUBJECT: IDA Third Replenishment - Advance Contributions

During your visit to London you will wish to raise with the Foreign Secretary and with the Chancellor the question of an advance contribution by the United Kingdom to the Third Replenishment of IDA. The position is set out in the memorandum which you have circulated to the Executive Directors of IDA, a copy of which is attached.

2. In addition to the Canadian Government, which has already agreed to make an advance contribution, we are hopeful that the Scandinavian Governments, the Netherlands Government, the British Government, the German Government, and possibly others as well, will agree to make advance contributions. We know that consideration is being given to this matter in London since it was the intention of the Government to lay before Parliament immediately after Easter the Draft Order in Council authorizing their contribution to the Third Replenishment. We understand also that there has been some informal discussion in Paris between Canadian and U.K. officials in which we believe that the British indicated that they were prepared to consider this possibility sympathetically.

3. U.K. Ministers may wish to be assured that you are satisfied (a) that the making of advance contributions by other Part I member countries will increase rather than diminish the pressure on Congress to take action on the Third Replenishment of IDA this year, (b) that there is no real danger that Congress will fail to pass the legislation in the end.

4. Four governments, namely those of Austria, Finland, France and Norway, have so far deposited their notifications. It is interesting that the French have been amongst the first to take this action whereas in the Second Replenishment they did not deposit their notification until after the U.S. Government had done so. If this represents a change of policy, there may even be a possibility that the French might make an advance contribution.

TO : Mr. Robert S. McNamara

DATE: April 20, 1971

FROM : Denis Rickett

SUBJECT: Advance Contributions to IDA

This note follows my memorandum of April 15th and gives some more recent information about the prospects of advance contributions from certain countries.

United Kingdom - Mr. Mitchell has given me the attached copy of a telegram from London which sets out rather more fully the difficulties referred to in Mr. Clark's conversation with Mr. Christoffersen. The United Kingdom Government appear to be worried about two points:

- (a) the prospects that the Replenishment will, in the end, become effective;
- (b) the degree of reciprocity which may be obtained from other donor countries in making advance contributions.

On the first point, the latest information is that the IDA Bill may be submitted to Congress by the end of next week. We are not much the wiser ~~for~~ the prospects of eventual approval but you will, no doubt, wish to tell U.K. Ministers that you have confidence in the President's assurance that the legislation will be passed. A minor comment on paragraph 2 of the telegram, which says that the Minister would be embarrassed if he could not tell Parliament that he expected the Replenishment to become effective "by the date envisaged", there is no cut-off date in the Third Replenishment Resolution. It becomes effective when members, including 12 Part I members, have deposited their notification "on or before the 30th June or such later date as may be determined by the Executive Directors".

On the second point, Mr. Nurick has told me that "binding arrangements" could mean no more than an agreement by the U.K. to make a voluntary contribution and by the IDA to accept it. It is clear, however, from the telegram that in London the phrase is taken to mean arrangements binding on a number of governments. There is not much we can tell them on this except that the Canadian Government has already agreed to make a contribution and that if the British wished they could attach ^{some} sort of condition to their undertaking. They do not necessarily have to wait for other governments to act first. If we were to go round the capitals and make enquiries they would all ask "What are the British going to do?".

The Netherlands - I had a further conversation today with Mr. Rinnooy Kan which was not very encouraging. He had already told me that there is to be an election in Holland on April 28th and that the government may be re-constructed after the election with consequent delay in legislation. Today he told me that there had been delay in putting the legislation forward; that it was not clear whether Minister Witteveen would wish to submit it before the election and that, in any event, his government did not expect the legis-

lation to be approved before next November. I expressed great disappointment and said that we had always made it clear that we needed fresh commitment authority by July 1st. November was the date agreed upon for the payment of the first contribution but cash was not primarily what we needed. Mr. Rinnooy Kan was apologetic but appeared to think there was little that could be done.

I discussed briefly with him whether there were any other funds which could be used to help IDA, e.g. in the joint financing of IDA projects. He promised to look into this and asked me to let him know if there were precedents for such action by the Netherlands in the past.

Nordic Countries - I spoke to Mr. Tornqvist, who had not much to report. He had sent your memorandum to all his governments and asked them to let him know what could be done. The position would, no doubt, vary from country to country because of their different fiscal years. I asked him particularly about Sweden. He thought that we might hear something when Mr. Klackenberg is in Washington on May 5th and 6th.

Belgium - I spoke to Mr. van Campenhout. He said that he had sent the papers to Brussels but that the official who would recommend what should be done, namely Maurice d'Haeze, was away at the Asian Development Bank Meeting in Singapore. Mr. van Campenhout would get in touch with him as soon as he was back from the meeting.

Everything now seems to turn on the British. Other countries, such as the Germans and possibly the Scandinavians, are not likely to act unless they do and the amount of their contribution (\$103.6 million) is roughly a third of what we are hoping to get. They (the British) ask whether "the majority of the other donors, particularly the Germans and the Japanese, will be prepared to go along with interim arrangements". I suggest that we could undertake to carry out an intensive canvass of other donors provided that the British will authorize us to say that the British will act if a reasonable number of other donors do also. Without a British initiative of this kind, little further progress is likely to be made with serious consequences for IDA lending to India in which they surely have a major interest.

FOR DIRECTOR IMF/IBRD.

YOUR TELEGRAM EAGER 130 OF 13 APRIL.

WE HAVE NOW CONSIDERED MATTER FURTHER FOLLOWING STUDY OF MEMORANDUM IDA/RPL/71-2 AND DISCUSSION WITH LEGAL ADVISERS.

2. OUR VIEW NOW IS THAT MEORANDUM IDA/RPL/71-2 HAS CHANGED THE SITUATION IN THAT IT CONTAINS WHAT IS VITUALLY A FORMAL NOTIFICATION FROM THE US GOVERNMENT THAT RATIFICATION IN TIME CANNOT BE EXPECTED AND INVITES THE BRITISH GOVERNMENT TO MAKE A VOLUNTARY CONTRIBUTION. THE MINISTER, WHEN HE GOES BEFORE THE HOUSE TO REQUEST AFFIRMATIVE RESOLUTION ON THE THIRD REPLENISHMENT, IS BOUND TO BE QUESTIONED ABOUT THE PROSPECTS OF US RATIFICATION AND WOULD THEREFORE HAVE TO REVEAL THE INFORMATION IN THE BANK MEMORANDUM. IT WOULD THEREFORE BECOME APPARENT THAT HE WOULD BE ASKING PARLIAMENT FOR POWERS TO IMPLEMENT A REPLENISHMENT WHICH, IN THE LIGHT OF THE INFORMATION ALREADY AVAILABLE TO HIM, HE DID NOT EXPECT TO BECOME EFFECTIVE BY THE DATE ENVISAGED.

3. LEGAL ADVISERS HAVE DRAWN OUR ATTENTION TO A FURTHER AND MORE SERIOUS DIFFICULTY. UNDER SECTION 1(5) OF THE OVERSEAS AID ACT 1968, THE MINISTER OF OVERSEAS DEVELOPMENT CAN MAKE AN ORDER FOR ADDITIONAL PAYMENTS TO THE IDA ONLY IF HMG "BECOMES BOUND BY ARRANGEMENTS". THE EFFECT OF THE US FAILING TO RATIFY WOULD BE THAT HMG WOULD NOT BE "BOUND BY ARRANGEMENTS" IN RESPECT OF THE THIRD REPLENISHMENT. SECTION 1 (5) OF 1968 ACT GIVES THE MINISTER NO POWER TO MAKE A VOLUNTARY PAYMENT OF THE KIND PROPOSED IN THE MEMORANDUM. HMG MUST THEREFORE BECOME "BOUND" BY SOME OTHER "ARRANGEMENTS" BEFORE THE POWERS UNDER THAT SUB-SECTION ARE EXERCISABLE FOR AN INTERIM REPLENISHMENT. IF THEREFORE WE ARE TO MAKE AN ADVANCE CONTRIBUTION UNDER THE POWERS IN THAT ACT, IT MUST BE ON THE BASIS THAT THERE ARE ARRANGEMENTS WITH IDA IN RESPECT OF SUCH ADVANCE THAT ARE BINDING ON THE UNITED KINGDOM. IN CONSEQUENCE, IF WE ARE TO MAKE AN

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/INTERIM
ADVANCE TO
MR. MITCHELL
MR. LYNCH

INTERIM ADVANCE PAYMENT TWO ORDERS BECOME NECESSARY AND IT IS NOT POSSIBLE TO INCLUDE ARRANGEMENTS FOR THE TWO PAYMENTS IN A SINGLE DRAFT TO BE LAID BEFORE THE HOUSE OF COMMONS. (23 ALSO NEED TO PROVIDE THAT ANY ORDER MADE IN RESPECT OF AN INTERIM REPAYMENT SHOULD SPECIFY THAT ANY SUCH PAYMENT WOULD COUNT TOWARDS OUR COMMITMENTS UNDER THE THIRD REPLENISHMENT WHEN IS IN TURN BECAME EFFECTIVE. LEGAL ADVISERS ARE THEREFORE STRONGLY OF THE OPINION THAT THE RIGHT COURSE WOULD BE TO LAY IN DRAFT TWO ORDERS AND GET AFFIRMATIVE RESOLUTIONS ON THEM AT THE SAME TIME. THE FIRST WOULD PROVIDE FOR THE FULL AMOUNT OF OUR CONTRIBUTION FOR THE THIRD REPLENISHMENT LESS ANY SUCH AMOUNT AS SHALL HAVE BEEN PAID IN ADVANCE OF ITS COMING INTO FORCE AND THE SECOND WOULD PROVIDE FOR THE SUM PROPOSED IN THE ADVANCE CONTRIBUTION FOR THE INTERIM REPLENISHMENT.

4. THIS PROPOSAL HAS BEEN DISCUSSED THIS MORNING WITH THE MINISTER OF OVERSEAS DEVELOPMENT AND HE HAS AGREED, SUBJECT TO WHAT FOLLOWS, TO RECOMMEND TO HIS COLLEAGUES THE ADOPTION OF THIS COURSE SUBJECT TO CLARIFICATION OR ASSURANCES FROM MCNAMARA ON THE FOLLOWING POINTS:-

A. HOW MUCH RELIANCE CAN WE PLACE ON THE ADMINISTRATION'S EXPECTATION THAT THE US LEGISLATION WILL BE PASSED NOT LATER THAN 31 DECEMBER 1971? BEFORE MINISTERS WENT BEFORE PARLIAMENT HERE WITH TWO DRAFT ORDERS AS PROPOSED THEY WOULD PROBABLY WISH TO BE ASSURED THAT A DATE HAD BEEN FIXED FOR THE INTRODUCTION OF SUCH LEGISLATION INTO CONGRESS.

B. WILL THE MAJORITY OF THE OTHER DONORS, PARTICULARLY THE GERMANS AND THE JAPANESE BE PREPARED TO GO ALONG WITH INTERIM ARRANGEMENTS? IN THIS CONTEXT, MINISTER WILL WANT TO KNOW WHAT STEPS MR MCNAMARA INTENDS TO TAKE TO ASCERTAIN THE VIEWS OF OTHER DONORS AND TO SETTLE THE TERMS OF ANY INTERIM ARRANGEMENTS HE MAY SUGGEST THAT RICKETT OUGHT TO TOUR CAPITALS. BECAUSE OF OUR OWN PARLIAMENTARY TIMETABLE AND THE DESIRABILITY OF GETTING THESE ORDERS THROUGH BEFORE THE SUMMER RECESS, WE SHOULD PREFER TO HAVE THE DRAFT ORDERS SUBMITTED TO PARLIAMENT BEFORE THE WHITSUN RECESS, BUT BEFORE DOING SO WE SHOULD WANT ASSURANCES ON THE ATTITUDE OF OTHER DONORS AND CLARIFICATION OF THE CIRCUMSTANCES IN WHICH WE SHOULD BECOME "BOUND BY ARRANGEMENTS" FOR AN INTERIM REPLENISHMENT.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 9, 1971

FROM: William Clark *WOC*

SUBJECT: London Talks

Let me just put down two points that I know the Chancellor wants to raise with you: (more will follow)

1. Possible access to British capital market (n.b. British balance of payments still running at high gain level; Barber announced advance repayments to I.M.F. in Budget).
2. Debt rescheduling. There is a strong view at official levels that the Bank should participate; I do not think your case has been put to the Chancellor.

WDClark:sf

UNITED KINGDOM: AID POLICIES

Prospects for official U.K. aid in the years immediately ahead look reasonably bright. The then Minister of Overseas Development, the Rt. Hon. Judith Hart, in a statement to the House of Commons in November 1969 announced that the Government had decided that from 1971/72 all economic aid will be consolidated into one official Aid Programme which will be increased from the 1970/71 figure of \$544.8 million (£227m)-- later revised to \$550 million (£229m)--to \$588 million (£245m). In 1972/73, it will be further increased to \$636 million (£265m). In 1973/74, the last year covered by the 1969 Public Expenditure Survey, the Programme will accelerate to \$720 million (£300m).^{1/} These figures are in cash terms and relate to gross disbursements.

On July 7, 1970, the U.K. Minister of Overseas Development, the Rt. Hon. Richard Wood, in his address to the 49th Session of the U.N. Economic and Social Council stated: "We have accepted the target, set up at the Second UNCTAD Conference, and have promised to increase our aid programme with the growing national prosperity...In the statement of Government policy in the Queen's speech we undertook to pursue an expanding aid programme...We have still to decide how quickly we can translate into reality our policy intentions on financial resource flows; this will clearly affect our ability to accept the target dates for resource flows which many countries wish to see in the present draft strategy."

On October 23, 1970, in a speech delivered at the Commemorative Session of the United Nations XXVth General Assembly, the U.K. Prime Minister, the Rt. Hon. Edward Heath stated: "We are planning to increase our official aid program for the next few years and I reaffirm...our acceptance of the one percent target agreed at the second UNCTAD Conference of Delhi in 1968. In accordance with the Strategy for the Second Decade we shall do our best to reach this target by 1975."

The financial implications of the U.K. Government's commitment were outlined in a Statement on New Policies for Public Spending, by the Chancellor of the Exchequer, the Rt. Hon. Anthony Barber, in the House of Commons on October 27, 1970. "The previous administration provided for an expanding programme of overseas aid up to 1973-74 as further steps towards the UNCTAD 1% target. Our policy is to maintain that programme and to continue the progress to £340 million (\$816 million) in gross cash terms in 1974/75. My Rt. Hon. Friend announced last week in the United Nations that we will do our best to reach the 1% target by 1975, in the expectation that private flows will be able to make a substantial contribution."

^{1/} If the estimated defence element in the special aid to Malaysia and Singapore is included the total figures would be \$602.4 million (£251m) in 1971/72, \$648 million (£270m) for 1972/73 and \$732 million (£305m) for 1973/74.

The extent to which the United Kingdom succeeds in reaching the 1% target by 1975 will, as the Chancellor said, depend on the contribution made by private flows. The following are the figures for gross disbursements of total overseas economic aid in each U.K. fiscal year from 1970 to 1975, together with the percentage which those disbursements represent of the gross national product:

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Amount	218.8	229.1	245.0	265.0	300.0	340.0
As % GNP	.47%	.46%	.46%	.47%	.50%	.53%

Following discussions with the U.K. authorities, the D.A.C. Secretariat has estimated that the corresponding net disbursements from the U.K. will be as follows:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Amount	200.8	213.8	231.7	262.5	297.9
As % GNP	.41%	.41%	.41%	.44%	.47%

To reach the 1% of GNP target for total net disbursements, total net private flows (including both private investment and export credits) would have to amount to about £340 million in FY1975, as compared with £138 million in FY1968, and the exceptionally high figure of £266 million in FY1969.

Special Issues

(a) U.K. aid administration

In October 1970, the U.K. Government announced an administrative re-organization by which the Ministry of Overseas Development, while remaining a separate agency, would become responsible to the Foreign Secretary and would no longer have its own independent Minister in the Cabinet. It is now known as the Foreign and Commonwealth Office (Overseas Development Administration). Mr. Richard Wood became the Minister for Overseas Development in the Foreign Office; the Foreign Secretary delegated to him the full charge of the new Overseas Development Administration, of which Sir Michael Walker is the Secretary.

UNITED KINGDOM: GROSS AID EXPENDITURE PROGRAM a/

Fiscal Years Ending March 31 (U.S. \$ Millions)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
BILATERAL															
Grants <u>b/</u>	146	174	148	132	179	174	165	124	117						
Loans	196	206	190	244	232	261	291	241	208						
Technical Assistance	22	55	59	67	78	84	92	88	101						
Total <u>c/</u>	364	434	398	442	490	518	549	453	426						
MULTILATERAL															
IDA Encashments <u>d/</u>	7	2	10	20	20	37	29	38	46						
Technical Assistance	8	8	8	11	11	14	14	11	13						
UNRWA & Other	8	6	6	3	6	6	5	4	5						
WFP				3	3	1	1	1	4						
AsDB							1	3	1						
Total	23	16	24	37	39	58	50	58	69						
TOTAL GROSS DISBURSEMENTS	<u>387</u>	<u>450</u>	<u>422</u>	<u>479</u>	<u>530</u>	<u>577</u>	<u>600</u>	<u>511</u>	<u>495</u>	<u>525</u> 495	<u>550</u>	<u>588</u>	<u>636</u>	<u>720</u>	<u>816</u>

a/ This is the concept used in U.K. aid planning. The figures include Exchequer advances to the Commonwealth Development Corporation but not total C.D.C. overseas investment.

b/ Includes contribution to Indus Basin Development Fund.

c/ This total includes U.K. overseas pension payments.

d/ Figures for 1961 and 1962 are for payments of initial subscription, and later years include IDA encashments of U.K. notes.

Source: Ministry of Overseas Development-British Aid Statistics 1970.

P & B
4/14/71

OFFICE MEMORANDUM

TO: Dr. S. R. Sen

DATE: April 5, 1971

FROM: Gregory B. Votaw

SUBJECT: INDIA - Monthly Status Report for April

1. Attached are two copies of the Monthly Status Report for April, covering the India Lending Program for FY 71 and FY 72. I have included in this year's program all projects which we expect to negotiate in time to present to the Executive Directors before June 30. Accordingly, for the purposes of this report, I have eliminated the concept of "carry over" into FY 72.
2. Also dropped is the list of "Major Points", since this seemed to be more confusing than helpful in the last meeting. You should note, however, that if we are to remain on schedule, a number of things require action during April. Principal among actions expected from GOI are project proposals for agricultural credit in U.P. and Bihar (item 12, page 5), a modified proposal for the fertilizer plant at Gorakhpur (item 18, page 6) and a feasibility report on the revised fertilizer project at Nangal (item 17, page 6). We are also awaiting a proposal for organizational improvements in connection with the Bombay Water Supply project (item 24, page 7), comments on the pre-appraisal report on Family Planning (item 19, page 6), and a proposal for financing of ships (item 23, page 7).
3. During the month, we expect to send to you an outline of the additional information required on proposals for Agricultural Industries (item 15, page 6). We hope also to discuss further with you the application of international competitive bidding procedures, especially for the civil works portion of the proposed Tawa, Jayakwadi and Pamba irrigation projects (item 9, 13, and 14, page 5).
4. Looking ahead, we will also require within the next few months material on other projects whose timing is not yet clear, including some which are expected to be recommended for Bank Group financing only in FY 73. This includes proposals on the Tata fertilizer and the Marcona iron ore projects, and the submission of additional data for a third Power Transmission project. For our part, we expect to provide specific reactions to urban development plans for both Bombay and Madras, comments on the project report for the Jayakwadi irrigation project and suggestions on the proposed Rajasthan and Salandi area command projects, as well as the conclusions of missions (Maharashtra and Mysore agricultural credit and Railways XI) now in the field.
5. I am trying to arrange for this month's meeting to be held on Monday, April 12, and will let you know the time and place. I would be grateful if you would let me know in advance of any matters you would like to raise at the meeting.
6. I expect to send you the status report for May on or about May 4.

Attachment

Copy to: Mr. McNamara
Mr. Cope
Mr. Aldewereld
Mr. Cargill (o/r)

Mr. Knapp
Messrs. Chadenet/Baum
Mr. Christoffersen
Messrs. J. Adler/Blaxall
Mr. Gillette
Mr. Urquhart (10)

MONTHLY STATUS REPORT

INDIA LENDING PROGRAM

	<u>U.S.\$ millions</u>	
<u>Summary of FY 1971 Program</u>	<u>IDA</u>	<u>IBRD</u>
Debt relief	--	15.0
Original lending target	<u>245.0</u>	<u>--</u>
TOTAL	245.0	15.0
<u>Approved by Executive Directors</u>		
0. Debt Relief	--	15.0
1. Agricultural Aviation	6.0	--
2. Agricultural Credit - Andhra Pradesh	<u>24.4</u>	<u>--</u>
Subtotal (Items 0-2)	30.4	15.0
<u>Good Probability of Board Presentation in FY 1971</u>		
3. Agricultural Credit - Tamil Nadu (Board - June 1)	35.0	--
Agricultural Credit - Haryana (Board - June 8)	25.0	--
5. Irrigation - Pochampad (Board - June 22)	41.0	--
6. Telecommunications IV (Board - April 20)	78.0	--
7. Fertilizer - Cochin (Board - June 1)	20.0	--
8. Power Transmission II (Board - April 27)	<u>75.0</u>	<u>--</u>
TOTAL (Items 0-8)	<u>304.4</u>	<u>15.0</u>

SUMMARY OF FY 1972 OPERATIONS PROGRAM

	<u>Amount (US\$ M)*</u>
9. Irrigation - Tawa	46.0
10. Agricultural Credit - Maharashtra	25.0 xx
11. Agricultural Credit - Mysore	25.0 xx
12. Agricultural Credit (Bihar or U.P.)	25.0 xx
13. Irrigation - Jayakwadi	20.0
14. Irrigation - Pamba	15.0
15. Bihar-Marketing	10.0 xx
16. Education - Agricultural Universities	20.0
17. Fertilizer - Nangal	20.0 xx
18. Fertilizer - Gorakhpur Expansion	5.0 xx
19. Family Planning	12.0
20. Power Transmission III	60.0 xx
21. Highways II	30.0
22. Railways XI	50.0 xx
23. Ships	80.0 xx
24. Water Supply - Bombay	27.5 xx
25. Grain Storage	5.0
26. Industrial Imports	<u>50.0</u> xx
GRAND TOTAL (Items 9-26)	525.5

* Amounts are indicative only, but are not expected to be less than those shown.
xx Projects of high probability - \$377.5 million.

FY 1971 - IDA *

(US\$ million)

1. Agricultural Aviation 6.0
Credit Agreement signed.
2. Agricultural Credit - Andhra Pradesh
Credit Agreement signed. 24.4
3. Agricultural Credit - Tamil Nadu 35.0
Amount increased from last month's estimate of \$30 million as a result of recalculation of minor irrigation component. Plans for expansion of primary banks under Tamil Nadu's Land Mortgage Bank system being discussed by Maharashtra mission, now in the field. Negotiations are scheduled for April 26, a mutually convenient date for GOI and IDA, with Board presentation June 1.
4. Agricultural Credit - Haryana 25.0
Amount rounded upward from last month's estimate of \$24.3 million. Negotiations are scheduled to begin May 3, following Tamil Nadu negotiations, with Board presentation June 8.
5. Irrigation - Pochampad 41.0
Mission which collected and reviewed information needed to update appraisal returned February 24. Draft appraisal report expected early April. Amount restored to earlier estimate (from \$32 million last month) as a result of revised cost estimates. Negotiations tentatively scheduled for mid-May, with Board presentation June 22.
6. Telecommunications IV 78.0
Negotiations completed March 23. Board presentation scheduled for April 20.
7. Fertilizer - Cochin 20.0
Mission which returned from India week of March 8 reached agreement with GOI and FACT on procurement and financial plan. Yellow cover report issued March 31; negotiations scheduled to begin April 21, with Board presentation June 1.

* Listed in order recorded in Bank documents.

FY 1971 IDA (continued)

(US\$ million)

8. Power Transmission II

75.0

Negotiations completed March 26; Board presentation
scheduled for April 27.

TOTAL, FY 1971 IDA

304.4

FY 1972 - IDA

(US\$ million)

9. Irrigation - Tawa

46.0

Since appraisal in December, project has been reviewed by technical mission consisting of four consultants and by IDA staff mission, both in February. On the basis of firmer cost data, credit amount reduced from last month's estimate of \$60 million. The yellow cover appraisal report is scheduled for April 30. It has been decided that priority for staff time should be given to Pochampad project and, as a result, negotiations are now scheduled for June 14 with Board presentation in July. Agreement on issue of international competitive bidding for technically suitable civil works to be sought.

10. Agricultural Credit - Maharashtra

25.0

Appraisal mission departed March 12, due back April 19.

11. Agricultural Credit - Mysore

25.0

Appraisal mission departed March 12, due back April 19.

12. Agricultural Credit - Unidentified

25.0

UP and Bihar submissions, originally expected from GOI in December, then postponed until March, have still not been received. Appraisal of one project still tentatively scheduled for early autumn, but in the case of Bihar a prior FAO/IRBD Cooperative Program mission will probably be necessary.

13. Irrigation - Jayakwadi

20.0

Project report received February 12. Following review of status of preparation by recent reconnaissance mission, further preparatory work, with help of FAO, has been initiated and should be completed about August. Thus, appraisal unlikely before September.

14. Irrigation - Pamba

15.0

Reconnaissance mission, which returned from India March 23, identified project at Pamba, in Kerala State, as best prospect for possible early appraisal. Further review of other projects submitted to the mission is underway, and it is possible that one of those may be substituted for Pamba at a later stage. Major civil works suitable for international tender would be involved.

FY 1972 - IDA (continued)

(US\$ million)

15. Bihar - Marketing 10.0
- Reconnaissance mission identified a possible project for marketing in Bihar, and an appraisal mission is tentatively scheduled for May. Other project proposals, for apple packing and marketing in Himachal Pradesh, lake fisheries in Orissa, and pineapple processing in Assam were also identified. Further preparatory work is needed before these three projects are ready for appraisal; by the end of April, staff will submit to GOI an outline for these additional preparations. In the meantime, we note that the pineapple project is likely to prove a weak candidate for appraisal.
16. Education - Agricultural Universities 20.0
- Full report of FAO identification mission, promised by end of December, was received by Association in February. This was reviewed in the Bank and revised by FAO; an amended report was sent to India on March 26. Subject to the agreement of the Indian authorities on timing, we propose a joint FAO/IBRD mission the last week of April.
17. Fertilizer - Nangal 20.0
- Appraisal mission deferred pending receipt from GOI of feasibility report for revised project, formerly expected in February, now expected late April.
18. Fertilizer - Gorakhpur 5.0
- Cochin mission held preliminary discussions on technical and economic report received by Association on January 27. As a result of recent negotiations with Toyo, FCI has agreed to send revised proposal to Association by mid-April, showing reduced costs. Appraisal will be scheduled shortly after IDA receives the FCI report.
19. Family Planning 12.0
- Pre-appraisal report delivered to GOI on December 2, 1970. Plans to send pre-appraisal and appraisal missions deferred pending receipt of GOI comments, now expected in April.
20. Power Transmission III 60.0
- Assumes submission of additional project data by GOI before August 31. Preliminary cost data already received by Association.

FY 1972 - IDA (continued)

(US\$ million)

21. Highways II

30.0

Letter on policy issues sent to Dr. I. G. Patel on March 19. Appraisal tentatively scheduled for October, subject to agreement on policy matters (i.e. competitive bidding for civil works and assistance in construction supervision) by June 15.

22. Railways XI

50.0

Field appraisal began March 15, 1971

23. Shipping

80.0

Mission returned March 1. Its report recommends appraisal of a project involving three 75-80,000-ton oil tankers and four smaller coastal products tankers. Letter to be sent to GOI requesting additional data on coastal trade. Appraisal scheduled for June/July, 1971, to allow time for prior ship optimization and freight rate studies. GOI writing to IDA to urge inclusion of ore carriers, as it originally proposed, either in this credit or in an early subsequent credit.

24. Bombay Water Supply

27.5

Consultants' feasibility study is scheduled to be completed by mid-May 1971. Prior to appraisal, there must be agreement on (a) the definition of the project and a financing plan, and (b) the arrangements necessary to improve BMC's project design and supervision organization. Proposal and timetable for implementation of organizational improvements promised by BMC in November, 1970, but not yet received. Reminder letter on these issues discussed with G. V. Ramakrishna and sent to Dr. I. G. Patel on March 30. As agreed with Ramakrishna, during his recent trip to Washington, an IDA mission will visit Bombay in late April to review the situation, to help the authorities involved in overcoming any problems, and to update the Bank's timetable for appraisal. Appraisal is not likely to be possible before August/September, and may be later if April mission finds that organizational improvements have been delayed.

25. Wheat Storage

5.0

GOI unwilling to accept international competitive bidding on silo construction contracts.

26. Industrial Imports

50.0

No proposal received from India, but IDA staff has been giving preliminary consideration to possible scope and timing.

FY 1972 - IBRD

(US\$ million)

27. ICICI

40.0

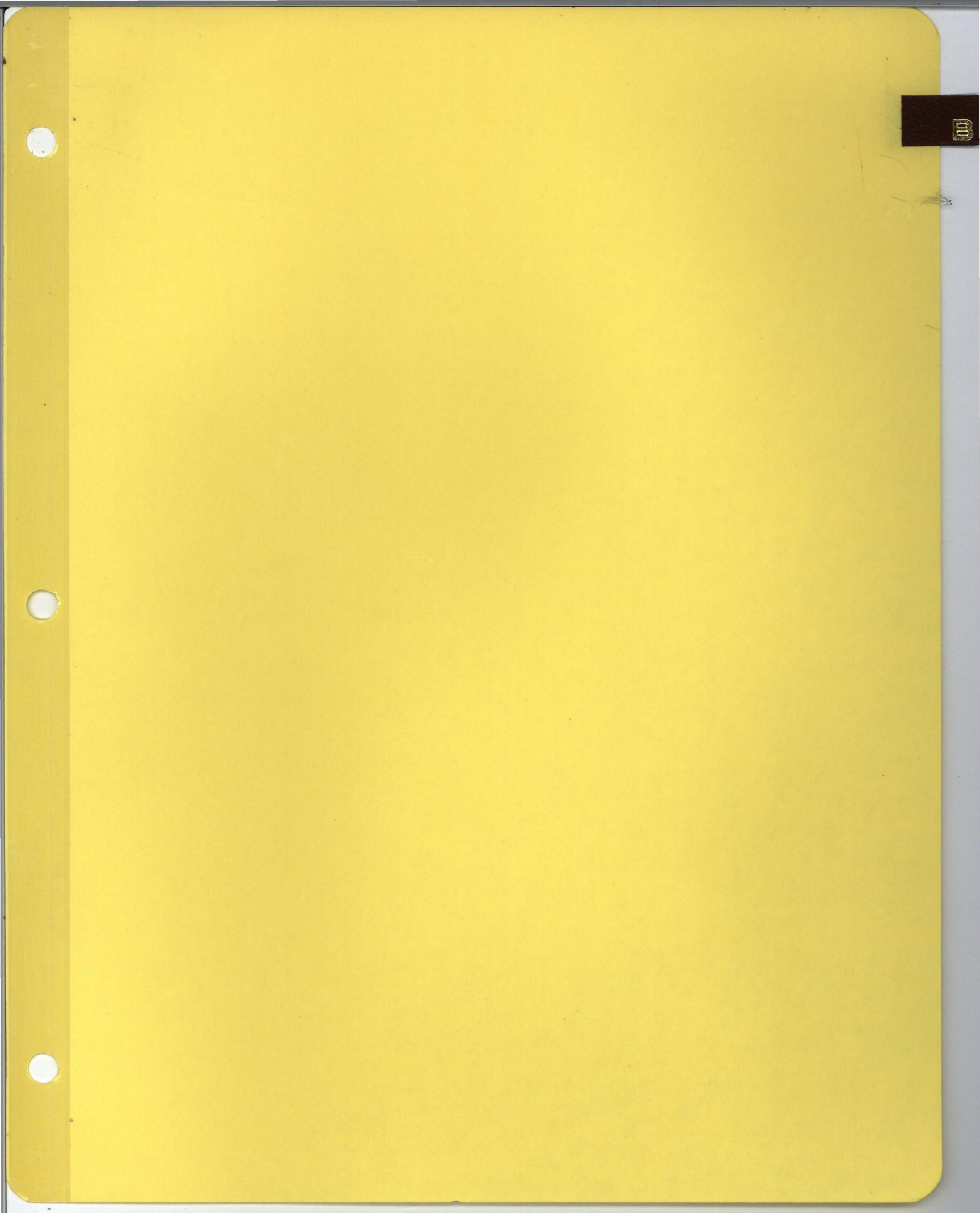
Commitment of existing IBRD loans expected to be completed in time to justify a further loan in FY 72. Appraisal mission tentatively scheduled for July; G. L. Mehta expected in Washington early May.

TOTAL, FY 72 - IDA about 525.0

IBRD 40.0

* * * * *

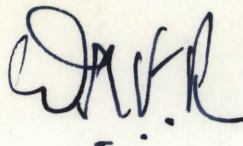
N. B. A number of other lending possibilities are at various stages of consideration. Urban development plans for Bombay and Madras are under review in the Bank; a mission is expected to go to India in May to discuss a draft report on Bombay and will probably also have preliminary discussions concerning Madras. A Rajasthan phosphate development project may not be ready until FY 73, and area command projects for Rajasthan and Salandi were received from the GOI in late March and are under consideration within the Bank. A study of the small-scale industry sector is expected to begin later this year. The GOI has informed the Association that it is unlikely to propose that IDA lend to IDBI or for fertilizer debottlenecking at Sindri and Trombay, contrary to prior expectations.



TO : Mr. Robert S. McNamara

DATE: April 20, 1971

FROM : Denis Rickett

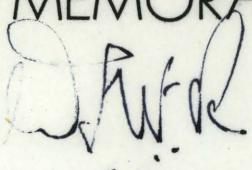


SUBJECT: Debt Rescheduling

Mr. Clark reports that the Treasury, while understanding our reluctance to reschedule debt to the Bank, feel that it would be better to participate in a debt moratorium where such action is required to prevent the country from defaulting.

2. In the literal meaning of this statement there could be no objection. We should surely prefer to reschedule debt than to have an outright default on it. This possibility might well arise in a country where the Bank was a major creditor holding, say, 30% of the debt outstanding. Where we hold only 10% or so, our view is that it is in the interests of the member governments themselves that the Bank should be treated as a preferred creditor. It is surely a mistake for other creditors to treat the Bank, in which they are all shareholders, as if it was an independent creditor to whom they object to giving special treatment.

OFFICE MEMORANDUM



TO: Mr. Robert S. McNamara

DATE: April 14, 1971

FROM: Denis Rickett

SUBJECT: IBRD Role in Debt Relief - British Views

We have been told by Mr. Mitchell that one topic which will be raised with you by U.K. Ministers during your visit to London is the role of the IBRD in debt relief. U.K. Departments were, as you know, concerned about the statement made on this subject in the memorandum to the Board on liquidity (R71-64, paragraph 15). Mr. Cargill and I also had a meeting with Mr. Lynch not long ago at which he expressed the concern of the U.K. authorities at the Bank's decision not to continue the rescheduling of \$15 million of the Indian debt to the Bank for a further period of a year even though we were asking other creditors to take similar action.

2. In this connection it may be useful for you to have by you the attached copy of the Working Paper which has been prepared in the course of the debt study on IBRD loans and debt renegotiations.

3. You will, no doubt, wish to emphasize in London the point made in paragraph 5 of the paper. If the Bank once embarks on a policy of re-scheduling loan service payments due to it, this may have to be done in a considerable number of cases since it will not be easy to draw any sharp distinction between those cases in which we might be willing to reschedule and those in which we would not. The only safe policy to pursue, therefore, is to refuse to reschedule in any circumstances.

4. This does not mean that the Bank would never be willing to make any contribution to meeting the debt servicing difficulties of member countries. Paragraph 10 of the policy paper suggests that a distinction can be drawn between rescheduling on the one hand, and the provision of additional resources on the other either in the form of project loans, if acceptable projects can be found the rate of disbursement on which will meet the needs of the country concerned, or, alternatively, in the form of program lending.

5. The provision of additional resources in this way does not differ in substance from rescheduling. In rescheduling an immediate loss of foreign exchange is avoided by deferring liabilities. In making new loans an immediate loss of foreign exchange is offset by an inflow of foreign exchange. Nevertheless, such a difference of form can be important. For some creditor governments it may be easier to forego payments due than to make new loans. For the Bank the choice will presumably turn on what is most likely to avoid any unfavourable reflection on the Bank's own standing in capital markets. Where we are dealing with a country whose economic prospects and performance are such as to justify them in taking on fresh liabilities (the effect of

which will be to enable them to meet existing liabilities), we shall no doubt prefer to make new loans or credits on whatever terms seem appropriate to the economic situation of the country.

6. If, however, a case arises in which the alternative to some form of debt relief is clearly outright default and where the whole economic and political future of the country is extremely uncertain, we may be forced to conclude that new lending would not be justified. In such a situation, when default appears imminent, it could be questioned whether in lending, the Bank would be behaving prudently under Article III, Section 4. IDA's Articles of Agreement contain no such provision but there remains the policy question as to whether IDA funds should be used in too obvious a way to "bail out" the Bank. Such situations are likely to be most exceptional and will have to be dealt with when they arise by exceptional measures.

APR 03 2013

WBG ARCHIVES

CONFIDENTIALIBRD LOANS AND DEBT RENEGOTIATIONS

What are the arguments for excluding Bank loans from debt renegotiations?

I. Introduction^{1/}

1. There is nothing in the Bank's Articles of Agreement which is in conflict with the view that the Bank has the inherent power to exercise discretion in the administration of its loans. If anything, this view finds support in Article III, Section 4, of the Articles of Agreement entitled "Conditions on which the Bank may guarantee or make loans." Paragraph (v) of that Section provides:

"In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in a position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole."

^{1/} This section of the paper is extracted from the memorandum from Mr. Broches to Mr. Woods on the "Indian Debt Rescheduling" dated March 8, 1968. The memorandum was prepared in response to questions raised by Executive Directors of the Bank with regard to the re-scheduling of the Indian debt.

2. This provision, which deals with the judgements to be arrived at by the Bank when making a loan, implies that the Bank should continue to act prudently in the administration of that loan and that when prudence dictates a relaxation of loan conditions the Bank has power to agree to such relaxation. Therefore the common assumption that the Bank's ability to reschedule the debt of one of its borrowers rests solely on the application of Article IV, Section 4(c), as quoted below, is inaccurate.

"If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies, cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. If the Bank is satisfied that some relaxation is in the interest of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both, of the following paragraphs with respect to the whole, or part, of the annual service:

(i) The Bank may, in its discretion, make arrangements with the member concerned to accept service payments on the loan in the member's currency for periods not to exceed three years upon appropriate terms regarding the use of such currency and the maintenance of its foreign exchange value; and for the repurchase of such currency on appropriate terms.

(ii) The Bank may modify the terms of amortization or extend the life of the loan, or both."

The above Section is designed to give a member (whether acting as a borrower or a guarantor) a right to appeal ^{1/} to the Bank for a relaxation of loan terms, rather than to grant power to the Bank to modify the terms of its loans.

II. Analysis

3. The Pearson Commission recommended that "the World Bank and the IMF, as important providers of long-term and short-term finance respectively, must of course participate in rescheduling discussions". ^{2/} Mr. McNamara in his memorandum to the Board on this recommendation indicated that "where, in spite of the efforts of the debtor country and its creditors, a general restructuring of the external debt of that country becomes necessary, the Bank should be prepared to participate in an advisory capacity in the re-scheduling discussions". ^{3/} The Peterson Task Force explicitly stated that "international lending institutions ... should not be required to reschedule their outstanding loans. Rescheduling their loans would endanger the ability of international institutions to continue borrowing in capital markets". ^{4/}
4. It has generally been argued that the Bank should have a "preferred creditor" position in debt renegotiations because the bulk of its loan

^{1/} Mr. Broches notes that the original draft of the provision at the Bretton Woods Conference used the term "appeal" which was changed in the final text to "apply".

^{2/} Partners in Development, p. 157.

^{3/} R70-69, dated April 28, 1970.

^{4/} U.S. Foreign Assistance in the 1970s, p. 33

resources are borrowed in international capital markets, and as a result the cost of its funds (and hence the cost to the Bank's borrowers^{1/}) depends on its ability to maintain a high credit rating. Insofar as the capital market bases credit ratings on the level of net income and the interest coverage ratio, the Bank's rating would be affected adversely if its own receivables were included in debt renegotiations.

5. The Bank's credit rating not only affects the cost, but also the volume, of funds available to the Bank; even if the increase in the cost of funds were small, it is probable that the negative effect on the volume of funds available will be large. The combination of these two factors results in a very high cost to the Bank from having its receivables involved in debt renegotiations. These costs, obviously, will in turn have to be borne by the Bank's borrowers. It is for these reasons, among others, that the management of the Bank has taken the position that the Bank's loans will not be part of a general debt renegotiation.

6. To date, the Bank has not had any defaults on its loans. Over the years, the Bank has agreed to reschedule loan repayments to assist two countries -- Haiti and India -- which were experiencing balance of payments difficulties. The amortization schedule of a \$2.6 million loan to Haiti was amended. In order to provide India with relief from debt service payments, the amortization schedules of 12 loans of the amount

^{1/} An increase in the cost of Bank borrowings, as a result of its involvement in debt renegotiations, could increase the cost of Bank loans to all members and hence discriminate against countries with good performance.

of \$45 million, were changed in 1968 to postpone certain maturities for 10 years beyond the original maturity date. In both these cases, however, payments of interest continued to be made on schedule.

7. The Bank also has agreed to reschedule maturities for strictly operational reasons. In loans to development finance companies, the amortization schedule in the loan agreement is usually a tentative one and is amended when the whole loan is committed to sub-borrowers, so that repayment to the Bank will match those from sub-borrowers. Also where the Bank has made several loans to one borrower, the Bank may ask the borrower to revise the amortization schedules of the loans in order to facilitate loan sales. Other reasons for revising amortization schedules are delays in the start of a project, merger of loans, the splitting-up of a loan, and change in the character of a project.

8. In the future, it is reasonable to expect that a number of countries will request rearrangements of their external debt service payments. The ratio of debt service payments due the Bank to total debt service payments due on external public debt in 1969 is shown below for selected developing countries. The ratios reflect past trends in external resource flows and the borrowing policies of debtor countries. However, there have recently been at least two major changes affecting the structure of future flows which will significantly alter the situation shown in the table for 1969. First, there has been a major expansion in the volume of lending by the Bank Group and by the regional development banks. Second, there has been a decline in the volume of external resources provided by the U.S. (the major creditor); this decline may well continue, as the

Ratio of Debt Service Payments due the IBRD to
Total Debt Service Payments due on External Public Debt
(percentages)

<u>Country</u>	<u>1969</u>	<u>1975</u> (estimated)
Argentina	2.3	11.0
Brazil <u>b/</u>	3.9	19.3
Chile	6.8	8.5
China	9.5	13.0
Colombia	31.6	37.1
Ethiopia	26.0	30.0
India <u>a/</u>	15.1	10.5
Malaysia	20.5	37.3
Mexico	8.4	7.9
Morocco	12.3	15.5
Pakistan	20.1	17.6
Peru	16.5	13.3
Philippines	13.7	20.5
Sudan	32.1	26.5
Thailand	30.6	57.4
Tunisia	2.0	18.0

a/ Indian fiscal years ending March 31, 1970 and March 31, 1976, respectively.

b/ Total debt service includes interest on short-term debt as well as interest on and amortization of both public and private sector medium- and long-term debt.

Source: IBRD Country Program Papers.

U.S. Government has committed itself to a policy of channeling an increasing share of its assistance to developing countries through international institutions. The table below, which does not fully reflect the proposed changes in U.S. assistance policies, shows a significant increase in the Bank's share of total service payments by many individual countries by 1975.^{1/} There has also been an increase in lending by regional development banks, and this means that international institutions as a group will receive a share of the debt service payments from many countries which is significantly higher than that for the IBRD alone.

9. As indicated earlier, the management of the Bank has taken the position that the Bank's loans should not be subject to renegotiation. As the figures cited earlier indicate, the Bank will be receiving an increasing share of the debt service payments of certain individual countries in the future. If any of these countries should have difficulty in servicing their external debt, the Bank will have to consider the policy options, other than the rescheduling of service payments on its loans, available to it in order to assist the country.

10. In the past, creditors have taken two, not necessarily mutually exclusive, approaches to a country which is experiencing debt servicing difficulties -- refinancing and rescheduling of debt service payments, and/or the provision of additional new resource flows. In 1964 when Brazil approached the Bank to reschedule a portion of its loans in the framework

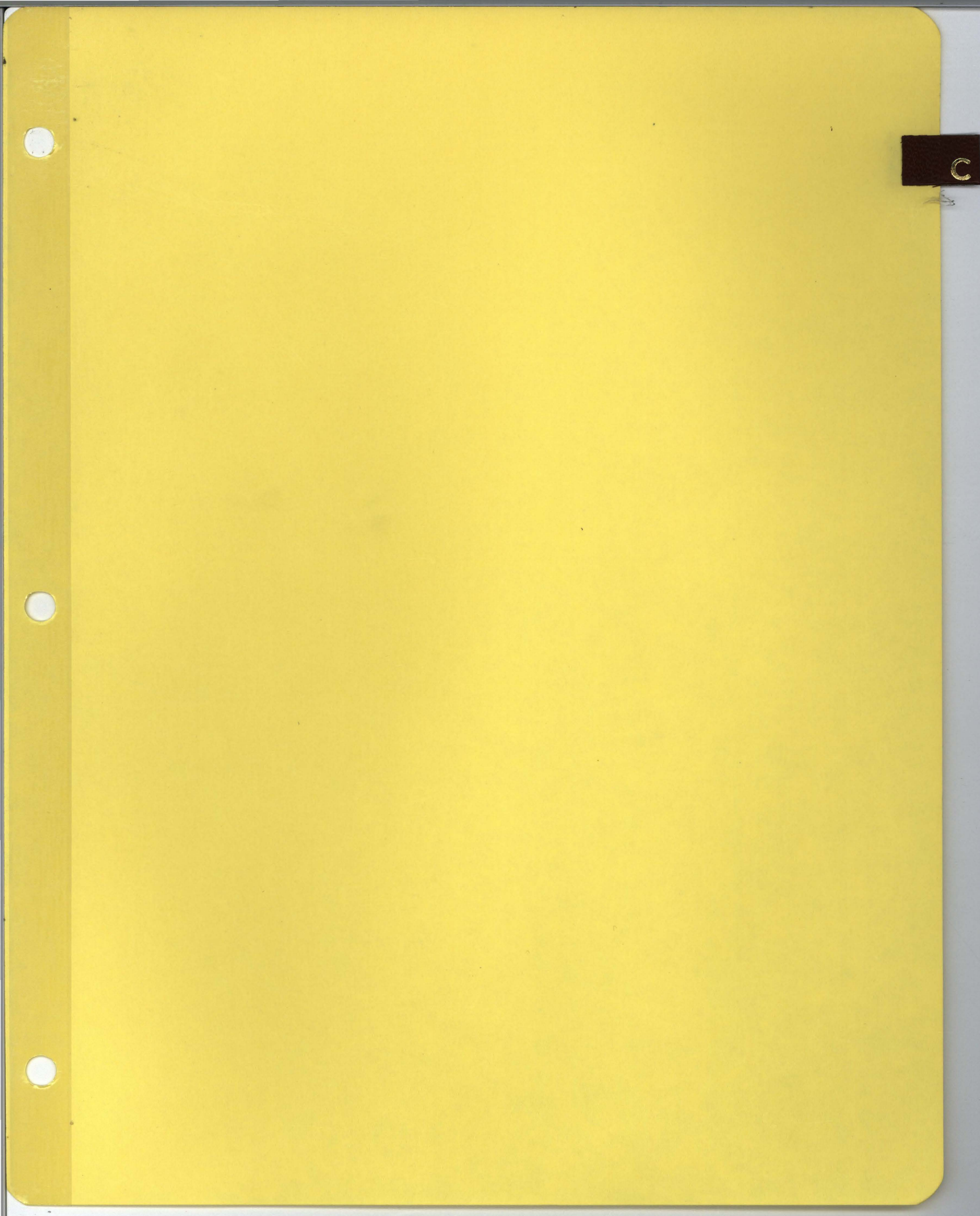
^{1/} Significant exceptions are India and Pakistan where the volume of Bank loans has declined and the volume of IDA credits has increased.

of the general debt renegotiation, the Bank did not agree to this request, but it offered to provide sufficient additional new project financing to offset the net repayments of principal made by Brazil on existing Bank loans in the period 1965-70. Consequently, in early 1965, the Bank approved two loans for power projects amounting to \$79.5 million, the disbursements on which were roughly equivalent to the amount of repayments of principal due to the Bank in the period 1965-70. In the Brazilian case, the additional resources were provided in the form of project loans. However, in those cases in which it is not possible to provide the required transfer of resources through project loans -- including increases in the local currency component of these loans -- either because of an inadequate "pipeline" of projects or because the time required to disburse such loans is excessively long for the circumstances of the case, it may be necessary to consider program lending.

11. There is another aspect of debt renegotiations which has an implication for the distribution of Bank Group resources. The debt servicing difficulties experienced by a country, in some cases, require that the terms on which resource flows are provided to the country in the future be different from those that existed in the past. For example, since the renegotiation of India's debt in 1968, Bank Group lending to that country has been on significantly softer terms, with most additional resources being provided in the form of IDA credits. The need to soften the terms of future resource flows to countries which have experienced debt servicing difficulties may increase the demand for the resources available to the Association.

III. Conclusion

12. Since the Bank is heavily dependent on international capital markets for its resources, its loans should not be included in debt renegotiations. However, the Bank Group should assist countries which experience debt servicing difficulties by providing all possible staff assistance to the parties concerned in the renegotiation itself, as well as continued support of the development efforts of the developing countries concerned.



COMMONWEALTH DEVELOPMENT CORPORATION

33 HILL STREET
LONDON, W.1

CHAIRMAN'S OFFICE

PERSONAL

9th April 1970

*3/16
Pay, please
return to me
before I go to
London at 11
had 2 copies
of the
Pence*

Dear Mr. MacNamara

When we met in Washington I told you that I was about to visit East Africa and I have now returned to Britain after a visit to all three countries. You suggested that I might write you a letter giving a description of how the Bank's work in East Africa appeared, looked at through outside eyes. So here is the result of discussion with a good many people, but notably several ministers in Uganda and Kenya.

There was complete agreement on three points. All of them made these points and made virtually no others.

The first was that the Bank has done a powerful and most useful job, a far better one than any UN agency (both Kenya and Uganda are very critical of FAO). All the people with whom I spoke were most anxious that this should be borne in mind when any criticisms were read.

Secondly, you have personally an excellent position. You have gone to see things - and notably agricultural things - in the field and on the spot, far more than your predecessors did. All to whom I spoke were most appreciative of this.

.../

Thirdly, they all made the same suggestion and made it with no hesitation and with emphasis. "The Bank" they said "does a good job - it would do a better one if it were less remote". The establishment of the Nairobi office was very popular. The suggestions are that local offices of the Bank might be given more to do, might initiate investigations into projects, might be given more powers of decision than they have at present, might appoint members of the Bank staff to sit on the Boards of organisations to which the Bank has lent money. For instance, both the Bank and the CDC have invested in Kenya smallholder tea. The CDC Regional Controller sits on the Kenya Tea Development Authority Board, but there is no representative of the Bank on it. Marty Rosen once said to me that it was more effective to send a mission from Washington (this was early and unsuccessful CDC practice) than it was to rely fairly heavily on representatives resident in the developing countries (this has been recent and far more successful CDC practice). All to whom I spoke strongly dissented from this view.

In short, all the African ministers and others, with whom I spoke, while expressing great appreciation of what the Bank had done, argued strongly for greater decentralisation. They felt that in Washington there was a number of senior Bank officials whom they seldom if ever saw. They suspect that these are rather academic economists who advise you on the basis of theory rather than on the basis of what can and cannot in practice be achieved in Africa. These two sentences are virtually word for word what was said to me by a Uganda minister, though all with whom I spoke expressed more or less the same view.

Incidentally, I was glad to find IBRD/CDC co-operation very good. On this I have only one tentative suggestion to make.
x Your people naturally want to get their money. We try both
to meet our rather onerous financial obligations to the UK
Treasury and to pioneer new crops (eg cocoa in Sabah and oil
palms in Sabah, Sarawak and now the Solomons) and to help

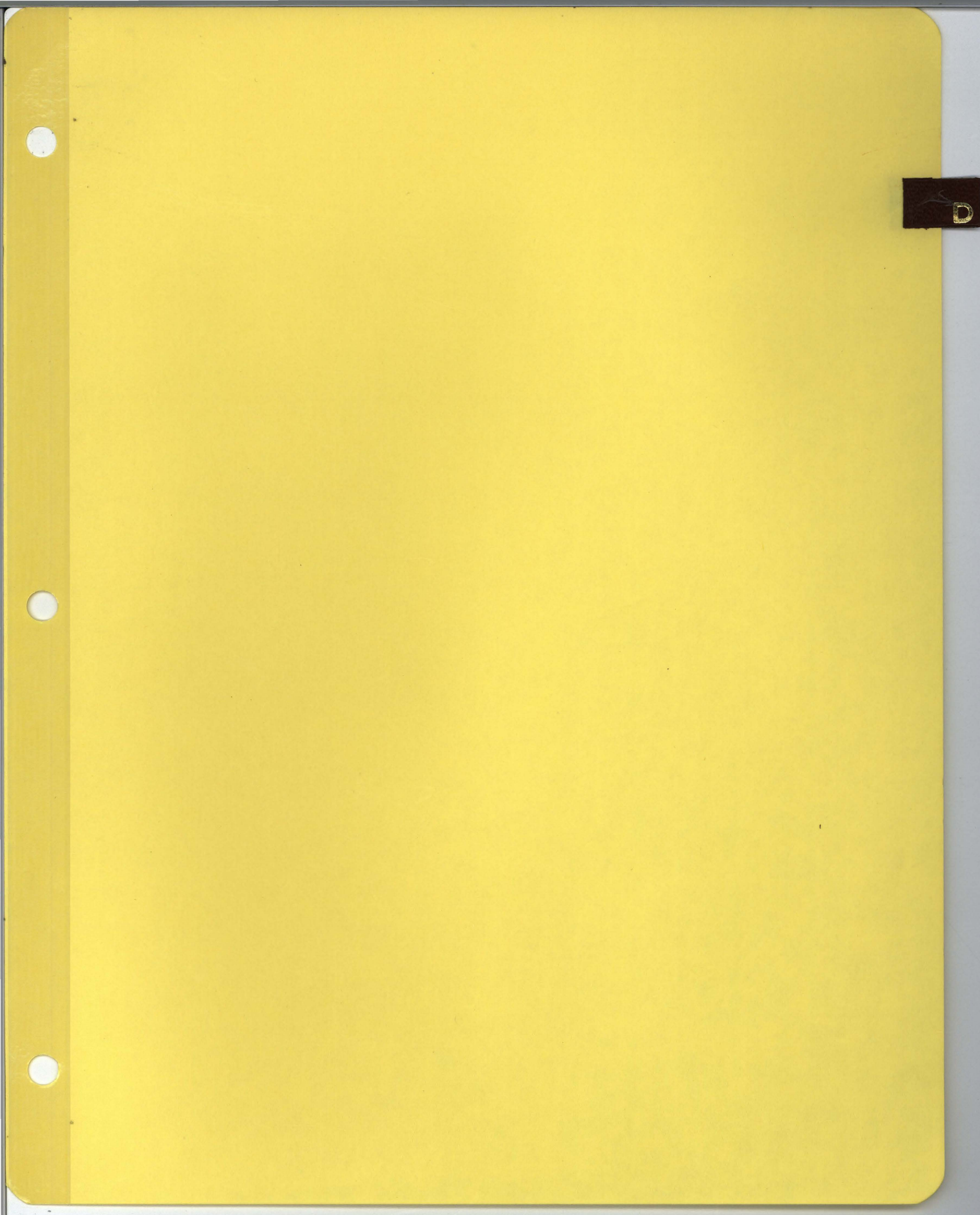
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small farmers. These agricultural investments are inevitably highly risky. In order to meet our financial obligations we have therefore to do some balancing. Thus, a steady interest income from housing and public utility loans is very useful to us. If some CDC finance can be dove-tailed into schemes receiving Bank loans we would be very grateful. Thus, at the present moment, it looks as if Bank money is going to replace CDC money for hydro-electricity in both Malawi and Kenya.

*With best wishes
yours sincerely
Howick*

HOWICK



April 19, 1971

INVESTMENT DISPUTES

The Bank has since its inception taken an interest in disputes between borrowing countries and nationals of other members over defaults on external debt, compensation to aliens for expropriated property and breach of government contract. The Bank's interest derives from a number of factors. First, the existence of a dispute suggests that the borrowing country may face economic and fiscal problems. Second, since borrowing countries must seek external resources from agencies and institutions other than the Bank, we are concerned that disputes be settled in order that access to these markets may not be denied. Third, if the Bank were to make new loans to countries failing to make reasonable efforts to resolve disputes, the Bank's market standing might suffer. Fourth, the willingness of Part I countries to contribute funds to IDA may be affected by the records of countries seeking credits from IDA in settling disputes.

Defaults on External Debt

The Bank's established policy is that it will not lend for projects in a country if it is dissatisfied with the position taken by that country with respect to external debt which is in default. Nor will it appraise projects in such a country unless it has good grounds for believing that the obstacles to lending will soon be removed. Grounds for dissatisfaction include, principally, a failure to make what the Bank deems reasonable efforts to settle a dispute.

Expropriation of Foreign Property

While disputes over compensation following expropriation are less clear-cut than those involving default, the Bank will not lend for projects in a country if it considers that the position taken by that country with respect to alien owners of expropriated property is substantially affecting its international credit standing. Nor will it appraise projects in such a country unless it has good grounds for believing that the obstacles to lending will soon be removed. As in the case of default our principal reason for not proceeding with lending operations is a failure to make what the Bank considers reasonable efforts to arrive at a settlement.

Bank Practice

The Bank endeavors to avoid making judgments on the merits of disputes and to limit its role to improving communications between the parties and impressing on them the desirability of reaching a settlement. Our attitude towards particular disputes is determined on a case-by-case basis; we take into account the position of both sides when it is necessary to determine a Bank position. The Bank's position may be affected by but is not determined by the position of the government of the claimant's country.

Country Situations

Algeria

The dispute between France and Algeria concerning compensation for French property expropriated since independence took a turn for the worse with the partial nationalization of French oil companies in February of this year. Since that time there have been many discussions between the French and Algerian officials, including a special mission to Algeria by the Secretary-General of the French Foreign Ministry. These consultations were intended to lay the foundation for a new economic relationship between the two countries and thus covered many issues that go beyond the Bank's concern with investment disputes. The French have insisted that arrangements be worked out for compensation of the oil companies before attention is turned to other issues. France has complained about the Algerians' unilateral actions in raising oil prices, and broke off the talks just a few days ago. The "privileged" relations between the two countries are now at an end. The hard French position in the dispute suggests that it will continue to oppose Bank Group operations in Algeria.

In September 1970 the French Government provided a memorandum to the Bank on its position concerning nationalization of French-owned property by Algeria. (The paper is, of course, now considerably out of date because of the partial nationalization of French oil assets.) While encouraging Bank intervention in the dispute, the French were unwilling to agree to transmittal of the memorandum to the Algerian authorities. The latter, in turn, insisted that the dispute should be handled either on a strictly bilateral basis (in which case the Bank should not be concerned at all with it) or trilaterally, (in which case the French memorandum must be transmitted to the Algerians). In an endeavor to promote a real exchange of views, the Bank has prepared an abbreviated version of the French memorandum for transmittal to the Algerian Government following French approval. An approach to the French Executive Director to this end has been delayed until the present situation is clarified.

At the 1970 Annual Meetings the Algerians agreed to provide data to the Bank on nationalized companies, and the Bank agreed to commence project identification and preparation. Some information has been received from the Algerian Government, but it is still not regarded as sufficient to provide a basis for a determination by the Bank that Algeria is making reasonable efforts to reach settlements. It should, however, be noted that the Government has entered into negotiations with a Dutch company and has settled the claims of a number of United States firms.

Chile

Despite the clamor about Allende's program in the American press, to the best of our knowledge there are at present no disputes concerning compensation following expropriation of American-owned assets. Legislation incorporating constitutional amendments providing for expropriation of copper companies is currently making its way through the Chilean Senate and Chamber

of Deputies. According to the text approved by the Senate, compensation will be based on book value, "excessive income" will be subtracted, and payment will take place over not more than thirty years with no less than 3% annual interest. For the present, in the absence of a dispute, the Bank is continuing normal operations. As regards Britain, the Financial Times has recently reported a speech by the Chilean Ambassador stating that special consideration would be given to foreign banks such as the Bank of London and South America. The Ambassador expected that there would be little change in Anglo-Chilean relations.

El Salvador

For a number of years there has been a dispute between the government of El Salvador and the sterling bond holders of the Salvadorian Railway Company. The British Government has not given unequivocal support to the claimants, but has occasionally raised the matter when a project in El Salvador was presented to the Bank's Executive Directors. At no point, however, has Britain opposed Bank operations in El Salvador. Arrangements are being made to issue new El Salvador Government bonds as part of a negotiated settlement; certain funds for this purpose are reported to be included in the 1971 budget.

Guyana

Prime Minister Burnham has made clear his determination to control Guyanese natural resources. In this connection the government has endeavored to negotiate an agreement under which it would acquire a majority interest in Demerara Bauxite Company, a subsidiary of Alcan Aluminum Limited. These negotiations have not been successful as yet and a bill has been passed by the Guyana parliament authorizing the Prime Minister to nationalize Demerara with "reasonable compensation." Implementing action has not yet been taken, and Alcan is still hoping for an agreement providing for government participation in lieu of outright nationalization.

Peru

Following the country program review of Peru in early 1971, Mr. Knapp told the Minister of Finance in Lima that it would be difficult for the Bank to lend to Peru without further progress toward the effective development of Peru's mineral resources and settlement of the IPC compensation problem. He emphasized that we did not necessarily expect that the matter would be fully settled soon, but that Peru ought to take some positive steps towards this end. Specific steps might be for Peru to remove the stigma on IPC brought about by the government's criminal charges against some of the company's executives and by its allegation of illegal gains leading to a claim of \$690.5 million. Since his return, Mr. Knapp has discussed the Bank's position with the US Assistant Secretary of State for Latin America and other US officials, indicating that the Bank's position was still under review. In response to questions, State Department officials confirmed but played down reports about a possible resolution involving the Southern Peru Copper Company (which is seeking large amounts of capital for

the \$350-400 million Cuajone project), Standard Oil of New Jersey, the Peruvian Government, the US Government and possibly other parties. Because of recent improvements in the situation, it was felt that there was a 30% chance that such an arrangement could be worked out successfully. There were differences of opinion among the State Department officials as to whether the Bank should act as a catalyst. The meeting provided no guidance for Bank action; further discussions may be held with other officials.

Southern Yemen

At the end of 1969 most of the foreign companies operating in Southern Yemen were nationalized. Some of the claimants have expressed dissatisfaction with the compensation provided for, and the Bank's economic mission in early 1970 was told that some disputes are arising involving, among other countries, the UK. The nationalization law provided for compensation of the former owners with 20 year 2% bonds, and a firm of independent auditors has been engaged by the government to assess the value of the nationalized property. The government has indicated a willingness to negotiate claims with the former owners. Before the recent presentation of the IDA credit for a highway project, our first operation in Southern Yemen, Mr. Benjenk raised the compensation problem with the Executive Directors of the countries concerned, who indicated they would not raise the matter in the Board. As necessary, Bank staff will continue to pursue the matter with the Southern Yemen authorities.

Sudan

In May 1969, following a military coup, the government expropriated a large number of foreign firms. A further series of nationalizations took place in 1970. A number of British firms were affected by the expropriation measures. We do not know the details of any disputes over compensation. In recent months there have been some indications that the government is relaxing its stance and is preparing to try to attract foreign investment. At the present time we are not undertaking new operations in the Sudan, though Mr. El-Emary is about to visit the Sudan for discussions on a number of subjects, including the possibility of new loans or credits.

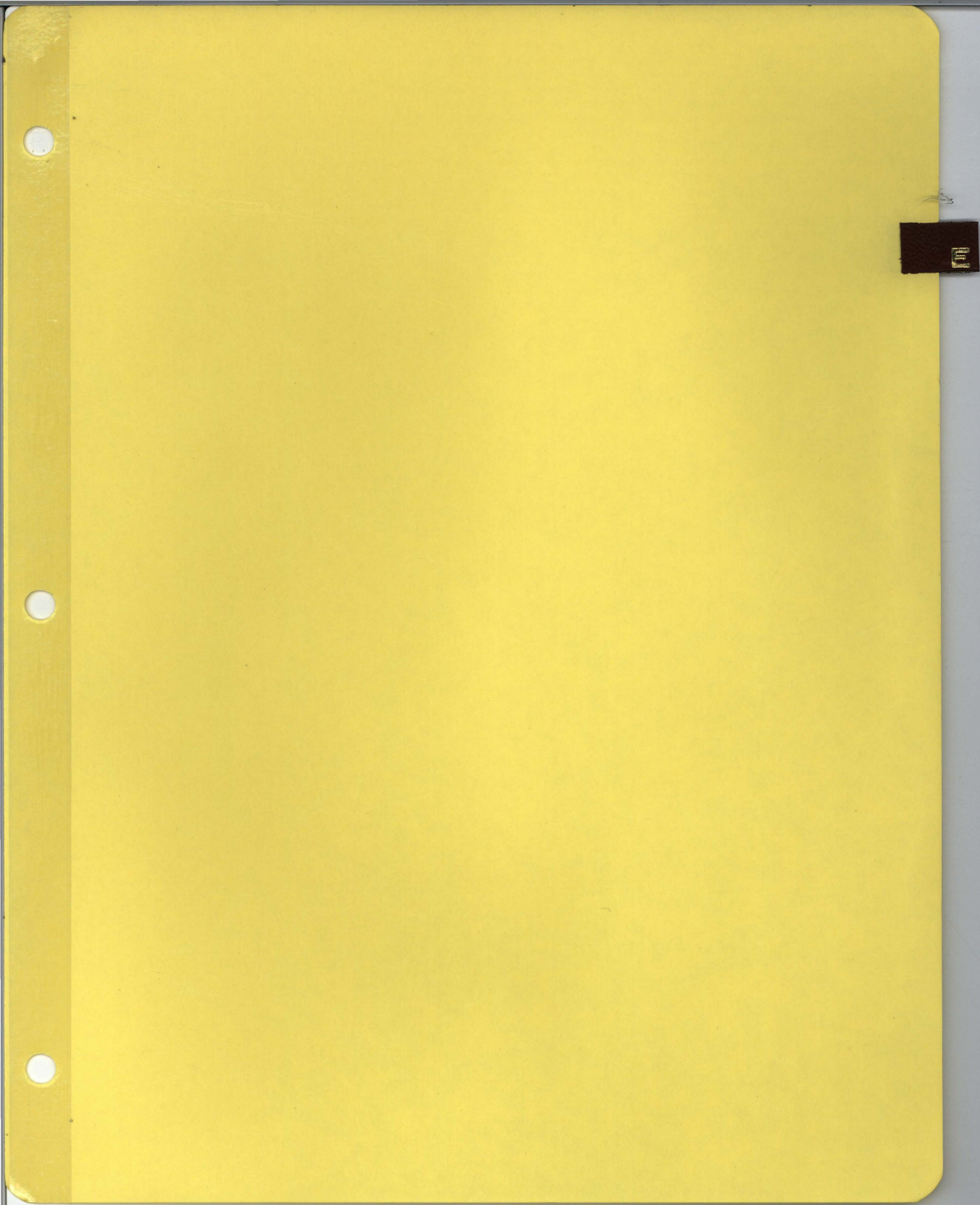
Uganda

Under the Obote government Uganda announced in 1970 that it was taking a controlling interest in most foreign-owned enterprises. About 80 companies were affected. Several settlements, involving oil companies and banks, were reached but many were still outstanding at the time of the recent coup. However, no disputes had been brought to the attention of the Bank. The new government has indicated that the settlements reached before the coup will stand. It has also evinced a more moderate attitude towards foreign private investment, which it desires to attract.

Zambia

In October 1970 the Zambian Government announced that it would take majority participation in the foreign-owned (principally British) banks, insurance companies and building societies, following a pattern established previously in respect of mining and industrial enterprises. Agreements involving the transfer of control of mining and industrial interests were announced in August 1970; settlements with the insurance companies and building societies appear to have been reached. As of the most recent visit of a Bank economist, at the end of February 1971, no agreement had been reached with the banks. However, negotiations were continuing. One of the principal issues was whether and, if so, on what terms the foreign banks should be engaged to manage the new Zambian-owned banks.

AEE:lp



April 19, 1971

BRIEFING FOR MR. McNAMARA ON SUPPLEMENTARY FINANCING

In August 1970 you wrote to the Secretary General of UNCTAD, Mr. Perez-Guerrero, that, since additionality had always been an integral element of the supplementary financing concept and because no additional resources for supplementary financing purposes were in sight, the Bank had concluded that, for the time being, it should put aside further work on a supplementary financing scheme.

Thereafter, the Trade and Development Board adopted a "Declaration" asking the Bank to pursue its efforts to work out a discretionary scheme, and stating that it was necessary for an effort to be made to work out those details and to assess the probable cost of such a scheme, so that governments would then be in a position to judge whether the required additional resources might be made available. The strategy for the Second Development Decade, adopted by the General Assembly last October, also invites the Bank to give further consideration to adopting supplementary financial measures.

You recently submitted to the Executive Directors a proposed reply to the Trade and Development Board request, which reiterates the conclusion of your earlier letter, but adds that, even in the absence of a formal scheme and without any change in Bank policy, the Bank is prepared to examine on its merits the case of a developing country faced with an unexpected shortfall in its export earnings for reasons beyond its control, and to consider how the Bank might shape or modify its lending and other operations for that country in such a way as to help it overcome the difficulties.

During the discussion of the draft letter, most of the speakers, including a number representing developing countries, expressed strong support for the position taken, although some thought that the letter should be somewhat more forthcoming in tone. Messrs. Lynch and Karlsson were among the minority who thought that the Bank should respond affirmatively to the TDB request, which was not surprising, since the original proposal at UNCTAD I that the Bank consider a scheme of supplementary financial measures was introduced by the British and Swedish delegations (and Mr. Heath was the leader of the British delegation). No Executive Director, however, felt that there was any prospect that new funds would be provided for supplementary finance or that a scheme would come into being. There was general agreement with the view, which you expressed orally, that a supplementary finance scheme would in any case not tackle the basic commodity problem.

You undertook to redraft the letter in the light of the comments made and to circulate it for approval on a "no objection" basis. Attached for reference is the revised draft which you have cleared and which will be going to the Board in the next day or so.

Attachment

DRAFT

Mr. Manuel Perez-Guerrero
Secretary-General
United Nations Conference on
Trade and Development
Palais des Nations
CH - 1211 Geneva 10
Switzerland

Dear Mr. Perez-Guerrero:

I am replying to your letter of September 29, 1970, concerning the discussions on supplementary financing by the Trade and Development Board at its Tenth Session, when my report on that subject was considered. I have delayed responding until I could review with the Executive Directors of the World Bank the action taken by the Trade and Development Board, and could consult with them in the light of the discussions which you and I have had and of your subsequent meeting with other Bank officers.

Let me say first that the Bank fully appreciates the critical importance, for the successful implementation of a country's development program, of an assured and steady increase in foreign exchange earnings. The situation of those members of the Bank whose export earnings depend heavily on a narrow range of primary products has been a matter of great concern.

The Bank Group is greatly intensifying its financial and its technical assistance designed to help developing member countries to diversify and strengthen their economies. In addition, we are carrying out, on an experimental basis, in-depth studies of certain commodities of major importance to our developing member countries. We have expanded our cooperative arrangements with international commodity organizations and, in particular, have assisted the International Coffee Organization in establishing and planning the program for the Coffee Diversification Fund. We have also been

working with the UNDP in connection with the financing of agricultural research at the national level and, in cooperation with FAO and the UNDP, have taken the initiative to organize a Consultative Group for support of international agricultural research. On the basis of these developments, I felt justified in recently reporting to the Bank's Executive Directors that we have been able to provide a real measure of help to developing country members in dealing with the special problems that arise because of the negative long-term price trends in some commodities of which they are major producers and the tendency of the prices of certain commodities to fluctuate widely. We shall continue to keep the Bank's role under review, and I have informed the Executive Directors that I propose to submit to them, before negotiations for the Fourth Replenishment of IDA begins, a report on what further role the Bank Group might play in this field.

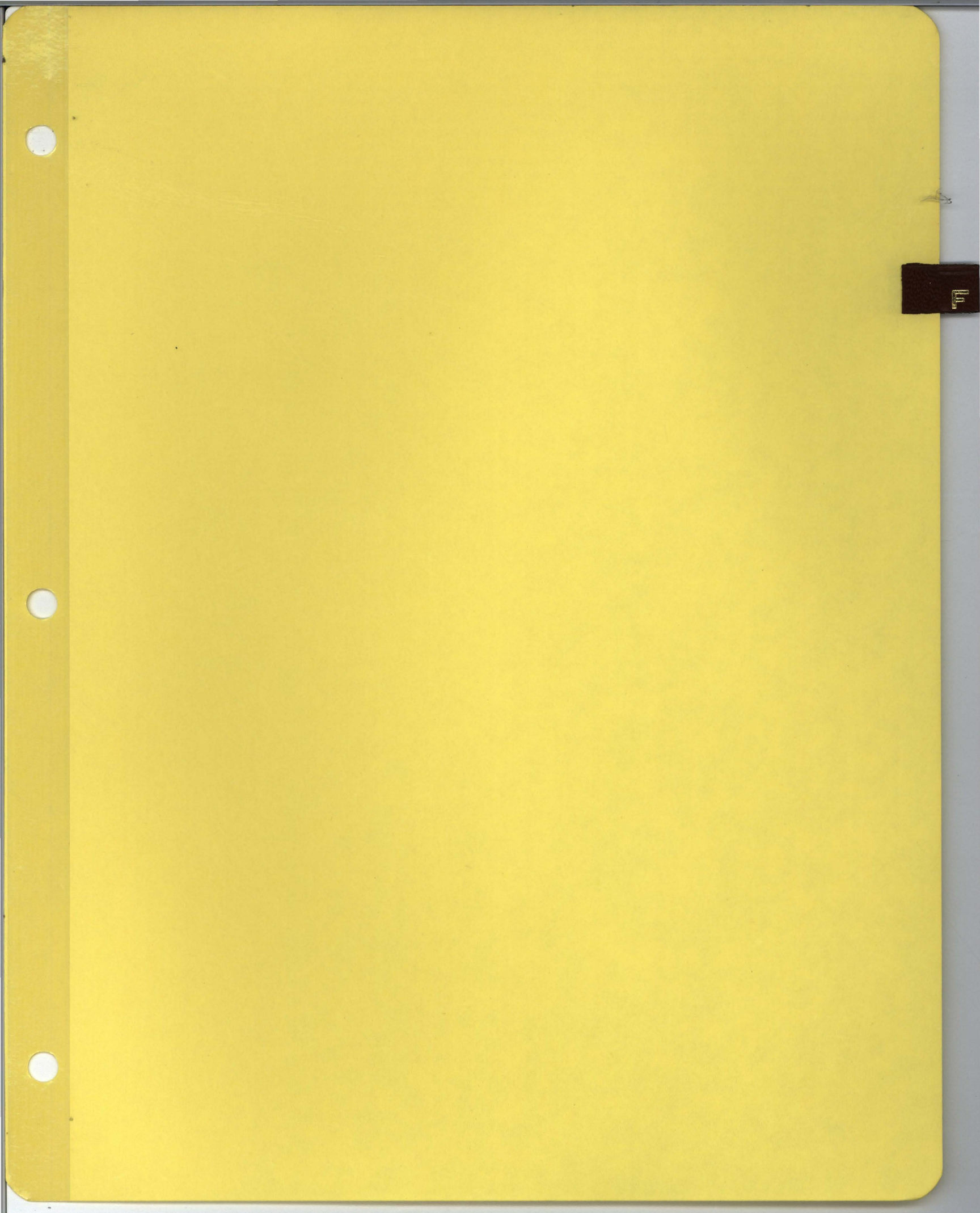
It is against this background that we have considered the request of the Trade and Development Board that the Bank pursue its efforts to work out the details of a scheme of supplementary financing and to assess the probable cost. Any such scheme, automatic or discretionary, would address only one aspect of the broad problem, i.e., unexpected and adverse fluctuations around the long-term trend of commodity prices. While it could mitigate the effects of such fluctuations, it would not confront the commodity problem as such. We in the Bank have therefore shared the view expressed in UNCTAD since the proposal for a scheme of supplementary financial measures was first put forward at UNCTAD I, that it would be desirable to deal separately with this single aspect of the commodity problem only if additional funds were provided for the purpose without diverting resources from basic development finance. Since there is now no

reasonable prospect of additional funds, it is the consensus of the Executive Directors, in which I concur, that for the time being we should defer further detailed consideration within the Bank of such a scheme. If at any time the situation should change, we should be glad to consider the question again. With that possibility in mind, we shall continue to keep the matter under review.

It should be noted that, even in the absence of a formal scheme of supplementary financial measures, some assistance is at present available to countries suffering an unexpected shortfall in their export earnings. For one thing, members can offset the impact on their reserves of a temporary shortfall through drawings on the compensatory financing facility of the International Monetary Fund. For another, the flow of development finance can be modified from time to time to offset or cushion some of the effects of an unexpected shortfall. As far as funds channelled through the Bank Group are concerned, this could be done without any change in existing Bank policies. The Executive Directors have therefore authorized me to assure you that, should a developing country member of the Bank, for reasons outside its control, experience an unexpected shortfall in its export earnings which threatens to disrupt the implementation of its development program, the Bank Group would examine the case on its merits with a view to determining whether and how it could shape or modify its lending and other operations for that country in such a way as to help the country to overcome the difficulties.

Sincerely,

Robert S. McNamara



PRESENT STATUS OF ILLA DISCUSSIONS

1. In March 1970, the Committee of the Whole of the Executive Directors met to consider whether there was sufficient support in principle for the proposal for an international investment insurance scheme to warrant resuming its discussions, suspended since the summer of 1968, and considering in detail the provisions of the draft Articles of Agreement which had been sent to governments in August 1968. At that meeting, several Directors representing developed countries, in particular the United States, said that their governments considered it important that developing countries should help to meet the financial requirements of the scheme arising both out of administrative expenses and payments to investors who had suffered losses. The proposal which the Bank inherited from the OECD in 1965, and the draft charters for an investment insurance agency which the Bank staff prepared in 1966 and 1968, contemplated that risks insured by the Agency would be shared exclusively by capital-exporting countries, and some Directors representing developing countries had, during discussions in earlier years, expressed opposition to any financial participation by developing countries. The Committee decided that it should take up the basic issue posed by these two positions, on the ground that it would be easier to deal with other fundamental issues if accommodation could be reached on the financial participation question and that, if no consensus on that issue could be reached, there would be little point in proceeding further.

The United States expressed strong interest in having the scheme moved forward, and the United Kingdom and Japan, which had previously said that they were not prepared to take part in the scheme, changed their attitude. However, the United Kingdom expressly made its interest contingent upon a modest degree of financial participation by the developing countries. The United States has not gone that far, but some risk-sharing by the developing countries is clearly a matter of importance for it. A number of other developed countries have also supported the proposal for developing country financial participation.

This issue has not yet been resolved. Most of the developing countries which have expressed any view at all have said that they would prefer no risk-sharing. However, some have said that they would agree to risk-sharing if that proved essential to launch a scheme. Several developing countries, including some of the larger ones, have said that while they are opposed to risk-sharing, they would be willing to contribute to working capital and/or administrative expenses. In order not to lose such momentum as was achieved by the resumption of discussions in 1970, the Committee decided, after all, to discuss provisions of the scheme other than those dealing with the financial aspects, but at the end of January 1971 discussion was again suspended until some conclusion could be reached on the financial participation question. Negotiations have been taking place, outside the Board room and at the initiative of Mr. Wiczorowski, in an attempt to develop a formula on financial participation acceptable to the largest possible number of developed and developing countries. The staff position has been that this is a matter for governments.

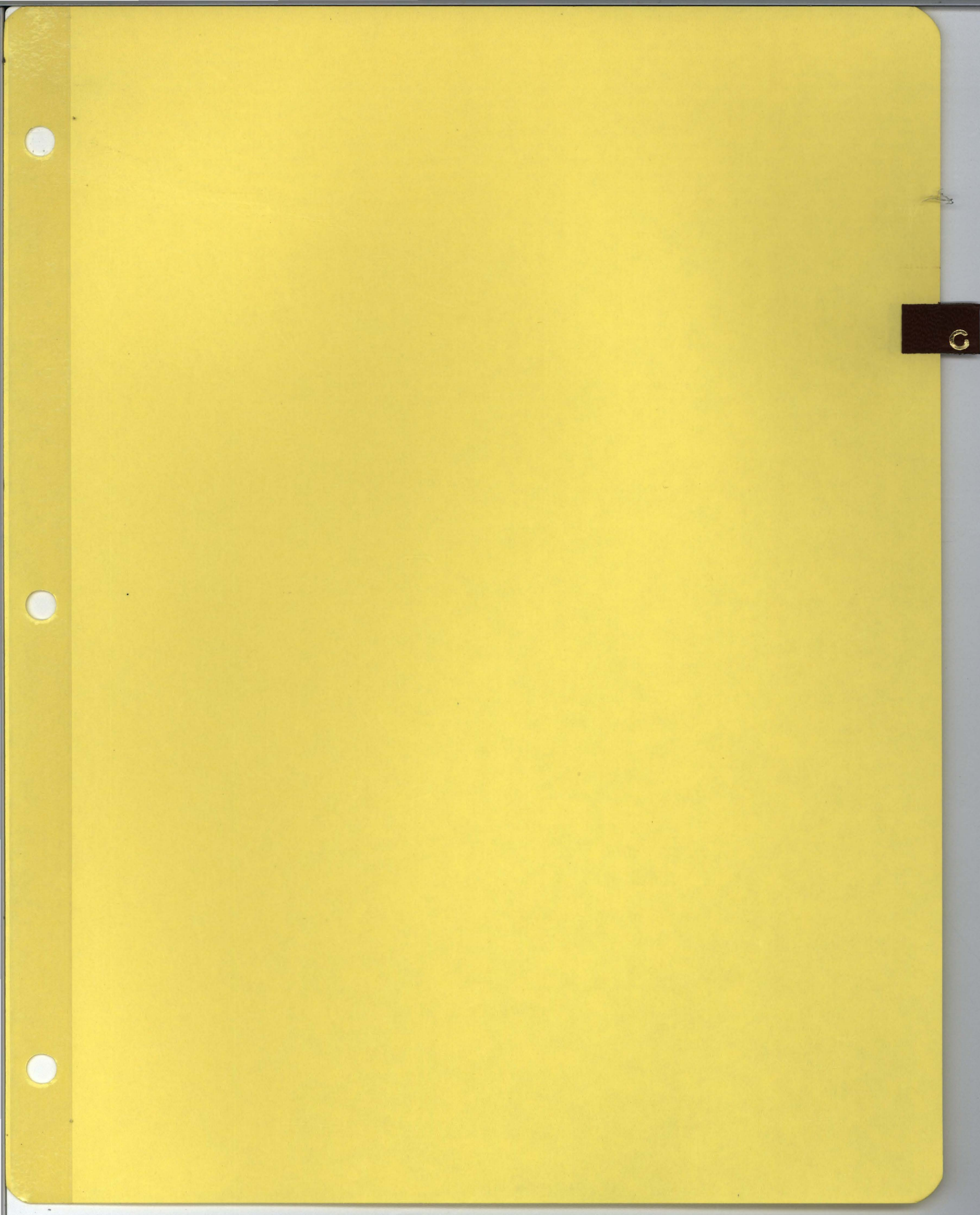
The Committee of the Whole will be meeting on April 29, but only for the purpose of being briefed on experience under the US, German and Dutch national investment insurance schemes. We expect that this meeting will be followed within a short time by one on the question of financial participation.

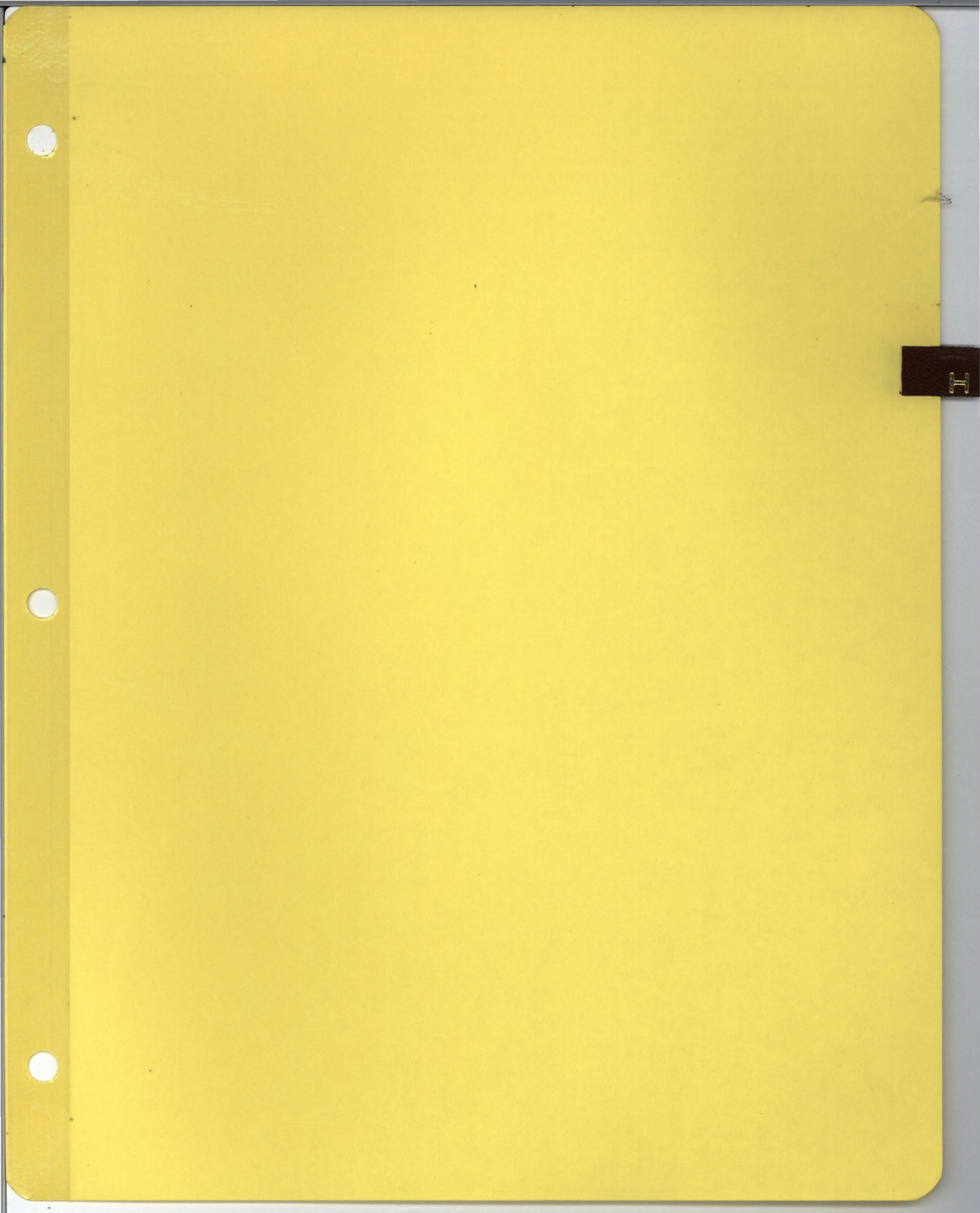
2. The Special Commission for Latin American Coordination (CECLA), at its meeting in Brasilia in February, unanimously approved a resolution expressing opposition to the IIIA proposal on the stated ground that (a) the draft Articles, in providing for subrogation of the Agency to the rights of insured private foreign investors and in requiring compulsory arbitration of disputes, would remove from the forum of the host country disputes between that country and an insured foreign investor; (b) insured foreign investors would receive more favorable treatment than nationals of the host country; and (c) the Agency would be directed and administered by capital-exporting countries.

3. We understand that the UK has been giving consideration to establishing an investment insurance scheme of its own, as a means of encouraging private investment. The scheme is presently being considered by Ministers.

April 19, 1971

CONFERENCE BOND





Role of the Bank in Implementation of a DAC
Agreement to Untie Aid

The attached memorandum contains background on the Bank's position on two proposals made in the DAC discussions aimed at reaching agreement on reciprocal untying of bilateral development loans and multilateral contributions. Under one proposal, strongly promoted by the U.K., the Bank would establish panels to review complaints concerning awards, and under the other the Bank's aid coordination groups would review the performance of developing countries in carrying out new responsibilities that would be assigned to them as a result of the agreement.

At the meeting of the DAC Working Party on Financial Aspects of Development Assistance on April 4-5 a statement based on the Bank's position on the complaint procedure was well received. Nevertheless, while we think review of complaints before awards is impractical, the U.K. expressed a desire to maintain this concept. A Bank paper on the role of aid coordination groups on reviewing developing country performance in untied procurement was also circulated, but there was no discussion on it.

Our reports on the recent DAC discussions of aid untying indicate that the chances of reaching a basic agreement are diminishing and, therefore, any question of a Bank role in implementation may become meaningless.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara through Mr. Knapp *RBK* DATE: March 29, 1971
FROM: Michael L. Hoffman *MLO*
SUBJECT: Aid Untying: Proposals for Bank Participation in the
Implementation of the DAC Agreement

As you know, the Bank has provided experts for DAC discussions aimed at concluding an agreement on reciprocal untying of bilateral development loans. The discussions have not yet reached the point where we can be sure that they will succeed, but two proposals have recently been made which would involve a continuing role for the Bank in the implementation of any agreement. These proposals appear to have the support of a large majority of our major stockholders (except France, which took no part in the discussion on the grounds that it was premature).

Briefly, the proposals are:

1. The Bank should assume responsibility for establishing three-member panels of experts on procurement procedures, either from its own staff or by hiring consultants, to review complaints arising under the agreement, concerning the fairness and suitability of specifications or the propriety of awards. The basis for the panels' opinions would be the procurement guidelines to be appended to the untying agreement. While the opinions would be prepared by panels, the DAC countries appear to want the weight of the Bank as an institution behind the substantive judgments in some fashion that is not altogether clear to us. This proposal was put forward by the UK, but it is a modification of a US suggestion previously discussed in the DAC.

2. The Bank should arrange for its aid coordination groups to review the policies and practices of individual developing countries in inviting bids and awarding contracts to be financed by untied loans covered by the DAC agreement. This would provide an opportunity for donor governments to question the consistency of such policies and practices with the procurement guidelines. This proposal was put forward by the governments of Canada and the US.

Neither of these proposals as presented in the DAC working party was formulated precisely enough to enable us to give a firm response. However, it is now clear that nearly all of our major stockholders want the Bank as an institution to be visibly involved in the implementation of an untying agreement. And we believe, partly on the basis of informal conversations with US officials who have been involved in the DAC discussions, that we can formulate both proposals in a manner that will be acceptable to the DAC governments and should be acceptable to us.

A short digression is necessary at this point. In the early DAC discussions of the matter (which are being conducted by officials not well versed in the practical aspects of procurement) the US Government had in mind a procedure whereby the panels could be appealed to before contracts were awarded, by a party (this would have to be a government that had accepted the agreement) alleging that the code had been breached and seeking redress. There was a notion that the panels could somehow intervene in the procurement process on individual projects to prevent practices contrary to the guidelines either in respect of the specifications or the propriety of a proposed award. It seems to us, however, that it is simply not realistic to expect borrowers to suspend the negotiation and award of contracts, go through new bidding procedures or otherwise disrupt their timetables, every time a complaint of nonconformity with the guidelines is lodged. We therefore advised the US that in our opinion any review by the sort of panel DAC has in mind has, for practical purposes, to be an ex post review and this conclusion seems to have been accepted.

We have now been asked to state at a DAC meeting on April 5 how far the Bank is prepared to go in becoming involved in the implementation of an untying agreement under the first proposal outlined above. This question has been discussed with Messrs. Demuth, Broches and Baum. We think that the Bank should assist in establishing the panels of experts on procurement procedures which could hear complaints and deliver opinions after the award of contracts as to whether, in particular cases, the guidelines for procurement appended to the untying agreement had been observed in the process of awarding contracts covered by the agreement. In so far as the parties to a complaint could not agree on choice of the members of the panel from a list of consultants maintained by the Bank, the Bank would select the members of these panels, and it would have to be agreed that its selection was final. Complaints could only be referred to a panel by the states participating in the DAC untying agreement, i.e., not by aid recipient governments and not by individual suppliers. The opinions of the panels would be transmitted to the participating countries concerned and the DAC Working Party on Financial Aspects.

This would leave open several questions. The first is whether the panels should be independent of the Bank or whether the Bank should take responsibility for their decisions. A subsidiary question is who should bear the cost of the panels.

It would be acceptable to all of us if the panels were independent of the Bank. This would keep the Bank from being involved in the making of sensitive decisions which are difficult enough to make under our own projects where we are familiar with the facts but which would be even more difficult in the DAC cases where we are not. We also all believe that the Bank should be prepared to answer questions of fact put to it by the panels which do not put the Bank in the position of deciding the dispute. And, finally we have said that we would help the DAC in its general reviews of the implementation of the untying agreement. This would necessarily mean that the Bank would examine, at least generally, the broad issues arising in the implementation of the agreement.

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I recommend that the above position be conveyed to DAC on April 5.

OK
Lew

If this position should not be generally acceptable to the DAC governments, some of which have indicated that they want the Bank involved "as an institution" in the handling of specific complaints, we would then have to consider whether we should go further.

As far as the cost of the panels is concerned, it seems to us that the Bank should agree to pay from its own budget the cost of its support for the system. However, we think that DAC governments (presumably the complaining government) should pay for the costs of the consultants who form the actual panels. Thus, we consider that the untying agreement should contain a formula which will make possible reimbursement to the Bank of the consultants' expenses. Consultants of the kind required for the panels are quite expensive, and if there are many complaints the cost of the procedure to DAC governments could quickly mount. We cannot estimate at this stage how many complaints will be submitted, but guess that the Bank's support of the procedure along the lines we envisage might require the time of about one man in the Office of the Director of Projects.

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We have not yet been asked formally to respond to the Canadian-US proposal concerning the use of aid coordination groups to review procurement procedures of particular developing countries. However, Mr. Demuth is seeing Ambassador Martin on April 2 and has asked if possible to know your position on this proposal before that meeting. It seems clear to me that this is a proposal to which, properly interpreted, we ought to agree if asked. In fact, we are already committed to use our aid coordination machinery to help "mitigate the effects of aid tying" and this would be a logical adjustment of this function to the new situation. More precisely, we would agree to the following:

If an untying agreement is reached, the Bank would regard a continuing review of the general working of the agreement with respect to particular developing countries as an appropriate subject for consideration by aid coordination groups chaired by the Bank. The procurement policies and procedures of the country in question would be regarded as a significant element of country performance to be reviewed by the groups just like any other element of economic performance. The recipient government would be asked to include in its presentation at appropriate aid coordination group meetings statements with respect to policies followed, difficulties encountered, or technical assistance needed in carrying out procurement under international bidding procedures. The donor governments could use the meetings as a forum for citing difficulties or airing complaints about the country's policies and practices or about the implementation of the untying agreement with respect to that country by other donor members of the group. We do not think it would be necessary or desirable for the Bank staff to make special studies of the operation of the untying agreement with respect to particular countries and this should be made clear to DAC. However, in some cases the Bank would be familiar with the country's procurement policies and problems and might be able to assist in ironing out any difficulties that arise.

OK
Lew

I would appreciate having your reactions to the recommended Bank position on the first proposal and to our formulation of a response to the second proposal as a basis for Mr. Demuth's talk with Ed Martin.



C E Y L O N

1. At the review meeting of the Country Program Paper less than a month ago (March 24) the general impression was that a serious crisis was bound to happen in Ceylon within the next few months and that such a crisis, with consequential changes in political alignments, might well have to precede the preparation of a meaningful program of action by the Government to get the country out of its economic and financial difficulties. In fact, Ceylon had by then been under a state of emergency for several days (since March 16) and sporadic acts of violence had already been committed, reportedly by a combination of radical youth groups called The Ceylon Liberation Front, or more popularly known in Ceylon as the Che Guevarists - led by a former student at Lumumba University who ran into trouble while in Moscow for advocating views considered too radical. What was not expected, however, was that within a few days Ceylon would be plunged into civil war in which by mid-April up to 6000 people are reported to have lost their lives.
2. Beginning April 5, the insurgent movement struck in force and in a somewhat coordinated way at Government installations, particularly police stations, as well as at communication and transportation links. In the initial days the Government reaction to these attacks was slow and unorganized, revealing that the Government was taken by surprise and had hardly any contingency preparation. Estimates of the insurgent force have ranged from 20,000 to over 80,000 (although the hard core is not believed to be more than 3,000 to 5,000) and the small Ceylonese army (about 12,000) and police force were hard pressed. In some areas, particularly in the north central and southwestern provinces, Government authority was apparently reduced to a few scattered strongholds. The Government requested external assistance, and the U.K., U.S., India and Pakistan have responded by providing small arms, spare parts and helicopters.
3. According to recent reports, the fighting now seems to have subsided and the Government claims that the situation is getting under control. Curfew regulations have been somewhat relaxed. Colombo is said to have regained a semblance of normality with offices, banks and some stores being re-opened although for short periods. More than 500 people are reported to have been arrested, including the leaders of the Che Guevarist movement (actually before the outbreak of fighting) and of the Communist (Peking Wing) Party. Among the latter is a nephew of the former Prime Minister S.W.R.D. Bandaranaike, who was originally a member of the S.L.F.P. and subsequently joined the Peking Communist Party. Nonetheless, some reports are still coming through that insurgent attacks are continuing and heavy censorship by Government makes it difficult to know the true facts.
4. It will probably still be some time before the exact causes of the insurgency can be ascertained. Indeed, these may never be known. In an article dated April 15 from Hong Kong, the New York Times offered what is probably the closest - however vague - explanation "..... a strange mixture of generation gap, ideologies run wild, massive popular discontent, foreign

intrigue, and incredible political muddle and naivete on the part of the Government". On the international front, the Government seems to believe that the insurgent movement was aided by North Korea - which it had recognized last June after the election victory - and the Embassy has reportedly been asked to close down. Mainland China and missions of other communist powers are also under suspicion. It is evident that during the election campaign last spring forces were unleashed which the Government found more and more difficult to control. Youthful discontent, fueled by Government's slow progress in fulfilling campaign promises, was aggravated by increasing unemployment, particularly of university graduates who are estimated to number 10,000 to 15,000.

5. Ceylon's economic difficulties have been described in the Program Paper dated March 19, 1971 (copy attached), particularly in paragraphs 15 through 29. The recent events have undoubtedly aggravated those difficulties although it is obviously too early to ascertain accurately the economic consequences of the crisis. It must be recognized that the Government inherited an extraordinarily difficult situation - for which the previous administration was partly responsible. Nonetheless, it also has to be recognized that this Government has done little, if anything, to alleviate the same difficulties.

6. The recent events will make it more difficult for Ceylon to meet the maturities on its debt falling due in the next few months. These include substantial payments on short-term foreign bank credits and about \$2.5 million to the Bank before December 31, 1971. We have been advised that the amount due to Germany on account of a short-term bank loan on which Ceylon had defaulted last December and which had to be re-scheduled, has now been paid as agreed at the end of March, but we have no further information on the status of Ceylon's other debts.

7. In addition, the rebellion will probably make the Government even more reluctant than before to do the things required to ease the current economic crisis. Moreover, in the wake of the rebellion further distortion of resource allocation is likely as are efforts to implement some of the more socialist campaign promises such as nationalisation of the foreign-owned banks and tea estates, government takeover of much more of the private industrial sector and trade, and increased financial burdens and controls on the private Ceylonese business community. Finally, the rebellion may bring about a substantial increase in expenditures for security forces, which are now small.

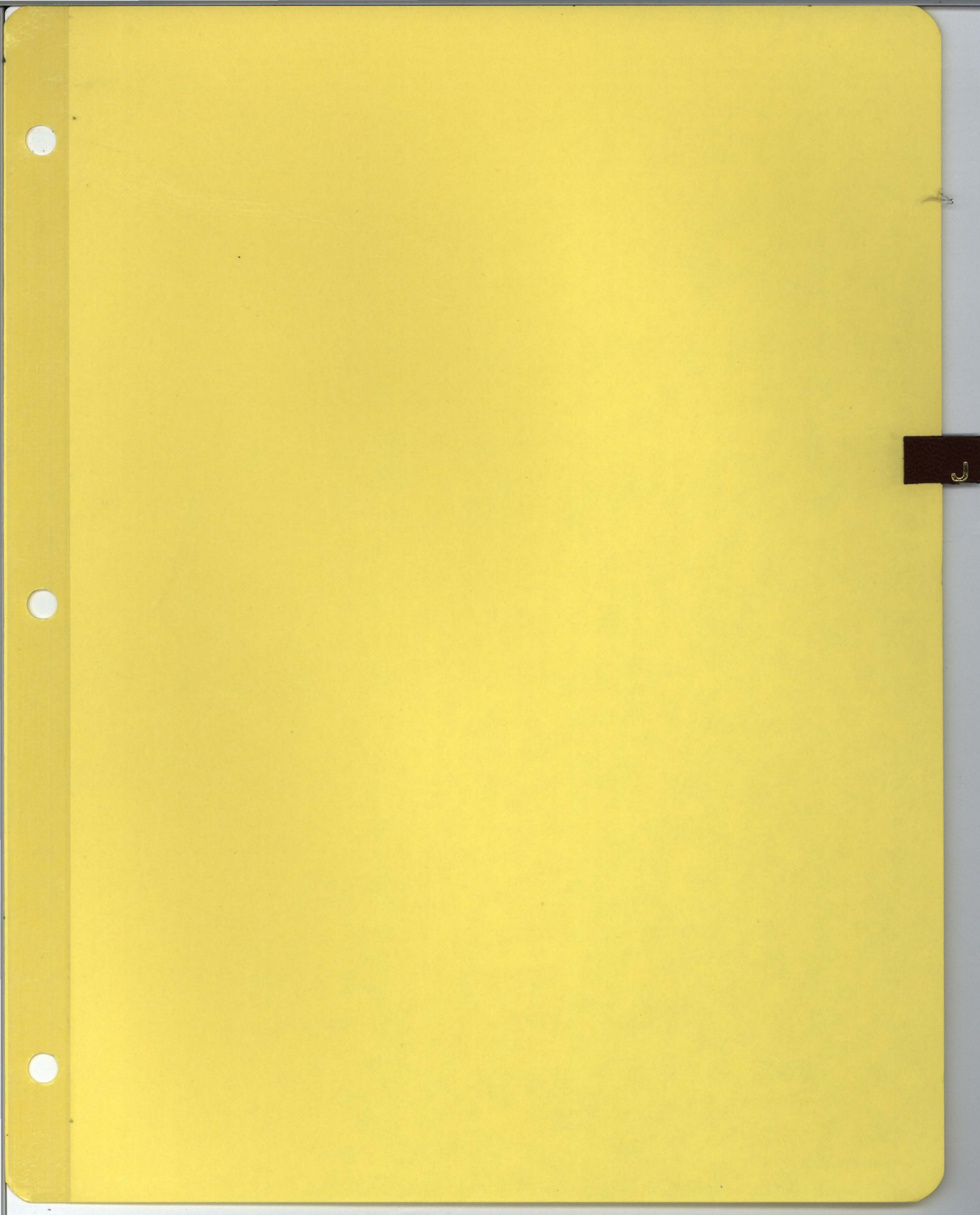
8. As indicated in paragraph 29 of the CPP, we have stressed to the Government the need for a plan of action to tackle the current economic difficulties. At the end of February, however, there was no semblance of such a plan either with respect to this year's import program or the Government budget, let alone a broad strategy for development. We impressed upon the Government the need to outline to the forthcoming Aid Group meeting what they propose to do and to present some evidence of concrete action. To date we have

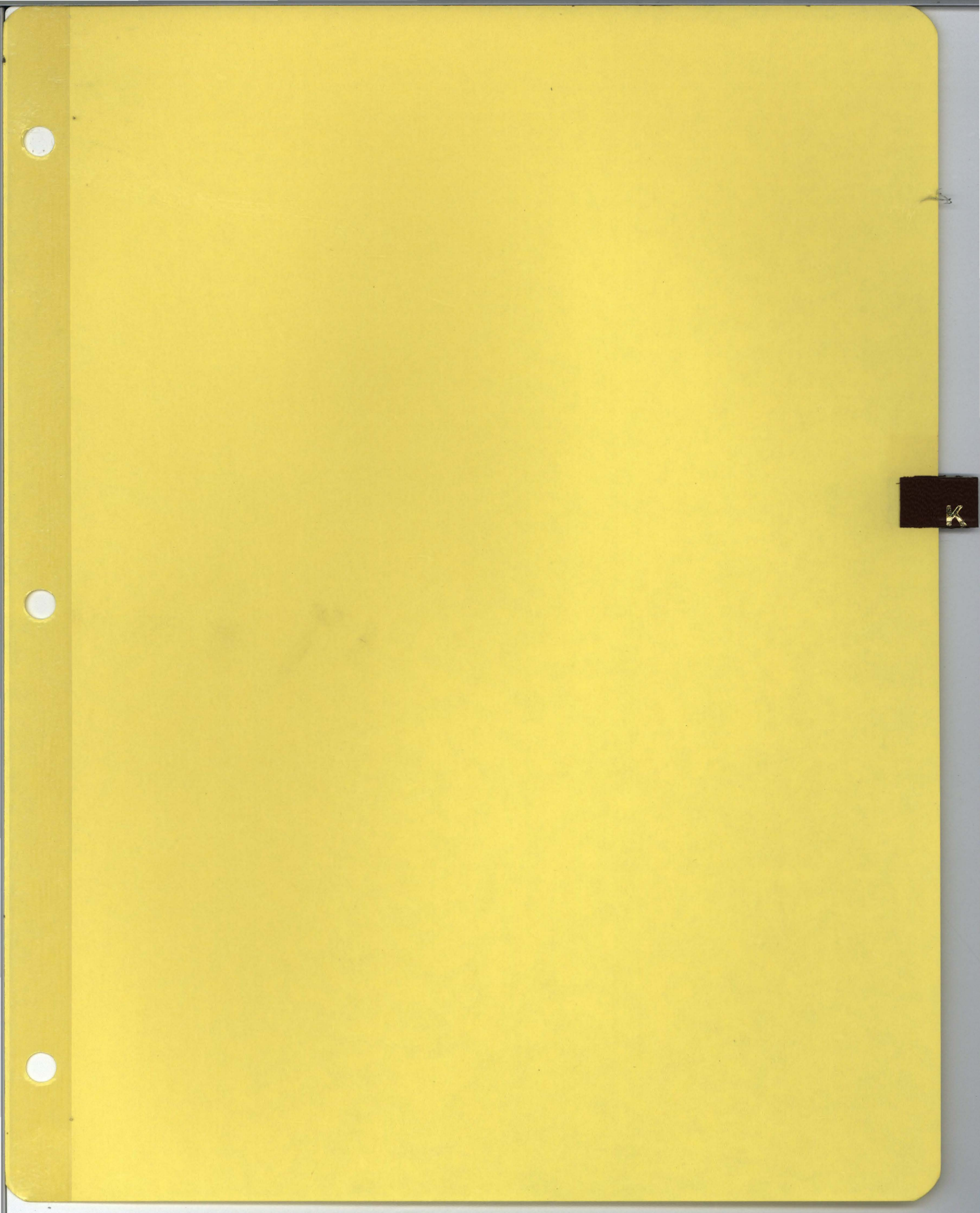
hardly any indication of the Government's intention. About two weeks ago the Prime Minister met in Colombo with the Ambassadors of members of the Aid Group and handed them a note on Perspective Economic Development through 1976. This note, however, is couched in general terms and contains little indication of how the Government proposes to achieve the stated objectives. The Permanent Secretary to the Ministry of Planning and Employment, who will lead the Aid Group delegation, is expected in Washington on April 21. It is hoped that he will have more precise information. 20=

9. Indications received so far are that Aid Group members will attend the meeting presently scheduled for April 28 and 29 in Paris. Sweden will attend for the first time. On the other hand, Germany has notified us that it will not send its traditionally rather large delegation from Bonn/Frankfurt, but that it will be represented by one of the members of the German delegation at the OECD. This is a consequence of Ceylon's decision to recognize East Germany last July.

JDRoulet/ACleveland:pw

April 16, 1971





OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 13, 1971

FROM: Denis Rickett

SUBJECT: Access to the U.K. Capital Market

One question which you may wish to raise in the course of your visit to London is the possibility of raising funds for the World Bank in London.

2. Because of the continuing balance of payments difficulties of the United Kingdom, the Bank has not borrowed in London since 1959 when a bond issue was made in the amount of £10 million. Particularly since 1964, very strict controls have been imposed on lending abroad by U.K. residents and there is no doubt that permission would not have been given for a bond issue by the Bank.

3. As you know, however, there has been a very great improvement in the U.K. balance of payments in the last two years. In 1970, the U.K. had a current account surplus of £631 million and, with the help of capital inflows, the amount of short- and medium-term external debt outstanding was reduced from £1461 million at the end of June 1970 to £683 million on the 1st of April last. In spite of this recovery, however, the Chancellor did not feel able in his budget speech to announce more than a few minor relaxations in the control of overseas investment, all of which related to direct investment by U.K. companies.

4. Apart from the recovery in the U.K. balance of payments, the U.K. Government may be ready to look favourably on a World Bank borrowing in the London market because of the contribution this would make to the achievement by them of the target of 1% of GNP for the total flow of funds to developing countries. As you know, the Government does not expect official development assistance to be much above 0.5% of GNP and is relying on private investment to fill the gap between this figure and the 1% target. Subscriptions to a World Bank issue would count towards the total.

5. We have discussed with the Treasury and the Bank of England on a number of occasions in the past two years the possibility that the Bank might, at some time in the future, be allowed to make a further issue in the market. The matter was discussed by Mr. Aldewereld on several occasions with Lord Cromer and Mr. Nicholas Baring of Baring Bros., with Mr. Jeremy Morse of the Bank of England, and with Mr. Raymond Bell of the Treasury. You will remember that you, yourself, have also discussed it with Sir Leslie O'Brien, the Governor of the Bank of England, and that he has taken the line that whenever circumstances enabled restrictions to be eased in the U.K., the World Bank, as an international organization, would be given high priority as a possible borrower.

6. It seems opportune, therefore, for you to raise this question during your visit to London in order to show that it continues to be

of interest to the Bank. If the U.K. Government were to decide, in the near future, that the Bank should be allowed to borrow in London, we should certainly need to consider carefully whether, with interest rates at their present level in the London market, we wished to take advantage of this permission. Even after the reduction in the U.K. bank rate from 7 to 6 per cent, the yield on long-term U.K. Government bonds remains extremely high (for example, the 5-3/4% Funding Stock maturing 1987 to 1991 yields very slightly over 9%). The yields on medium-term stocks are, of course, much lower and the U.K. Government could at present borrow in the London market for a five-year term at around 7-1/2 per cent. Even if the Bank had to pay somewhat more than this, this would not be much higher than the rates we are paying on our borrowings from the Bank of Japan. Mr. Aldewereld has pointed out that if we borrowed at medium-term in London, the question whether we could roll over our borrowing when the time came need cause us little concern in view of the size of our sterling holdings.

7. It would also be worth considering whether a borrowing from the Bank of England on the lines of our Bundesbank borrowings would be possible. There may, however, be legal difficulties in the way of this since the exchange reserves held in the Exchange Equalization Account are not normally invested in securities with more than one to two years maturity.

cc: Messrs. Aldewereld
Adler
Clark

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 15, 1971

FROM: Denis Rickett

SUBJECT: The Link

We have been told that U.K. Ministers would be glad to discuss this subject with you during your visit to London if you wished to do so. I suggest that, if time allows, it would be worth doing this since it is useful to us to know what is the attitude of the principal donor countries on this subject.

2. So far as the Bank's own position is concerned, you will no doubt wish to say that while the primary responsibility clearly is that of the IMF, the Bank is nevertheless keenly interested in any proposal which may make additional resources available for IDA (it is, of course, important that they should be additional). The Bank is therefore anxious to give whatever help it can in the discussion of this question. You made this plain in your concluding remarks at the Copenhagen meeting.

3. The matter is, as you know, being examined in the Fund Board. Progress has so far been slow but at a recent meeting, somewhat contrary to the expectation of the staff, there was general agreement that the matter should be studied. (This reversed a previous conclusion of the Deputies of the Group of Ten.) The staff has now been asked to formulate detailed proposals as to the specific aspect of the question which should be studied. When Board approval has been obtained for these proposals, the staff will carry out the studies.

4. The intention is that these studies should proceed in a leisurely manner, the object being to keep the link proposal alive while avoiding raising this issue at a time when the question of a further distribution of SDRs is under discussion. This latter issue is, in itself, sufficiently controversial and it would not be desirable to complicate matters still further. Ultimately it may prove possible to achieve a greater measure of agreement on the link proposal than exists at present.

5. In this connection, you may be interested to see the attached letter which was written by Dr. Perez-Guerrero to all the participants in the recent meeting of the Machlup Group at Taormina which contains an excellent summary of what emerged at the discussion in that meeting.

Bank: Standard Lending Rate

A statement regarding the Bank's interest rate policy was approved by Executive Directors at a meeting on December 26, 1967. A copy is attached. At a meeting on December 28, 1967, the Executive Directors agreed that the spread between the cost of borrowing and the standard rate should be 3/8%.

The standard rate applied by the Bank since the end of 1967 compared with the cost of borrowing is as follows:

<u>Calendar years</u>	<u>Actual cost of borrowing (%)</u>	<u>Bank's lending rate (%)</u>
1968 I	6.39	6.25 from December, 1967
II	6.34	6.50 from August 1, 1968
1969 I	6.70	
II	7.66	7.00 from August 1, 1969
1970 I	7.72	
II	8.33	7.25 from August 1, 1970
1971 I (estimated)	7.20	

April 19, 1971

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CONFIDENTIAL

R67-182/1

FROM: The Secretary

(Approved by the
Executive Directors
on December 26, 1967)

December 27, 1967

POLICY RE STANDARD INTEREST RATE

- a) The rate should be kept as low as is compatible with the maintenance of the Bank's ability to raise in the capital markets of its members, or otherwise borrow, the funds it needs.
- b) In order to maintain the Bank's reputation and financial strength on which its ability to raise the funds it needs depends, the Bank must pay regard to such criteria as
 - i) the trend of its earnings;
 - ii) the maintenance of an adequate ratio of its earnings to its interest requirements;
 - iii) the maintenance of a reasonable rate of return on its capital and reserves; and
 - iv) the accumulation of adequate reserves.
- c) The Executive Directors annually, or more frequently if advisable, should review the Bank's financial position giving due regard to the foregoing criteria, and determine a maximum spread between the cost of borrowings and the Bank's standard lending rate. The term "cost of borrowings" means the weighted average of the actual cost of borrowings during the preceding period of approximately six months and the estimated cost of borrowings for the succeeding period of approximately six months.
- d) The President will be guided by this determination of spread in recommending the standard interest rate on loans. He will inform the Executive Directors about any developments which make necessary a change of this rate.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

Bank and IDA: Interest Rates for "Intermediate"
Countries

A rate of interest somewhere between the Bank's standard rate (now 7-1/4%) and the IDA service charge of 3/4% is obtained by "blending", i.e., giving a country both Bank loans and IDA credits. Of the 92 countries which are planned to receive funds from the Bank or IDA, or both, in the period 1969-1973, 40 would receive only Bank loans, 20 only IDA credits, and 32 a blend of both.

IDA does not grant credits to countries with a per capita income of more than \$300 per annum, and not all countries whose incomes are below this figure get IDA credits. Thus, the blending process stops at the \$300 per capita level and borrowers above it pay the Bank's standard lending rate. It would be possible to extend blending to countries higher up the scale if more meritorious countries lower down the scale were given less, or if more IDA funds were available.

For a time the Bank made loans at a "market eligible rate" to those of its members who would normally have access to the capital market for their needs. This was higher than the standard rate. The Bank has never made loans at rates below the standard rate. To do so would give rise to two problems, both formidable, but neither insuperable. First, there is the problem of deciding who gets the money at the lower rate. In deciding between IDA and Bank funds, the guide is creditworthiness, clear in concept even if difficult to apply. In deciding as between, say, 3-1/2% Bank money and 7-1/4% Bank money, creditworthiness cannot be used as a test since all Bank lending has to be to creditworthy countries. Perhaps a per capita income test could be used. But it would greatly complicate the Bank's operations.

Secondly, given that the Bank has to maintain its own earnings in order to be able to continue to borrow, it would have to have a higher standard rate to compensate for the loss of income because of the intermediate rate. How much higher would depend on the amounts involved and what the intermediate rate was. If 20% of Bank lending were at 3.50%, the standard rate for the 80% would have to be increased from 7.25% to 8.19% in order to maintain the same earnings. A higher intermediate rate applied to a larger amount of lending would produce similar results. If 40% of Bank lending were at 5%, the rate on the remaining 60% would have to rise to 8.75% to maintain the same earnings.

April 19, 1971

IDA: Allocation of Funds

The criteria for distribution of IDA funds were discussed in the Financial Policy Committee in July 1968 on the basis of a draft paper dated June 24, 1968. A revision of this paper, dated July 16, 1968, is annexed (Annex I). The general criteria summarized in that discussion paper relate to

- (a) lack of creditworthiness
- (b) economic performance
- (c) ability to present suitable projects,
and
- (d) relative state of economic development
(poverty)

The paper noted that these criteria gave guidance as to the countries which qualified for IDA funds, but little on how much each should receive, and mentioned (para. 17) that India and Pakistan received allocations not on the basis of a strict application of these criteria (which would have given them much larger amounts than those they received), but in amounts which reflected the general feeling of the principal IDA contributors as to what it would be reasonable to allocate to them. Since the paper was written, Indonesia has become a recipient of IDA funds, and there, too, a figure had to be fixed which was less than Indonesia might have received on the basis of allocation criteria.

The geographical distribution of IDA lending through FY 1970 is shown in the memorandum to Part I representatives dated October 30, 1970 (Annex II). A forecast for fiscal year 1971, which has not gone to Part I countries, is at Annex III.

April 19, 1971

Criteria for the Distribution of IDA Funds

1. Table I attached gives a list by country of the IDA credits presented to the Executive Directors of IDA through June 30, 1968, including three credits on which no decision has been taken pending the replenishment of IDA's resources. The distribution shown in this list does not reflect any preconceived system of country allocation. It has arisen as a result of judgments on individual credits based - at least since August 1964 - upon a number of criteria which were set forth in a paper on IDA Lending Policy ^{1/} which was reviewed by the Executive Directors in August 1964 in the Financial Policy Committee.

2. These criteria may be summarized as those relating to:

- a) insufficiency of creditworthiness.
- b) economic performance,
- c) ability to present acceptable projects,
and
- d) relative stage of economic development (poverty).

3. It should be noted at the outset that the application of these criteria has given reasonably firm guidance as to which countries should be regarded as qualified to receive IDA assistance, but much less guidance as to the distribution of IDA assistance among qualified countries. In practice this problem has been largely solved by placing fixed limits on the amount of IDA assistance to India and Pakistan, and by devoting the remaining amount of IDA's available resources to those otherwise qualified countries which were able to formulate suitable projects and to present them to the Association for financing. Despite the expected increase in IDA's lending capacity (assuming that the Second Replenishment becomes effective), and the expected reduction in the shares of India and Pakistan in total IDA assistance, the Association is expected to encounter more difficult allocation problems in the future. Additional countries may come to qualify under the "insufficiency of creditworthi test as a result of the rising tide of external debt in the developing world -- although some countries may also improve their creditworthiness through good fortune or their own efforts at economic progress. Perhaps more importantly, many countries outside of India and Pakistan are expected, partly as a result of guidance and help from the World Bank Group, to improve their economic performance and their capacity to absorb IDA assistance through the formulation of sound economic development programs and projects. In short, we may soon be moving into a period when the members of IDA collectively will probably be able to present a larger volume of qualified credit requests than IDA can meet out of its available resources.

^{1/} IDA/SecM/63-42 Revised, of November 26, 1963.

4. It is therefore timely to reexamine the established criteria and the manner in which they have been applied, to reconsider how much weight should be attached to each of them, and to review the possibilities of introducing some more formal allocation procedures.

5. The first criterion for IDA lending arises out of the mandate contained in Article I of the IDA Charter, and emphasized by the donor countries during the original IDA discussions and since that time, that IDA funds should be used to supplement the activities of the World Bank and not to substitute for them. Indeed this principle is stated even more forthrightly in Article V, Section 1(c) of the IDA Charter which provides that:

"The Association shall not provide financing if in its opinion such financing is available from private sources on terms which are reasonable for the recipient or could be provided by a loan of the type made by the Bank."

6. IDA's creditworthiness test is the opposite of the Bank's. Bank loans are not made to countries which are not considered creditworthy; IDA credits are not made to countries which are considered to have satisfactory creditworthiness for conventional lending. A judgment on creditworthiness represents a judgment as to whether or not a country may reasonably be expected, in the light of such factors as its prospective external debt service, its potential for growth and development, its prospective balance of payments, to be able to meet its obligations on external debt. This test has not been applied with excessive rigidity. The principle of Bank/IDA blending has been accepted, and countries have not been forced to exhaust their creditworthiness for conventional lending before receiving assistance from IDA. This flexible administration has probably gone far to avoid the main disadvantage, which is that it tends to penalize poor countries who apply sound policies and keep their debt service problems under control. Of the 30 countries which have received IDA credits, 20 have also received Bank loans since the beginning of 1961, and (reflecting in part the preponderance of lending to India and Pakistan) some 93 percent of all IDA lending has gone to blend countries. 1/

7. Secondly, there has been the criterion of "performance" - essentially the principle that help should be extended to those who are making every reasonable effort to mobilize their available resources for purposes of economic development. Some member countries have not been regarded as qualified on performance grounds. The reasons may have been behavior contrary to accepted financial morality, unsatisfactory economic and financial policies, or unsettled political conditions leading to neglect of economic development objectives. These tests are basically the same as for the Bank. Again, however, this criterion has been applied in a flexible manner - judgments on economic performance have been made with a realistic appreciation of individual countries' capacities and difficulties; minor blemishes have been overlooked and mismanagement has had to be serious before a country has been denied IDA assistance on performance grounds.

1/ See Table II which illustrates the blending process.

8. The third criterion, the availability of suitable projects, derives from the fact that IDA credits, like Bank loans, have been extended only for projects which are technically sound, are of high priority yield an adequate financial and economic rate of return, and are within the administrative capabilities of the borrower. This test has been important not only in qualifying countries for IDA assistance, but also in determining how much each country has received. Some countries which were otherwise qualified, including some of the smallest and poorest, have had the most difficulty in preparing acceptable projects, and have consequently received relatively little or nothing at all from IDA funds. Countries which have been successful in identifying and preparing suitable projects have correspondingly gained. And some very small countries have jumped ahead (at least temporarily) in terms of their per capita assistance from IDA, because of the "lumpiness" of the high-priority projects which were incorporated in their development programs.

9. There remains the criterion of poverty. In the first two years of its operations, IDA extended credits to four Latin American countries whose per capita incomes ranged between \$250 and \$500 (Chile, Colombia, Costa Rica and Nicaragua), but thereafter - and in particular since the Executive Directors discussed the criteria of IDA lending in August 1964 - IDA has concentrated its lending activities on countries with a per capita income not exceeding about \$250. The strong presumption that has existed since 1964 against IDA lending to countries above this income level has been the most explicit rationing device that IDA has used. However, even poverty has been used principally as a qualifying criterion, rather than as a factor determining how much IDA assistance a qualifying country might receive. Although poorer countries may have received more generous cost-sharing treatment on individual projects than less-poor countries, there has been no particular evidence in the record of IDA operations thus far to show that the poorer countries have received more assistance per capita than the less-poor countries. ^{1/} It should be added that this has probably resulted mainly from the fact noted above, namely that it is in many cases the smallest and poorest countries which have had the most difficulty in presenting acceptable projects for IDA financing.

10. When it comes to the question of distributing IDA funds among qualified countries, as distinct from establishing qualifying criteria, it is obvious that the relative size of countries, and in particular the size of their populations, plays an important role. The needs of large countries are greater than those of small countries and to the extent that IDA's objectives are stated in terms of raising living standards, the size of the populations which are served by IDA's operations must naturally be taken into account. This consideration has clearly entered into the large allocations to India and Pakistan, which are much the most populous countries that have received assistance from IDA up to the present time. It will be evident, however, from the figures cited in Table III that there has been no close correlation between population and the amount of assistance rendered by IDA; taking into account all credits presented to the Executive Directors through June 30, 1968, the per capita figure for India was \$2.10 and for Pakistan \$3.30,

^{1/} See Table III which shows the amount of IDA credits to each country on a per capita basis and as a percent of that country's GNP.

whereas elsewhere the per capita figure ranged from well below \$1.00 to as much as \$8.60 (Paraguay). In practice the only explicit recognition given to the per capita figures has been the "slow down" on IDA operations in countries which had achieved a relatively very high per capita allocation from IDA funds. It is clear that up to now the country distribution of IDA funds has represented the result of decisions taken on other grounds, rather than any kind of formal country allocation.

11. In considering future lending policy, it might be thought desirable in principle to move in the direction of some more systematic basis for the allocation of IDA funds, whether on a country basis or otherwise. It is not easy, however, to define any firm principle or principles of allocation. It is tempting to start thinking in terms of a "fair distribution" of IDA funds among recipient countries, in the sense for example of equal per capita shares; yet there is in fact a fundamental irreconcilability between this approach and that of applying discriminating criteria to individual cases designed to assure the most effective use of IDA funds. In the extreme case, "fair distribution" might be interpreted to mean equal per capita shares for all Part II member countries, but the first consequence of the present qualifying criteria is to exclude Part II countries which have satisfactory creditworthiness, those whose economic performance is inadequate, those unable to present acceptable projects, or those above the established poverty level (unless they can surmount the strong presumption set up against them).

12. Moreover, if IDA comes to confront a flow of business exceeding its available resources, the classic approach to the resulting allocation problem would be simply to tighten up on the criteria until the demand for IDA assistance was reduced to the level of the available supply. This would require:

- a) making stricter judgments on creditworthiness (or the insufficiency thereof);
 - b) insisting on higher standards of economic performance;
 - c) setting higher standards for the economic return on IDA-financed projects, or reducing the categories of such projects which IDA would be prepared to consider;
- and
- d) lowering the level of per capita income which would qualify countries for IDA assistance.

But action in any of these directions would automatically have the effect (except perhaps in the case of stricter project tests) of excluding additional Part II countries entirely from IDA assistance.

13. A similar dilemma arises to the extent that the criteria are employed not just to establish the list of qualified countries but also to help determine the allocation of funds among them. In terms of equitable

distribution, it might be generally accepted that, other things (including population) being equal:

- a) a country just on the margin of creditworthiness (very hard blend countries) ought not to receive as much IDA assistance as a straight IDA country;
- b) a country only barely meeting performance tests ought not to receive as much as a country with an outstanding record of devotion to economic development;
- c) a country presenting projects with very high rates of return ought to attract more assistance than one with only marginal investment opportunities; or
- d) a very poor country should receive more than a country at or above the \$250 per capita level.

But any application of these distinctions as among the qualified group of countries would lead to further divergencies from equal per capita shares; and the more pronounced the distinctions, the greater the divergencies would be.

14. One additional factor deserves mention at this point. IDA is not the only development finance institution in the world, and not the only one dispensing concessionary finance. Hence in considering what constitutes "fair distribution" of its resources, it can hardly escape giving consideration to the amount of assistance that prospective IDA borrowers may be receiving from other sources of finance.

15. IDA therefore faces a fundamental dilemma between seeking to employ its funds with maximum effectiveness and being "fair" to each member country. This problem is in no way resolved - indeed it is probably rendered even more difficult - by the suggestion that percentage shares be allocated to broad geographical regions such as Africa or Latin America. The fact is that at present the percentage share which happens to accrue to any broad geographical region is simply the result of judgments made on individual country situations in the course of applying several different criteria. It is most difficult to conceive of any rational basis upon which percentage shares should be allocated a priori to broad geographical regions.

16. All this having been said, it nonetheless remains true that IDA, as a broadly based multilateral institution, must bear in mind the desirability of achieving a wide geographical distribution of its operations. This means that it should try to avoid extreme tendencies either in the direction of concentrating very heavily in certain countries (as measured by the per capita test or otherwise), or in the opposite direction of finding very little or none of its assistance going to countries which would be qualified on poverty and insufficiency of creditworthiness grounds.

17. IDA cannot ignore, for example, the widespread feeling that India and Pakistan have received a disproportionate amount of the IDA credits which have

been considered thus far. In response to this feeling, and in the light of the increasing absorptive capacity of other qualified recipients for IDA funds, action has been taken to limit the shares of these countries in IDA's lending program for the fiscal year 1968 to 45 percent and 16 percent, respectively, and it is planned to reduce these shares to something like 40 percent and 12.5 percent, respectively, during the remaining period of the Second Replenishment.

18. In addition, in the interests of achieving a reasonably broad geographical distribution in its operations, it is suggested that IDA should regard \$300 rather than \$250 as the level of per capita income above which there should be a strong presumption against IDA lending. This figure should in any case be taken only as a general guideline for operational decisions in view of the large margins of uncertainty which affect estimates of per capita income.

19. There are other steps which IDA can and should take to avoid the possible extreme tendencies described in paragraph 16 above. It is recommended that to this end:

- a) IDA should continue to "slow down" in countries whose per capita receipts from IDA reach relatively very high figures, and
- b) in cases where otherwise qualified countries fail to meet IDA's standards because of inadequate economic performance or because of their inability to produce acceptable projects, IDA should make special efforts to assist these countries, particularly the poorest countries, in improving their economic performance and in identifying and preparing projects acceptable for IDA financing.

20. Beyond these steps, in seeking to achieve a reconciliation between "fair distribution" and the application of discriminating criteria, IDA will have to rely not upon some preconceived formula but rather upon a continuing process of practical compromise.

Attachments.

July 16, 1968

TABLE I

IDA CREDITS BY FISCAL YEAR^{1/}
(millions of U.S. dollars)

AREA	Country	1950/51	1961/62	1962/53	1953/64	1964/65	1955/56	1966/67	1967/68 ^{1/}	Cancellations and Refundings 1950-1958	Total ^{1/} 1960/61- 1967/68	Percent of Total
ASIA												
	Afghanistan					3.5				-	3.5	0.2
	Ceylon							2.0		-	2.0	0.1
	China		15.3							2.2	13.1	0.7
	India	50.0	62.0	178.0	90.0	95.0	191.0	215.0	125.0	3.5	1,012.4	51.4
	Korea			14.0						-	25.0	1.3
	Pakistan		21.0	11.5	146.5	90.8	57.2	27.8	46.0	-	376.0	19.1
	Sub-total	50.0	98.3	203.5	236.5	189.3	248.2	242.8	184.0	30.5	1,432.0 ^{2/}	72.8
AFRICA												
	Botswana					3.6				-	3.6	0.2
	Burundi						1.1			-	1.1	0.1
	Cameroon							11.0	.6	-	11.6	0.6
	Ethiopia			13.5			7.2		7.7	-	28.4	1.4
	Ghana								10.0	-	10.0	0.5
	Kenya					10.3		15.9	12.8	-	39.0	2.0
	Lesotho						4.1			-	4.1	0.2
	Malagasy Republic							10.0		-	10.0	0.5
	Malawi							6.8	21.2	.5	27.5	1.4
	Mali							9.1		-	9.1	0.5
	Mauritania					6.7				-	6.7	0.3
	Niger				1.5					-	1.5	0.1
	Nigeria					35.5				-	35.5	1.8
	Senegal							9.0		-	9.0	0.5
	Somalia					6.2			2.3	-	8.5	0.4
	Swaziland		2.8							-	2.8	0.1
	Tanzania				18.6		5.0		3.0	-	26.6	1.4
	Uganda							10.0	8.4	-	18.4	0.9
	Sub-total		2.8	13.5	20.1	62.3	17.4	71.8	66.0	.5	253.4 ^{2/}	12.9
WESTERN HEMISPHERE												
	Bolivia					15.0		2.0		-	17.0	0.9
	Chile	19.0								-	19.0	1.0
	Colombia		19.5							-	19.5	1.0
	Costa Rica		5.5							1.0	4.6	0.2
	Ecuador				8.0				5.1	-	13.1	0.7
	El Salvador			8.0						-	8.0	0.4
	Haiti			.4						-	.3	-
	Honduras	9.0				3.5			4.0	.6	15.9	0.8
	Nicaragua			3.0						-	3.0	0.2
	Paraguay		6.0		3.6		7.5			-	17.1	0.9
	Sub-total	28.0	31.0	11.4	11.6	18.5	7.5	2.0	9.1	1.6	117.5 ^{2/}	6.1
EUROPE												
	Turkey			26.7		39.0		15.0		.2	80.5	4.0
MIDDLE EAST AND NORTH AFRICA												
	Jordan		2.0		6.5			3.0		1.5	10.0	0.5
	Morocco						11.0			-	11.0	0.6
	Sudan	13.0							8.5	-	21.5	1.1
	Syrian Arab Republic				8.5					-	8.5	0.4
	Tunisia			5.0				19.0	8.5	.1	32.4	1.6
	Sub-total	13.0	2.0	5.0	15.0		11.0	22.0	17.0	1.6	83.4 ^{2/}	4.2
GRAND TOTAL												
		101.0	134.1	260.1	283.2	309.1	284.1	353.6	276.1	34.5	1,966.8 ^{2/}	100.0

^{1/} Figures for 1967/68 & 1960/61-67/68 include all credits forwarded to the Executive Directors by June 30, 1968, including those credits "subject to replenishment" viz. India, \$125 million; Pakistan, \$36 million; and Tunisia, \$8.5 million.

^{2/} Totals and sub-totals may not agree due to rounding.

TABLE II

IDA AND BANK COMMITMENTS TO PART II COUNTRIES 1960/61 - 1967/68
(\$ million)

GNP per capita	IDA COUNTRIES		BLEND COUNTRIES			BANK COUNTRIES		NO LENDING
		Credits ^{1/}		Credits ^{1/}	Loans ^{2/}		Loans ^{2/}	
<u>GNP per capita \$75 or less</u>	Malawi	27.5	Ethiopia	28.4	46.7	Burma	13.8	Upper Volta
	Burundi	1.1	Tanzania	26.6	22.2 ^{3/}			Rwanda
	Somalia	8.5						Dahomey
	Mali	9.1						Nepal
	Afghanistan	3.5						Laos
	Niger	1.5						Congo, Dem. Republic
	Haiti	.3						Chad
								Gambia
								Central African Republic
<u>GNP per capita: \$75 - \$125</u>			Nigeria	35.5	157.5	Congo(B)	30.0	Togo
			Malagasy Rep.	10.0	4.8	Thailand	187.4	Viet-Nam
			Pakistan	376.0	309.2			
			Kenya	39.0	21.6 ^{3/}			
			India	1,012.4	438.6			
			Sudan	21.5	74.5			
			Uganda	18.4	25.4 ^{3/}			
			Cameroon	11.6	7.0			
			Korea	25.0	5.0			
<u>GNP per capita: \$125 - \$175</u>	Mauritania	6.7	Ceylon	2.0	18.1	Sierra Leone	3.8	United Arab Republic
	Bolivia	17.0	Senegal	9.0	4.0	Philippines	128.1	
						Liberia	4.3	
<u>GNP per capita: \$175 - \$250</u>	Syria	8.5	Morocco	11.0	60.0	Zambia	21.4 ^{4/}	Saudi Arabia
	Jordan	10.0	Ecuador	13.1	13.0	Ivory Coast	5.8	Dominican Republic
			Tunisia	32.4	34.0	Algeria	20.5	
			Paraguay	17.1	7.1	Iraq	23.0	
			Honduras	15.9	19.2	Brazil	291.1	
			China	13.1	104.2	Iran	140.9	
			Turkey	80.5	10.0	Gabon	13.8	
			Ghana	10.0	47.0			
			El Salvador	8.0	21.7			
<u>GNP per capita: \$250 - \$500</u>			Colombia	19.5	326.9	Malaysia	172.7	Lebanon
			Nicaragua	3.0	24.5	Guyana	.9	Libya
			Costa Rica	4.6	42.2	Peru	142.3	
			Chile	19.0	95.8	Guatemala	22.5	
						Mexico	581.2	
						Panama	11.2	
						Yugoslavia	270.5	
<u>GNP per capita more than \$500</u>						Spain	188.0	Ireland
						Greece	12.5	
						Cyprus	18.1	
						Argentina	195.7	
						Israel	109.4	
						Iceland	20.0	

1/ Includes all credits forwarded to the Executive Directors by June 30, 1968, including those credits "subject to replenishment", viz. India, \$125 million; Pakistan, \$36 million; Tunisia, \$8.5 million.

2/ Gross Bank commitments in the fiscal years 1960/61 through 1967/68. Figures are net of cancellations, refundings and terminations.

3/ Two loans totalling \$51.0 million which were made to the East African Common Services Authority have been divided equally among Kenya, Tanzania and Uganda.

4/ Includes one-half of loan 392 made to Central African Power Corporation.

TABLE III

DISTRIBUTION OF IDA CREDITS

Part II Countries*	Population (millions - 1965)	Estimated GNP Per Capita (US \$-1965)	GNP (\$ million)	IDA Credits ^{1/}		
				Amount (\$ million)	Per Capita (\$)	Percent of GNP
Malawi	3.9	40	156	27.5	7.1	17.6
Burundi	3.2	45	151	1.1	.3	.7
Upper Volta	4.9	50	253	-	-	-
Rwanda	3.1	50	152	-	-	-
Somalia	2.5	55	135	8.5	3.4	6.3
Ethiopia	22.6	55	1,210	28.4	1.3	2.3
Mali	4.6	60	279	9.1	2.0	3.3
Dahomey	2.4	60	147	-	-	-
Nepal	10.1	65	667	-	-	-
Laos	2.6	65	169	-	-	-
Congo, Dem. Rep.	15.6	65	1,010	-	-	-
Chad	3.3	65	218	-	-	-
Burma	24.7	65	1,590	-	-	-
Afghanistan	15.7	65	1,030	3.5	.2	.3
Tanzania	10.5	70	713	26.6	2.3	3.7
Niger	3.3	70	236	1.5	.5	.6
Haiti	4.4	70	306	.3	.1	.1
Guinea*	3.5	75	257	-	-	-
Gambia, The	.3	75	25	-	-	-
Central Af. Rep.	1.4	75	104	-	-	-
Nigeria	57.5	80	4,510	35.5	.6	.8
Malagasy Rep.	6.4	80	508	10.0	1.6	2.0
Pakistan	113.9	85	9,710	376.0	3.3	3.9
Kenya	9.4	85	800	39.0	4.1	4.9
Indonesia*	104.5	85	8,880	-	-	-
Togo	1.6	90	153	-	-	-
India	486.8	90	43,000	1,012.4	2.1	2.4
Sudan	13.5	95	1,290	21.5	1.6	1.7
Uganda	7.6	100	756	18.4	2.4	2.4
Viet-Nam	16.1	110	1,750	-	-	-
Cameroon	5.2	110	554	11.6	2.2	2.1
Thailand	30.6	120	3,590	-	-	-
Korea	28.4	120	3,450	25.0	.9	.7
Congo (B)	.8	120	97	-	-	-
Sierra Leone	2.4	140	324	-	-	-
Ceylon	11.2	140	1,570	2.0	.2	.1
U.A.R.	29.6	150	4,460	-	-	-
Philippines	32.3	150	4,720	-	-	-
Mauritania	1.1	150	159	6.7	6.1	4.2
Bolivia	3.7	150	547	17.0	4.6	3.1
Senegal	3.5	170	588	9.0	2.6	1.5
Morocco	13.3	180	2,380	11.0	.8	.5
Liberia	1.1	180	198	-	-	-

Part II Countries	* Population (millions - 1965)	Estimated GNP Per Capita (US \$-1965)	GNP (\$ million)	IDA Credits ^{1/}		
				Amount (\$ million)	Per Capita (\$)	Percent of GNP
Ecuador	5.2	180	970	13.1	2.5	1.4
Syria	5.3	190	1,010	8.5	1.6	.8
Zambia	3.7	200	735	-	-	-
Tunisia	4.4	200	888	32.4	7.4	3.6
Paraguay	2.0	200	409	17.1	8.6	4.2
Honduras	2.3	200	458	15.9	6.9	3.5
China	12.4	200	2,520	13.1	1.1	.5
Saudi Arabia	6.7	210	1,400	-	-	-
Ivory Coast	3.8	210	814	-	-	-
Algeria	11.9	210	2,500	-	-	-
Jordan	2.0	220	430	10.0	5.0	2.3
Iraq	8.2	220	1,830	-	-	-
Brazil	82.2	220	18,400	-	-	-
Turkey	31.2	230	7,280	80.5	2.6	1.1
Iran	24.8	230	5,590	-	-	-
Ghana	7.7	230	1,750	10.0	1.3	.6
Dominican Rep.	3.6	230	847	-	-	-
Gabon	.5	250	117	-	-	-
El Salvador	2.9	250	730	8.0	2.8	1.1
Malaysia	9.4	260	2,470	-	-	-
Colombia	18.1	260	4,730	19.5	1.1	.4
Guyana	.6	280	180	-	-	-
Peru	11.7	300	3,550	-	-	-
Guatemala	4.4	300	1,340	-	-	-
Nicaragua	1.7	320	525	3.0	1.8	.6
Portugal*	9.2	370	3,380	-	-	-
Costa Rica	1.4	380	544	4.6	3.3	.8
Mexico	42.7	430	18,500	-	-	-
Singapore*	1.9	450	833	-	-	-
Lebanon	2.4	450	1,080	-	-	-
Panama	1.2	460	575	-	-	-
Jamaica*	1.8	460	829	-	-	-
Yugoslavia	19.5	470	9,140	-	-	-
Chile	8.6	480	4,160	19.0	2.2	.8
Libya	1.6	490	791	-	-	-
Spain	31.6	580	18,200	-	-	-
Greece	8.6	600	5,100	-	-	-
Cyprus	.6	640	379	-	-	-
Argentina	22.4	760	17,100	-	-	-
Ireland	2.9	830	2,390	-	-	-
Israel	2.6	1,130	2,890	-	-	-
Iceland	.2	1,630	313	-	-	-

*Includes Bank member countries with GNP per capita less than \$500 which have not yet become members of IDA. These countries are marked with an asterisk.

1/ Cumulative total of all credits forwarded to the Executive Directors by June 30, 1968, including those credits "subject to replenishment", viz. India, \$125 million; Pakistan, \$36 million; Tunisia, \$8.5 million.

Source for Population and GNP figures: World Bank Atlas, 1967 Edition.

IDA COMMITMENTS

Country	1968 Popu- lation ^{1/} (million)	Per capita GNP in 1968 ^{1/} (\$)	Cumulative commitments to June 30, 1969 ^{2/}		Commitments in FY1970		Cumulative commitments to June 30, 1970 ^{2/}	
			Amount (\$ mil.)	Per Capita (\$)	Amt. (\$mil.)	PerCap. (\$)	Amount (\$ mil.)	Per Capita (\$)
India ^{3/}	523.9	100	1036.1	1.98	227.5	0.43	1263.6	2.41
Pakistan ^{4/}	123.2	100	376.0	3.05	77.2	0.63	453.2	3.68
Indonesia	112.8	100	51.0	0.45	80.5	0.71	131.5	1.17
<u>Other Asia</u>								
Afghanistan	16.1	80	5.3	0.33	5.0	0.31	10.3	0.64
Ceylon	12.0	180	6.9	0.58	17.0	1.42	23.9	1.99
China	13.5	270	13.1	0.97	-	-	13.1	0.97
Korea	30.5	180	43.3	1.42	15.0	0.49	58.3	1.91
Nepal	10.7	80	-	-	1.7	0.16	1.7	0.16
Papua & N.G.	2.3	210	1.5	0.65	9.5	4.13	11.0	4.78
Total Other Asia	85.1		70.1		48.2		118.3	
<u>Middle East & North Africa</u>								
Jordan	2.1	260	10.0	4.76	-	-	10.0	4.76
Morocco	14.6	190	11.0	0.75	7.3	0.50	18.3	1.25
Syria	5.7	210	8.5	1.49	-	-	8.5	1.49
Tunisia	4.7	220	29.7	6.32	10.5	2.23	40.2	8.55
Turkey	33.6	310	92.3	2.75	-	-	92.3	2.75
U.A.R.	31.7	170	-	-	26.0	0.82	26.0	0.82
Total M.E.&N.A.	92.4		151.5		43.8		195.3	

^{1/} Based on World Bank Atlas, 1970 edition.

^{2/} Net of cancellations through September 30, 1970.

^{3/} India's share in total IDA commitments was 48.0% for the period through FY1969, 37.6% in FY1970, and 45.7% for the period through FY1970.

^{4/} Pakistan's share in total IDA commitments was 17.4% for the period through FY1969, 12.7% in FY1970, and 16.4% for the period through FY1970.

Country	1968 Population 1/ (million)	Per capita GNP in 1968 1/ (\$)	Cumulative commitments to June 30, 1969 2/ Amount Per Capita (\$mil.) (\$)		Commitments in FY1970 Amt. Per Cap. (\$mil) (\$)		Cumulative commitments to June 30, 1970 2/ Amount Per Capita (\$mil.) (\$)	
<u>Other Africa</u>								
Botswana	0.6	100	3.6	6.00	2.5	4.17	6.1	10.17
Burundi	3.4	50	2.9	0.85	0.4	0.12	3.3	0.97
Cameroon	5.6	140	11.0	1.96	17.5	3.13	28.5	5.09
C.A.R.	1.5	120	4.2	2.80	4.3	2.87	8.5	5.67
Chad	3.5	60	5.9	1.69	-	-	5.9	1.69
Congo (B)	0.9	230	0.6	0.67	1.5	1.67	2.1	2.33
Congo (K)	16.7	90	6.0	0.36	5.0	0.30	11.0	0.66
Dahomey	2.6	80	4.6	1.77	-	-	4.6	1.77
Ethiopia	24.2	70	28.4	1.17	6.6	0.27	35.0	1.45
Gambia, The	0.4	100	-	-	2.1	5.25	2.1	5.25
Ghana	8.4	170	10.0	1.19	14.8	1.76	24.8	2.95
Kenya	10.2	130	42.6	4.18	6.1	0.60	48.7	4.77
Lesotho	0.9	80	4.1	4.46	-	-	4.1	4.46
Malagasy Rep.	6.5	100	14.5	2.23	9.6	1.48	24.1	3.71
Malawi	4.3	50	27.5	6.40	5.3	1.23	32.8	7.63
Mali	4.8	90	9.1	1.90	7.7	1.60	16.8	3.50
Mauritania	1.1	180	9.7	8.82	-	-	9.7	8.82
Niger	3.8	70	7.6	2.00	0.6	0.16	8.2	2.16
Nigeria	62.7	70	35.5	0.57	-	-	35.5	0.57
Rwanda	3.4	70	-	-	9.3	2.74	9.3	2.74
Senegal	3.7	170	15.0	4.05	2.1	0.57	17.1	4.62
Sierra Leone	2.5	150	-	-	3.0	1.20	3.0	1.20
Somalia	2.7	60	9.1	3.37	-	-	9.1	3.37
Sudan	14.8	100	21.5	1.45	-	-	21.5	1.45
Swaziland	0.4	200	2.8	7.00	-	-	2.8	7.00
Tanzania	12.5	80	40.9	3.27	7.5	0.60	48.4	3.87
Togo	1.8	100	3.7	2.06	-	-	3.7	2.06
Uganda	8.1	110	21.4	2.64	11.6	1.43	33.0	4.07
Upper Volta	5.2	50	0.8	0.15	-	-	0.8	0.15
<u>Total</u>								
<u>Other Africa</u>	<u>217.2</u>		<u>343.0</u>		<u>117.5</u>		<u>460.5</u>	
<u>Western Hemisphere</u>								
Bolivia	4.7	150	24.4	5.19	1.4	0.30	25.8	5.49
Chile	9.4	480	19.0	2.02	-	-	19.0	2.02
Colombia	20.0	310	19.5	0.98	-	-	19.5	0.98
Costa Rica	1.7	450	4.6	2.71	-	-	4.6	2.71
Ecuador	5.7	220	13.1	2.30	1.5	0.26	14.6	2.56
El Salvador	3.3	280	8.0	2.42	-	-	8.0	2.42
Guyana	0.7	340	2.9	4.14	-	-	2.9	4.14
Haiti	4.7	70	0.3	0.06	-	-	0.3	0.06
Honduras	2.4	260	15.9	6.63	8.1	3.38	24.0	10.00
Nicaragua	1.8	370	3.0	1.67	-	-	3.0	1.67
Paraguay	2.2	230	21.4	9.73	-	-	21.4	9.73
<u>Total Western Hemisphere</u>	<u>56.6</u>		<u>132.1</u>		<u>11.0</u>		<u>143.1</u>	
<u>GRAND TOTAL</u>	<u>1211.2</u>		<u>2159.8</u>		<u>605.6</u>		<u>2765.5</u>	

Notes: See page 1.

IDA LENDING PROGRAM - FY1971
(\$ millions - project amounts in brackets are not included in totals)

Country	Possible Projects for April-June	July thru March	April	May	June	Total
India:	Ag. Credit - Tamil Nadu Ag. Credit - Haryana Irrig. - Pochampad Telecommunications IV Fertilizer - Cochin Power Transmission II		78.0 H 75.0 H		35.0 H 25.0 H [35.0 H] [20.0 M]	243.4
	Total FY1971	30.4	153.0		60.0	
Pakistan:	E. Pak. Consulting Services WAPDA Tubewells I Foodgrain Storage Water Supply - Lahore				[2.5 M] [9.0 M] [11.0 M] [5.0 M]	48.0
	Total FY1971	48.0				
Indonesia:	Tea Estates Rice Seeds Highways II			[15.0 H] 7.5 H		
	Total FY1971	39.4		7.5	33.0 H	79.9
U.A.R.:	Railways I			30.0 M		30.0
Turkey:	Fruit & Veg. Farming	4.5		15.0 H		19.5
OTHER ASIA						
Afghanistan:	Irrig. - Khanabad			4.3 H		4.3
Korea:		7.0				7.0
Nepal:		2.5				2.5
	Total Other Asia	9.5		4.3		13.8
OTHER MIDDLE EAST, NORTH AFRICA						
Jordan:	Highways			[5.3 M]		
Morocco:	Education II				[7.3 L]	
Yemen, Peoples Dem. Rep. of:	Roads		1.6 H			1.6
Tunisia:	Agric. Credit	4.8		[3.0 H]		4.8
	Total Other M.E. & N.A.	4.8	1.6			6.4
EASTERN AFRICA						
Botswana:		3.0				3.0
Congo K:	River Transport			7.0 M		7.0
Ethiopia:	Livestock I	9.5		4.4 H		13.9
Kenya:		12.6				12.6
Malagasy:		5.0				5.0
Malawi:	Agric. Devt. - Lilongwe			7.0 H		7.0
Mauritius:		5.2				5.2
Somalia:	Education I Highways II			3.3 H		3.3
					[8.0 L]	
Tanzania:		12.3				12.3
Uganda:	Education II	4.0				4.0
	Total Eastern Africa	51.6		21.7	[7.3 H]	73.3
WESTERN AFRICA						
Cameroon:		1.5				1.5
Chad:			2.2 H			2.2
Congo B:		3.5				3.5
Dahomey:		3.5				3.5
Ghana:	Power ECG II				7.1 M	7.1
Niger:		5.7				5.7
Senegal:	Ag. Devt. - Terres Neuves Rice Development Education			1.3 H 3.2 M		4.5
					[1.2 M]	
Sierra Leone:		3.5				3.5
Upper Volta:		6.2				6.2
	Total Western Africa	23.9	2.2	4.5	7.1	37.7
WESTERN HEMISPHERE						
Bolivia:				6.8 M		6.8
Dom. Rep.:	Livestock	4.0	5.0 H			9.0
Ecuador:		10.0				10.0
El Salvador:		5.6				5.6
Guyana:		2.2				2.2
	Total Western Hemisphere	21.8	5.0	6.8		33.6
	GRAND TOTAL	233.9	161.8	89.8	100.1	585.6

IDA: Offsetting Inequalities in Aid

The Pearson Commission recommended that IDA should seek in its policies to offset the larger inequities in aid distribution (Report, p. 230). The President's memorandum to the Executive Directors of June 17, 1970, on this subject said, in part,

"It is neither desirable nor practicable to try to devise a system of allocation for IDA in complete isolation from other aspects of the world situation, and without reference to the policies that are pursued by other donors. At the opposite extreme, it may be impracticable for IDA to adopt as the principal criterion for all its lending that of trying to ensure that countries judged to be in the same situation should receive equal amounts of per capita aid. There are several considerations which would appear to rule out such a course of action.

First, it would imply a direct and abrupt reversal of past decisions concerning the criteria that should be used. If the primary criterion for IDA allocations were to become that of redressing inequalities, IDA would have to concentrate its assistance on those countries which according to some agreed test were judged to be receiving too little. This would lead to a very high degree of concentration on a limited group of countries -- a concentration which the members of IDA have made clear they consider unacceptable.

Second, it is easy to state the broad principle that IDA should redress unwarranted inequalities in the distribution of aid, but very difficult to give it concrete expression in a form which would command general assent. The conceptual and technical problems of implementing the principle through any quantitative formula are formidable. Whatever precise method might be adopted would inevitably be open to question and indeed a matter of controversy, more particularly since large sums of money would be at stake.

A third factor is that the main sources of official bilateral development assistance are also the sources of IDA funds. It is open to question how far these countries would be willing to maintain, let alone increase substantially, the amounts that they were prepared to make available to IDA, if they knew that the principal criterion for allocating IDA credits would be offsetting or compensating for the collective results of their own development assistance policies.

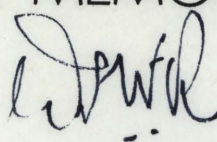
It follows from these considerations that it may not be practical for us to do more at this time in implementing the Pearson Commission recommendation than to accept as an additional criterion for the allocation of IDA credits that of securing greater equity in the over-all distribution of aid. Thus the fact that a country was judged to be receiving unduly low amounts of assistance from other sources would be one, but only one, factor to be weighed in determining its share of IDA financing."

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 15, 1971

FROM: Denis Rickett

SUBJECT: IFC and Private Overseas Investment

This question has been included in the list of topics which U.K. Ministers will be glad to discuss with you if you wish to raise them. I suggest that so far as the IFC is concerned, you might say that Mr. Gaud will be visiting London from May 1st to May 11th inclusive, and will be having full discussions with the interested departments.

2. There is, however, the separate question of U.K. policy for the encouragement of private overseas investment. We know that the U.K. Government does not expect its official development assistance to exceed .5% of GNP over the next few years. If, therefore, the target of 1% of GNP for the total flow of funds from the U.K. is to be achieved by 1975, this will imply a considerable expansion in the rate of private investment in the development countries. The U.K. Government is known to have been considering what measures could be adopted to encourage such investment. In particular, officials have been asked to work out a plan for a bilateral scheme for investment guarantees. You might wish to ask what progress has been made with this.

3. Discussion of investment guarantees might raise the question of the Bank's work on the proposed International Investment Insurance Agency. A short note is attached summarizing the present position of the discussions in the Committee of the Whole on this.