McNamara Papers

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CONFIDENTIAL

I. The European Economic Community (EEC)

1. Organization

The European Council of Ministers, composed of ministers of the six member countries, is the main decision making body in the Community. The EEC Commission is the Community's Executive and is responsible for working out and implementing the Council's decisions. Mr. Rochereau, a member of this Commission, is particularly responsible for overseeing development aid questions; director of his cabinet is Mr. Chapperon.

The European executive Commission consists of an administration of twenty specialized departments. The department of "Aid for development", headed by Director General Hendus, has several directorates among which "the European Development Fund" under Mr. Ferrandi, and "Development policies and studies" under Mr. Durieux; there is little crossfertilization between these two directorates. Effective and strong control over the European Development Fund is in the hands of the staff but there are strong conflicts of personalities within the EEC organization and some changes in command involving some of the personalities you will meet may take place in the near future.

The European Investment Bank (EIB) is a totally independent institution with its own Articles of Agreement. Its Board of Governors consists of the six ministers of finance of the EEC member states, who, in fact, also have a seat on the EEC Council of Ministers.

2. Relations with Developing Countries

The EEC maintains special relations with a great number of developing countries:

(a) either through association treaties of which several types exist:

- (i) association with a view to future full membership (Turkey, Greece);
- (ii) association with some former and present dependencies of the EEC member states, containing financial aid and preferential treatment of exports;*
- (iii) association also as a form of foreign aid but not containing financial aid, only some degree of preferential treatment for exports (for example, East Africa, Nigeria, Morocco, Tunisia); or

(b) through specific trade agreements, existing or under discussion (for example, India, Pakistan, Indonesia, Argentina).

* Associated states in Africa are: Burundi, Cameroon, Central African Republic, Chad, Congo (B), Congo (K), Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta.

II. Association Agreements with some former and present dependencies of the EEC member countries

1. Association Agreement 1958-63

At the outset of the EEC in 1958, relations with developing countries were limited to an Association with the, then still dependent, overseas territories of the six EEC member states. This first Association Agreement was insisted upon by France as an outgrowth of that country's policy extending financial aid and highly preferential treatment for exports to its colonies; the five other European countries regarded this first Association as a price to be paid for France's participation in the EEC. The European Development Fund (EDF) was created ($580 million) from contributions by the six European Governments, its resources were to be used through grants for economic and social investment. Access to independence during this period of virtually all the African among the Associated territories (French, Belgian and Italian Africa) did not change their relationship with the EEC (with the exception of Algeria which ceased to benefit from financial aid). Though the Association also englobed - and continues to englobe - dependent and semi-dependent territories in Africa, the Pacific, the Caribbean and the Indian Ocean, the relationship with independent Africa is the more important.

Renewal of the first Association expiring in 1963 was held up for a full year mainly by the Federal Republic of Germany and The Netherlands who insisted on the temporary character of an Association with only a limited group of privileged developing countries. This action was due partly to the fact that the non-French European countries considered they did not get an equal share out of the Association (the French, being historically firmly established in most of the African countries, obtained over 50 per cent of the value of all contracts awarded under the first Association treaty), partly to a genuine awareness of the need to open up the European consumer markets for all developing countries alike; pressures exerted by the U.S. and the forces that led to the creation of UNCTAD did play a role in this context.

2. Association Agreement 1964-69

The second Association was designed as a step towards the achievement of fuller economic independence by the eighteen associated African countries through a complex system which would help them gradually to adapt their exports to the lower world market price levels and to encourage diversification efforts. Total financing available for independent Africa and Madagascar was $730 million ($620 million grants, $110 million loans including European Investment Bank (EIB) funds), $593 million was for the financing of economic and social

90±% of EDF is in form of grants
EDF loans are at 1-3%
EIB " " 8-8½%; EDF subsidy is
available to lower the rate.

investments and technical assistance, $137 million for price support and subsidies, mainly for agricultural inputs. This second treaty also bore the marks of an agreement with independent countries. An institutional framework was established wherein African and European governments and parliamentarians would meet and set the course for development policies.

3. Association Agreement 1970-75

At the end of the second Association period (mid 1969) most of the objectives put into the second Association treaty to bring the African countries to economic independence were not achieved to a satisfactory degree primarily because the ability of the African states to make such achievements had been grossly overestimated in the wake of their independence and, further, because the executive arm of the EEC did not have the skill or the manpower to work out in the framework of the aid program the strategy such a course of action would require. Consequently, the associated countries were on the whole no better off than before, in many instances the contrary was the case as a result of declining producer prices, political unrest, a continued lack of adequately trained staff and of a number of issues more specific to one or another country. Also, as a result of a levelling off in the volume of aid from France, the ability of the African countries to survive without substantial - even increased - European financial support on grant terms appeared to be negligible for most of them. This had to be recognized by even the most ardent opponents of a third Association (Germany, the Netherlands, now on some points also joined by Italy) and a new treaty was hammered out for independent countries for $918 million ($748 million grants, $170 million loans including EIB funds) this time virtually without any special arrangement as to the use of these funds for the encouragement of diversification, price support, subsidies, etc. It was, however, hinted by some European parties to the agreement that it was hoped to be the last Association which would include financial contributions and trade preferences for a small privileged group only. This third Association is now in the process of ratification and is expected to become effective in the second quarter of 1970, expiration will be not later than January 1975.

4. Record of the Association Agreement

- i - Finance

The distribution of an important amount of EDF aid - during the period 1958 to late 1969 $1.1 billion in commitments (roughly $20 per capita in the recipient countries) and $0.7 billion in disbursements (in addition by the European Investment Bank: $45 million commitments and $21 million disbursements) - has not prevented the economies of the combined associated African countries from remaining relatively stagnant and highly vulnerable. Special programs, started by the EDF under the second Association and aimed at overcoming specific problems of the African countries (price support to compensate for the fact that they were forced to adapt to world price levels, programs for diversification, availability of loan funds), had only limited effect. The attempt to have the recipient countries participate in the management and the financing of projects supported by the EDF has virtually failed as it was found that to request considerable efforts in these fields from the Associates very often resulted in substantial delays in project execution. Recipient countries proved unable to maintain properly and often even to utilize investments if financed in too great a number, as has clearly been the case in the past.

Though the distribution of its funds over the Associated countries is not rigorously predetermined, the EDF, due to its political motivation, has to respect certain rules of equity and cannot discriminate against any Associated country on the grounds that no projects are available or feasible for financing. As a side effect, approval of projects can be given at a very early stage, subsequently difficulties in preparing the project for execution often do occur and have a delaying effect on implementation, out of $425 million committed for project aid since mid-1964, only $115 million has been disbursed in late 1969.

Under the first Association, the EDF financed projects virtually irrespective of their rate of return. During the second Association, some tightening up of procedures could be observed, but there is still severe criticism of EDF's operations by several European governments and this has led to their insistence that sounder standards be applied to the examination of projects and that coordination with other donors should be stepped up.

Consequently, the EDF which finances normally one hundred per cent of a project, often including preinvestment activities and always supervision of construction, says that it intends to adopt different standards for the financing of projects in Africa. This, however, has also been stated on earlier occasions and it is extremely doubtful whether the EDF will be in a position to implement such a decision consistently. The Association is essentially a political arrangement and in the future, as in the past, there will be enormous pressure on the EDF to spend all the available funds, one way or another, within the designated period.

- ii - Trade

In the field of trade relations, the free trade area established between the EEC and the Associated countries gave the latter a considerable advantage, often labelled as discriminatory, over the non-associated developing countries. The experience in this field is, however, that the Associated states have not been able to improve notably on their export earnings from the EEC area; in certain cases, their relative position as compared to other developing countries has even deteriorated (cf. annex 4). The worldwide preferential trade agreements already agreed upon by the EEC in the Kennedy Round negotiations and additional EEC outer tariff reductions which are now under preparation will not work out in favor of the African Associated states who are very critical of the EEC policy in this field.

5. Prospects beyond 1975

The future of the EEC development aid fund for Africa beyond 1975 is difficult to predict. Among the European governments which, through the Council of Ministers (the Community's decision-making body), control the EEC administration, budget and policies, there remains a deep split between those who see the Association with Africa as a transitional solution (Germany, the Netherlands, to some extent Italy) and those (mainly France) who feel that it should be a permanent framework of European-African cooperation.

There are conflicting trends with respect to the direction of aid, France favoring the financing of price support arrangements while other countries are pressing FED towards development project financing.

The EEC executive, the Commission, is in favor of a continuation of the Association policy, if it were only to assure the continuation of the role it is playing in the field of development aid. More important, however, the European parliament, which is gradually acquiring more powers, is very firmly in favor of continuing and maintaining an association with Africa, though often merely for reasons of public relations. The outcome of the Association issue, however, will only be a side effect of the development of the EEC itself, because the weight carried by the relations with Africa is minor as compared to relations among the EEC states themselves.

III. EDF Procedures

The body responsible before the EEC Council of Ministers for the policy of EDF is the EEC Commission. Each of the Commission members supervises, with some of his colleagues, a particular activity of the EEC. Mr. Rochereau is President of the group supervising Development Aid. Day-to-day activities of the EDF are carried out in Brussels by a staff of roughly 50 under the directorship of Mr. Ferrandi who exercises very strong control over the organization and for him as well as for staff the approach to selection and study of projects is that relevant experience will always be superior to analysis. Some support for research activities may be given by staff from other departments. In Africa, EDF has at its disposal a great number (probably 150) of contractual foreign personnel: technical supervisors and authorizing officers, who closely follow the execution of projects, call for tenders, award and sign contracts.

Final decisions on the financing of projects proposed to EDF are made by a special committee under the chairmanship of an EEC Commission representative, members are representatives from the six EEC member governments. Financing is either in grants (well over 90 percent of the cases) or can be made in special loans (at interest rates of 1 to 3 per cent, repayment period of 17 to 40 years), depending on the type of project exclusively. For soft loans and with the start of the third Association also for grants out of EDF resources, the opinion of the European Investment Bank is required. Quite apart from that, the EIB handles, absolutely independently, its own hard funds for Africa (6 to 7 per cent interest, which may be reduced by an EDF interest subsidy, 10 to 20 years repayment). It should be noted that the EIB does not succeed in putting to work all the hard funds it has at its disposal for Africa; during the second Association period, only US$ 45 million out of $ 70 million available could be committed due to a shortage of projects with an adequate rate of return. It is very doubtful indeed whether the EIB will be equipped to formulate in the future an opinion about all the projects submitted to it for advice by the EDF.

In discussions preceding the third Association, several governments urged the Fund to plan its activities "as much as possible" within the context of a programming of the economies of the Associated countries. It was therefore decided to make a series of retrospective and prospective studies on the economic development of the aid recipients in the EEC; very detailed studies will be carried out on some of the most important countries. In view of EDF's limited manpower, it is envisaged that independent experts will be associated with this work that is being prepared by the Commission's own services.

Given the quality of planning in most of the African Associated states, the very limited manpower available in EDF to supervise this analytical work by consultants and the fact that EDF is dramatically short of a pipeline of projects and therefore presently already quite engaged in finding projects suitable for financing, in view also of EDF's obligation to allocate the available funds within a rigid time horizon, there is doubt that much of this analytical work will be completed in time to have a bearing on the Fund's financing policies under the present Association treaty. Our own economic work, on the other hand, should be of value to EDF in formulating its program.

IV. Aid Coordination with EDF

1. Past Coordination

In the past EDF and Bank/IDA cooperation has taken place at the working level only, leading towards mutual briefings of staff on projects financed, in the pipeline or to be conceived.

Back in 1964, there was the joint financing of two road projects (Mauritania, Somalia), which has not contributed to the good understanding between the institutions, in particular among the engineering staff. A possible new joint operation in Somalia (Mogadiscio Port) is under consideration. We are also discussing the joint financing of a highway design study in West Africa. In some instances there has been an, informal, agreement on a repartition of tasks between the institutions (for example, in Rwanda where Bank/IDA covers the infrastructure sector and EDF the power sector); in others, some formal agreement for coordination is in preparation (Burundi and Rwanda, Congo K). We also send our economic reports and other relevant studies to EDF but we know that the use made of these documents has been rather limited in the past; there are signs that this is rapidly changing.

EDF coordinates its activities very closely with the French bilateral aid agencies through monthly in-depth meetings. A somewhat less elaborate coordination takes place separately with the German bilateral aid institutions.

2. Desirability of Future Coordination between Bank/IDA and EDF

As indicated above, there are many pressures on EDF to move away from projects in the social sector and towards the area of more directly productive projects where financing could gradually be taken over by another type of institution, i.e., the European Investment Bank; this means, for the next five years, increased competition on the African scene in the financing of projects of the type suitable for Bank financing. There is already abundant evidence of such competition in Dahomey, Mali, Senegal and Togo and other cases will follow once EDF has completed its action program on which it is presently working.

An increased competition between Bank/IDA and EDF could have serious consequences such as:

(i) A reduction in the total flow of aid to Africa.

(ii) Inefficient utilization of Bank/staff resources. Time may be spent on the identification and preparation of projects many among which may in the final analysis, be financed by other organizations which will not insist on conditions which Bank staff have spent a good deal of time to define.

(iii) EDF financing of projects in Africa will be undertaken with more lenient conditions on institutional arrangements, organization, management, price policy, than the Bank would apply. EDF is not equipped to use leverage in these fields for technical and political reasons.

(iv) A smaller volume of Bank lending with consequent reduction of its leverage and role as economic advisor (also a role FED is not equipped to take over).

We, as well as the countries receiving FED aid, are interested in maximizing the flow of FED resources since these resources are made available on more favorable terms even than those of IDA. In principle we should avoid Bank Group financing which will diminish the possibilities of FED investment. The question which arises immediately is whether there is a sufficient potential volume of good projects to absorb the total aid available for the area in question for the period 1970-1975. Total resources at the disposal of EDF for investment and technical assistance in Associated Africa and Madagascar amount to $830 million, the EIB has an additional $90 million available. This compares with the figure of roughly $980 million in our lending program for the same period for the same countries. It would seem unrealistic to expect that all the 18 African countries in question can absorb, in an optimum fashion, their share in $2.0 billion project aid in five years if the projects are mainly to be of the type until now financed by the Bank/IDA, which is also the type of project EDF and EIB are looking for. Though we are making substantial progress through identification and preparation work in increasing the number of feasible projects in Africa, the possibility of conflict or overlap with EDF and the EIB is a very real one. Only in a few countries (Congo (K), and to a lesser extent Ivory Coast, Madagascar) may the potential volume of projects be no major problem; the main issue here would be one of far-reaching coordination of policies and projects between the three agencies involved. However, most of the other smaller states which have inadequate programming and scarce resources are likely to experience difficulties in accommodating all potential lenders for the classical type of projects.

The problems of potential overlap and competition would be resolved if there were to be a natural division of responsibilities between the European institutions and the Bank Group. We, as well as the recipient countries, have an interest in seeing FED resources used more wisely, and we must welcome FED's determination to direct its financing towards economic projects. We certainly cannot pretend to reserve the "cream" of projects for our financing, and FED, nor more than ourselves should be invited to subsidize projects of low economic priority. On the other hand, one must recognize that in many African countries because of limited opportunities, one must be prepared to accept a lower rate of return than would be the case in more promising areas of the world. There may be a reason for subsidizing inputs into agriculture, for the purpose of promoting the acceptance of inputs which are demonstrably economic even without subsidies. There are also recurrent expenditures of a developmental character which can be legitimate claimants of foreign aid. FED possesses more flexibility than the Bank in this respect and can play an extremely useful complementary role. FED can finance up to 100 percent of project costs, including current inputs, technical assistance, management supervision of projects by its field staff and consequently an ability to deal with smaller projects. All this suggests that while FED should not be urged to finance projects with low rates of return and even projects involving subsidies while we concentrate on projects with higher rate of return, there are complementary roles which effective cooperation would make possible.

3. Conclusions

The foregoing indicates that, while the prospects for close and highly formal cooperation because of institutional and personality problems are limited, some major improvements can be brough about. The most promising course of action appears to us as follows. First, our economic reports on African countries can serve as a basis for discussions or diagnoses of needs and priorities. We should discuss with FED, on the basis of these reports, the development strategy that we should together try to pursue in each country or region.

Second, within the context of such a discussion, we should try to reach some agreement on pre-investment studies that should be undertaken and on the particular projects which each of us could finance. It will, of course, be difficult to overcome the basic dilemma arising out of the fact that, if all available FED resources are to be effectively used, the scope for Bank Group financing may well be considerably more limited than we have so far envisaged. If, on this basis, our investment in FED-financed countries is likely to be rather small, we may well encounter serious difficulties in undertaking periodic basic investigations of the economies of these countries and to exert influence for the improvement of economic programs and policies. Basic economic studies, such as those the Bank is undertaking, impose a considerable burden on the governments of the countries in which the studies take place. They will be less disposed to cooperate with us in making these studies and to heed the recommendations contained therein if the Bank Group's own financial stake is very small. The only possible way of avoiding this is to have FED indicate to the Government of the countries in question that it proposes to rely very heavily on the Bank's analysis of their economic situation and problems. I rather doubt that FED is prepared to go this far, but it is worthwhile asking the question.

I believe that if we can conduct such discussions with FED most problems of coordination for most of the countries concerned will be resolved, since we are carrying on similar discussions with FAC, and since the three of us represent the bulk of the lending for these countries. There are two countries, Congo (K) and perhaps the Ivory Coast where a more elaborate type of coordination such as consultative groups would be justified. FED has generally been reluctant to participate in such groups and would not take the initiative. The case for a consultative group is not clear for the Ivory Coast and the other major lender, France, is very cool to the idea.

There remains the question of joint financing. We think that such a possibility should be limited mainly to the financing of very large projects where a single lender would not be willing to consider financing of the whole. In the case of joint financing with FED, the technique does not serve one of its primary purposes, the mobilization of more funds on better terms for the recipient country than would have otherwise been the case. Procedures of FED are fairly cumbersome and past experience has shown that joint financing operations led to substantial delays and complications. FED also is not in favor of generalizing the practice but it is prepared to consider joint financing when demonstrable benefits can be shown for a recipient country.

Annex 1

EEC - Institutions

Commission	It is the Commission's responsibility to work out and to implement - after decision by the Council of Ministers - common policies which should lead to the gradual establishment of a full Common Market. The Commission is the initiator of Community action and does have some specific executive powers.
Council of Ministers	The Council takes policy decisions on the basis of proposals from the Commission. Since 1966, weighted majority voting is the general rule on Commission proposals, in other cases at least four countries have to agree on the matter under consideration (France, Germany, Italy have four votes each; Belgium, Netherlands, two votes each, Luxembourg, one vote).
European Parliament	The Parliament consists of members elected from and by the legislatures of the six member countries. The Commission must report annually to the Parliament which can oust them by a motion of censure on that report. The Parliament has to be consulted before certain specific decisions are taken.
European Investment Bank	Though a part of the EEC with the same membership, the Bank has an independent legal personality and its own administration. Its activities which were originally limited to the territories of its member states have progressively extended to some of the countries associated with the EEC (Greece - though now temporarily suspended -, Turkey, the Associated African states and Malagasy).

K

ALGERIA BRIEF

Economic and Political Situation

1. The referendum of July 1, 1962 resulted in a vote for independence. Mr. Ben Bella was chosen Prime Minister, then President. He succeeded in suppressing an internal rebellion, but was deposed by Colonel Boumedienne in 1965, and is still detained without trial. In December 1967, a coup was attempted against Boumedienne which he successfully put down. The instigators, who were felt to have wide support, were tried and convicted in 1969 in a move that was interpreted as a show of political strength by the Government. Colonel Boumedienne is now in firm control and concentrating on party reorganization. The opposition is fragmented and the main leaders in exile. In the near future, the regime is expected to face little opposition and to concentrate on economic matters. Externally, France and the USSR will compete for influence. Algeria's attitude towards the US is likely to improve in view of the importance of the gas sales (see para. 12).

2. The most recent Bank economic mission was in 1966 and its report is seriously out of date. The following comments are derived from the IMF consultation mission of September 1969 and several other sources.

3. The economy has continued to improve under the impact of continuing reform. Government policy in the past had in the main focused on changing the institutional pattern; the emphasis now has shifted to improving efficiency in production, with better control over the use of resources. The results have been impressive; GNP grew at 6 percent in 1967 and at 12 percent in 1968, reaching a level of $3.6 billion in the latter year. Increasing oil revenues helped this performance and they continue to be the main source of foreign exchange. Oil share of export earnings was 71 percent in 1968. In 1969, the cereal harvest was very good, an important oil discovery was made, new contracts signed by SONATRACH (State-owned oil enterprise) for American technical help, a new pipeline, a new oil refinery and for natural gas sales. Further expansion of oil exports will be limited by production capacity which is not expected to expand until 1972.

4. In order to maintain a 6 percent growth rate, the Algerians plan to invest $5 billion over the next four years, 1970-73. Because of export limitations, external sources of financing will have to be sought. Over 50 percent of the planned new investment will be in industry, including petro-chemicals. Unemployment will remain a major problem with little improvement in the near future. The French oil agreements are to be renegotiated and the Algerians will be pushing for higher prices. The trade surplus and reserves should rise next year.

Relations between France and Algeria

5. Relations since independence have been dominated by the desire of the French Government to keep a major oil producer within the French Franc Area. They have also been affected by a number of disputes, in particular on nationalization, trade, oil and admission of Algerian workers to France.

6. Both France and Algeria seem to have agreed tacitly to shelve the dispute about the "biens vacants", the formerly French-owned properties abandoned at the time of independence and taken over in 1962. It is sometimes reported that the French Government might consider indemnifying itself the former settlers. Negotiations on subsequent nationalizations, in particular those made in 1966 and 1967, took place at various times with the French Government. A number of disputes relating to property owned by French public agencies were settled, and in a few cases such as banks, there was an agreement on the purchase price in advance of nationalization. As to the disputes still pending, no general evaluation and negotiation procedure was apparently agreed upon although some efforts were made on a case-by-case basis, most of them without success.

7. France attempted without success to link renegotiation of the trade agreement with Algeria in 1968 with a settlement of nationalization issues. A list of expropriated firms was then submitted by the French Ministry of Foreign Affairs to the Algerian Government. We do not have this list.

8. The sheer size of the possible claims against Algeria on expropriations creates both an administrative and financial barrier to resolution. The principle of compensation has been recognized in law by the Algerians, but the progress in treating specific cases is not known. However, it is reported a procedure for dealing with one mining case is being worked out, and that the Algerians are working on their own list of expropriated properties. The lack of records and information makes this extremely difficult.

9. France was not in a position to import the quantities of wine agreed upon in 1964, forcing Algeria to find markets in Eastern countries at much lower prices. Entry of Algerian workers into France was also limited. These disputes resulted in a cooling of French-Algerian relations in 1967 and 1968, but France continued to provide technical and financial assistance of the order of $100 million a year. Since 1968 relations have improved as both countries showed more flexibility. An agreement was signed in October 1968 on the admission of Algerian workers. French oil companies raised royalty payments for exported crude and increased investments for exploration. Foreign Minister Maurice Schumann visited Algeria in October 1969 and prospects for renegotiation on a number of problems, including oil and wine, appear relatively favorable.

10. Compensation for nationalized properties seems to remain the only question for which no settlement is in sight, but this does not appear to be now of major concern to the French Government. France remains Algeria's major trade partner and the large Algerian imports of equipment required for the investments planned during the next few years will continue to result in a sizeable trade surplus in favor of France, exceeding probably French financial assistance.

The United States and Algeria

11. The United States does not maintain formal diplomatic relations with Algeria. However, informal relations are very active. Although at least one American oil company (Sinclair) has an unresolved dispute with the Algerians, Getty and El Paso have apparently come to agreement and others, Mobil and ESSO, are negotiating. The US State Department seems to accept the Algerian distinction between investments made before and after independence. It has not actively involved itself in the expropriation question, and seems to consider the Bank's position on this question as somewhat rigid. The Eximbank has under consideration a proposal to finance two Boeings for Air Algeria. Apparently the Algerians have dealt fairly with the American investors who came in after independence. Contractors and consultants seem eager to work in Algeria and there are no known complaints about the treatment received.

12. A recent and important new development is the El Paso/SONATRACH venture, a massive scheme estimated to cost $900 million in which SONATRACH, the government oil enterprise, will build and operate facilities to liquify natural gas which El Paso will ship to the American market. A sales contract, conditioned by the availability of financing for the investments, has been concluded, providing for Algerian sales to El Paso of $150 million a year for 25 years. The State Department seems to favor this operation, but FPC approval must still be requested and apparently the American financial community, while interested in financing the Algerian portion of the scheme, would prefer World Bank participation. Eximbank has already been approached. According to State, Eximbank and New York bankers, the Bank should also expect to be approached by the Algerians.

Relations between Algeria and the Bank

13. A $20.5 million loan was made in 1964 to finance a gas liquidifaction plant (CAMEL). There were some operational difficulties during implementation, but the Algerians have been prompt with their repayments. The Bank, for its part, went out of its way to help the Algerians to transfer the seat of CAMEL from Paris.

14. In 1966 a Bank economic mission visited Algeria, and some large industrial projects (pipeline and a fertilizer plant) were considered by the Bank. The Algerians were hoping that Bank financing would

enable them to develop their oil and petrochemical industry independently of the big international groups. However, Mr. Woods decided that the Bank could take only a token interest in the pipeline project and that substantial financial participation by an experienced foreign group was needed to insure successful management and marketing arrangements for the fertilizer project.

15. In the spring of 1967, the Minister of National Economy told Mr. Woods that the conditions required by foreign groups to participate in the fertilizer project were too onerous. Mr. Woods declined to reconsider the Bank's position, and the Minister issued a press release attacking the Bank. In the summer of 1967, the Bank tried to interest the Algerians in the preparation of several smaller projects (education, water supply, possibly agriculture). The Government's reaction was cool and its interest disappeared after the 1968 Annual Meeting, when the nationalization issue came to overshadow completely relations with the Bank.

16. The Bank has, on various occasions, expressed the view to government officials that Algeria should make reasonable efforts towards a settlement of its many nationalization disputes and, as a first step, should inform the Bank on the outstanding claims. In a memorandum submitted during the 1969 Annual Meeting, Algeria gave some information which, however, fell by far short of what we expected, and claimed that the Bank had no right to raise the issue and that the Bank's position was more rigid than that of the US and France, the two most interested countries.

17. France's position is ambiguous. At times it appeared to take the position that the claims of its nationals were part of the general Franco-Algerian claims and counter-claims and that the Bank should not be concerned with them. More recently, it represented that the claims should be a matter of concern to the Bank, but that the Bank should treat this representation as confidential vis-a-vis the Algerians. This enables the French to maintain good relations with Algeria, but could become a major cause of embarrassment to the Bank, should we reach the conclusion that other compensation claims towards Algeria are not any more an obstacle to considering Bank lending.

Conclusion

18. The Bank has recently asked for clarification of the French position vis-a-vis Algeria and Bank lending there (see the enclosed memo from Mr. Knapp to Mr. Plescoff). As yet the French reaction is not known, but economic and political elements will both play a role in their reaction.

(i) The French are unlikely to wish Bank intervention on behalf of any of their claims at a time when they are trying to develop a special role in the Mediterranean.

(ii) If some outside competing influence must develop in Algeria, they probably would prefer the influence of the Bank to that of the US or the USSR.

(iii) Mr. Pompidou, in his electoral campaign, had indicated he was thinking the French Government should itself compensate some claims, but it is unlikely that the Government would be quite prepared to endorse the substantial financial responsability which would logically follow a complete renunciation of the expropriation claims.

(iv) Substantial Bank financing in Algeria would bring a welcome contribution to the French balance of payments, since about a quarter of Algeria's imports come from France.

19. Even if the French Government were to withdraw its complaints and urge the Bank to lend, the Bank would still need to overcome the problem of complaints by private parties. Since the potential compensation payments would be quite large, the Algerians would probably enter into serious discussions with the Bank on this question only if the potential Bank financing were very substantial. In the Algerian context, only industrial projects would provide an opportunity for such financing. This would imply a reversal of the position taken by Mr. Woods in 1966 on the need for substantial foreign participation in large scale industrial projects. The Algerian success since then in managing large projects, especially by SONATRACH, their national oil company, by buying technical assistance and management expertise when necessary, would seem to justify considering such reversal.

20. If the Bank were prepared to consider large scale industrial projects in Algeria, the El Paso/SONATRACH joint venture would be the first to present itself. All indications are at present that the Bank intervention is wanted by El Paso and the State Department by choice, and the Algerians by necessity. Precisely because of the US interest, the French are probably unenthusiastic about this scheme, and it might be useful to explore not only the French attitude regarding the compensation issue, but also whether there is any large-scale project in Algeria of interest to the French and in which Bank financing might be contemplated.

Europe, Middle East and North Africa Department
March 10, 1970

Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files DATE: March 10, 1970

FROM: John A. King JAK CONFIDENTIAL

SUBJECT: Algeria - Compensation Issues

On February 25 and 26, 1970 meetings were held in Mr. Knapp's office, attended by Messrs. Knapp, Broches, Demuth, Benjenk, Delaume, Springuel and King, to consider the reply to be made to the Finance Minister's letter of September 29, 1969 and to consider the position to be taken by the Bank with respect to France in relation to the disputes over compensation, particularly the French desire to have its concern over these issues be treated as confidential by the Bank.

The most important new element was the long-term sales contract for liquified gas made between El Paso Natural Gas and SONATRACH. The carrying out of this contract would require large investments (i) by El Paso in the United States in gassification plants, port facilities and the like, (ii) by both El Paso and SONATRACH in vessels for transporting LPG, and (iii) by SONATRACH in Algeria for additional transmission and liquefaction facilities. The foreign exchange component of Algeria's investment was estimated at $250 million. It appeared that El Paso Natural Gas would have no serious problems raising the funds for the construction of the facilities in the United States, but Algeria apparently was having difficulties in finding the foreign exchange financing for its facilities to be constructed in Algeria. There were indications, however, that American institutional investors would be prepared to assist Algeria if the Bank participated: the Bank's participation being considered as an umbrella for the political risks. Representatives of Shearman and Sterling were expected to visit the Bank during the first week of March on behalf of El Paso (and perhaps indirectly Algeria) to provide information concerning the proposed transaction and to seek clarification of the Bank's position.

There was some discussion of what the Bank's position toward Algeria should be, assuming that the compensation issues could be satisfactorily disposed of. The consensus was that in recent years Algeria had strengthened its administration, had shown a sincere interest in development, and had enjoyed good growth rates. It was felt that this was an important country with very considerable potential for development as well as for leadership; therefore it would be constructive for the Bank to be operating there. At the same time, it seemed clear that Algeria was not interested in small operations of the kind that had been considered a few years ago; Algeria would, however, be interested in a substantial loan in the petroleum or petro-chemical field. A figure of $50 million was suggested.

The Bank's position vis-à-vis France was also discussed. There was clear agreement that the Bank could no longer accept France's two-faced approach to the compensation issue which put the Bank in the position of being more strict than France, the injured party. In addition, it was pointed out that there appeared to be differences in the attitudes of the Foreign Ministry and the Treasury with respect to compensation issues and that these differences probably could be resolved only at the highest political level. Mr. McNamara's visit to Paris in March provided a useful opportunity for getting prompt consideration of these issues at an appropriate level. It was conceivable that under these circumstances France might take the position that all the disputes over compensation were appropriate for intergovernmental negotiations and not a concern of the Bank. At the minimum it was expected that France would put some of the disputes, such as those relating to the "biens vacants" and expropriated land, in this category.

There was a brief discussion of the U.S. position. Mr. Knapp noted that the apparent lack of concern about these issues at the operating levels in the State Department might not, in the last analysis, represent the official U.S. position. On the other hand, it was pointed out that most of the U.S. claims concerned the large oil companies who constituted something of a special case and who in general preferred resolving disputes through direct negotiations rather than relying on the U.S. government.

It was agreed (i) that a memorandum would be prepared from Mr. Knapp to Mr. Plescoff which would attempt to make the French clarify their position before Mr. McNamara's visit and (ii) that after the French reply had been studied the nature of a communication to the Minister would be reviewed. Two alternatives were considered (drafts of both are attached), but there was considerable support for one which ignores the Minister's letter of last September and simply proposes new discussions between the Bank and Algeria.

Attachments

Cleared with and cc: Messrs. Springuel and Delaume
cc: Messrs. Knapp o/r, Broches, Demuth, Benjenk o/r.

(This draft is subject to revision
in the light of the meeting between
Shearman and Sterling and the Bank
next week.)

DRAFT
JAKing/mt
February 28, 1970

(Revised to take into account the comments
of Messrs. Knapp and Broches)

Dear Mr. Minister:

I have read with interest the communication attached to your letter of September 29, 1969, concerning Algerian policy with respect to the various nationalizations which have occurred since Algeria became a sovereign state. I would like to express a few thoughts which came to me as I read your communication.

It seems to me that some of the positions taken in the communication are based on misconceptions of the Bank's attitude and objectives. The Bank does not question the sovereign right of Algeria to nationalize properties within its borders. It merely says that such actions may have consequences outside its borders and that the Bank is concerned, in Algeria's interest as we see it, with these consequences and their effect on Algeria, in particular on its capacity to raise capital abroad for investment. In a more general sense, the Bank's interest in these disputes arises out of its character as a cooperative institution including both the developing and the developed countries.

The communication devotes considerable time to setting forth Algeria's view with respect to "les biens vacants" and to the regime of real property. The Bank certainly does not question the right of Algeria to reorganize its regime of real property and considers any dispute relating to "les biens vacants" and to expropriated land to be a matter of concern only to Algeria and France.

The Bank has very incomplete information on other disputes over compensation. I want to make quite clear, however, that the Bank's concern with questions of compensation has never led the Bank to require that all disputes be settled before the Bank can undertake operations in the country in question; the Bank does want to be satisfied, however, that the country is taking reasonable steps to resolve these disputes. The Bank's requests for more information arose from its desire to determine whether or not Algeria was taking such steps. Algeria, given the complexities of its situation, may well be taking reasonable steps to resolve these disputes, but with the information now available to us, we are unable to come to any judgment.

I therefore welcome the statements at the conclusion of your communication that the government departments are now working on inventories of disputes and procedures for fixing and paying compensation, and I hope that you will be in a position to communicate these findings to the Bank in the near future so as to permit it to make the judgments referred to above.

..AFT
JAKing/mt
February 26, 1970

Dear Mr. Minister:

Some time has passed since I have had the pleasure of talking to you and even more since the Bank has had close contacts with Algeria. During that time a number of changes have occurred, including a change of Director of the Bank's Europe, Middle East and North Africa Department.

Though our knowledge is not first-hand, we understand that Algeria has made notable strides in recent years in improving its administration and in encouraging economic growth in a number of sectors. The Bank would like to be better informed concerning these important developments.

Under all the circumstances, I think it would be highly desirable if Mr. Munir Benjenk, the new Director of the Europe, Middle East and North Africa Department whom you undoubtedly remember as the Loan Officer for Algeria some years ago, paid a visit to Algeria in the near future for informal discussions with you and your colleagues. I would appreciate having your reaction to this proposal.

cfha

OFFICE MEMORANDUM

TO: Mr. George Plescoff

DATE: March 2, 1970

FROM: J. Burke Knapp JBK

SUBJECT: Algeria - Compensation for Nationalized Properties

You will recall that, during the last year or so, we have had a number of discussions about the concern of the French Government over the failure of the Algerian Government to pay compensation for the French-owned properties expropriated by Algeria. In my memorandum of June 26, 1969, I summarized the steps which the Bank had taken since 1966 to encourage the Algerians to make reasonable efforts to resolve these disputes through intergovernmental negotiations, arbitration or otherwise. I pointed out at that time that lack of detailed information prevented the Bank from identifying the crucial issues and from defining the precise steps which would constitute reasonable efforts on the part of the Algerians. At the most recent Annual Meeting we again raised the compensation issue with the Algerians.

In dealing with Algerian authorities, however, the Bank has been handicapped by your request that the Bank treat the French concern over this issue as confidential. I believe the time has come when the Bank can no longer be effective in discussing these issues with the Algerians without being able to pass on to the Algerian authorities the French position both generally and with respect to which of the issues your Government believes it appropriate to reserve for intergovernmental negotiations.

On the basis of information now available to us, it seems possible to distinguish among several categories of claims: for example, those relating to (i) expropriated land, (ii) other expropriations relating to "biens vacants", (iii) other expropriations arising out of "security considerations" in the aftermath of the War, (iv) other substantial individual investments, perhaps to be subdivided between those made before and those made after Independence (though we are not aware of any disputes in the latter category involving France). It would be helpful for the Bank to know whether France believes that any distinctions should be drawn between disputes in these various categories (or other similar categories), and in addition to know which of these disputes France would consider to be a matter exclusively for intergovernmental negotiations between France and Algeria. In order to make a considered judgment on the nature, size and merits of the disputes between French interests and Algeria it would be helpful if you could arrange for us to receive all pertinent information available to your authorities, at least with respect to those claims which you do not feel should be reserved for intergovernmental negotiation.

Inasmuch as we expect that Mr. McNamara will be discussing, among other matters in Paris, possible Bank operations in North Africa, I would hope it might be possible for you to give me, before this visit, at least a preliminary reaction of your authorities to the issues of principle raised in this memorandum.

Form No. 57

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

OFFICE MEMORANDUM

Mr. Knapp

TO: Mr. Georges Plescoff

DATE: June 26, 1969

FROM: J. Burke Knapp

CONFIDENTIAL

SUBJECT: Algeria - Nationalizations and Expropriations

DECLASSIFIED
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WBG ARCHIVES

1. You recently expressed to me the French Government's concern regarding the failure of the Algerian Government to pay compensation on French-owned expropriated properties in Algeria. The present memorandum summarizes the Bank position on this issue. No progress has been made since we spoke. I would appreciate it if you could keep us informed of any progress that might be made on the part of France in its discussions with Algeria on these properties.

2. As far back as the 1966 Bank-Fund Annual Meeting, the Bank policy on nationalization and expropriation was explained to the Algerian delegation. At that time, the Bank understood that the Algerian authorities were negotiating with the French Government on compensation for French property nationalized during the Algerian war and immediately after. It was expected that some settlement would be arrived at between the two governments. The Algerian delegation stated that wherever compensation had been promised, Algeria would honor the promise. The Bank took favorable note of this attitude and mentioned the International Center for the Settlement of Investment Disputes (ICSID) as a possible source of help. Lack of detailed information, however, prevented the Bank from identifying all the specific issues arising from nationalization of property and therefore from defining the precise steps that Algeria would have had to take to satisfy the Bank's requirements. In general, however, the Bank made it clear that before lending to Algeria, it would have to be satisfied that negotiations for compensation were in progress and that reasonable efforts towards settlement were being made with a good chance of success.

3. During the subsequent two years, the Algerian Government nationalized additional properties and negotiated on this and related issues at various times with the French Government, and with some non-French owners. At the 1968 Annual Meeting, the Algerian delegation repeated that whenever compensation had been promised, Algeria would pay it. The delegation added that a large part of the disputes, those relating to property owned by French public agencies, had been settled through negotiations with France and, that, in a few cases (such as banks) there had been agreement on the purchase price in advance of nationalization. As to the disputes that were still pending, the delegation indicated that the basis for evaluation would be either the market price of the shares or the capitalized estimated future profits of the enterprise.. No general evaluation and negotiation procedure had been implemented up to then but efforts had been made on a case-by-case basis. In certain cases, admittedly few and unspecified, an

agreement on compensation had been reached. In other cases the negotiations had failed; this had happened with the mines, whose owners could not agree with the Government on the methods of evaluating the assets. In a third group of cases, negotiations had not even begun because it seemed that the enterprises preferred to press their claims with France rather than with Algeria.

4. It was again pointed out to the Algerian delegation at the 1968 Annual Meeting that unsettled claims for nationalized property could be a serious obstacle to Bank lending to Algeria. The delegation asked whether the settlement of such claims was a pre-condition of any Bank lending. We replied that in view of the lack of information in the Bank as to the number and magnitude of the claims involved, we could not give a definitive answer to their question. The Algerian representatives were therefore requested to provide to the Bank a dossier on the status of these claims. They agreed to do so and members of the Bank's staff who visited Algiers in October 1968 and in January 1969, in connection with the CAMEL Project, took the occasion to discuss further with the Algerian authorities the kind of information which the Bank hoped to receive. In January the Algerians promised to send the report to the Bank before the end of March 1969, but in fact no information has yet been received.

5. I may add that, as you will note from the Monthly Operational Summary which is distributed to Executive Directors, there are no projects in Algeria that have reached a stage of serious consideration in the Bank.

cc: Mr. McNamara

FRANCE

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

1. General Background

France's economic and financial situation is undergoing a process of adjustment following the economic and social disturbance of May 1968, which interrupted a long period of fairly high economic growth combined with financial balance. The major objective of the authorities at this juncture is to maintain an acceptable rate of growth while disinflating the economy and restoring external balance.

During the period 1960-1967 France achieved an average annual rate of growth of GDP in real terms of about 5.4 percent and maintained a strong balance of payments position and relative financial stability. During the last two years economic developments were overwhelmingly influenced by the strikes in the second half of May 1968 and the devaluation of the franc by 11.1 percent on August 10, 1969. The wage increases which followed the strike wave far outdistanced productivity growth. The authorities aimed at first at keeping the price rise and the deterioration of the current balance of payments within tolerable limits. Strong inflationary expectations and speculative capital outflows during the post-strike period threatened, however, the parity of the franc and induced the French authorities to adopt a series of measures in the monetary, fiscal, and foreign exchange fields. 1/

In May-June 1969, when it became apparent that the measures taken in the second half of 1968 were inadequate to secure the necessary slowdown of domestic demand and restore confidence in the franc, further steps were taken to achieve monetary and fiscal balance. However, the authorities eventually found it necessary to devalue the franc. After the devaluation measures have been taken to prevent excessive price rises from undermining confidence in the new rate. In doing so the authorities, however, have been constrained by the problem of avoiding an overdose of financial discipline which would stifle the resumption of healthy economic grounds.

2. Production and Demand (See Table 1)

Under the pressure of high domestic and foreign demand the growth of GDP in real terms in 1969 was 8.3 percent compared with 4.2 percent in 1968. This was accompanied by a large balance of payments deficit which at $1.7 billion was, however, much smaller than in 1968.

The exceptionally high demand pressure in 1968 continued to be strong in the first half of 1969 despite the measures of restraint. The main

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1/ In detail these measures consisted of adopting stricter budget and monetary measures, intensifying price surveillance, extending exchange controls, imposing temporarily quantitative restrictions on imports (notably electrical household goods, iron and steel products and motor vehicles) and subsidizing exports and export credits.

expansionary force was fixed business investment which rose by 9.5 percent in real terms in 1969 following an increase of 5.9 percent in 1968. Consumer spending also remained strong during 1968 and in the first three quarters of 1969. In the fourth quarter of last year, however, the rate of increase declined sharply to 0.8 percent -- about half the rates recorded in each of the preceding two quarters. This recent weakening of consumer demand despite the continuing rapid rise in wages is attributed partly to measures of financial restraint, such as limitations on consumer credits, but partly also to the introduction of attractive savings incentives.

3. Prices and Wages (See Table 1)

In 1968 the May events initiated rapid wage increases which amounted for the period January - October to about 13 percent for the manufacturing and service sector and up to 19 percent for the local government sector. The wage rise in 1969 continued to be relatively rapid with an annual rate of slightly over 8 percent between January and July. The comparatively modest price increase during 1968 is mainly attributed to the strict measures imposed by the French authorities to restrain the adjustment of prices to wage increases. In 1968 retail prices rose by about 5 percent and the increase of the consumer price index was even less. In the first half of 1969, retail prices rose at an annual rate of nearly 6 percent.

The rather inflationary period since May 1968 followed a period of relative modest price increases during 1960 to 1967 when the price rose only by an average annual rate of 3.6 percent.

4. The Balance of Payments (See Table 2)

In 1968 the balance of payments showed a deficit of $3.2 billion of which $1.0 billion is attributed to the current account and $2.1 billion to the capital account. In 1969 the current account deteriorated further and registered an estimated deficit of $1.7 billion whereas the deficit of the capital account declined to about $0.2 billion. This should be seen against the background of earlier years of the 1960s when France's current account showed an average surplus of about $600 million for every year except 1964 for which a small surplus of about $100 million occurred.

Since devaluation a marked improvement has been exhibited by the trade balance. This is shown by quarterly data. Seasonally adjusted, the ratio of exports (f.o.b.) to imports (c.i.f.), which had gradually deteriorated from 96.5 percent in the first quarter of 1968 to 83.4 percent in the third quarter of 1969, rose sharply to 90 percent in the fourth quarter despite the negative effect of the devaluation on foreign exchange export receipts.

The small net deficit on capital account for the year as a whole was the result of a large capital outflow in the first half of 1969 and a net inflow in the second half following the franc devaluation. The inflow especially in the fourth quarter was also partly the result of the change in parity of the Deutsche Mark which induced a reflow of funds into France. Preliminary calculations suggest that this net capital inflow in the fourth quarter exceeded the current account deficit leading to a small overall balance of payments surplus.

5. The Budgetary and Monetary Policy (See Table 3)

The budgetary policy adopted in 1968 and continued in 1969 was directed on the one hand to restrain consumers demand and on the other side to alleviate the burden imposed on enterprises through production losses and large wage increases. On balance, however, the deficit increased. In 1968 measures such as subsidies and tax relief used to check the impact of wage rises on prices, fixed enterprise investments, and exports, increased the deficit of the central government to about F 10 billion compared with a deficit of about F 5 billion a year earlier. For 1969 preliminary figures indicate a much smaller deficit of about F 3.5 billion.

Monetary policy measures, too, were directed to restrain consumption and also to contain the capital outflow. This led to a pronounced tightening of money market conditions which is also reflected by successive increases in the discount rate from 3.50 percent in the first half of 1968 to 8.0 percent in the last quarter of 1969. However, the authorities took other measures to stimulate business investment and exports as well as alleviate liquidity difficulties of enterprises resulting from the production losses and wage increases.

6. Prospects for 1970

The development of the French economy in the year ahead is more than usually difficult to assess given the exceptional development in the past year and the uncertainty about the effects of the devaluation of the franc and also of the revaluation of the Deutsche Mark. The outline of the prospective development as given below is based on the forecasts of the OECD and the French authorities, both of them stress that any assessment of trends must be highly tentative.

For 1970 a slowdown of growth of GDP in real terms from the 8.3 percent level in 1969 to around 4.0 percent is expected. The increase in total fixed investment is estimated at about 5.5 percent in real terms. Private consumption is expected to rise by 3.5 percent and public consumption by 1 percent. Altogether, domestic demand is expected to increase by about 4 percent in 1970.

The French authorities expect exports to increase by about 17.2 percent and imports by about 3.4 percent in real terms leaving the trade balance with a surplus of $0.7 billion and the current account with a surplus of $0.3 billion in 1970. These developments imply that the ratio of exports (f.o.b.) to imports (c.i.f.) would reach the 93 percent target adopted by the Government last year. No qualified forecasts of capital movements are made. However, the French authorities are confident that the capital inflow would increase as the current account gradually improves and they look forward to an overall balance of payments surplus which might reach the figure of around $1 billion.

For the development of prices and wages it is assumed that the pace of price increases would slow down to about 4 percent whereas wage rates in the non-agriculture sector would rise by about 7 percent.

On the whole, it should be considered that 1970 will be a year of continuing effort to curb inflationary developments by means of tight monetary and budgetary policies as well as by direct controls in the field of prices and at the same time to achieve an acceptable rate of growth. This is a very delicate and difficult task. It is still too early to judge how close the actual outcome will be to the target indicated above for the major magnitudes of the French economy.

DEVELOPMENT FINANCE STUDIES
February 20, 1970

Table 1: Output, Demand, Prices

	(billions of U.S. dollars) 1968	(percentage change in real terms at annual rates) 1968	1969 1/	1970 2/
Gross domestic product	126.5	4.2	8.3	4.0
Total final domestic demand				
Private consumption	77.1	4.4	7.1	3.5
Public consumption	16.1	3.5	5.3	1.0
Gross fixed investment	31.9	5.9	9.5	5.5
Total	125.1	4.8	7.7	4.0
Exports of goods	17.3	11.1	18.1	17.2
Imports of goods	17.5	12.1	25.8	3.4
Prices GDP		4.3	6.8	4.8
Export prices		0.3	4.7	5.0
Import prices		0.4	5.0	5.4

	1968 I	1968 II	1968 III	1968 IV	1969 I	1969 II	1969 III	1969 IV
Discount rate	3.50	3.50	5.00	6.00	6.00	7.00	7.00	8.00
Government bond yield	5.81	5.87	5.91	5.86	6.04	6.42	6.53	n.a.
Wages hourly rates (1963=100)	134	139	146	149	149	159	155	n.a.
Consumer prices (1963=100)	115	116	117	120	122	123	125	n.a.
Exchange rate	4.937 F per US dollar; since Aug. 10, 1969 5.554 F per US dollar.							

1/ Estimates
2/ Forecasts

Source: Projet de Loi de Finances pour 1970 and IFS, February 1970.

Table 2: <u>France - Summary Balance of Payments with Non-Franc Area on Transactions Basis 1/</u>

(in millions of U.S. dollars)

	1968	1969	1970
Current Account	-150		
Trade	-150	-900	700
Service	-400	-550	-400
Transfers	-450	-250	
Total	-1,000	-1,700	300
Capital Account			
Long-term	-700	250	
Short-term	-1,400	-450	
Total	-2,100	-200	
Adjustments 2/	-100	150	
Monetary Movements	-3,200	-1,750	

1/ Rounded.

2/ Includes the net surplus on "merchandise abroad".

Source: Data for 1968 and 1970 were provided by the French authorities; data for 1969 were partly estimated by IMF staff.

Table 3: Central Government Budget

	1968 (Revised)	1969 (Revised)	1970 (Initial)	1970 (Initial)
	(In billions of French francs)			(In billions of U.S. dollars)
Ordinary Budget				
Receipts	126.0	145.5	156.4	28.16
Expenditures	132.5	147.2	154.4	27.80
Deficit (-) or Surplus (+)	-6.5	-1.7	+2.0	+0.36
Loans and Advances				
Receipts	1.9	1.7	1.1	0.20
Expenditures	5.0	3.4	3.0	0.54
Deficit (-) or Surplus (+)	-3.1	-1.7	-1.9	-0.34
Special budget accounts (net)	-0.1	-0.1	-	-
Overall deficit (-) or surplus (+)	-9.5	-3.5	+0.1	+0.02

Source: Ministere de l'Economic et des Finances,
1968 Statistiques et Etudes Financieres,
1969 Projet de Loi de Finances Rectificative pour 1969,
1970 Projet de Loi de Finances pour 1970.

O

Split Dept
apptd chauffeur

POINTS OF INTEREST TO FRANCE IN RESPECT TO BANK GROUP OPERATIONS IN FRENCH AFRICA

This yr lending will approx 90m, 33% more than in all past yrs.

Morocco

. Bank/IDA lending: Annual average FY 64-68: $11.2 M
Annual average FY 69-73: $52.1 M
Projects approved 7/1/68
to 3/6/70: $83.3M

. French contractors are building the dam under the Sebou irrigation project ($46 M).
. Classified as A country for country economic missions.

Tunisia

. Bank/IDA lending: Annual average FY 64-68: $10.6 M
Annual average FY 69-73: $39.4 M
Projects approved 7/1/68
to 3/6/70: $51.3 M

. Classified as A country for country economic missions.

Cameroon

. Bank/IDA lending: Annual average FY 64-68: $ 3.7 M
Annual average FY 69-73: $16.7 M
Projects approved 7/1/68
to 3/6/70: $30.4 M

. Two projects jointly financed with France:
(i) '69 Oil palm (Bank 7.9M and France 3.6M FAC).
(ii) '69 Water supply (Bank 5.0M and France 1.6M (bilateral))
. Nearly all of our operations depend on pre-investment studies executed by French consultants (out of 9 recent studies, 3 have been financed by France and 3 by the Bank).
. FY70 educ proj. (10.5m IDA) provided bldgs & eq. for Fr. teachers

Chad

. IDA lending: None prior to FY 69
Annual average FY 69-73: $8.2M
Projects approved 7/1/68
to 3/6/70: $5.9M

. Secondary/technical education project financed by IDA ($1.8M) in FY 69 was jointly with France ($1.65M) - same as Cameroon: Fr. supplies teachers & bks
. are continuing to work on projs (livestock) to support a joint Fr. ...

Congo B

. Bank/IDA lending: Annual average FY 64-68: $ 6.0M
Annual average FY 69-73: $10.2M
Projects approved 7/1/68
to 3/6/70: $ .6M

. Congo Potash Company jointly financed in FY 67 (Bank $30M; semi-public French sources $36M)
. Continued lending in a disturbed political situation meets French objectives of maintaining Congo's regional transport links and support for moderate elements.

Dahomey

. Bank lending: None prior to FY 69
Annual average FY 69-73: $5.4M
Projects approved 7/1/68
to 3/6/70: $4.6M

. Grand Hinvi (oil palm) project jointly financed by IDA and France ($4.6 each in FY 69).
. In economic policy discussions with Government, Bank has supported French position as regards the poor condition of public finances in Dahomey and what efforts are required to remedy this situation (hold expenses down & raise taxes)

Gabon

. Bank lending: Annual average FY 64-68:$2.8M
Annual average FY 69-73:$4.7M
Projects approved 7/1/68
to 3/6/70: $6.0M

. Two forestry road projects (FY 65 and FY 69) which benefit logging industry supplying French plywood industry.

✓. Joint financing planned for major project ~~in pipeline~~ (Owendo-Booue railway). Firm commitment from French of $18M. Possible Bank loan of 20-25M. FED participation likely.

Ivory Coast

. Bank lending: Annual Average FY 64-68: $ 1.2M
Annual Average FY 69-73: $24.6M
Projects approved 7/1/68
to 3/6/70: $17.1M

planning 20 to 30 million per yr compared to practically nothing there before!

. Regional Bank office in Abidjan.
. Close cooperation with France on policy matters.

✓. Joint financing of SODEPALM (oil palm) project in FY 69 with Bank $17.1M and CCCE $5.8M based on 20 yrs of [illegible].

. Classified as A country for country economic missions.

✓ - Educ proj (Bk 11 + [illegible] 9); 11 [illegible] 1.6 for 15V in rural. FAC is investing several million

Malagasy Republic

. Bank/IDA lending: Annual Average FY 64-68: $ 3.0M
Annual Average FY 69-73: $17.7M
Projects approved 7/1/68
to 3/6/70: $10.8M

. French aid (about 34M p.a.), likely to decrease or at least no more than maintained in future, will concentrate on
(i) projects of political importance
(ii) pre-investment studies which may lead to investments by other aid givers (e.g., Bank Group).

Increased Bank lending therefore very much welcomed by French.

. In the past little coordination between French and Bank projects. However, in forthcoming Rice development project (Lac Alaotra) France likely to finance cost of experts attached to the Malagasy Company in charge of project execution.

Mali

IDA lending: Annual Average FY 64-68: $1.8M
Annual Average FY 69-73: $6.4M
Projects approved 7/1/68
to 3/6/70: None

✓. Strong econ. advice ~~Bank support for French efforts~~ to stabilize economy after mismanagement of economy by previous government. - appropriate agri pricing to stimulate production; expend. control; [illegible] effic in state enterprises e.g. [illegible]; [illegible]

. Intensive project prepared any work and in-depth analyses of country's potentials and sectors.

✓. working with FAC on an 8 mil. [illegible] project for which FAC is financing feasibility studies

Mauritania

. IDA lending: Annual Average FY 64-68: $1.3M
Annual Average FY 69-73: $2.3M
Projects approved 7/1/68
to 3/6/70: $3.0M

Congo(K) - France's tech. assistance 2nd to Belgium: 150 teachers plus 150 other experts

✓. FAC & Bk & Gov ($\frac{1}{3}, \frac{1}{3}, \frac{1}{3}$) financed team of planning experts

✓. French + Bk have joined to provide share capital of Devel. Bk.

✓. Working on projects (telecommunications, water supply, urban) of potential interest to FAC

Niger

. Bank/IDA lending: Annual Average FY 64-68: $ .3M
Annual Average FY 69-73: $10.0M
Projects approved 7/1/68
to 3/6/70: $ 6.1M

French want to develop [illegible] deposits + Niger is coming to us to discuss bk loan (10m) for access road.

Senegal

. Bank/IDA lending: Annual Average FY 64-68: $ 2.6M
Annual Average FY 69-73: $13.3M
Projects approved 7/1/68
to 3/6/70: $ 9.5M

✓. Increased Bank Group involvement would provide about one third of external resources over next five years.

✓. Strong Bank support for government's efforts to diversify economy: livestock; fisheries; rice

✓. Economic advice: agricultural control.

Togo

. IDA lending: None prior to FY 69
Annual Average FY 69-73: $4.0M
Projects approved 7/1/68
to 3/6/70: $3.7M

Upper Volta

. Bank/IDA lending: None prior to FY 69
Annual Average FY 69-73: $4.6M
Projects approved 7/1/68
to 3/6/70: $ .8M

✓. Close coop. with French on economic planning & prep. of agric. projects particularly cotton.

General Points

✓. Our projects in Dahomey, Ivory Coast, Niger, Togo and Upper Volta have all been based on pre-investment studies or reports prepared by French firms or French technical assistance teams in each country.

✓. More than 20 French consultant firms (private or semi-governmental) have benefitted from Bank Group projects in French Africa.

✓. Procurements in France amount to as much as 75% of total identifiable foreign procurements of Bank Group projects in French Africa.

✓. All basic economic work is discussed at draft stage with French authorities in view of economic policy implications.

✓. FAC is providing the tech. assist. & we the capital & this gives ~~France~~ considerable credit at low cost

✓. Working with France we can impose econ. policies (Agricult. controls in Dahomey) ~~that~~ they wish to see accepted w/o their receiving criticism

✓. France receives 75% of external procurement financed by our expanded Fr.-speaking Africa lending program.

LEC
3/7/70

FORM No. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** February 24, 1970

FROM: Roger Chaufournier

SUBJECT: Regional Brief for French-speaking Africa

1. There are no major issues on which the Bank Group and the French authorities are currently at odds in French-speaking Africa. In two areas the Bank's attitude has been a source of concern to the French authorities. The first concerns the CFA franc. In several countries of the franc zone, some indices lead us to believe that the rate of exchange of the CFA franc may not be the most appropriate from the standpoint of their long-term development. At the same time we recognize that the available indices are not absolutely conclusive and that additional work needs to be done on the occasion of our individual country reviews. This we intend to do. We also recognize the great sensitivity of the exchange rate issue which touches on a complex of interrelated arrangements, such as price supports, budget subsidies, preferences, guarantees of convertibility, etc. given by the French Government to the associated countries. The experience of Guinea and Mali who have, by their own decision, withdrawn from the disciplinary bonds of the monetary union has not been encouraging and French officials have felt that our zeal, combined with insufficient knowledge and appreciation of the complexities of the system might "rock the boat" and produce far-reaching consequences in the relations between France and its associates in the monetary union. I believe that our prudent and objective attitude, and our very close coordination with the Fund on these matters has assuaged their fears, but a problem remains.

2. The second issue refers to what they believe is our determined intention to generalize the practice of consultative groups. The government's attitude on coordination is ambivalent. Some favor it strongly, some are reticent, but most are averse to a highly formalized system of coordination. Their main fear stems from the suspicion that the consultative group, like its forerunners, the India and Pakistani consortia, was a U.S./U.K. inspired device to coerce other lenders into sharing the burden of aid. While they recognize the distinction between consortia and consultative groups they fear that the latter inevitably will lead to the former, i.e., from what is essentially a coordinating exercise into a pledging exercise. I think we have made good progress in convincing French officials of the usefulness of the device and we have strong supporters within the Government. The manner in which the consultative group meetings were conducted by the Bank and the quality of the technical work have drawn praise from participating French officials. At a high level there is still strong resistance to the extension of the procedure to too many countries. This also reflects the fear that France's readiness to encourage consultative groups in other areas may incite some of the French-speaking countries to invite such arrangements. In French-speaking Africa, France, as the dominant provider of aid of all types, is not anxious to debate its aid policies under the pressure of smaller lenders.

Gabon We understand the Fr. [illegible], rather than Bank wanted to postpone the initiation of meeting - if Fr. want to go ahead Bank will agree.
Latest analysis shows "forestry n/a" may be satisfactory we should have 2 projects report 3/20 + will meet with Gabon Govt rep. 4/6

3. French official attitude on the other hand is very favorable to joint financing. There are several reasons for this. First there is the question of risk. The Treasury has been fearful that debt rescheduling become more widespread and has welcomed association with the Bank, particularly in large projects where the risk is great for one single lender. Joint financing also permits France to be associated with a large number of important projects than would otherwise be the case. The procedure for joint financing, after some initial difficulties, is now well broken in and French officials are well satisfied with current operations and welcome others. The amount of long-term credits guaranteed by COFACE, US$ 630 million in 1968 shows that opportunities for joint financing with France are considerable. Assuming that only 10 per cent of the credits would be channeled into joint financing, with a French participation of 20 per cent in each operation, some US$ 300 million of projects a year could be financed in this fashion.

4. There are a number of minor questions which are not however likely to be raised as an issue. One is the Congo (B) Potash project financed by the Bank which got into technical and marketing difficulties resulting in a substantial overrun, which under existing agreements had to be met by the sponsors, and in this case partly in the form of an advance by the French Treasury.

The French Government has also been pressing us to participate in the Gabon railway project (although Minister Giscard d'Estaing has been less enthusiastic for budgetary reasons) and to provide IDA financing for it. I have taken the line that IDA financing for Gabon at this time was not possible, because of the scarcity of IDA resources which forced IDA to establish strict criteria of eligibility.

[illegible] to Table 1

Table I: French Financial and Technical Aid to Africa*

In Million Dollars (Exchange Rate - 4.9) and Calendar Years

	60	61	62	63	64	65	66	67	68	69
I. Project financing and related expenditures by Secretariat d'Etat aux Affaires Etrangeres (FAC)										
General Studies	4.2	5.3	6.9	6.9	5.4	2.3	2.7	3.8	3.3	2.8
Agriculture, Livestock, Fisheries	34.8	34.0	31.1	50.7	45.0	28.2	33.3	37.9	34.6	19.7
Mining, Industry, Power	8.3	15.3	11.3	14.1	14.6	12.4	8.4	6.8	13.8	3.2
Transportation, Communication and Urban Development	26.4	25.2	14.2	21.6	22.7	17.4	16.6	17.3	15.4	6.7
Social and Health	8.6	7.5	4.0	5.2	3.7	7.1	5.7	5.1	4.8	4.0
Education	10.0	8.7	18.3	17.2	17.8	16.0	15.8	12.7	13.0	15.3
Cultural Activities	9.2	4.4	10.9	11.4	12.2	11.6	11.1	12.8	12.0	9.9
Expenditures for Administration and Supervision	2.5	0.8	1.0	1.0	2.5	0.9	0.7	2.0	1.5	2.6
Total	104.0	101.2	97.7	128.1	123.9	95.9	94.3	98.4	98.4	64.2
II. Budgetary Subventions by Secretariat d'Etat aux Affaires Etrangeres (FAC)	32.4	31.0	32.4	32.8	21.5	12.8	9.5	7.9	10.3	n.a.
III. Technical Assistance Expenditures by										
1. Secretariat d'Etat aux Affaires Etrangeres (FAC)										
a) Technical Training, trainees, and scholarships	1.5	2.5	3.7	4.0	4.5	5.6	6.2	5.5	5.0	3.0**
b) Education and other sectors	53.5	60.8	72.5	67.2	72.7	74.9	76.7	95.5	82.2	n.a.
2. Ministere de l'Education Nationale										
Mainly for higher education and scholarships	n.a.	n.a.	6.3	11.1	12.6	13.6	14.2	15.5	17.8	n.a.
3. Ministere des Transports										
Mainly for civil aviation	n.a.	10.5	10.5	10.1	10.7	10.5	10.5	10.7	10.7	n.a.
Technical Assistance - Total		73.8	93.0	92.4	100.5	104.6	107.6	127.2	115.7	
IV. Caisse Centrale de Cooperation Economique										
Loans and Participations	37.0	34.3	42.1	55.9	30.3	34.4	35.3	40.5	62.9	n.a.
GRAND TOTAL		240.3	265.2	309.2	276.2	247.7	246.7	274.0	287.7	

* Mauritania, Senegal, Mali, Ivory Coast, Upper Volta, Togo, Dahomey, Niger, Chad, Central African Republic, Cameroon Gabon, Congo (B), Congo (K), Rwanda, Burundi, Madagascar.

** Estimated

*** More than 50% for Education

Source: Secretariat d'Etat aux Affaires Etrangeres
CCCE Annual Reports

Western Africa Department
February 13, 1970

Table II: French Technical Assistance Personnel Per Sector of Activity in Africa*

	1964	1965	1966	1967	1968	1969
Civilian Personnel						
Corporation, administration and legislation	1,614	1,375	1,217	1,109	990	876
Production	876	547	564	547	577	536
Infrastructure	738	751	724	671	664	632
Health	974	921	984	962	911	831
Post and Telecommunication	489	411	354	327	277	247
Education, technical assistance and vocational training	4,420	4,484	4,630	5,160	5,420	5,368
Sub total	9,111	8,489	8,473	8,776	8,839	8,490
Draftees for Technical Assistance**						
Education	255	698	887	961	1,082	906
Other sectors***	117	263	529	632	748	758
Sub total	372	961	1,416	1,593	1,830	1,664
Grand Total	9,483	9,450	9,889	10,369	10,669	10,154

Western Africa Department
February 11, 1970

*See Table I
**This system permits young men of draft age to serve in developing countries instead of fulfilling their military service.
***No breakdown is available; however, indications received show that this number is rather evenly distributed over all the other sectors in which technical assistance is provided.

Source: Bulletin d'Afrique Noire

FRENCH TECHNICAL ASSISTANCE
PERSONNEL IN NORTH AFRICA (MAGHREB)
1962, 1966, and 1967 /1

	1962	1966	1967
ALGERIA			
Education	14,772	9,502	9,341
Other sectors	4,683	3,124	2,810
Total	19,455	12,626	12,151
MOROCCO			
Education	8,232	7,894	8,413
Other sectors	2,673	1,629	1,607
Total	10,905	9,523	10,020
TUNISIA			
Education	2,294	3,292	3,670
Other sectors	307	671	456
Total	2,601	3,963	4,126
GRAND TOTAL MAGHREB	32,961	26,112	26,297
of which:			
education	(25,298)	(20,688)	(21,424)
other sectors	(7,663)	(5,424)	(4,873)

/1 Data after 1967 not available but little change in the 1967 levels of personnel is thought to have occurred in 1968 or 1969.

Source: DAC Annual Report

INDICATORS OF BANK STAFF MISSIONS AND OPERATIONS IN FRENCH AFRICA*, FY 1965-1974
(in units)

	Actual				Estimated		Forecast				Annual Average	Annual Average	% Increase of Annual Average FY 69-73 over
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	FY 64-68	FY 69-73	FY 64-68
No. Operation Officers	6	8	8	9	10	17	18	10	21	22	7.8	15.2	95%
No. Economists	6	6	4	4	6	11	10	12	11	12	5.0	10.0	100%
No. Operational Missions	9	15	15	15	23	24	40	50	53	57	13.5	38.0	182%
No. Economic Missions	9	7	9	8	9	14	12	14	12	14	8.3	12.2	47%
No. Staff in Permanent Resident Missions	1	3	7	5	8	10	12	18	18	18	4.0	13.2	230%
No. Loans and Credits approved:													
North Africa 1/	1	4	2	1	5	6	9	9	9	9	2.0	7.6	280%
Subsahara Africa and Malagasy	2	0	6	4	17	14	24	31	38	32	3.0	24.8	727%
TOTAL	3	4	8	5	22	20	33	40	47	41	5.0	32.4	548%
Bank/IDA Commitments	36.2	43.5	111.1	23.0	141.5	189.1	194.0	289.0	320.0	314.0	242.8	1133.6	367%

* Territories formerly administered by France.

1/ Algeria, Morocco and Tunisia.

LEC 3/6/70

TABLE 10b. INDICATORS OF BANK/IDA ACTIVITIES IN FRENCH SPEAKING* COUNTRIES IN AFRICA, FY 1965-1974
(in Man/Weeks)

	Actual					Estimated	Forecast				Average	Average
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	FY65-69	FY70-74 (Forecast)
Operational Missions	10	11	22	21	56	75	115	120	130	130	24	114
Economic Missions 1/ -in field	24	215	147	94	102	145	135	140	140	140	116	140
-Report Writing	46	520	310	241	240	310	290	310	310	310	270	305
Planning Assistance and Policy Advice Missions 2/	19	57	59	18	14	19	13	..	..	..	33	..
Sector Study Missions	-	-	100	40	57	184	200	..	..	..	39	..
Project Identification and Preparation Missions -Headquarters Staff	46	57	77	117	83	120	150	160	150	160	76	150
-Permanent Resident Missions 3/	-	90	270	180	320	400	500	770	770	770	170	650
Project Appraisal Missions 4/	61	62	56	161	143	140	180	270	295	285	84	230
Project Supervision Missions	6	24	33	65	84	90	115	150	200	230	42	155

* Territories formerly administered by France

Notes: a. Except for Economic Report writing and Permanent Resident missions (see note 3) the figures refer to man/weeks spent in the field.

b. The totals for FY 1965 to 1969 are heavily weighted by activities in North Africa, especially Morocco and Tunisia. See Table 10d.

1/ See note 3.

2/ Includes only missions specifically set up for these purposes. A great deal of this type of assistance and advice is given in the course of other missions, especially economic missions and some Projects Departments Missions.

3/ This item includes the actual total available working time of the Permanent Mission in Abidjan and the estimated time allocated to Malagasy by the Permanent Mission in Nairobi. These figures are therefore not comparable with those shown for headquarters staff which relate only to field work. In FY 1969 and 1970 Abidjan Staff participated in Economic Missions as sector specialists and in some appraisal missions in order to supplement staff from headquarters and outside Consultants. To this extent, the figures for economic and appraisal missions in those two years are understated, while the amount of project identification and preparation work is overstated. Of the total 720 man/weeks available to the Abidjan Mission in the two FY 1969 and 1970 about 150 were spent on Economic work and about 70 on Appraisal work. However, the participation in economic mission as sector specialists results, as a by-product, in considerable project identification. Participation in Economic and Appraisal missions was minimal in preceeding years; no meaninful forecast can be made for the next few years since participation in such missions is a function of the unavailability of staff at headquarters.

4/ See note 3.

Western Africa Department

February 20, 1970

Table 10c: Project Identification and Preparation Missions and Appraisal Missions by Sectors in French Speaking Countries*, in Africa, FY 1965-1970
(Man/Weeks in Field)

Project Identification and Preparation Missions 1/

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Agriculture	14	6	48	59	28	28				
Communications	-	-	-	5	1	3				
DFC	-	30	-	2	8	4				
Education	6	10	6	23	5	41				
Industry	-	8	-	1	2	2				
Population	-	-	-	-	-	6				
Power	2	-	-	-	3	2				
Tourism	-	-	-	-	4	-				
Transportation	24	3	19	14	5	20				
Water Supply	-	-	4	13	-	7				
Other	-	-	-	-	27 2/	-				
Total	46	57	77	117	83	123				

Project Appraisal Missions 3/

	1965	1966	1967	1968	1969	1970
Agriculture	7	29	12	38	48	70
Communications	-	-	-	4	-	-
DFC	-	4	8	9	15	4
Education	22	17	18	-	37	24
Industry	-	-	-	-	-	-
Population	-	-	-	-	-	8
Power	-	-	-	6	-	-
Tourism	-	-	-	-	8	4
Transportation	22	12	18	100	26	18
Water Supply	-	-	-	4	9	8
Total	61	62	56	161	143	136

* Territories formerly administered by France.

Note: The totals for FY 1965 and 1969 are heavily weighted by activities in North Africa, particularly Morocco and Tunisia. See Table 10d.

1/ Man/weeks in the field by staff from headquarters. The contribution of the staff of the Permanent Missions was in the fields of agriculture and transportation (about 70% and 20% of their time respectively).
2/ Pre-investment studies in the sector of power, transportation, tourism and water supply in one country in North Africa.
3/ Man/weeks in the field by staff from headquarters.

Western Africa Department
February 20, 1970

TABLE 10d. INDICATORS OF BANK/IDA ACTIVITIES IN FRENCH SPEAKING COUNTRIES IN NORTH AFRICA*, FY 1965-1970
(in Man/weeks)

	1965	1966	1967	1968	1969	1970
Economic Missions	6	174	69	42	42	39
Economic Report writing	6	420	150	98	110	75
Planning Assistance and Policy Advice Missions	4	52	12	18	7	14
Project Identification and Preparation	15	44	8	73	49	55
Appraisal Missions	23	42	16	25	50	36
Total	54	732	255	256	250	190
Other countries **	132	179	394	313	332	544
Project Identification and Preparation Missions 1/						
Agriculture	8	6	-	32	5	18
Education	6	1	-	-	-	22
Industry	-	8	-	1	2	2
Transportation	1	-	6	3	1	3
Water Supply	-	-	2	13	-	2
Other	-	-	-	-	27	-
Total*	15	15	8	80	35	47
Other countries**	29	12	65	17	32	44
Project Appraisal Mission 1/						
Agriculture	7	21	-	7	21	6
Education	16	17	-	-	-	6
Transportation	-	-	8	9	6	-
Total*	23	38	8	16	27	12
Other countries**	28	20	40	122	84	100

* Algeria, Morocco and Tunisia

** All other French speaking territories in Africa formerly administered by France.

1/ In selected sectors.

Western Africa Department

February 20, 1970

MAGHREB COUNTRIES BRIEF

Algeria, Morocco and Tunisia share a Muslim and French heritage, the result of first Arab and then French domination. Nevertheless, there are considerable differences because of different political systems and quite different colonial histories. Total population of the three countries is about 35 million and is growing at 3 percent per year. GDP totals $7.7 billion with the average per capita income about $220. Algeria's per capita income, $280, is the third highest in Africa. Algeria and Tunisia supply about four percent of the world's oil.

Despite their different political systems, disputes between the Maghreb countries have been caused by border problems rather than their differences of political philosophy. However, willingness to cooperate is not lacking, and the recent settlement of outstanding issues between Algeria and Morocco and Tunisia respectively presages better relations in the future. Their inability to achieve economic integration arises mainly from the lack of complementarity of their economies.

French/Maghreb Relations

As recently as ten years ago, nearly 1.3 million Frenchmen were living in the Maghreb countries. Many belonged to families who had been there for generations. After Algerian independence, more than one million of these "colons" moved to France, though French emotional attachment to the area remains extremely strong. Moreover, for more than a century, the Maghreb was a mainstay of French military, diplomatic and economic power. De Gaulle fully realized the importance of the Maghreb to France and had the stature necessary to reestablish relations after the bitterness of the Algerian war for independence.

France remains the major economic partner of the Maghreb countries. The proportion of exports going to France is about 55 percent for Algeria and around 30 percent for Morocco and Tunisia. Imports from France are similarly large.

Among the Maghreb countries, Algeria was and is the most important for France, both because its historical ties were longest and closest, and because its markets and natural resources, particularly oil, are of vital importance to the French economy. Nearly one-third of France's oil and gas come from the area, mostly from Algeria.

While cooperation between France and the Bank is already fairly close with regard to Morocco and Tunisia and should be further strengthened, Algeria presents a different case because of the lack of relationship between the Bank and Algeria and the French opposition to Bank activity because of the nationalization issue. Algeria might well be a major topic of the discussions during the visit to Paris.

The attached notes on the three countries provide more detailed background on questions of mutual interest to France and the Bank.

Europe, Middle East and North Africa Department
March 10, 1970

FRANCE - MAGHREB TRADE (Jan. 1 - Sept. 30, 1968)

(In US $ millions)

	All countries	Tunisia	Morocco	Algeria
French Exports	9,085	54.0 (0.6%)	122.5 (1.3%)	339.6 (3.8%)
French Imports	9,821	30.1 (0.3%)	143.0 (1.5%)	395.2 (4%)

FRENCH EXPORTS	Tunisia		Morocco		Algeria	
	Amount	%	Amount	%	Amount	%
1. Food & live animals	2.7	5	4.4	3	35.8	11
2. Beverages & tobacco	-	-	1.1	1	0.8	-
3. Crude materials (excl. fuel)	1.3	2	8.8	7	11.1	3
4. Minerals and fuels	1.5	3	1.1	1	6.8	2
5. Animal & vegetable oils	0.5	1	0.2	-	1.0	-
6. Chemicals	8.8	16	16.7	14	44.5	13
7. Manufactured goods	15.9	29	34.8	29	92.8	27
8. Machinery	19.3	36	44.7	36	120.8	36
9. Other goods	4.0	8	10.7	9	26.0	8
Total	54.0	100	122.5	100	339.6	100

FRENCH IMPORTS

	Tunisia		Morocco		Algeria	
	Amount	°/o	Amount	°/o	Amount	°/o
1. Food	10.0	33	91.5	64	23.3	6
Meat and processed meat	-		.5		-	
Fish and processed fish	.8		7.5		.9	
Cereals	.1		1.3		-	
Fruit and Vegetables	8.0		79.8		20.6	
Coffee, tea, cocoa, spices	.4		.2		-	
Animal feeding stuff	.7		2.2		1.8	
2. Beverages and tobacco	2.2	7	4.8	3	40.4	10
Beverages	2.2		4.8		39.9	
Tobacco	-		-		.5	
3. Crude materials (excl. fuels)	15.3	51	33.2	23	7.4	2
Hides, skins and furs	-		-		2.8	
Wood, lumber and cork	-		-		.4	
Pulp and paper materials	.6		1.1		.5	
Textile fibers	6.6		19.9		-	
Salt	-		-		.4	
Other crude minerals	.1		.1		-	
Metalliferous ores	.4		10.8		1.4	
Crude animal and veget.materials	.4)	(15)	.7)		.4)	
Vegetable oils	7.2)		-)		1.0)	
4. Fuels	-	-	.5	-	319.9	81
Crude oil	-		-		315.8	
Oil products	-		.5		.2	
Natural Gas	-		-		3.9	
5. Chemicals	1.7	6	1.4	1	.7	-
Alcohols	-		.1		-	
Perfumes	.7		1.2		.4	
Other	1.0		.1		.3	
6. Manufactured goods	.5	2	7.9	6	2.7	1
Leather goods	-		2.3		-	
Rubber goods	-		-		.4	
Wood and cork products	-		.3		.2	
Paper	-		-		1.5	
Finished textile goods	.3		.4		.6	
Non ferrous metals	.2		4.9		-	
7. Other goods	.4	1	3.7	3	1.8	-
TOTAL	30.1	100	143.0	100	395.2	100

BRIEF FOR MOROCCO

Operational problems and policy issues arising from World Bank operation and French aid efforts in Morocco

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Background

1. During the years of the French Protectorate from 1912 to 1956 considerable French investment occurred in transport and communications infrastructure, in commercial agriculture and industry. French techniques of public administration were introduced into the government and a French educational system was established beside the traditional Arabic system. At the time of Morocco's independence, the French population numbered several hundred thousand. French investment surged especially in the early 1950's; in 1952 an estimated $570 million of foreign private investment went into industry and housing. In 1953 the national savings ratio was 14 percent of GNP, and from 1951 to 1955 GDP rose by an average of 4.1 percent per year in real terms. This expansion was concentrated in the modern sector, however, and the traditional sector was little affected.

2. Morocco's accession to independence came with sufficient violence to leave some suspicion and resentment on both the French and Moroccan side. The Sultan, Muhammad Ben Yusuf, supported by the Istiqlal Party, pressed for independence. Opposing Moroccan leaders urged France to replace him with the result that he was sent into exile. In November 1955, Muhammad Ben Yusuf returned as Sultan, later King, and independence was declared on March 2, 1956. In the surge of Moroccan nationalism following independence, many foreigners left and took what funds they could with them. Adverse farming conditions in 1957 contributed to a general economic decline. Gross investment in fixed assets declined from almost 18 percent of GNP in 1953 to 9 percent in 1957.

3. In 1957 French aid to Morocco was discontinued as a result of a controversy over the settlement of outstanding financial obligations. For five years no aid was forthcoming from France but there was a marked increase in United States' aid. Morocco also received considerable amounts of foreign exchange from the building up of French and U.S. military bases. At the same time, exports soared, particularly to France, and imports went down as foreign-owned activities and foreigners' consumption declined.

4. The transfer of political power to Moroccans in 1956 did not entail any major change in economic policy. The new rulers tried to avoid actions which could add to the adverse economic repercussions following independence. Nevertheless some of the Moroccan Government's measures inevitably discouraged French private interests. In 1958 Morocco did not follow the French devaluation, left the Franc Zone and began to encourage imports from other sources. The Government's land reform policies also fell heavily on the foreigners. The Government announced plans to nationalize foreign-held lands, and began the process in 1959 with the <u>lots de colonisation</u> (lands worked by Europeans on terms less than outright ownership). By the end of 1965 600,000 ha. had been taken over of the estimated 1 million hectares held by Europeans in 1956. Uncertainty remained among foreign landholders, although the Moroccan and French Governments reached agreement on the principles of compensation for most of these lands in 1964. The French Government compensated the expropriated owners directly for the value of improvements on their lands, but not for the land itself since the Moroccans maintained that the settlers did not have legal title to this category of holdings. The cost of the compensation to Morocco was covered by a long-term French loan. Nearly all the French claims on the <u>lots de colonisation</u> have now been settled, and similar agreement has been reached with Belgium. A comparatively small Swiss claim --$800,000-- is still being negotiated.

5. With the new Agricultural Investment Code, promulgated in July 1969, nationalization of "melk" lands (lands to which foreigners hold legal title) will begin. The first expropriations are scheduled in the Rharb Plain to permit redistribution of land under the Rharb-Sebou Irrigation Project. The Moroccan Government has assured the Bank that it will give just and equitable compensation to expropriated landholders. The means of compensation have not yet been agreed upon, but will probably follow the precedent established for the earlier nationalizations.

6. As part of the financial austerity measures imposed in 1964, the Government took other steps that fell particularly heavily on the modern sector and hence the French in Morocco. Taxes on private and company earnings were increased, as well as stamp, registration, alcohol and gasoline taxes. The Government also eliminated some 11,000 foreign personnel from government jobs.

7. The outflow of private capital, which averaged DH 125 million annually from 1961 to 1964, rose in 1965 to DH 241 million. In 1965 Morocco imposed controls on transfers to the Franc Zone and also nationalized exports of citrus and other agricultural products by means of which capital flight had occurred.

8. The abduction of Ben Barka, a former leader of the National Union of Popular Forces (UNFP) in Paris in October, 1965, caused a severe strain in Moroccan-French relations. The Moroccan Minister of the Interior, Oufkir, was allegedly implicated, and the French authorities issued a warrant for his arrest. The Moroccan Government declared the warrant to be a violation of the French-Moroccan judicial convention. Despite subsequent condemnation of Oufkir by the French courts, King Hassan retained him in his Cabinet. Ambassadors were withdrawn in February, 1966, and have only now been reappointed.

French Aid

9. After independence French aid was not resumed until 1962. Since then annual grants have averaged about $17-18 million in the form of cultural and technical assistance, including 7,500 teachers, scholarships, and "coopérants" who are training people in administration and technical operations. Government loans were made for industrial projects and for balance of payments assistance, tied to procurement in France. At the outset, these loans were sizeable, reaching $42.5 million in 1964. However, as a result of strained relations over the Ben Barka affair, no new loans were made and the existing loans had been disbursed by 1967. However, private French suppliers' credits, guaranteed by the government, increased considerably, to $23.4 million in 1967.

10. While French aid was diminishing, U.S. aid, which had decreased following U.S. withdrawal from Moroccan air bases in 1963, rose significantly in 1967 and 1968. Development loans, food grants for the Food-for-Work program and concessional food sales increased to assist Morocco in meeting food shortages following poor wheat harvests.

11. French financial aid in the form of loans resumed in 1969 and was for the same purposes as before 1965. The local currency generated by imports under the loans is used for industrial projects. These credits are on generally favorable terms with interest at 3-1/2 percent.

Bank Group Activities

12. Contacts between Morocco and the Bank have been continous and close, but they have only recently begun to result in a substantial lending program. For the period 1971-75, the Bank plans a total program of $285 million, of which $204 million will be Bank loans and $81 million IDA credits (see Attachment I). Agriculture will absorb 30 percent of the program. The Government has requested a second loan for the agricultural credit institution, CNCA, which should become a recurrent borrower. As yet unidentified Bank loans

of $22 million and IDA credits of $31 million are planned for agriculture for 1973-75. A team is currently in Morocco studying the damage from the recent Sebou basin flood and possible future flood control measures in the area. Financing for industry is channeled through BNDE, which has already received four Bank loans, and further loans have been scheduled for FY 1971 and at two-year intervals thereafter. An industrial survey mission is scheduled for April 1970. Bank assistance for tourism will be through loans to CIH; a $10 million loan is planned in April 1970 and subsequent loans are scheduled in FY 1971 and thereafter every second year. Both the first education project and the preparation of a second one have been moving very slowly. The report of the UNESCO project identification mission which visited Morocco in November 1969 is expected to cast more light on possible future projects. Bank consideration of power projects has been made contingent upon the completion of a review to be done by Electricité de France of the power authority's rates, which are at present insufficient to allow either for adequate self-financing or for a satisfactory return on capital invested. A transportation survey in the Atlantic coastal zone is expected to provide the basis for a coordinated transport investment plan and for a second road project, as well as the economic studies required to justify the expansion of the Port of Safi. Under a UNDP study, WHO is undertaking a nation-wide survey of water supply and sewerage requirements, concentrating in the first stage on project preparation in the Atlantic coastal zone (Casablanca-Rabat-Kenitra).

13. While the priorities of the 1968-72 Development Plan appear appropriate to Morocco's needs and capacities, additional effort is necessary, particularly in agriculture, and industry. In agriculture, existing programs to increase yields in rainfed agriculture need to be expanded. The government's new Agricultural Investment Code is now being applied in irrigated areas, but needs to be extended to rainfed areas as well. Even so, it will probably not solve such institutional obstacles to increasing agricultural production as non-intensive cultivation of some of the best land, fragmentation of holdings, low farm income and savings. The Ministry of Agriculture needs to improve its organization, planning and implementation capacity. Although the need for additional government investment and for incentives to the private sector in tourism is probably not as great as in industry and agriculture, the Government should give continuing attention to meeting tourism infrastructure needs and improving the efficiency of tourist services provided by both government officials and private enterprises.

14. Morocco has serious problems of population pressure and unemployment but even an expanded family planning program would not show substantial results for many years.

15. Morocco's needs for external assistance are expected to remain large for some years to come --somewhat over $1 billion gross public capital inflows are required for the FY 1971-75 period, and a large proportion of this aid needs to be on concessionary terms. At the second meeting of the Moroccan Consultative Group in October 1969, most of the members indicated their intention to continue their aid at least at present levels and on present terms, subject to their own budgetary and balance of payments situations.

Conclusion

16. With the exchange of ambassadors and King Hassan's visit to France in early February, French-Moroccan relations appear to be restored once again to cordiality. From the political viewpoint, this should facilitate the French objective of reviving cooperation and exchange between France and North Africa, and strengthening the control of the Mediterranean by the countries along its shores. French exporters, who had suffered in competition with other Western European countries and the U.S., have pressed for restoration of tied French loans and give evidence of preparing a new drive to do business in Morocco.

17. With this resurgence of French interest in Morocco, there is a need for much closer coordination between the Bank and France. The latter's depth of experience and facility in communicating with Morocco, can contribute greatly to the activities of the Consultative Group. The Bank and the UNDP in planning and executing pre-investment surveys, should use French know-how and technical assistance to the maximum extent practicable. While there are no specific joint projects on the horizon, exchange of information and coordinated planning of activities may lead to sharing of some of the projects now under study, particularly in the public works and industrial field. In industry, French firms may have a particular interest in establishing subsidiaries or sub-contracting firms to produce for export to the Common Market.

February 20, 1970

Attachment 1

Population: 15 m.
Per Cap GNP: $ 205

MOROCCO - ACTUAL AND PROPOSED LENDING THROUGH FY 1975

($ millions)

		through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	total 1964-1968	total 1969-1973	total 1971-1975
Agriculture (Sidi Slimane Irrigation).	IBRD			17.5													
Agriculture (Sebou Irrigation)	IBRD								46.0								
Agricultural Credit I	IBRD				10.0												
Agricultural Credit II)	IBRD									7.0							
" ")	IDA									3.0							
Agricultural Credit III)	IBRD											5.0					
" ")	IDA											5.0					
Agricultural Credit IV)	IBRD													8.0			
" ")	IDA													7.0			
Agricultural Unidentified I)	IBRD											7.0					
" ")	IDA											8.0					
Agricultural Unidentified II)	IBRD												15.0				
" ")	IDA												10.0				
Agricultural Unidentified III	IDA													13.0			
BNDE I	IBRD	15.0															
BNDE II	IBRD				17.5												
BNDE III	IBRD							15.0									
BNDE IV	IBRD								15.0								
BNDE V	IBRD									18.0							
BNDE VI	IBRD											20.0					
BNDE VII	IBRD													22.0			
CIH Hotel Financing I	IBRD								10.0								
CIH Hotel Financing II	IBRD									15.0							
CIH Hotel Financing III	IBRD											15.0					
CIH Hotel Financing IV	IBRD													15.0			
Education I	IDA				11.0												
Education II	IDA									10.0							
Education III	IDA												10.0				
Sidi Cheho hydroelectric	IBRD										12.0						
Roches Noires Power	IBRD												15.0				
Roads I)	IBRD								7.3								
")	IDA								7.3								
Roads II)	IBRD											5.0					
")	IDA											5.0					
Safi Port	IBRD										5.0						
Water Supply I)	IBRD										10.0						
" ")	IDA										10.0						
Water Supply II	IBRD												10.0				
	IBRD	15.0	-	17.5	27.5	-	-	15.0	78.3	40.0	27.0	52.0	40.0	45.0	45.0	212.3	204.0
	IDA	-	-	-	11.0	-	-	-	7.3	13.0	10.0	18.0	20.0	20.0	11.0	48.3	81.0
	Total	15.0	-	17.5	38.5	-	-	15.0	85.6	53.0	37.0	70.0	60.0	65.0	56.0	260.6	285.0
	No.	1	-	1	3	-	-	1	4	4	3	5	4	4	4	17	20
IBRD loans outstanding																	
- including undisbursed		15.0	15.0	32.1	58.9	57.5	55.7	66.9	141.0	176.0	198.0	243.0	275.0	309.0			
- excluding undisbursed		0.0	2.6	7.0	16.7	25.0	30.0	41.9	53.0	67.0	102.0	136.0	159.0	200.0			
IDA credits outstanding																	
- including undisbursed		-	-	-	11.0	11.0	11.0	11.0	18.0	31.0	41.0	59.0	79.0	99.0			
- excluding undisbursed		-	-	-	0.0	0.0	0.5	1.1	6.0	22.0	25.0	34.0	47.0	61.0			

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TUNISIA BRIEF

Present Situation in Tunisia

1. Largely as a result of President Bourguiba's forceful personality and the predominant role of his Neo-Destour Party, Tunisia has enjoyed internal stability since it gained independence in 1956. The well-organized one-party system has enabled the Government to keep contact with the people and enjoys wide popular support. Nevertheless, the current Tunisian situation is fraught with a number of uncertainties.

2. Mr. Ben Salah had established himself as an economic overlord over the years and, until September 1969, was Secretary of State for Planning and National Economy as well as National Education. He was relieved from his economic responsibilities within the Government in September 1969, and ousted both from the Government and from the Neo-Destour Party after the November 1969 elections. Following his departure from Government, the drive for complete cooperativization of the Tunisian agriculture has been reversed, past economic policies are being questioned and the 1969-1972 Four-Year Plan will be revised. The new Government is still at the stage of undoing the effects of previous policies and new policies will not really be defined before the next party congress which may take place next summer.

3. For the moment Bourguiba can hardly be said to be leading the country. After his election for a third five-year term in early November 1969 and after installing the new Government with Mr. Bahi Ladgham as Prime Minister, he went to France for health reasons and is still convalescing in Paris. Mr. Ladgham's future political role is uncertain. While doing his best to assert himself and secure his position, he is viewed by many as a caretaker, particularly in view of his age (67) and the fact that he has constantly been a "number two" man in the shadow of Bourguiba.

Relations Between Tunisia and France

4. Relations between Tunisia and France have been steadily improving over the past few years and are presently very good. However, within this general picture there have been recurrent crises and subsequent reconciliations.

5. Present-day Tunisia's history is largely that of Bourguiba. He founded the Neo-Destour Party in 1934 and was imprisoned or exiled on repeated occasions until he led the country to "internal autonomy" in 1955 and full independence in 1956. At that time, the Algerian war had already sparked off and contributed to embittering Franco-Tunisian relations, particularly after French bombing of the border village Sakiet for its sheltering of Algerian soldiers. The Bizerte crisis in 1961 led to a massive outflow of French settlers.

6. Relations cooled down further when Tunisia nationalized all land belonging to foreigners in May 1964 and organized it into cooperatives. The French Government was particularly outraged by this measure because an agreement had been signed less than a year earlier for the gradual taking over of these lands by Tunisia, which provided for what the French considered a modest compensation for the previous owners. As a reprisal for this nationalization, the French Government suspended all financial aid to Tunisia, which had been expected to run at a rate of $20 million a year, and cancelled all French commercial preferential arrangements in favor of Tunisia. The resulting shortfall in foreign exchange receipts was largely offset, however, by swiftly delivered US financial assistance, which averted a possible collapse of the Tunisian economy.

7. France at first assumed an aloof attitude towards all Tunisian approaches regarding resumption of economic cooperation. Ben Salah's personality and policies were viewed with distrust, growing proportionately with his reliance on US aid and the intensification of his drive for cooperativization. As of 1966, however, most problems affecting relations between the two countries were settled, and the economic relations, including French financial assistance, were progressively resumed. Present-day relations are very good and can be expected to improve further as a result of President Pompidou's Mediterranean policies. The new Tunisian Government is composed of personalities who are much more pro-French and much less oriented towards the US than their predecessors.

8. France's economic cooperation with Tunisia is now expanding again. French grants amounted to $10.9 million in 1967, $13.8 million in 1968 and about $15 million in 1969. Under Pompidou, France is attempting to consolidate and widen its influence in Tunisia. Growing trade relations may, however, increase Tunisia's already serious debt burden through additional French suppliers' credits.

The Bank's Relations with Tunisia

9. The Consultative Group for Tunisia was established in May 1962 at the Tunisian Government's request. It now includes Belgium, Canada, Denmark, Finland, France, Germany, Italy, Kuwait, Netherlands, Spain, Sweden, UK and USA. The following international agencies also participate: African Development Bank, European Investment Bank, International Monetary Fund and United Nations Development Program. After being dormant for some time, the Group became active in December 1965 and has met in March 1967, May 1968 and October 1969. A new meeting is scheduled for June 1970.

10. The Bank's relations with Tunisia are excellent. The country became a member of the Bank in 1958 and of IDA in 1960. Since then the Bank and IDA have made eight loans and three credits, bringing the total to $109.3 million, of which $41.3 million were made in Fiscal Year 1969 alone.

11. The first operation of the Bank Group in Tunisia was concluded in 1962, when the country became the recipient of the first $5 million IDA credit ever granted for education. With a second IDA credit of $13 million

in 1967 the Bank Group's assistance in education now accounts for 16.4 percent of total lending. A third IDA credit of $10 million is under preparation. This relatively strong engagement corresponds to the growing demand for higher technical education in Tunisia.

12. The largest share of Bank Group assistance (30.4 percent) has gone into transportation. Two Bank loans totalling $15.5 million helped the development and reorganization of the Tunisian ports. With $17 million the Bank Group contributed to the rehabilitation of the railroad system. Future assistance in this area is under study.

13. Three loans have been made to the Tunisian Development Finance Company ($25 million or 22.8 percent of total lending) and such operations will be repeated at two-year intervals, assisting mainly the private industry sector, which for years had received little attention from the Government. In 1967 the Bank Group joined in the development of cooperative farming by making a loan and a credit totalling $18 million. This form of agricultural organization was then regarded as the speediest way of modernizing a backward and subsistence-oriented agriculture. After last fall's government reshuffle this policy, which had been identified with Ben Salah, was reversed. The situation of the Bank Group project is presently being re-evaluated. Other areas for future Bank Group operations will be tourism, road construction, and water and sewerage.

14. It is being investigated whether the Bank Group could assist Tunisia in the reconstruction of damages caused by the heavy floods in September and October 1969. The Tunisian government is at present preparing a documentation which will show the most urgent needs, mainly in transportation and agriculture. This documentation will be submitted to the next Consultative Group Meeting in June, to invite the financial assistance from bilateral donors. Such assistance would be easier to obtain if the Bank Group participates in this exercise.

15. The nationalization of French companies and the appropriation of lands held by foreigners were the sole significant problem which arose during the period of Bank lending. Between 1958 and 1960, the Tunisian government took over the assets of certain French and French-controlled electricity companies. In 1965, after the Bank had made it clear that this issue stood in the way of future Bank lending to Tunisia, Mr. Woods agreed to act as Conciliator in the ensuing dispute. In March 1968, following a January meeting with the Conciliator, the parties agreed on the amount of compensation to be paid to the companies. Until the dispute was settled, the Bank declined to lend for a power project in Tunisia, but did lend for other projects.

16. In May 1964 Tunisia's expropriation of land properties held by foreigners, caused a considerable deterioration in its relations with France. The Bank refused, for over a year, to consider lending for agriculture until it was advised by Mr. Debre, then French Minister of Finance, in November 1966, that considerable progress had been made in settling the dispute over the 1964 land expropriations, including an agreement in principle by Tunisia to provide

compensation in the form of wine deliveries. This compensation amounted to only four percent of total claims, but the French Government withdrew its opposition to Bank loans in view of the goodwill displayed by the Tunisians.

Bank Group Cooperation with France

17. At Consultative Group meetings and other occasions, Bank staff have often indicated informally a willingness to undertake joint financing but so far, the suggestions have not been taken up by French officials. In view of the Bank Group's wide coverage of economic sectors, it should not be difficult to find projects which could be considered jointly, although the tied character of French aid would make actual arrangements rather difficult.

Europe, Middle East and North Africa Department

March 10, 1970

TUNISIA - 5-YEAR LENDING PROGRAM

($ millions)

		Fiscal Year 1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73
Agricultural Credit I	IBRD			12.0						
" " II	IBRD					15.0				
" " III	IBRD							20.0		
Fisheries	IBRD				3.0					
Irrigation I	IBRD					5.0				
" II	IBRD							10.0		
DFC - SNI III	IBRD		10.0							
DFC - SNI IV	IBRD				10.0					
DFC - SNI V	IBRD						10.0			
Education III	IDA				10.0					
" IV	IDA							10.0		
Phosphate Mining I	IBRD				5.0					
Phosphate Mining II	IDA						15.0			
Family Planning	IDA			3.0						
Power	IBRD				8.0					
Tourism Infrastructure	IDA			7.0						
Tourism II	IBRD					15.0				
Road Engineering	IBRD	0.8								
Road Construction	IBRD			15.0						
Road Construction II	IDA						10.0			
Pipeline	IBRD				5.0					
Railways I	IBRD	8.5								
"	IDA	8.5								
Railways II	IDA					10.0				
Ports II	IBRD	8.5								
Ports III	IBRD						10.0			
Water Supply I	IBRD	15.0								
Water Supply II	IDA		10.5							
Water Supply III	IBRD							6.0		
Sewerage I	IBRD				12.0					
	IBRD	32.8	10.0	27.0	43.0	35.0	35.0	36.0	34.0	147.8
	IDA	8.5	10.5	10.0	10.0	10.0	10.0	10.0	19.0	49.0
	Total	41.3	20.5	37.0	53.0	45.0	45.0	46.0	53.0	196.8
	No.	4	2	4	7	4	4	4	5	21

REGIONAL BRIEF FOR MIDDLE EAST

Operational problems and policy issues arising from World Bank operations and French aid efforts in the region.

A. ARAB COUNTRIES AND ISRAEL

Introduction

1. This paper covers primarily the Arab countries of the Middle East and Israel and deals in addition briefly with Turkey.

2. The ten Arab countries of the Middle East 1/ comprise a total population of 67 million, 47.5 percent of which in the UAR, and represent in the aggregate a GNP of about $18 billion. These countries accounted in 1969 for one third of world oil production and two thirds of world oil reserves. Despite their common language and religion and a sense (although to some extent artificially created) of belonging to the same "Arab nation", they are riddled by the parochialism inherited mostly from territorial divisions established by France and the U.K. Attempts aimed at political unity have failed and efforts towards economic integration have not gone far. Since World War II, most of these countries have undergone profound political and social changes leading often to army-controlled Governments, with periodical coups d'état, and to socialist policies.

3. The antagonism between the traditional ruling classes and the progressive elements has gradually receded to the background with the creation of Israel and the repeated hostilities with her neighbors, although the tensions between traditional and progressive countries are always latent and weaken the potential for joint effort, as evidenced at the recent Rabat Conference. But for the Arab Middle East, more prone to passionate than to realistic attitudes, the fight against Israel has become the paramount objective. This has led to the diversion of considerable resources (about 10 percent of GNP in the average) to defense. Nevertheless, substantial growth has taken place in most of these countries in the last two decades, as a result of either oil exploitation or development efforts. Average per capita income nearly tripled from less than $100 at the end of World War II to approximately $270 today, nearly three times the average of countries in Asia and Africa and not too far below the average for Latin America ($350-400). It is however very unevenly distributed from a low of $90 in Yemen to over $3,000 in Kuwait and some of the Gulf States.

1/ Iraq, Jordan, Kuwait, Lebanon, Libya, Saudi Arabia, South Yemen, Syria UAR and Yemen; neither the nascent Federation of the Arab Gulf States nor Muscat and Oman are counted, though their oil resources are included in the data for the whole area given in this paper.

Bank Group Activities

4. A number of factors prevented the Bank Group from developing significant activity in the Arab Middle East: political instability and attitudes, lack of need or of creditworthiness, scarcity of IDA funds, compensation issues arising from nationalization, inadequate economic performance, and, last but not least, difficulties in establishing a fruitful working relationship with most Governments. As a result, Bank/IDA lending to these countries (see Annex A), which totalled $96.3 million through FY 1960, amounted to only $17 million in 1961-65 and $52 million in 1966-70. This low level of activity, especially when compared with the relatively much higher lending to Israel ($134.5 million through 1970), and the Bank's inability to finance the most important schemes in several countries (Aswan dam in UAR, Euphrates project in Syria, Yarmouk project in Jordan) have contributed to giving the Bank a negative image in most of the area.

compare a in 64-68 with 69-73

5. Considerable efforts have been made in the last two years to lay the basis for increased Bank activity. The relations with several countries have no doubt improved, although with varying degree of success and without being so far reflected in lending operations. However, these efforts provide the basis for the five-year lending program for 1971-75 (see Annex A), which envisages a very substantial increase in lending to a total of $479 million during the period, of which $215 million in IDA credits. Lending to Israel during the period is planned within the $125-150 million range.

6. The existing political, economic and administrative constraints in most of the countries concerned are likely to make it extremely difficult for the Bank to play a major role in the economic development of the area in the foreseeable future. This is not to say that the Bank cannot play a role at all since the conflict with Israel does not prevent a serious development effort from taking place in most countries but its pace will be rather erratic and the results will be considerably smaller than they could be under more stable conditions. The Bank should, therefore, pursue the systematic exploration of lending possibilities started in recent years, and build upon that base an influence on economic policies. It should also extend technical assistance to those countries which need it more than money, such as the Gulf States and Saudi Arabia. The Bank should prudently sound the possibility of helping to solve difficult regional problems, such as the lack of agreement on the use of Euphrates waters between riparian countries. Whether the Bank can at some time in the future play a useful role in the Arab refugee problem depends on factors and decisions outside our control.

French Aid

7. France's interests in the Middle East have gone through three phases in the last half-century. Between 1919 and 1946, she exercized mandatory powers in Lebanon and Syria and had an important cultural and economic position in other countries, in particular Egypt, where French was widely spoken and French investments, starting with the Suez Canal, were numerous. After the evacuation of the Levant States in 1946, she strove to maintain this position while at the same time building increasing closer relations with Israel. These culminated in the ill-fated Suez expedition of 1956 which, combined with the Franco-Arab tension caused by North-Africa's struggle for independence, destroyed a large part of her influence. General de Gaulle's settlement of the Algerian problem in 1962 led to a slow easing of these tensions without basically altering the prevailing mutual misgivings. France continued to supply Israel with heavy military equipment. In 1967, the Arab-Israeli war and General de Gaulle's condemnation of Israel led to a reversal of attitudes on both sides and to the launching of systematic French attempts to establish close links with the Arab World. President Pompidou's Mediterranean policy seems bent on systematizing these attempts.

8. France's present interests in the Middle East are threefold. Economically, she receives about 45 percent of her oil imports from the area 1/ which takes only 3 percent of her exports. Culturally, she retains a stronghold only in Lebanon and much of her past influence - which was in no way comparable to the deep imprint she left in North Africa - has disappeared. Politically, she aims at developing a common policy between all Mediterranean States, in order to balance the influence of the USA and the USSR in the area. Of these interests, the supply of oil is by far the most important; the political design is probably the least effective in view of the strong sympathy towards Israel in French public opinion as well as of the prevailing feeling that the Arab States are too volatile to build a policy upon them.

9. French economic policy and aid in the Middle East seem closely tailored to meet the above aims in their order of importance. The establishment of close relations with oil-producing countries seems to be a major French objective and this probably explains the recent arms deal with Libya. French oil companies have not been able so far to expand substantially the concessions they hold (e.g. they could not obtain the rich North Rumeila oil field in Iraq despite the attractive terms they offered) but have been given exploration rights under new forms of arrangements which give the host countries a substantially stronger position, financially and otherwise, than the concession agreements of

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1/ In part from concessions, or participations in concessions, in Iraq, Libya and the Gulf States and in part as purchases from non-French companies operating in the area. Most of the rest of France's oil comes from Algeria, also an Arab country.

previous years. As far as aid is concerned, though the data available in the Bank is incomplete, it shows that aid to the Arab Middle East is only a small fraction of French aid to the Maghreb, Lebanon taking probably the lion's share in relation to her size. Tied aid has, however, been extended to the UAR, Syria and Iraq.

Conclusion

10. For France, as probably for the Bank, the Middle East is unlikely to become an area of major emphasis as far as aid is concerned. While both have a common interest in keeping and improving lines of communications with the Arab countries and helping these countries' development efforts, the existing constraints will necessarily limit the amount of aid which either France or the Bank can make available. There is thus little ground for common action, let alone joint financing. What appears desirable is a measure of coordination (at a much more modest scale than that which appears advisable for the Maghreb countries) which could help maximize the usefulness of our mutual, but separate efforts. Given the French interest in the area and the fact that France is at present among the major Western countries the only one with rather close political relations with Arab countries, Bank activity is likely to find French support.

February 20, 1970

B. TURKEY

1. France, a member of the European Economic Community (EEC) and the OECD Consortium for Turkey, provides assistance to Turkey bilaterally (consisting of project aid, program aid, and debt relief), through the European Investment Bank of the EEC, and as a member of two joint financing syndicates for specific projects, the Keban hydroelectric dam project and the Bosporus Bridge and associated highway approaches.

Annex B gives a breakdown of French bilateral assistance to Turkey showing commitments (agreements signed) and disbursements by year and type of assistance.

2. The principal lenders to Turkey among the OECD Consortium members are the United States, Germany, the European Investment Bank of the EEC and the World Bank/IDA/IFC. French bilateral assistance to Turkey has been relatively modest, and appears to be increasingly oriented towards export promotion. However, France also contributes 33 per cent of the $35 million per year made available by EIB. French relations with Turkey remain warm and close, epitomized by the state visit of General de Gaulle to Turkey about two years ago. France continues to have an extensive cultural and information program in Turkey for the advancement of its interests in the region.

February 20, 1970

MPBart/JUpper/DHartwich/DRichardson

Clearance & cc: Mr. Billington

cc: Mr. Hartwich
Mr. Bart
Mr. Nijhof
Mr. Upper

BANK GROUP LENDING IN MIDDLE EAST

	through FY 1960	1961-1965	1966-1970	Total	1971-1975
Iraq					
- Bank	12.8	-	23.0	35.8	140.0
Jordan					
- IDA	-	8.5	3.0	11.5	27.0
Lebanon					
- Bank	27.0	-	-	27.0	96.0
Syria					
- Bank	-	-	-	-	30.0 1/
- IDA	-	8.5	-	8.5	-
UAR					
- Bank	56.5	-	-	56.5	-
- IDA	-	-	26.0 2/	26.0	188.0
Total Arab Countries	96.3	17.0	52.0	165.3	479.0
- Bank	96.3	-	23.0	119.3	264.0
- IDA	-	17.0	29.0	46.0	215.0
Israel					
- Bank	-	74.5	60.0 3/	134.5	125.0 to 150.0
Turkey					
- Total	63.4	65.7	104.5	233.6	635.0
- Bank	63.4	-	77.5	140.9	510.0
- IDA	-	65.7	27.0	92.7	125.0

1/ Two years only
2/ Delta Drainage Project - not yet considered by Board
3/ of which $25 million scheduled for Board action in April or May 1970.

Annex B

Agreements signed for Project and Program Assistance to Turkey
($ million)

		CY 1963	1964	1965	1966	1967	1968	First half 1969
France	Project aid	-	10.90	-	10.00	8.29	-	
	Program aid	-	14.20	-	-	7.29	14.58	-
	Debt Relief	-	1.19	-	12.55	-	-	-
	Total	-	26.29	-	22.55	15.58	14.58	-
IBRD/IDA/IFC	Project aid	22.60	29.00	10.00	25.90	0.34	25.00	62.85
Total OECD Consortium	Project aid	30.98	103.71	50.34	205.02	123.89	192.75	70.45
	Program aid	151.34	157.70	118.66	100.97	125.99	111.77	81.00
	Debt relief	26.40	35.55	175.04	33.60	-	29.16	8.08
	Total	208.72	196.96	344.04	339.59	249.88	333.68	159.53

Disbursements of Project and Program Assistance to Turkey
($ million)

		CY 1963	1964	1965	1966	1967	1968	First half 1969
France	Project aid	-	-	2.60	-	2.30	3.40	1.50
	Program aid	-	6.09	6.13	1.98	-	1.41	1.22
	Total	-	6.09	8.73	1.98	2.30	4.81	2.72
IBRD/IDA/IFC	Project aid	1.5	7.4	10.5	17.8	21.2	18.7	11.3
Total OECD Consortium	Project aid	82.3	40.6	56.2	62.5	89.5	123.8	69.4
	Program aid	138.2	133.6	127.6	105.5	126.1	110.5	34.6
	Total	220.5	274.2	283.8	168.0	215.6	234.3	104.0

20 February 1970
Source: OECD Consortium

Annex C

Form and Terms of Assistance to Turkey - CY 1969
($ million)

	Total Amount	Program Aid	Debt Relief	Project Aid	Tied or Untied	Maturity (years)	of which grace (years)	Interest Rate	Grant Element
France	6.48	6.48	-	-	Tied	20	5	3 to 3.5	46.5
	11.48	-	-	11.48	Tied	5	-	4.75	11.2
	4.95	n.a.	-	n.a.	Tied	10	-	6.00	14.7
	0.12	-	0.12	-	Untied	14	5	5.75	46.4
IBRD/IDA/IFC	12.00	-	-	12.00	Untied	50	10	0.75	84.1
	12.00	-	-	12.00	Untied	30	10	6.50	30.3
	25.00	-	-	25.00	Untied	15	2	6.50	20.4
	11.50	-	-	11.50	Untied	25	4	6.50	27.0
	1.45	-	-	1.45	Untied	capital subscription	-	-	-
	4.00	-	-	4.00	Untied	10	2	8.50	6.60

February 20, 1970

Source: OECD Consortium

Annex D

Projects Financed by France in Turkey (1963 to 1969)

			Amt of Asst ($ million)	Interest rate	Years	Of which Grace years
1.	Car ferry - transport	1965)	3.87	5.2	13.3	1.7
2.	Electricity distribution	1965)		5.2	13.3	1.7
3.	Keban dam hydroelectric (joint financing)	1966	10.10 /1	4.01	15.0	5.0
4.	SEKA Dalaman pulp mill	1967	12.15	5.2	13.3	1.7
5.	Railways - dieselization	1967-68	1.22)			
6.	Ankara radio	1967-68	1.00)			
7.	Seyitomer power station	1967-68	15.79)	5.2	13.3	1.7
8.	Ankara gas factory	1967-68	3.31)			
9.	Eregli steel mill-oxygen plant	1967-68	1.47)			
[illegible]	Ankara water supply - pipe plants	1967-68	4.15)			
11.	Keban dam hydroelection (joint financing - supplementary loan)	1969-70	5.00 /2	4.01	15.0	5.0
12.	Bosporus bridge (joint financing)	1969-70	5.00 /3	6.00	15.0	5.0

/1 Total foreign exchange cost of project originally estimated $135 million.

/2 Total foreign exchange cost of project revised estimate $155 million.

/3 Total foreign financing to be provided for Part I of project estimated $71 million, of which a maximum of one fourth is to be for local cost financing.

2[illegible] February 1970
Source: OECD Consortium

ANNEX A

BANK GROUP LENDING IN MIDDLE EAST

	through FY 1963	1964-1968	1969-1973	Percent increase FY69-73 over FY64-68
Iraq				
- Bank	12.8	23.0	80.0	
Jordan				
- IDA	2.0	9.5	19.0	
Lebanon				
- Bank	27.0	--	96.0	
Syria				
- Bank	--	--	30.0	
- IDA	--	8.5	--	
UAR				
- Bank	56.5	--	--	
- IDA	--	--	126.0	
Total Arab Countries:				
- Bank	96.3	23.0	206.0	
- IDA	2.0	18.0	145.0	
TOTAL	98.3	41.0	351.0	756%
Israel				
- Bank	74.5	35.0	90.0	157%
Turkey				
- Bank	63.4	10.0	478.5	
- IDA	26.7	54.0	87.0	
TOTAL	90.1	64.0	565.5	784%

L.E.C.
March 6, 1970

Bank Group Activities

4. A number of factors prevented the Bank Group from developing significant activity in the Arab Middle East: political instability and attitudes, lack of need or of creditworthiness, scarcity of IDA funds, compensation issues arising from nationalization, inadequate economic performance, and, last but not least, difficulties in establishing a fruitful working relationship with most Governments. As a result, Bank/IDA lending to these countries (see Annex A), which totalled $98.3 million through FY63, amounted to only $41.0 million in FY64-68. This low level of activity, especially when compared with the relatively high lending to Israel ($74.5 million through FY63 and $35 million in FY64-68), and the Bank's inability to finance the most important schemes in several countries (Aswan dam in UAR, Euphrates project in Syria, Yarmouk project in Jordan) have contributed to giving the Bank a negative image in most of the area.

5. Considerable efforts have been made in the last two years to lay the basis for increased Bank activity. The relations with several countries have no doubt improved, although with varying degree of success and without being so far reflected in lending operations. However, these efforts provide the basis for the five-year lending program for FY69-74 (see Annex A), which envisages a very substantial increase in lending to a total of $351.0 million during the period, of which $145 million in IDA credits. Lending to Israel during the period is only planned at about $90 million in the period.

6. The existing political, economic and administrative constraints in most of the countries concerned are likely to make it extremely difficult for the Bank to play a major role in the economic development of the area in the foreseeable future. This is not to say that the Bank cannot play a role at all since the conflict with Israel does not prevent a serious development effort from taking place in most countries but its pace will be rather erratic and the results will be considerably smaller than they could be under more stable conditions. The Bank should, therefore, pursue the systematic exploration of lending possibilities started in recent years, and build upon that base an influence on economic policies. It should also extend technical assistance to those countries which need it more than money, such as the Gulf States and Saudi Arabia. The Bank should prudently sound the possibility of helping to solve difficult regional problems, such as the lack of agreement on the use of Euphrates waters between riparian countries. Whether the Bank can at some time in the future play a useful role in the Arab refugee problem depends on factors and decisions outside our control.