McNamara Papers

Contacts
Ireland (1968 - 1976)

Folder 104

IRELAND

IRELAND

1.	8/9/68	Ambassador William P. Fay
	7/18/69	Christopher Kelly, Managing Director, Harringtons & Goodlass Wall Ltd.; Vice President, Federation of Irish Industries; Director, Irish Industrial Finishes Ltd., Cork
	6/10/70	Ambassador John Warnock
	5/20-22/70 (Paris)	Representatives and Observers at OECD Meeting: M. O'Kennedy, Parliamentary Secretary to the Minister of Education Thomas V. Commins, Head of the Permanent Delegation Miss Mary Tinney, Counsellor, Department of External Affairs Permanent Delegation: Dermot P. Waldron Kester Heaslip
2.	9/19/70 (Copen.)	George Colley, Minister of Finance C.H. Murray, Secretary, Department of Finance
3.	5/16/75	Richie Ryan, Minister of Finance C. Murray, Secretary, Department of Finance S. Cromien, Deputy Assistant Secretary, Department of Finance
	4/25-27/75 (Cesme, Turkey)	Bilderberg: Garret T. D. Fitzgerald, Minister for Foreign Affairs
	1/6-10/76 (Dev.Cte., Kingston)	Richie Ryan, Minister of Finance
4.	3/19/76	Liam Cosgrave, Prime Minister (Dinner for V. P. Rockefeller)
5.	6/18/76	Ambassador John G. Molloy
	3/18/77	Richie Ryan, Minister of Finance (Chairman, Joint Remuneration Committee)
	9/23/77	George Colley, Minister of Finance and Chairman of the Annual Meeting

1

FILES August 12, 1968

S. R. Cope

Visit of the Ambassador of Ireland

1. The Irish Ambassador, Mr. William P. Fay, called to see Mr. McNamara on Friday, August 9.

2. The visit was mainly one of courtesy and most of the conversation was general. The Ambassador however took the opportunity of referring to the economic mission which was recently in Ireland and the Irish Government's hopes that a loan would result from it. Mr. McNamara indicated that the Bank was ready to do business in Ireland but did not give any indication of the size of the Bank's possible commitment.

SRCope:EG

cc.: Mr. Knapp
Mr. Fontein
Mr. Steckhan 8/12

2

Ireland

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Files

DATE: October 22 1970

FROM: M.P. Benjenk

SUBJECT: IRELAND - Meeting with Mr. McNamara in Copenhagen

Mr. McNamara met with the Minister of Finance of Ireland, Mr. Colley, in Copenhagen on Saturday, September 19. The meeting was attended by Mr. Murray and the Executive Director representing Canada, Mr. Isbister and the Alternate Executive Director Mr. Horgan (IMF).

The meeting began with a general discussion of Ireland's economic situation, which the Minister felt was generally satisfactory although Ireland was in need of larger flows of capital. Mr. McNamara said he had been concerned to read of the very rapid increase in Ireland's internal prices, which certainly exceeded the improvements in productivity and was also in excess of price increases in other Western European countries. He feared that such a situation, if allowed toccontinue, could make it more difficult for Ireland to borrow on external markets. The latter point was an important one for the Bank since Ireland was rapidly taking its place among the more developed countries and the Bank's policy was to make sure that such countries made every possible effort to raise their capital themselves. The Bank should only have to supply the balance which could not be borrowed on international markets.

The discussion then turned to projects. Mr. McNamara said he was in favor of projects such as the proposed livestock project which could bring reform into a key sector of the Irish economy. He was less favorably inclined to power projects since power was a field which might be attractive to external private capital, with the Bank making a lesser contribution.

The Minister of Finance hoped that total Bank financing for Ireland might reach around $30 million per year in the next two or three years. Mr. McNamara replied that this seemed to be a rather large amount since it would mean around $10 per capita and he felt the figure should be nearer $20 million. This figure should, however, be taken as an average.

Mr. McNamara
Mr. Knapp

President has seen

3.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: May 23 1975

FROM: M.P. Benjenk *MPB*

DECLASSIFIED
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WBG ARCHIVES

CONFIDENTIAL

SUBJECT: IRELAND : Visit of Finance Minister

The Irish Finance Minister, Mr. Richie Ryan, called on Mr. McNamara on May 16. Also present were Mr. C. Murray, Secretary of the Department of Finance, Mr. Isbister, Executive Director, Mr. S. Cromien, Deputy Assistant Secretary, Department of Finance, and Mr. Benjenk.

The Minister expressed to Mr. McNamara his concern at the Bank management's decision not to present to the Board any further loans to Ireland after the loan to ICC (Industrial Credit Corporation), which was now being processed. He said this decision would create serious problems for Ireland, particularly in view of the deterioration of the country's balance of payments as a result of the energy crisis. Admittedly Ireland was now receiving assistance through the various EEC mechanisms, but these were not yet flowing in sufficient quantities to meet Ireland's needs. The Minister also felt that the decision taken was somewhat abrupt and might have unfavorable effects on Irish public opinion, particularly in the agricultural sector, which had hoped for a second loan to the ACC (Agricultural Credit Corporation).

Mr. McNamara responded by pointing out that the process of "graduation" of countries was an established Bank policy, which did not affect Ireland only but which would extend to more than half a dozen countries during the period 1974 - 1978. Over time member countries would inevitably join the group of those higher income countries to which the Bank did not lend, beginning with the United States and reaching down to countries which enjoyed a certain level of prosperity and also had access to the world's capital markets -- Ireland was certainly in that category. Furthermore, for the first time in the Bank's history, World Bank funds were no longer available in relatively unlimited quantities; it could even be said that these funds now had to be rationed to the Bank's borrowers. The reason for this was that many of the principal shareholders of the Bank were anxious to postpone as long as possible the day when the restrictions embodied in the Bank's Articles of Agreement relating debt to equity, made necessary either an increase in the Bank's capital or a change in the Articles of Agreement. Mr. McNamara pointed out the figures in the Bank's Five-Year Program, shortly to be discussed by the Board, to show that this problem had been aggravated by the prevailing inflation. He concluded that in the prevailing atmosphere a restrictive view would be taken by the Board on extending additional IBRD credits to the higher income countries. He could, therefore, hold out little hope to the Minister for additional lending to Ireland but promised to review the matter after the Board debate in mid-June on the Five-Year Program.

The Minister replied that he understood the problem which preoccupied Mr. McNamara although he had not realized its magnitude as revealed by the figures which Mr. McNamara had quoted. In the light of what had been said by Mr. McNamara, but bearing in mind the Irish Government's preoccupation with the impact on public opinion, and particularly on agricultural opinion, of a sudden cut-off of lending to Ireland, the Minister urged that at least one more operation be contemplated in favor of ACC, and the borrowing relationship would then end on a happier note. This was important also in connection with the Irish Government's decision to do its utmost to provide aid to poor countries including help through the IDA.

Mr. McNamara replied that he would consider the Minister's request and would arrive at a decision in the last days of June.

POSTSCRIPT: After the meeting Mr. McNamara asked Mr. Benjenk to look into the implications of one additional loan to Ireland in favor of ACC and to make a recommendation by the end of June. Mr. McNamara felt that if the cost to the Bank was not too high there would be some advantage in ending the borrowing relationship with Ireland on an agreeable note.

cc: Mr. McNamara (2)
Mr. Knapp
Mr. Paijmans (o/r) - For action please
Mr. Wapenhans

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
DATE: May 15, 1975
THROUGH: Mr. Munir P. Benjenk, RVP, EMN
FROM: Martijn J.W.M. Paijmans, Director, EMN

SUBJECT: IRELAND: Your Meeting with Mr. Ryan, Ireland's Minister of Finance on Friday May 16, 1975

Mr. Richie Ryan, Minister of Finance for Ireland, is currently also Chairman of the Group of Finance Ministers of the European Economic Communities. During his stay in Washington he will be having meetings with the Treasury, the Federal Reserve Board and the International Monetary Fund. He will meet Mr. Witteveen on May 15. It is not yet known whether he will be meeting Mr. Simon.

2. In a telex to you dated May 12, 1975, Mr. Ryan explained that he wanted to discuss the continuation of Bank lending to Ireland. This looks like the final phase in a long and elaborate exchange of views on this subject which has become quite explicit since last year's Annual Meeting and of which Mr. Isbister has been kept closely informed by Ireland as well as the Bank. In particular Mr. Ryan may be expected to raise four points set out in the letter from Mr. C. H. Murray, Secretary of the Department of Finance, to Mr. Benjenk, dated May 9 (Attachment I). This letter is the latest in an exchange of letters on the subject of further Bank lending, also attached to this brief are the other letters referred to by Minister Ryan in his cable to you, as follows:

Attachment II	-	Mr. Benjenk's letter to Mr. Murray dated April 28
Attachment III	-	Mr. Murray's letter to Mr. Benjenk dated March 12
Attachment IV	-	Mr. Benjenk's letter to Mr. Murray dated January 29

Of these Attachment II is the definitive statement of the Bank's position on future lending. Also, at Attachment V, is a table prepared by the Programming and Budgeting Department giving data on Bank lending to selected past borrowers and to active borrowers which are programmed to be phased out in the near future. The Irish authorities have frequently made a comparison between their position and that of Iceland which, on a per capita IBRD lending basis, has done much better. You may care to note that the data suggest that, in some respects Ireland, perhaps because of its shorter association with the Bank, is being less well served than say Israel, Finland or New Zealand, all of whom have considerably higher GNPs and achieved a higher per capita level of IBRD lending (except for New Zealand which was about the same as Ireland). There are of course other criteria for phasing out Bank lending and these are referred to briefly in para. 4 (ii) and there is no great force behind Mr. Murray's claim that Ireland's immediate economic difficulties justify further Bank lending (see para. 4 (i) below). Attachment

VI presents the status of Bank loans to Ireland.

3. The four points in favor of continued Bank lending to Ireland Mr. Murray makes in his May 9 letter are:

(i) Ireland's more favorable longer term economic prospects are of little help in dealing with the present difficulties;

(ii) other countries being phased out for Bank lending have higher per capita incomes and have achieved higher levels of lending per capita;

(iii) two countries (not specified) being grouped with Ireland for phasing out are remaining as borrowers after Ireland has been phased-out; and

(iv) the Bank has introduced the new and unconvincing argument of staff constraints to justify not making a further loan to the Agricultural Credit Corporation.

4. You may wish to respond to these points as follows:

(i) Prospects for the Irish Economy

While the Irish economy was adversely affected by world events in 1974 and the current account deficit in the balance of payments rose by over 200 percent to £296 million, Ireland received increased capital inflows and was able to raise slightly its level of external reserves. The prospects for the first part of 1975 are not good but they are expected to improve in 1976. Agricultural exports are projected to rise 25 percent in response to higher prices (especially for beef) and foreign direct investment is likely to continue its upward trend. Thus by the end of 1975 the current account deficit may decline to about £175 million. The current recession will also temporarily help reduce manufactured imports. While the Government is obliged to increase its external borrowings, the public debt service ratio in 1973 was only 4 percent and the estimate for 1974 is no higher. The European Investment Bank is already lending Ireland far more than Ireland could have expected from the World Bank (it lent £11.1 million in 1973 and £24.8 million in 1974) and an additional £35 million from the EEC Fund for Regional Development will be available during FYs 75 to 77.

(ii) Comparison with Countries with Higher Per Capita Income

All countries with a higher per capita income than Ireland have received their last loan, while Ireland still has one loan scheduled for FY76. However per capita income is not the only criterion in determining Bank policy. The policy paper on "Lending to Higher Income LDC's" identifies three major criteria, namely per capita income; structural weaknesses in certain sectors where the Bank could still play a useful institution building role; and limited access to external capital markets.

(iii) Remaining High Income Borrowers 1974-78

The only countries mentioned in Attachment II which are scheduled to remain as borrowers in FY76-80 are Ireland, Spain (both with one more loan scheduled for FY76) and Greece (loans through FY79). Spain and Greece each have a lower per capita income than Ireland. Greece has also received a lower per capita level of IBRD lending. Attachment V gives the supporting data for the statements in sub-paras (ii) and (iii).

(iv) Staffing Constraints

Staffing constraints have frequently been identified as an important secondary reason for phasing-out. It is true that, given the impressive results with the first Agricultural Credit (ACC) project, mentioned as an example of follow-up loans sought by Ireland, appraisal of a second project may not be unduly demanding on staff resources. In the case of the ACC, the basic issue at the project level remains that, since ACC is doing so well, why doesn't the government give it priority in access to other sources of finance?

5. Other than the issue of further lending to Ireland after the scheduled second Industrial Credit project (ICC II), we know of no operational matters that Mr. Ryan may want to raise. We maintain a relatively low profile in Ireland, relying largely on IMF missions for our economic data. Mr. Horsley, the Programs Division Chief concerned, is currently on mission and will be visiting Ireland from June 1 to June 4 to discuss matters pertaining to projects in progress.

cc: Mr. J. Burke Knapp
Mr. Wapenhans

RTorreira/JChaffey/dl

EMENA files
Division files

ATT. I

ROINN AIRGEADAIS,
(DEPARTMENT OF FINANCE)
BAILE ÁTHA CLIATH 2.
(DUBLIN 2)

9 May 1975

Mr Munir P Benjenk
Vice President
International Bank for Reconstruction
and Development
1818 H Street NW
Washington DC 20433
USA

Dear Mr Benjenk

Thank you for your letter of 28 April about the Bank's policy on further lending to Ireland.

I note with regret that the Bank has not found it possible to change its intention of phasing out lending to Ireland with the proposed new loan for ICC. In view of the importance of continued IBRD lending to this country, Mr Ryan, the Minister for Finance, is taking the opportunity offered by a visit to Washington next week to arrange a meeting with the President of the Bank to review the position. The Minister will be seeing the President on the morning of 16 May 1975.

In the circumstances I would not propose in this letter to go over again the case for further lending which I put forward in my letter of 12 March; but I would like to make the following points arising from the Bank's latest letter:

(1) It seems that factors which may improve Ireland's prospects in the future but which are no help in present difficulties may be colouring the Bank's attitude to further lending to Ireland. This is reflected in the references to possible flows of EEC funds to Ireland in the years ahead and also in the comments about the discovery of natural gas off the Irish coast. On this latter point I should like to point out for the record that to date there has been only one find of gas that has been established as commercial and this is a small one. Furthermore, none of the gas from this find is expected to be brought on shore before 1978-9.

(2) It is clear from your letter that, in effect, Ireland is being phased out at the same time as some other countries which have considerably higher per capita incomes and which - for whatever the reasons - have obtained a much higher level of lending per capita than we have.

(3) It seems clear also that two countries with which Ireland was grouped for phasing out during the FY 1974-78 period are to be retained as borrowers after Ireland has been dropped.

(4) Contrary to the impression given earlier the Bank now appears to be saying that shortage of staff resources - rather than the need to reserve financial resources for the developing countries - is a significant factor in the shortening of the period of IBRD lending in Ireland. As we have argued previously it is difficult to see how staffing should be a major constraint for the type of follow-up loans (e.g. the second loan for ACC) which we have been seeking.

I would hope that the Minister's discussion with the President next week will help to bridge the gap between our views and those of the Bank and to bring about a satisfactory agreement.

With best wishes.

Yours sincerely

C H Murray

ATT. II

April 28, 1975

Mr. Charles H. Murray
Secretary
Department of Finance
Dublin 2, Ireland

Dear Mr. Murray:

We have now looked thoroughly into the points raised in your letter of March 12, 1975, as Mr. Paijmans assured you we would in his letter to you of March 28, 1975. I would like to first comment on some of the points you have raised and then discuss more generally the Bank's position on lending to Ireland.

With regard to your comments on the recent Bank Policy Paper "Review of IBRD/IDA Program and Financial Policies" dated December 11, 1974, the paper specifically states that: "For some time Finland, Greece, Iceland, Ireland, Israel, and Spain have been identified as reaching the stage at which Bank loans could reasonably be phased out during the FY74-78 period. The point at issue is not whether to continue this pragmatic approach -- which, I believe is generally accepted as reasonable -- but instead whether we should increase the presumption against continued lending, etc." Nothing in the paper, or in the subsequent Board discussion on January 21, reverses the policy of phasing out, or eliminates any countries from the list of countries proposed for phasing out in the FY74-78 period. In his summing up of the discussion, Mr. McNamara stated: "Loans to higher income countries; I think it was accepted we should continue the plan of gradually phasing those out rather than precipitously acting to cut off countries with incomes above X, whatever X might be".

The timing of the phase-out of Bank lending to Ireland has been under discussion between Ireland and the Bank for some time, both during the Annual Meetings and between Mr. Isbister, Mr. McNamara and myself. Mr. McNamara and I have stressed the ability of the European Communities to respond to the needs of Ireland as a key factor influencing the possibility of future Bank lending to Ireland. In this connection, I note that the European Investment Bank lending to Ireland amounted to the equivalent of $27.3 million in 1973 and rose to $58.2 million in 1974. I note also that when the European Communities' Regional Fund is in operation, which should be within the year, that Ireland's share would be £35 million ($84 million) over a three year period. This averages $28 million per year, which is more than Ireland's annual average borrowings from the Bank from the first loan in FY69 through FY76, when the Bank's Second Loan for ICC is planned. Added to these inflows are Ireland's receipts from the European Communities' Agricultural Guidance and Guarantee Fund (FEOGA) amounting to £39 million in 1973, and £51 million in 1974. Whatever the particular uses for which these capital inflows are marked, they are undeniably a considerable addition to Ireland's resources.

With regard to Bank lending policy to the six "high income countries" mentioned in your letter, lending to the three which have higher per capita incomes than Ireland has already been phased out, or will be by the end of FY75. On the other hand, the Bank is preparing a further loan for Ireland for FY76. Several countries have been, or are now being, phased out at per capita GNP levels higher than Ireland's, but, as you know, the Bank's policy on lending to high income countries has been tightened since these decisions to phase out were taken. Per capita Bank lending to Ireland is above the median for the twelve countries now phasing out or which have phased out since the mid-nineteen sixties, in fact in only three of those countries has Bank lending per capita been higher.

It is true that the period of Bank lending to Ireland has been shorter than for other high income countries. This is attributable primarily to two factors. First, as your letter notes, Ireland did not approach the Bank for assistance until 1963; unfortunately, by the time Irish projects were ready for consideration, the Bank was experiencing great difficulty in raising the resources it needed and had for a time to suspend lending to all high-income countries. The second factor is the increasing Bank emphasis in recent years on channeling its assistance to the most needy of its members. The Bank's lending operations require not only financial resources, but also staff resources for the appraisal and processing of loans and related matters. I believe you are already familiar with the limitations to Bank lending activities imposed by the available staff resources, since it was for this reason that the Bank was unable to prepare either the agricultural or industrial credit loans Ireland requested last year. We have always appreciated the assistance the Irish Government and borrowers have given to Bank missions in preparing loans but, unavoidably, a considerable share of the work for loan preparation and processing can be done only by the Bank staff. Thus Bank lending to Ireland does indeed absorb resources that otherwise could be devoted to the Bank's poorer members.

We appreciate that higher prices for oil have caused Ireland's balance of payments deficits to increase substantially and that Ireland, like many of the Bank's members could use more investment capital. Nevertheless, Ireland has found natural gas offshore which, with the increased resource flow from the European Communities, gives Ireland better economic prospects than those of many other countries.

As I mentioned in my letter of January 29, 1975, we are very pleased that the Bank's first Loan for Livestock Development is being so successfully carried out. However, there is little justification for a second loan for this purpose unless significant institution-building could be promoted through it. In the first loan, bringing the commercial banks into long-term lending in agriculture was such a major institutional objective. It was that, together with initial assistance to enable Ireland's agriculture to take advantage of its new membership in the European Communities, that justified the loan, even though other reforms and innovations discussed between the Bank and the Government during preparation of the loan, (such as encouraging consolidation of small farms, improving marketing in the livestock sector, etc.) were eventually excluded from the Loan Agreement. We are not aware of any major new institution-building measures that would be significant enough to justify a second loan for livestock to a country of Ireland's income level. Since the Government gives high priority to this program, I would hope it could continue with non-Bank resources; given the addition to Ireland's capital inflow from the European Communities this should beppossible, whether or not this inflow is directly available for on farm investment.

In summary, the Bank's policy on lending to Ireland is certainly no less favorable than that for other countries in a comparable situation, and it is in complete accord with the lending policies recently confirmed by our Executive Directors. After full and detailed consideration of the case that you have so ably presented for further lending to Ireland, I do not find any new factors that would justify changing the Bank's intention to phase out lending to Ireland with the proposed second loan to the Industrial Credit Corporation.

With best regards,

Sincerely yours,

M. P. Benjenk
Vice President
Europe, Middle East and N. Africa Region

Copy to: Mr. C. Isbister, Executive Director

DMM
DMcCall/nr

Cleared with and cc: Horsley, Chaffey

cc: Messrs. McNamara, Knapp, Wapenhans, Paijmans (o/r)

ATT. 14

ROINN AIRGEADAIS,
(DEPARTMENT OF FINANCE)
BAILE ÁTHA CLIATH 2.
(DUBLIN 2)

MN
JC
RT
DMC

12 March 1975

Mr Munir P Benjenk
Vice President
International Bank for Reconstruction
and Development
1818 H Street NW
Washington DC 20433
USA

Dear Mr Benjenk

Please refer to your letter of 29 January 1975 about Bank lending to Ireland.

I deferred my reply pending further consultation with Mr Isbister on the outcome of the recent policy review by the Executive Board of the Bank insofar as it related to lending to higher income countries. I have now received from him copies of the memoranda which passed between you on the subject. These confirm that, notwithstanding the distinct impression to the contrary which was given in the Bank's letter, the review did not result in any new policy decisions affecting continued lending to Ireland.

In the circumstances we cannot accept as reasonable the decision by the management of the Bank to recommend - allegedly under existing policies - only one more loan for Ireland. We are particularly disappointed that the decision was reached without a full discussion with us since we had urged, on a number of occasions in the past, that we should be given the opportunity of presenting our case before such a decision were taken. While the possibility of phasing-out has been mentioned to us generally in discussions in recent years we were not aware that any move on the lines now proposed was imminent. The move is all the more surprising in view of the understanding on continued operations in Ireland which Mr Isbister reached with the President of the Bank on our behalf on 9 January 1974.

The recent policy paper did, of course, mention Ireland as one of a number of countries which it was felt could reasonably be phased out as borrowers during the FY 1974-1978 period. As you know, the conclusion was challenged by Mr Isbister as being premature so far as Ireland is concerned. Like him, we assumed that our position would, therefore, be reviewed and that, at worst, lending to Ireland would be maintained until the end of the period mentioned. Against this background it is far from clear to us why the management should now take the view that lending to this country should cease early in the Bank's FY 1976 when the proposed new loan for ICC goes through. Even the Bank's monthly summary of projects mentions that there are two more loans for Ireland under preparation.

The second paragraph of your letter gives three reasons for the proposed phasing-out of lending to Ireland. I should like to make the following comments on these:

(1) First, the general issue: it is claimed that the objective of phasing out lending to countries with relatively high incomes is to reserve the Bank's resources for countries at a lower level of economic development. We are not aware of any evidence or indication that lending to countries such as Ireland - which constitutes only a small proportion of total Bank lending - is depriving developing countries of funds.

(2) "Ireland has now achieved one of the highest per capita incomes among the Bank's borrowers". This is correct although it should be pointed out that Ireland's per capita income is considerably below that of the highest income countries borrowing from the Bank. At least two countries with per capita incomes well in excess of Ireland's are still obtaining Bank loans and have at least one new project each that we know about in the pipeline. One would have imagined that Ireland would be maintained as a borrower for some time after the phasing out of lending to these countries.

While I would regard per capita statistics as a rather narrow criterion I would like to add that (a) Ireland's per capita income is still well below the level at which other countries were phased out by the Bank, and (b) on a loans per capita basis Ireland has done relatively badly compared with many other developed countries.

(3) Although Ireland's membership of the EEC does give us welcome access to some new sources of funds to help to finance economic development, these are very small in relation to our requirements. The bulk of the funds available from the Agricultural Guidance and Guarantee Fund (which, I take it, is the fund referred to) are not relevant. They represent the cost of payments made on behalf of the EEC under its price support and market intervention arrangements, and as such are not available to meet the cost of development projects. Only very small amounts are at present received from this fund towards the cost of structural improvement of agricultural production. Loans from the EIB are also relatively small. The total approved in 1974 was £24.8 million (some of which was for the private sector). We have not yet received any money from the EEC Regional Fund which is now only being set up. The amount earmarked for Ireland under the fund - £35 million over three years - is substantially below original forecasts.

An important aspect which should not be overlooked is the relatively short period during which Ireland has been receiving assistance from the Bank. Despite the fact that we initiated moves to obtain a loan as early as 1963 we were kept waiting until 1969 - quite unjustifiably in our view - for our first loan. This treatment compares most unfavourably with that given to other higher income countries, some of which have been borrowing from the Bank since the early 1950's.

In this context too I note that your letter does not give any information about further lending proposed for the other five countries with which Ireland was grouped in paragraph 77 of the recent policy review paper. I should be grateful if you would indicate what the Bank's intentions are as regards these countries. It is essential that we should have this information so as to enable us to compare the Bank's current attitude to Ireland with its attitude towards the other countries with which we were grouped.

The policy review paper indicated also that a decision to phase out operations in a particular country was based on a comprehensive evaluation of the capital needs of the country and the country's prospects for raising the capital needed from alternative sources at reasonable terms. The Bank does not appear to have undertaken such a comprehensive evaluation in our case. It is proposing to phase out lending to Ireland at a time when our need for funds is greater than ever before. In 1975 £460 million will have to be found by the State and State-sponsored bodies - a large part of it from abroad - to finance the public capital programme. We are facing increasing difficulties in raising abroad the funds needed - we could elaborate on these if necessary. Obviously, we are not looking to the Bank as a lender of first resort. We feel however that the Bank should continue to support us until our prospects improve.

It is particularly disappointing that the management of the Bank do not seem to have made allowance for the severe problems of change and adjustment which Ireland faces in the aftermath of the recent changes in the world economy. In 1974 the balance of payments deficit on current account increased to £275 million - as compared with £80 million in 1973 - under the impact of higher oil and commodity prices. This and other factors have had a significant negative impact on the economy. Unemployment is now running at the highest level for the past 20 years. Even if the Bank had been justified in concluding some years back that lending to Ireland should be discontinued, a reversal of the decision would, we feel, be warranted in view of our changed position.

I would hope that Ireland's position would be re-examined as soon as possible in the light of these comments. We shall be happy to provide any further information you may require.

I hope that the Bank will take a further look also at the specific question of a second loan for ACC - the Bank's attitude to which is bound up with the overall policy on Ireland. I suggest that my letter of 3 January established a case for this loan. While it is true as you say that important reforms are already in progress under the first loan project, I do not think that the Bank's role has yet been completed.

Long-term lending for planned agricultural development is relatively new in Ireland and it would be a great pity if the catalytic effect of IBRD participation were to be withdrawn prematurely. In the course of 1974 the temporary marketing difficulties which seriously affected our cattle sector made the benefits of the IBRD loan scheme strikingly obvious. Participating farmers who had a long term plan, a moratorium on repayments and the best technical advice were able to surmount the difficulties and are now in a position to exploit the opportunities open to them. Our real problem is that while much has been accomplished there is so much more to be done. We still have within the livestock sector in Ireland severe problems of low incomes for a great many farmers. Moreover, our experience in 1974, when cattle prices fell in Ireland to 60% of the EEC intervention prices, shows that price instability is still a major factor in livestock production here and that producers - particularly the smaller and more vulnerable - must have a capability of riding out short term difficulties and developing to a fully viable stage. The EEC mechanisms provide a suitable long term environment for development but this can be exploited only by access to long term finance coupled with planned development at the individual farm level.

It is most desirable now to sustain the impetus which has built up and continue progress over the span of a second loan. Indeed there are new developments, e.g. the provision of contracting

/services

services for farmers and elements of land reform, which we would hope to associate with a second loan project. Might I add that the Bank in the first loan has accepted the principle of lending to assist Ireland to capitalise on livestock production in the framework of the EEC. Nothing has changed to alter the position.

One final point: the EIB loans to ACC were for food-processing projects. The EIB does not lend for on-farm development. Assistance would not be available from that source to ensure continuation of the programme if the Bank were to withdraw.

I would be grateful if you would let me have a reply to this letter as soon as possible.

With best wishes

Yours sincerely

C H Murray

The EEC intervention price system produces a degree of protection hardly ever enjoyed by any producer anywhere but in the Common Market and as such should be a major stimulus to the development of Ireland's livestock industry.

In view of all the considerations, I regret to say that a second Bank loan to ACC could not be justified.

With my best personal regards,

Sincerely yours,

Munir P. Benjenk
Vice President
Europe, Middle East and North Africa Region

DMcCall/nr

Cleared with and cc: Messrs. Wapenhans, Paijmans, Haynes, ffrench-Mullen,
Sekse, Horsley

Cleared in substance with and cc: Mr. Knapp

cc: Mr. McNamara and Mr. Isbister

ATT: IV

January 29, 1975

Mr. Charles Murray
Secretary
Department of Finance
Dublin 2, Ireland

Dear Mr. Murray:

Thank you for your letter of January 3, 1975, regarding Bank lending in Ireland.

In the course of our discussions at the time of the Annual Meetings I mentioned that it was expected that the Executive Directors of the Bank would review its policy on lending to high income countries in December. The Directors' review has, in fact, just been completed. The approved policy provides for an early phase-out of Bank lending to those countries that have relatively high incomes and access to external capital sources, thereby reserving the Bank's resources for countries at a lower level of economic development. Among our borrowing members, Ireland has now achieved one of the highest per capita incomes. Furthermore, Ireland's membership in the EEC gives it access to the European Investment Bank (EIB), the Agricultural compensation Fund, and, as soon as the Regional Fund begins to operate, to it as well. Against this background, it is the President's intention to recommend one more loan for Ireland, which we would plan for early FY76, under the approved policy.

The question remains whether to lend to ICC or ACC. In deciding to lend to ICC instead of ACC, we had in mind not only the problems I touched upon in my letter of December 12, but also the greater potential for institutional reform in a loan to ICC, namely the support for Ireland's regional industrial development program and the promotion of smaller industrial ventures. The major institutional reforms to be gained from Bank lending to ACC are already in progress and the ACC-sponsored livestock development program is proving its worth. We are pleased that the first loan to ACC is proceeding well, the overheads have been incurred, the reforms instituted and farmers' income rising. I would hope that the Government, as well as the agricultural and banking communities, would wish to give high priority to giving the program the continuing support it needs. Since EIB has made three loans to ACC during the last two years, I would assume that they also are familiar with the merits of ACC's livestock program and might be willing to lend for it.

I would like to explain a little more our position regarding Ireland's membership in the EEC and its implications for Bank lending to ACC. We, of course, realize the advantages for Ireland in exporting to the EEC, and a purpose of the first loan was to assist Ireland in preparing to take advantage of those benefits. This having been accomplished, we would not wish to use further Bank capital to finance expanded livestock production, an important share of which would, and should in Ireland's economic interest, be exported to the EEC.

Data on IBRD Lending to Selected Past Borrowers and to Active Borrowers Programmed to be Phased Out in 1975-80

Country	Population	Years As Active IBRD Borrower	Total No. of IBRD Loans	Total US$m. Value of Loans *	Per Capita IBRD Lending US$	Date of Final IBRD Loan	Per Capita GNP (1972 US$) At Last Loan
Australia	10.6 mn. (1962)	1950-62	7	$417.7 m.	$40	Jan. 1962	$2,200
Austria	7.2 mn. (1962)	1954-62	9	$104.9 m.	$15	Jun. 1962	$1,550
Denmark	4.8 mn. (1963)	1947-63	3	$ 85.0 m.	$18	July 1963	$2,500
Finland	4.7 mn. (1975)	1949-75	18	$316.5 m.	$70	May 1975	$3,100
Iceland	0.2 mn. (1973)	1951-73	10	$ 47.0 m.	$235	Dec. 1973	$2,850
Ireland	3.1 mn. (1975)	1969-75	8	$142.5 m.	$46	Aug. 1975 1/	$1,800
Israel	3.3 mn. (1975)	1960-75	10	$284.5 m.	$86	May 1975	$3,000
Japan	100.1 mn. (1966)	1953-66	31	$857.0 m.	$9	July 1966	$1,330
New Zealand	2.9 mn. (1972)	1963-72	6	$101.5 m.	$35	Mar. 1972	$2,550
Norway	3.7 mn. (1963)	1954-63	6	$145.0 m.	$40	Oct. 1963	$2,350
Spain	35.3 mn. (1975)	1963-75	12	$484.8 m.	$14	Nov. 1975 1/	$1,450
Greece 2/	9.0 mn. (1975)	1968 - 2/	10 3/	$234.0 m. 3/	$26 3/	FY 1979 2/	$1,460

* Net of cancellations and refundings.
1/ Proposed final loans.
2/ Decision on phasing Greece out of the lending program has not yet been taken, and is pending upon further evaluation of the country's economy.
3/ Until FY75.

STATEMENT OF BANK LOANS IN IRELAND
(As of March 31, 1975)

Loan or Credit Number	Year	Borrower	Purpose	US$ Million Amount (less cancellations) Bank	Undisbursed
One loan fully disbursed				14.5	
726-IRE	1971	Electricity Supply Board	Power	20.0	5.7
744-IRE	1971	The Industrial Credit Company Limited	Industrial Finance	10.0	1.7
785-IRE	1971	Ireland	Education	13.0	6.2
804-IRE	1972	Electricity Supply Board	Power	15.0	10.1
921-IRE	1973	The Agricultural Credit Corp. Ltd.	Livestock Development	25.0	18.4
959-IRE	1974	Ireland	Education	25.0	23.9
		Total		122.5	66.0
		of which has been repaid		.1	
		Total now outstanding		122.4	
		Amount sold	1.7		
		of which has been repaid	.3	1.4	
		Total now held by Bank (prior to exchange adjustment)		120.7	
		Total Undisbursed			66.0

4

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert McNamara, President, IBRD

DATE: March 17, 1976

THROUGH: Mr. J. Burke Knapp, SVP, Operations

FROM: Willi A. Wapenhans, RVP, EMN

SUBJECT: IRELAND: Briefing for your Meeting at Dinner with the Prime Minister of Ireland on March 18

1. Mr. Liam Cosgrave, Prime Minister of Ireland, is visiting the United States for about 6 days to participate in U.S. Bicentennial celebrations in several cities. A biographical sketch of Mr. Cosgrave is attached.

2. Bank lending to Ireland began in 1969 with the objectives of assisting Ireland to overcome its immediate capital constraints and supporting investments in priority sectors. Bank loans have totalled $152.5 million, and have been for power development, education, livestock development, and industrial credit. With a loan of $30 million for regional industrial development, approved in August 1975, Bank lending was phased out in view of Ireland's relatively high income level and its access to European Community organizations and the international capital market. The timing of the phase-out was initially questioned by the Government, but they finally accepted it.

3. From joining the European Community (EC) in 1973 through 1974, Ireland received $187 million in loans from the European Investment Bank and EC agricultural subsidies. These sources continue and in addition, Ireland expects to receive about $77 million from the Regional Fund during 1975-77. The most recent operation was a $300 million loan approved by the EC Finance Ministers on February 16, 1976. The loan is funded by the Saudi Arabian Monetary Agency, and is being passed on to Ireland on the terms set by the Saudis - five years at 9.2 percent. The loan is under joint EC guarantee.

4. Ireland became a Part I member of IDA in December 1973. It contributed $3.03 million to the initial IDA financing, $4.0 million to the Third Replenishment and $7.5 million to the Fourth Replenishment. Ireland's purchases of Two Year Bank Bonds totalled $27 million from 1973 through 1975 of which the net currently outstanding is $21 million, an increase of $15 million over their 1973 holdings.

5. Mr. C.H. Murray, formerly Secretary of the Department of Finance, and Alternate Governor of the Bank, has been promoted to Governor of the Central Bank of Ireland. He has been replaced as Secretary and Alternate Governor by Mr. M.N. O'Murchu, formerly an Assistant Secretary in the Department of Finance.

Attachment.

DMcCall/jh

BIOGRAPHICAL SKETCH

Liam Cosgrave: Prime Minister since 1973. Born in 1920, he was educated as a lawyer. He has been in political life for thirty years both as a member of Parliament and in various Government posts, including Minister for External Affairs 1954-57. He has been Chairman of Ministers of the Council of Europe (1955), and was Leader of the first Irish Delegation to the UN General Assembly (1956).

5

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: June 18, 1976

FROM: Martijn J.W.M. Paijmans, Director, EM1

SUBJECT: IRELAND: Your Meeting with His Excellency John G. Molloy

1. You have agreed to meet with His Excellency John G. Molloy, the Irish Ambassador to the United States, this afternoon. I understand that he intends to deliver an invitation from the Irish Government for you to address an International Finance Conference in Dublin in May 1977.

2. In the circumstances, I would think it unlikely that the Ambassador would raise any past issues relating to the Bank's relationship with Ireland. However, you may wish to recall the discussions with the Irish authorities arising from the decision to phase out Bank lending to Ireland. Essentially, these began with a /comment/ by Mr. Isbister, then Executive Director, following the Board's approval of the Second Education Project in January 1974, and your meeting with Mr. Isbister later that month. Following an exchange of correspondence and your meeting with the Irish Minister of Finance in May 1975, it was believed that the decision had been accepted by the Irish Government. However, the issue of phasing out high-income countries was raised again in August 1975, during the Executive Directors' consideration of the second loan to the Industrial Credit Company, Limited, which was intended to be the Bank's final lending operation in Ireland.

3. As a result, and at the request of the Executive Directors, a note entitled "Greece and Ireland--Access to International Capital Markets" was distributed to the Board on December 3, 1975. This paper incorporated, almost in toto and verbatim, the revision which the Irish Ministry of Finance had suggested. In spite of this, in January 1976, the Minister of Finance, through Mr. Earl Drake, expressed to you his concern that the paper did not properly reflect his views. In response to your explanatory cable of January 14, 1976 to the Minister, he replied with an expression of thanks for your explanations and an assurance that the cordial relations between the Bank Group and his Government remained undiminished.

4. You should also be aware that today Messrs. Fritz Steuber (Division Chief in the European Office, Paris) and Mark Cherniavsky also of that office are participating in a conference in Dublin, organized jointly by the European Office and the Irish United Nations Association. The theme of the conference is "The Dialogue on Development" and the keynote speaker was to be the Tanzanian High Commissioner to London who was expected to speak on "New International Economic Order".

5. Messrs. Steuber and Cherniavsky were scheduled to make brief presentations on "What the Bank Can and Can't do to Implement the Objectives of the New Economic Order" and "Ireland's Evolving Relationship with the Bank", respectively. They have been fully briefed on the sensitivity of these

subjects and the sharp reaction of the Irish during the phasing out process, as noted above. They have been advised to exercise the greatest possible caution in their participation.

FPovey/NHorsley:llj

CC: Messrs. J. Burke Knapp, Wapenhans, Knox