THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

| | |
|---|---|
| **Folder Title:** | VPD - Director, Development Policy - McNamara File - August 1975 - Folder 6 |
| **Folder ID:** | 30124208 |
| **Series:** | Director, Development Policy Ernest Stern's Correspondence with President McNamara |
| **Dates:** | 08/01/1975 - 08/28/1975 |
| **Subfonds:** | Records of the Office of the Vice President, Development Policy (VPD) and the Development Policy Staff |
| **Fonds:** | Records of the Office of the Chief Economist |
| **ISAD Reference Code:** | WB IBRD/IDA DEC-01-06 |
| **Digitized:** | 03/24/2023 |

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank’s copyright.

Please refer to http://www.worldbank.org/terms-of-use-earchives for full copyright terms of use and disclaimers.

THE WORLD BANK
Washington, D.C.
© International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

VPD Director Development Policy

McNamara file ~~Developmet Policy~~, Aug. 1975

Folder 6

The World Bank Group
Archives
30124208
A1993-015 Other #: 3 212404B
VPD - Director, Development Policy - McNamara File - August 1975 - Folder 6

DECLASSIFIED
WITH RESTRICTIONS
WBG Archives

RSM

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

# OFFICE MEMORANDUM

IBRD / IDA WBG ARCHIVES 820

**TO:** Mr. Robert S. McNamara, President

**DATE:** August 28, 1975

**FROM:** Ernest Stern, Director, Development Policy

ES

**SUBJECT:** The McIntyre Report

820/6/15

1. I want to draw your attention to two points in the McIntyre report (Towards a New International Economic Order) which I sent in yesterday.

2. Paragraph 61 refers to a decline in investment in mining. This supports the US position on the subject and we will undoubtedly hear about it at the Annual Meeting.

3. Paragraph 135 suggests that the World Bank develop guidelines for automatic debt relief. Assuming the report is accepted by the Heads of Governments, it will be made public and we can expect this recommendation to be discussed widely.

EStern:gss

820/6/14 RSM

IBRD / IDA
WBG
820
ARCHIVES

Mr. Robert S. McNamara, President  August 28, 1975

Ernest Stern, Director, Development Policy

Mr. Gardner's Speech

1. Since Gardner asks you to be candid, and the speech is still in rough draft and subject to major change, you would do him a service to take him at his word. The speech, as it stands, is a rather chaotic jumble of ideas. Between the opening (1-3) and closing (18-30) rhetoric he has bundled together a number of ideas drawn from Bank thinking. However, it is clear that he has not digested them yet and consequently they are not woven into a theme.

2. The topic is supposed to be responsibility in an interdependent world but, except for the section on Arms Control (3-6) the interdependence is never demonstrated. Cryptic paragraphs deal with population, U.N. reform, agricultural research in a very unsatisfactory way; the section on international trade is a horror.

3. I attach some draft comments which could be turned into a letter, if you wish to be so explicit. (A list of more minor points is appended and could be forwarded however you decide to respond.)

4. The principal suggestion is a proposal on how to treat the subjects Gardner wishes to cover as part of the central theme.

Attachment

EStern/sc

IBRD / IDA
WBG
820
ARCHIVES

Comments

1. The basic problem with the present text is that the theme of interdependence comes through clearly only in the discussions of arms control and the environment; the other topics are not well connected to this central theme. The speech could be strengthened considerably if the need for action to deal with poverty and underdevelopment could be put more clearly into the context of interdependence.

2. One possible approach would be to start with the problem of population. The present section on this topic (pages 15-16) is very brief given the importance of the subject and should, in any event, be expanded. If that were done you could stress the impact of predictable population levels on the world and make the principal points:

a. No matter what efforts are made a world population of 6-1/2 billion by the year 2000 is almost inevitable. If population work does not expand the number may well be greater;

b. Since there never have been so many people on the globe the implications for living conditions, food supply, raw material use and political interrelationships are unpredictable;

c. Population growth has important international political implications; since by the year 2000 the ratio of people in the developing countries to those in the industrialized countries will be better than 4:1. The tyranny of the majority, of which the U.S. has already complained, will get worse;

d. The implications for food production could be spelled out, (e.g. the rate of increase in production per capita has been almost zero in the past five years, leaving no margin for improved nutrition), and the point made that shortages affect many countries through the international trade mechanisms;

e. The relationship of rapid population growth to poverty and the elimination of poverty as a political factor in domestic and foreign policy.

3. The extent of poverty could be described rather more dramatically but this should lead to the conclusion that assistance in development is necessary not only on moral grounds but also because it has real implications for everyone in an interdependent world. The link here, as already indicated in the present text, is through the identification of increased agricultural production and the alleviation of rural poverty. There also are links to the supply of raw material, and to trade which might be mentioned.

4. The drive to alleviate poverty, which surely is one of the principal political objectives which shapes the international attitudes of many developing countries, should be the transitional point to the international trade section. The frustrations with the present economic order are great, albeit often a whipping boy for failing to come to grips with domestic issues. The fact is that the developing countries have greater bargaining power, some real and some perceived, and will try to use this to bargain for more equitable arrangements. It is desirable to reinforce this objective which means stressing the collaborative aspects of the international economy. Since LDC effective bargaining power remains small, however, one should not discard the moral argument that the rich need to asist the poor, by larger aid problems and by special treatment in other fields.

5. It is right to link the discussion on raw materials with conservation but it could be done in the context of the concern which the developing countries have about the implications for current rates of use to the cost of their development. The point could be made that, for instance, the era of low cost energy, which made rapid industrialization possible, is over. Increased costs of raw materials and higher levels of investment to develop alternatives will make development more expensive and more difficult. (You should, of course, be aware that this line of argument leads very directly to the proposition that non-renewable raw materials should be priced very much higher than the market indicates - a line that Iran has stressed in regard to oil.) Some examples of what would happen if per capita resource use reached U.S. levels would be educational.

6. The section on conflicts and international order probably should be made less general. In the context of an interdependent world there is, of course, a whole range of issues which face the community. But for your audience and given the theme of the talk the important issue is not so much the role of law and the monitoring of agreed behavior but the criteria for distribution, if not of existing wealth, then of the increase in production and how the international institutional impediment to more rapid growth can be removed. Simply arguing for better international

institutions to support existing relationships is too weak a conclusion. What is involved in many of the issues today is a battle for a larger share of the world's wealth. That point should be recognized quite explicitly in these sections. The international institutions can assist on a wide front but the basic decisions must come from countries. They must be willing to face these issues and reach decisions; only then can the international institutions help to implement and monitor.

C-349

common cause
2030 M STREET, N.W., WASHINGTON, D. C. 20036
John W. Gardner, Chairman (202) 833-1200

IBRD / IDA
WBG
ARCHIVES

August 27, 1975

Mr. Robert McNamara
World Bank
1818 H Street, N. W.
Washington, D. C.

Dear Bob:

I'm immensely grateful for your willingness to look at my speech draft.

As I think I told you, the conference will be entirely focussed on matters of concern to Iran, with the exception of my opening speech, which is supposed to deal with the world scene. I assume (perhaps wrongly!) that the Aspen Institute knew what it was doing in selecting for that opening slot someone who is not a specialist in international affairs. But since I'm the only one on the program covering the world "backdrop", I feel a strong obligation to do it right.

I'll be grateful for any comments you care to make. Please be candid. Tell me where I've made factual errors, or said something foolish, or failed to make a point, or reached a wrong conclusion, or left out something crucial. The thing is still in rough draft and I can make major changes if necessary.

Again, many thanks for your kindness.

Sincerely,

John Gardner

Draft
John W. Gardner
August 27, 1975

IBRD / IDA
WBG
ARCHIVES

THE ADULTHOOD OF THE SPECIES

We look at the world today with an awareness that an era is ending and something else is coming. We don't know what lies ahead. But we know that it will be a period in which problems become increasingly entangled with one another, and nations increasingly interdependent, ~~old~~ sources of steadiness and continuity have disappeared, and we may have to live with instability for some time to come.

Everything today is so interrelated that there is escapism and irresponsibility in talking from the standpoint of only one special field of expertness, or of one nation or set of nations. What affects some of us affects all of us. We must put ourselves in a frame of mind to think about the overarching problems of the species and the planet.

In doing so, we must not be diverted by words like "realism" and "idealism". Generally speaking, you are called a realist when you are considering your own self-interest so narrowly as to be unrealistic. And you are called an idealist when you are sufficently realistic to see that your well-being is bound up with that of others.

I have called this talk "The Adulthood of the Species." I don't know at what precise time we reached that state - perhaps at the time of Hiroshima - but I do know that we are now burdened with something very much like the options, hazards and responsibilities of adulthood.

We have the relative freedom of adults. Our range of choice is far beyond that of earlier generations.

Unlike children, who fight but rarely injure one another fatally, we have an adult power to destroy our enemies, ourselves and our planet.

We know more than any preceding generation about the consequences of any particular social decision -- and that knowledge is an essentially adult burden. Our forebears were able to behave more impulsively because they knew less of the social consequences of their acts.

That is where we are in the stream of history. We find ourselves forced to make, on our own responsibility, the decisions that will shape our future -- and to make them without the supports of tradition, received values or a stable order. We are free to believe or doubt, to build or destroy, to choose the best or the worst.

As in an individual life, however, it is not freedom but responsibility that makes you grow up. And we now have a responsibility that we cannot hope to escape -- a responsibility for the species and the planet. There is no place to hide.

Where do we start? We start where the gravest danger exists, and where the most searing human tragedies are to be found. So I shall talk first about arms control and then about absolute poverty.

Arms Control

The possibility of nuclear conflict outweighs all other dangers.

In the question of nuclear arms control, the U. S. and the USSR are living in the past. They seem wholly preoccupied with their wildly expensive rivalry, as though it were still the tidy, bipolar competition of yesterday. But it isn't. The nuclear world of today and tomorrow is immensely more unpredictable, messy and dangerous than anything we've known. It's a multi-polar world. Proliferation is here. No one knows what additional nations will blast their way into the nuclear club tomorrow. And experts assure us that terrorists could assemble a nuclear device. ~~And~~ Everyday the possibility increases that accident or miscalculation will shatter the delicate balance of fear and readiness among the nuclear powers.

~~The~~ Debate over the effectiveness of detente is the ragged end of an old argument. The Cold War is over - not because the US and the Soviet Union became friends, but because something infinitely more complicated and dangerous has superceded it. The next nuclear bomb detonated in anger will very likely be set off by a terrorist representing no nation. Unexampled destructive power will soon be available not only to extremist groups, with their berserk vindictiveness, but to warped or lunatic individuals.

Every nation, no matter how small and powerless, is affected by the arms race. All will suffer if radioactive dust envelops the globe in the wake of major conflict. All are suffering now as the arms race ravenously consumes scarce resources. And the rest of the world is ~~The smaller nations are~~ affected by another consequence of Great Power rivalry: the US and the Soviet Union, aware of the dangers of direct confrontation, are increasingly inclined to pursue their competition through intervention in the internal or external conflicts of smaller nations. ?

There are steps that US and the Soviet Union could take tomorrow to de-escalate their deadly competition, but it is impossible to halt the arms race as long as no one really wants to. We must create a body of opinion, worldwide, that sees the dangers and demands that steps be taken to avert them. We must educate ourselves as to the processes by which international hostility escalates, and the things in our own nature, as individuals and as nations, that precipitate conflict. We should understand, for example, that the thing that will most surely contribute to everyone's national security is an international system capable of resolving conflict peaceably. We should understand that no nation can afford to leave national security policy solely in the hands of its military and defense bureaucracy, which must by the nature of its commitment engage in "worst case" analysis and act on a ratchet principle in the escalation of security measures. We must understand the ungovernable upward spiral of fear and suspicion that is generated when hostile nations confront one another. The myth of the US - USSR arms race is that each reacts to the other in a sort of Wimbledon symmetry; but the reality is more complex and frightening. Each reacts to what the other _might_ do, or _might be capable_ of doing. The reaction precedes the action. Both sides desperately need stabilization of the arms race yet each is driven to seek a de-stabilizing superiority. In its nature the process is without limit.

The possibility of a nuclear incident will increase steadily with each year that passes. Unless we take a wholly new path, the moment of catastrophe is coming. The new path will have to be an internationally-managed system for control of nuclear materials and weapons. Perhaps we will achieve such a system before catastrophe. Perhaps the catastrophe will have to come first. If we achieve it before catastrophe it will be an agreement freely arrived at, with minimum elements of coercion. After catastrophe, no doubt the solutions will be harsher. The nations of the world could spare themselves great hardship by moving as rapidly as possible toward an ironclad, internationally-managed agreement for supervision, inspection and control of all nuclear materials, including the production, transport and use thereof.

There is an alternative, of course. We can put our heads down and await the disaster.

## Poverty and the Developing Nations

Of two billion people in the roughly 100 developing nations, about 40% or 800 million are barely surviving. Many aren't surviving. We all know the harsh facts of absolute poverty - mental and physical handicaps stemming from malnutrition and lack of medical care, handicaps that cripple for life, death at an early age.

Those in absolute poverty are found mainly in the rural areas, most of them living outside the monetary system. Educational opportunities are totally inadequate, illiteracy is almost universal. Population density is generally high and so are birth rates.

Of course poverty is not limited to the developing nations. It exists in many industrial nations, including the United States, and must be combatted wherever found.

But in many of the developing nations absolute poverty is found on a scale unmatched anywhere. that is not the [illegible]!

Hunger is a particularly serious problem. In most of the poverty areas it is not only a question of supply but of distribution. Even in good years many go hungry. Prices of food in the international market have made things worse. Since 1972, corn and wheat prices have more than doubled, rice has tripled. All the basic resources for food production -- land, energy, water, fertilizer, seeds - have been either in short supply or very expensive.

While supplies dropped due to the crop failures of recent years, demand continued its dizzying upward climb, pushed chiefly by population increases but also by excesses (increasing?) of consumption in the affluent nations. The latter is illustrated by the fact that a consumer in the low income countries consumes about one pound a day of grain, directly, while in North America an individual consumes about 6 pounds a day, directly, or indirectly in meat, milk and eggs.

The most significant move to improve the food situation and rural poverty generally will be to raise productivity on small subsistence farms in the food-deficit nations themselves. Japan and Taiwan have proven that the small farm can be productive. Increased productivity would not only diminish hunger but increase jobs and economic activity, and perhaps do something to stem the precipitous flight to the cities.

Many of the measures required to improve small farm productivity pose an internal challenge to the developing nations themselves. The elites within the developing nations have tended to favor urban constituencies, and in rural areas to favor the large farmer. The supplying of credit, water, transportation and the like to the small farmer will require a sharp change in attitude on the part of elite segments of the population. Government food pricing policies often leave the farmer with little incentive.

In such internal power relations, as in population control and so many other matters, there is a point beyond which outsiders cannot help. Finally, all depends on the capacity of the developing nation itself to face its own problems, cope with its own resistant power elites, motivate its people, carry out necessary political reforms and so on. why not mention explicitly

Solution of the problem of urban poverty, which has been intelligently examined in a recent World Bank report, depends in some measure on the same internal policy changes.

But with all due credit to internal factors, help must also come from outside if the developing nations are to solve their problems. Robert McNamara has pointed out that without outside aid to the 4th World nations, these nations will have negative growth rates p.9' for the remainder of this decade, but that they could achieve a modest positive growth rate with very little additional help.

Twenty five years of development assistance has provided many striking success stories. But the past two or three years have brought a devastating combination of circumstances to poor nations. They have seen a loss of their export markets due to recession in the industrial nations and inflated prices of almost everything they import, especially food and petroleum.

Meanwhile the average share of the GNP that the developed countries allot to ODA has dropped from .52% in '60 to .30 in '73. The goal for ODA during the Second Development Decade was set at .77% of GNP and the developed nations are far from achieving that figure. All of the developed nations, whatever their ideology, and the OPEC nations, should join hands in a development partnership that would meet the .7% goal.

Those who manage programs of development assistance have learned much about the appropriate ~~kinds of~~ technology for such assistance. They have learned that the receiving nations must have a voice in formulating plans for assistance programs, and that every program should build indigenous leadership and skills for the future. Unfortunately donors of bilateral aid have not yet learned that development assistance programs should not be used as leverage to control the political or military policy of the receiving nation.

The United States bears a special responsibility for aid in meeting the food crisis. North America has a more dominant position with respect to the world's exportable food supplies than the Middle East does with respect to oil. And the U. S. population is growing at only .8% so we will ? gain even further. Since 1972 the U. S. has supplied 40% so wha of the world export of food grains, 60% of feed grains and oil seeds.

? con-nec

Extremely important in solving some of the problems of the developing nations, particular agricultural problems, is research and development of the sort most likely to be why? supplied by the industrial nations. New seed varieties are on the way. There is hope of developing cereals that fix atmospheric hydrogen as legumes do. There are new forms of agriculture - marine, bacterial, fungal, microalgal, and so on.

Still another and immediately necessary form of outside assistance in agriculture is the creation of an internationally allocated system of food reserves in which nations would own their own reserves but act jointly to set policy. There are many questions as to how such reserves should be accumulated and how released, but the questions are answerable. The reserves would not only build needed stockpiles for crop-failure years, but would prevent sharp farm income declines in times of surplus.

Unfortunately, the solution to this as well as a great many other problems is made more difficult by the presently rather troubled relations between the developing and developed nations. The oil embargo, the setting off of a thermonuclear device by India, the Middle East crisis, and some of the recent actions in the General Assembly have created serious tensions. At the same time, the developing nations are demanding, with a new assertiveness, that they be given an equal partnership in determining the matters that concern everyone.

Ultimately the developing nations must work collaboratively and in good spirit with the developed nations. Their head-count in the General Assembly must not mislead them as to the extent of their power. The most they can do there is to destroy their best forum.

But just as they must work with the industrial nations, so the industrial nations must work with them. That is the plain consequence of interdependence. The mutual need is going to become greater than less.

No doubt it will provide great emotional release for all concerned to engage in the game of blame. The industrial countries can charge (correctly) that high fertility rates in the developing nations greatly complicate the process of economic development. The developing nations can charge (correctly) that gross waste of scarce resources in the industrial nations affects their lives and their future. All concerned can generate great heat and little light. And where will it get them?

International Trade

Nowhere is interdependence of all nations, developed or developing, more evident than in international trade. No nation can have an autonomous economic policy any more. Nor can any nation treat its monetary, trade and investment policies as separate subjects. For an increasing number of problems, solutions can only be arrived at by international agreement.

A major problem in international trade is the fact that the industrial countries have long maintained discriminatory tariff and non-tariff barriers against processed goods (and in some cases against raw materials) from the developing countries. The industrial nations have gone a long way in lowering tariff barriers against imports from one another, and it is senseless for them to perpetuate ~~penetrate~~ unfair barriers against the developing nations.

The industrial countries are poised between protectionism and liberalization, and it is essential that the balance be tipped toward liberalization. The forces of protectionism are naturally strong in times of recession and unemployment. But ~~A~~ a number of the industrial nations have already agreed to trade preferences or duty-free entry for certain products of the developing nations; and it may be hoped that this trend toward preferential treatment will grow. To the extent that the developing nations can be helped to help themselves, so much the better for all.

Another major problem in international trade is the need for some means of stabilizing the market in commodities, which traditionally fluctuates greatly in price and volume. The purpose would be to assure the producing nations steady prices and markets and the consuming nations adequate supplies at reasonable cost. One possible solution is the creation of international stockpiles of certain commodities, to be financed and managed by IMF.

In a world adequately sensitive to the requirements of stability, nations which export raw materials will not make sudden destabilizing moves such as the OPEC oil embargo of '73, or the United States soy bean embargo of the same year.

One cannot talk about raw materials without touching on the subject of conservation. The whole world must conserve energy and non-renewable resources. Nothing is more certain than that in two more decades at the most we will have developed the art of recycling resources (chiefly minerals and water), to a level that cannot be imagined now. With respect to soil and forests and other renewable resources, we will rebuild as we use.

But some natural resources, such as oil, coal and natural gas, are for the most part non-recyclable and non-renewable, so that the only means of conservation are more efficient use and a reduction in consumption.

Today the waste of resources in the advanced countries, certainly in the United States, is phenomenal and inexcusable.

Multi-national corporations are a powerful element in the energy field, as in other raw materials trade, and there has been much discussion of whether we should find some means of bringing their extraordinary power and maneuverability within some framework of constraints. There is need for far more information than we now have concerning the functioning of the multinationals, but it is possible to say one thing with certainty now: we cannot create a framework of accountability for the multinational corporation by action of a single nation. Ultimately we will hold them accountable only through multilateral action aimed at resolving specific problems such as commodity stabilization agreements. In a multilaterial agreement on such an issue, it should be understood that the nations party to the agreement will each be held responsible for the conduct of the multinationals based on its own territory.

One of the most perplexing problems facing the world economy is the emergence in the post-colonial era of a multiplicity of small and medium-sized nations that are not economically viable in themselves. There is obvious need for common market mechanisms; but it's not at all obvious how such mechanisms should work. There is no great point in the new nations banding together, since some 80% of their trade is not with each other but with the developed nations. But if new nations establish common market ties with developed nations, there arises the danger of a new, if more decorous, colonialism. An interesting third alternative might be a common market mechanism among a group of new nations and developed nations brought into being and supervised by the UN.

what does this mean?

Population

Recent UN estimates give somewhat lower projections of population growth, but there's small comfort in that. We're still going up at the rate of 200,000 births a day, and will have to endure heavy population growth for decades to come, with devastating consequences in human suffering and ecological overload. The "demographic investment", i.e. the cost of resources that go to support added population, expressed as a percent of fixed capital formation, ~~if~~ is 12.5% for the developed nations, 42.5% for the developing nation, (73.2% for Bangladesh.) The burden on a nation seeking economic growth is apparent. Unless we reduce the highest fertility rates, improved food output or aid just buy us is a little more time.

no one will know what this means!

There has been a certain amount of fruitless debate as to whether our concern over fertility rates should express itself in family planning programs or programs of education, health, nutrition and agricultural development. The only sensible answer is "Both."

We don't know as much as we should about reducing fertility rates, but there is a good deal of evidence that they come down when the lowest income groups are lifted off the floor of absolute poverty and brought out of the utter darkness of malnutrition, ignorance, and despair.

It is wrong to charge that the developing countries are making no effort with respect to population. Recent evidence indicates that 72 countries have made progress in reducing fertility. (But none of the nations identified by the UN as least developed showed a decrease.)

Ecology

The revolution i~~s~~n environmental awareness is surely one of the great landmarks in human history. Archaeologists now tell us mankind has been destroying one or another part of the environment for the past 10,000 years. There is evidence that soil depletion, the exhaustion of water resources, deforestation, silted waterways and other consequences of exhaustion of environmental abuse occurred frequently ~~fragmently~~ in the ancient world -- on the plains of the Indus River, in the lands of the ancient Maya, and around the Mediterannean basis, for example. Plato expressed the view that the soil erosion so evident in the Greece of his time was caused by deforestation in earlier times. What is new is not environmental destruction itself but the scope and variety of the destruction and the extraordinary new awareness. We are now acutely conscious of the problems of the atmosphere and the hazards to our life-support systems -- the quality of our air, water and soil, the dangers to the upper atmosphere and to the climate, the effect of man-introduced chemicals on the natural environment (including us), the thoughtless use of nonrenewable resources and so on. We understand in new dimensions the wisdom of Francis Bacon's aphorism, "We can command nature only by obeying her." While a segment of our backward-looking citizens still regard environmentalism as a passing madness, nations are basing policy on it.

There are those who say that the developed nations want pollution control at whatever cost to economic growth and the developing nations want the reverse: economic growth at whatever cost. But that is a great oversimplification. There are extremists in all nations. Sensible people in all nations are addressing themselves to the solutions that will permit ecologically sound economic activity. We must develop (and are developing) pollution-free technologies, and technologies for the prevention of pollution. We are developing energy-efficient technologies and ecologically sound agricultural methods. We must devise means of testing and screening the 1000 new man-made chemicals that are introduced every year. We must learn to avoid the population overload that leads to unbearable stress on the environment. We must greatly advance the arts of recycling. It is not surprising that the environmental movement has been characterized at times by a strong anti-technology bias -- but ironically, much that we must do to be saved will require new technological ingenuities.

## Conflict

At this point I want to return to a subject with which I started - conflict. It is apparent that we must devise new forms and processes to resolve conflict peaceably. After millenia of bloodshed the goal seems unreachable, but until this century nobody really tried very hard.

Certainly it is only in the last forty years that there has been a serious attempt to explore the nature of group conflict. In the years ahead, such research must encompass hostilities between nations, between groups and between individuals. It must concern itself with all sources of group conflict, including racial and religious prejudice. If the species is to survive, we must get ahead with the process of breaking down prejudice, intolerance, xenophobia and hatred.

It will take time. Conflict will not be eliminated unless people find some common ground of shared values -- not a total consensus but some common ground on which they can stand. No matter what ingenious machinery is devised to enable nations to live together, the only way to lift them out of their petty squabbles and destructive tensions is through a commonly shared vision of what, working together, they might accomplish -- and a shared recognition of the catastrophic alternative. We must learn to cherish, and to teach others to cherish a vision of man which will lift us above parochial loyalties and make us see that we are fellow actors in a much larger drama.

This is not to say that we can or should relinquish all lower-level loyalties in order to be loyal to mankind. Just as we need not give up allegiance to family in order to love our country, so we need not give up loyalty to country in order to care about our endangered species.

We want a world in which <u>all</u> men and women can strive to eradicate ancient evils and to better the condition of man. All human societies everywhere have pursued some concept of justice. We want a world in which they can continue that pursuit, each in his own way. Many of us have cherished the notion of freedom, and we would like a world in which all peoples could somehow examine and test their own readiness for that idea.

In other words we want a world in which each nation is free to attack the ancient problems that afflict its people. In a world full of misery, injustice, disease, illiteracy and an infinite variety of threats to human fulfillment, there is plenty for nations to do in pursuit of goals that all can honor.

The man in the street thinks of peace as something passive and uneventful -- a happy vacuum. If we conceive of it in that fashion, we shall never have it. We cannot abolish conflict, nor would we wish to. As a guide to a more mature conception of peace we need only point to the conditions within any free and lawful society, where the existence of conflict is accepted as a necessary and even desirable condition of social health. Conflict is not always an expression of the human impulse to violence. Sometimes it is a consequence of normal competition; sometimes it is the result of smoldering injustices that cry out for a remedy. Any free and lawful society deliberately provides arrangements to make certain kinds of conflict possible, arrangements that encourage the existence of a "loyal opposition," that prevent economic monopoly, that foster freedom of expression, that empower the powerless.

The whole history of law and much of the history of government has been an attempt to deal in a civil fashion with human conflict, to hold it within bounds, and to resolve it peaceably within a framework of order. Thus is justice done and the peace preserved.

If we do not blow ourselves up, we shall construct a peaceful world in much the same fashion -- by painstakingly putting together the institutional arrangements which permit the ebb and flow of conflict and tension within a framework of order.

International Order

The old assumptions, balances and power relationships that made the world tolerably predictable have disintegrated, and we find ourselves jostling one another in the era of interdependence. As though nothing had happened, foreign offices continue to play the old, familiar zero-sum games -- games of the strong, games of the weak. But the world has changed. Not only the nations but the problems interrelate, and there is no way to proceed except through collaborative problem-solving and joint management of agreed-upon solutions. No nation can be wholly autonomous any more.

International collaboration presents problems for each nation. Each has its distinctive economic objectives, its internal power structures and elites, and its long-nursed international grievances. But, finally, all must find their place in an international order.

To get from here to there will require some large changes. When Harlan Cleveland speaks of a Planetary Bargain, he provides an accurate sense of scale.

It isn't just the scale but the nature of the task that is difficult. Most great changes that we accomplish within our own nations are changes within a well-established framework. In the world at large, we're trying to create the framework itself. That is the big goal: a framework of law, of custom, of attitude, of institutions within which a healthy interplay of competing interests and inevitable tensions can occur without escalating to violence.

It will not be wholly comfortable for anybody. New forms of transnational organization will threaten internal power relations - and those threatened will respond with hostility. The world won't be as loose as it once was, and this is due only in part to the fact that we can't afford lawless violence. We've learned from studies of non-human societies that a diminishing resource base leads a biological population to organize itself more tightly to exploit the narrowing base. Whether we like it or not, that is an element in our situation.

The first principle of an international framework of order will be, of course, the rule of law. What else could it possibly be? The first task is institution-building. We need better international institutional arrangements not only for all the tasks of conflict resolution but for monitoring the environment, negotiating and supervising international economic agreements, supervising food reserves, managing deep sea resources and so on.

States will continue to be the main actors but will align and re-align in multiple ways on different issues. Transnational pressure groups -- the nations producing a particular kind of commodity, or coastal nations, or manufacturing nations -- will blur the old battle lines between individual nation-states.

Why [illegible] this [illegible] the [illegible] of a [illegible]

To what extent does the United Nations provide what we are looking for. It has performed valuable services and could well be the base from which to do further institution-building. The problems with the UN are several.

First, its usefulness may be destroyed if Third World nations pursue deliberately destructive confrontation tactics in the General Assembly. Large and populous industrial powers are not going to believe that the sheer number of Third World nations creates a moral or legal presumption that they are right. Harlan Cleveland has suggested that we dispense with voting and move to decision-making by consensus. He points out that in any case nothing gets done without consensus.

The second problem is that the UN and some other international agencies suffer increasingly from their own bureaucratic rigidities. There are well-established ways to combat the stifling qualities of bureaucracy, and these institutions should be subjected at once to a process of renewal. Harlan Cleveland was right when he emphasized the importance to participating nations of choosing an exceptionally competent chief executive and then giving him the power to exercise leadership.

One of the most essential functions that can be performed by international institutions will be to gather and interpret the information on which forecasts may be made with respect to crucial questions of resource supply and demand. All our shared problem-solving must begin with information-gathering. It would greatly strengthen the UN if we were to give it major new information functions - and the staff to perform those functions.

There's a prudence in us that doesn't like to boast about victories, but we should at least note in passing that our information base in such matters as population and food has improved sensationally in the past two decades. This may involve a spurious discouragement because the more you know the more you realize you don't know. When you reach the point where you can make precise ~~cost~~ estimates of things, you reach the point where you can be proven wrong quantitatively.

Given the information base, we will move, inevitably, to forecasting. We shouldn't be overconfident about our capacity to tell the future nor disillusioned when forecasts have to be revised. We need to have a sense of the sheer complexity of the forces we're trying to understand and deal with. And we need to remind ourselves constantly of the things we leave out of our equations because they can't be quantified -- motivation, emotion, politics, and so on. And when we move from forecasts to plans, we should bear in mind that every plan requires continuous revision.

## Renewal

Virtually every change I have discussed or recommended will meet with powerful resistance, for the very good reason that they threaten long established ways of doing things. Established patterns of organization are not easily changed, whether they are the ways of corporations or tribes, the prerogatives of a military bureaucracy in an industrial nation or an elite class in a developing nation.

The instinct of humans to stabilize their environment leads them inevitably to invest their institutions with a sense of permanence, of sacredness, of unchallengeable rightness. And this leads over the years to an institutional rigidity that is essentially anti-nature. Nature is tumultuous, moving, changing, always in flux. Things are being born, maturing, adapting, competing, surviving, dying. One thing waxes, another wanes. There are cycles of growth and decay. Things ebb and flow.

Humans create organizations and societies to serve their shared purposes, and then gradually rigidify those institutions as though in a vain attempt to shut out the tumult of nature. But nature wins. Eventually, in trying to shut out the great ebb and flow of life, organizations and societies smother themselves.

No society really enjoys the kinds of transformations that the unrolling future demands. In many of the problems a nation faces it can find a villain or external circumstance that may be blamed and assaulted. But in matters of social change, the problem is all too often the villain within -- within oneself, within one's society. Thus the critics among us who tell us precisely what our trouble is may be fiercely resented. Self-knowledge is the last thing we want. They are unwelcome because they tell us to re-arrange things within ourselves (or our society) that we have no intention of rearranging.

We are really quite good at telling others how they should re-shape their ways. It becomes more difficult when the nation involved is our own nation, when the social class involved is our own social class, when the power structure is the very one that gives us our privileges. Yet that is where it must begin. For every nation represented here today - and for all that are not. Every society is unfinished. We all have things that we must outgrow.

## Values

In closing, let me say a word about values. No doubt the moral eclipse of our day is part of the problem. The confirmed pessimists among you may object to the hint of optimism in the word "eclipse", but you will have to bear with me. I count unrelenting pessimism as a failure of vitality - just as unrelenting optimism is a failure of sense.

We must build on a moral base. But no nation wants its value system established by transnational agreement, so we start with a sense of limits. We must build on a few values widely shared among nations, leaving to individual nations broad freedom to pursue their own vision of the moral order.

Surely the senseless waste of life is a denial of all other values, so let us begin there. I would put it simply that the prime value on which we must build is self-preservation. It would sound far more lofty if I were to say we build on the sanctity of life, but self-preservation is just the commanding note that I want to strike. We want to save our lives and our children's lives. We want to save man, the endangered species, and Earth, the endangered planet.

The second value we can build on is the rule of law. That may sound like an exceptionally abstract principle to place next to the powerfully moving value of self-preservation. But the rule of law, with its roots deep in conceptions of equity, is not without its capacity to move human beings. Of all the social values that humans have celebrated, none is more ancient and universal than justice. We know of few societies ancient or modern, primitive or civilized, that have not had some concept of fair play. The hunger for justice must reach deep into the human psyche.

Next, I would list the worth of the individual, the release of human potentialities, the enhancement of individual dignity, removal of the obstacles to individual growth and fulfillment. None of these are possible in a world of ignorance, hunger, disease, lack of opportunity, nor in a world of tyranny.

Finally, I would list a recognition and respect for our common humanity, a respect for those who are not of my village or my tribe or my nation, language, race, or religion. As a value, it does not appear to have a powerful grip on the human mind. There are even those who would argue that it is against human nature. Yet every modern nation is a composite of earlier tribalisms and fierce regional loyalties, most of which have given way to national identity. In any case, it is only out of a respect for our common humanity that we can build a more humane future. Only thus can we create the sense of relatedness and mutuality that will prevent this riven, angry, frightened world from tearing itself to pieces.

Our planet is but a speck of dust in the universe, and our life on it is but an instant in the long stretch of astrophysical time. Still, it is the only planet we have and our life on it holds great possibilities of beauty and dignity and meaning. Yet if it were asked of us how we spend our instant of time on our speck of dust, we would have to say, "We spend a good deal of it fighting one another and laying waste our earth." We should be able to do better.

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

920/6/13

# OFFICE MEMORANDUM

IBRD / IDA WBG 820 ARCHIVES

TO: Mr. I. P. M. Cargill, Vice President, Finance    DATE: August 18, 1975

FROM: Ernest Stern, Acting Vice President, DPS

SUBJECT: Bank Policy vis-a-vis Oil-Exporting Member Countries

Attached is the background note on Bank Policy vis-a-vis Oil-Exporting Member Countries, prepared in the Program Review Division, which Mr. Chenery mentioned to you at the end of the Saudi Arabia SCPP review meeting.

8/20

Attachment

cc: Messrs. McNamara
Knapp
Chenery (o/r)
Adler, J.
Haq/Chernick

IBRD/IDA
WBG
820
ARCHIVES

# Background Note on Bank Policy vis-a-vis Oil-Exporting Member Countries

1. Bank policy vis-a-vis oil-exporting countries is in a process of evolution. Elements of a policy have begun to emerge from the review of regular CPPs and Special CPPs, decisions outside the CPP review process (e.g. Trinidad and Tobago) and the Guidelines for Technical Assistance Programs issued by the Office of the Vice President, Finance. Drawing on some of the guidelines already approved, this note attempts to provide a first step towards a consistent policy framework for a rational and non-discriminatory treatment of the oil-exporting member countries with regard to lending and technical assistance programs geared to their special characteristics.

## Characteristics of Oil-Exporting Member Countries

2. With the sharp increase in petroleum prices towards the end of 1973, there was a dramatic change in the economic situation and prospects of those developing Bank member countries which were either major oil exporters or, as in the case of Mexico, were to become major oil exporters in the near future. These countries are listed below and, as can be seen, the list is a broader one than the OPEC member countries:

| | | | |
|---|---|---|---|
| *Algeria | *Gabon | Mexico | Syria |
| Bahrain | *Indonesia | *Nigeria | Trinidad and Tobago |
| Bolivia | *Iran | Oman | Tunisia |
| Brunei-Malaysia | *Iraq | *Qatar | *United Arab Emirates |
| Congo Republic | *Kuwait | *Saudi Arabia | *Venezuela |
| *Ecuador | *Libya | | |

3. For the group as a whole, the availability of financial resources has increased enormously in comparison with other developing countries; however, within the group there are substantial differences in size and other factors. In addition to the population, Table 1 shows the inter-country variation in a number of key indicators. The level of per capita income is used as a measure of the country's current stage of development, although in some cases it conveys misleading information. In some very small countries, such as Oman or the Sheikdoms of the UAE, per capita income figures which are multiples of the average of the OECD countries clearly do not reflect the tremendous imbalance between the oil and non-oil sectors of those countries. In some large countries, such as Indonesia and Nigeria, sizable increases in the GNP stemming from higher petroleum prices do not reflect their continuing problems of poverty.

---

*members of OPEC

4. For some purposes it is useful to use another index of current income flows - petroleum exports per capita. This index, for example, serves to identify the Congo Republic, Brunei-Malaysia, Syria and Tunisia as significant oil exporters, especially when compared with Indonesia; whereas the latter country is commonly classified as a major oil exporter, the other four countries are not. The figure of per capita proven oil reserves conveys the level and longevity of future income generation from those resources. It can be used as a proxy, other things remaining equal, for wealth based on petroleum. The rankings among the oil-exporting countries would alter if production rates were to change and if proven reserve estimates were to be revised. For example, it is generally accepted that Mexico's proven hydrocarbon reserves are only a small fraction of potential reserves.

Special Policy Issues

5. Given the large increases in financial resources available to many of these countries, the Bank Group has had to reconsider its traditional role as an agent for transferring resources in support of the country's development effort. The question here is whether the oil-exporting member countries still require external financial resources and, if not, whether there are other considerations which might justify continued Bank Group involvement. On the face of it, there should be no difficulty in encompassing these altered country circumstances within the framework of existing Bank lending policies. The traditional evaluative indicators - level and distribution of income, development priorities, absorptive capacity, receptivity to Bank involvement, Bank exposure and creditworthiness - are still relevant for determining the size (including zero lending) and composition of country lending programs. For instance, despite their increased oil revenues, Indonesia and Nigeria still remain poor countries, deserving continued transfer of financial resources. On the other hand, where an oil-exporting country has been abruptly catapulted into the "high income" category, it might become subject to existing policy for phasing out Bank lending. However, the fact that the oil-exporting countries include a variety of countries of different size and structure argues against the automatic application of existing Bank policies.

6. First, as noted above, the high per capita income levels and large volumes of financial resources of some of these countries may mask fundamentally backward economic and social structures. The indicators of financial wealth notwithstanding, the question is whether the Bank, as a development agency, can still play a useful role in these countries. A complicating aspect of this question is the fact that the transfer of financial resources from the Bank includes technical assistance as a joint product. For some of the oil-exporting countries, the latter

may still be very much needed even though financial resources are not. (This is one of the considerations underlying the initiative to design technical assistance programs independently of project lending.)

7. Second, we must consider the somewhat special role of the Bank as a borrower. Historically, the Bank Group has borrowed (or obtained grants in the case of IDA) in the developed countries; it is a rare occurrence to have borrowed from[1/] and loaned to the same country simultaneously (New Zealand and Thailand are examples). Some of the oil-exporting countries are accumulating resources in excess of what they can effectively deploy in the short to medium-run, and in some cases even in the long-run, in the development of their economies. They may provide, therefore, new sources of funds in support of Bank operations in the form of loans, grants, increased capital subscriptions and co-financing. Since the long-term availability of funds from these countries to finance development may be based on both financial returns and their need to obtain effective assistance in their own development efforts, it is in the Bank's interest to develop relationships which are seen to be of mutual interest over the long-term.

8. Third, the stage of development of some of the oil-exporting countries and their medium term resource prospects may still justify Bank lending, but, because of large current accumulations of financial resources, they can also become net lenders to the Bank Group. In these special circumstances, the comparative terms and conditions under which resource transfers are made involve delicate judgements to ensure equitable treatment.

Existing Policies vis-a-vis Oil-Exporting Countries

9. For 11 oil-exporting countries, Table 2 shows the more important aspects of country programming decisions already made by management (or proposals in draft CPPs for Ecuador, Indonesia and Iran) as of the end July 1975. The Table reveals a wide variation in the volume, composition and terms of Bank lending, as well as in separate technical assistance programs. Some elements of a policy do emerge. However, even a quick glance through this Table shows that there is little consistency in treatment of the various countries. For example, lending to Bahrain and Trinidad and Tobago carries 90 per cent offset provisions; a similar volume of lending to Oman is not offset. The differential treatment of Algeria and Nigeria in respect of both volume of lending and offset arrangements is also notable. For countries in which separate technical assistance programs are being provided, the conditions for reimbursement are fairly consistent. Venezuela stands out as the

1/ This refers to medium or long-term maturities and excludes Central Bank purchases of IBRD two-year bonds.

major exception; non-reimbursement of technical assistance is being provided as a "quid pro quo" for lending to the Bank on concessionary terms.

A Proposed Policy Framework

10. Because of the different features of the oil-exporting countries, the formulation of a consistent Bank policy involves consideration of the following questions affecting both Bank lending and technical assistance.

a) In respect of lending:

i) Should we continue project lending to "high income" oil-exporting countries as a "quid pro quo" for Bank borrowing or contributions to Bank Group funds? If lending is indicated, should it be subject to full or partial offset, or repurchase arrangements?

ii) Should lending to these countries be confined to certain sectors and limited in the share of project costs financed? What other special terms and conditions should one tie to project lending to these countries?

iii) How closely should we monitor economic performance in these countries and condition our lending on the efficient use of their increased financial resources?

b) In respect of technical assistance:

i) Should our actual or potential borrowing from these countries necessarily entail technical assistance? If technical assistance is provided, should there be a link between its volume and composition and the volume of borrowing, or should other criteria be used?

ii) In many of these countries, we have neither the knowledge nor the mandate to assist Governments in the formulation of economic and manpower plans which would provide the basis for well-designed technical assistance programs. Should the Bank, as in its lending operations, require broad economic and sectoral assessments within which specific technical assistance requests can be evaluated?

iii) What is the appropriate programming period for technical assistance, given the absence of long-term economic or manpower plans in many of these countries? And how is the Bank to respond in view of the fact that requests for assistance have been, and may continue to be, ad hoc and for specific but often unrelated activities rather than for an integrated package of assistance?

11. Among the issues related to Bank lending perhaps the most controversial is how to determine the appropriate offset arrangement. For separate technical assistance programs, however, which are a new departure for the Bank, the issues are much more complicated. This is an area in which the Bank does not have an inherent advantage and in which the potential risk of misunderstanding and conflict is high, particularly if the technical assistance is not part of a consistent sectoral or country plan. These factors, together with the sensitive nature of the Bank's evolving relationship with many of the oil exporting countries, argue for proceeding with caution. This argument is strengthened by the fact that the information on which to base decisions about the size and composition of technical assistance programs is generally weak. Consequently, it would be prudent, at least initially, to limit Bank involvement to responding quickly and positively to requests for technical assistance within areas of Bank competence, without actively promoting requests for such technical assistance. Further, it may also be more appropriate to program technical assistance for many of these countries over a two or three-year period, for which the relevant information is more readily available, rather than over a five-year period. And periodically - say once a year - it would be desirable to review, at the Senior Management level with the association of concerned departments, our overall technical assistance commitments in order to ensure that priorities are being met and that the assistance is cost effective.

12. Consideration of those policy elements which have already emerged and the general issues involved suggests a policy framework which allows for a differential Bank effort among the oil-exporting countries, based on an internally consistent rationale. From the indicators presented in Table 1, and supplementary qualitative information on potential social and economic development capacity, the oil-exporting countries can be arranged in four fairly distinct groups. These are shown in Table 3. The groupings are intended to illustrate one possible rational and equitable basis for determining the appropriate extent and nature of Bank effort. For Group 1 countries, which are major potential sources of Bank Group funds, and are also major new development aid donors, no Bank lending is proposed because financial resources are not a constraint. But the objective of establishing and maintaining working relations with these countries, plus their comparatively undeveloped state, would argue

for separate technical assistance programs on a reimbursable basis. Group IV comprises countries whose economic condition has not been fundamentally altered. They remain poor and underdeveloped and, as such, merit the continued involvement of the Bank on a major scale. We would continue to program Bank lending operations on a regular basis and a separate technical assistance program would not be required. Groups II and III represent discreet gradations in respect of current and potential economic prospects, capital market status, sources of development aid and policy mix as between lending and technical assistance.

13. The proposed policy mix, tailored to each of the four country groups, offers a consistent policy posture among the groups and, at the same time, permits some flexibility within groups - both in regard to the grant equivalent and composition of lending programs and the scale and content of technical assistance programs. Such variations within the broad policy for each group are in line with current practice in designing Bank Group lending for non-oil exporting countries.

Program Review Division
Policy Planning and Program Review Department
August 18, 1975

Table 1

Selected Indicators for Oil-Exporting Member Countries

| Country | Mid-1974 Population (millions) | 1974 GNP per cap (current $US) | Petroleum Exports 1974 1/ (Bbls/cap) | Petroleum Reserves 3/ (million bbls/ day/cap) |
|---|---|---|---|---|
| Algeria | 15.18 | 715 | 22 | 507 |
| Bahrain | 0.25 | 2,025 | 99 | 1,344 |
| Bolivia | 5.33 | 310 | 2 | 47 |
| Brunei-Malaysia | 12.15 | 690 | 8 | 206 |
| Congo Republic | 1.23 | 465 | 15 | 3,963 |
| Ecuador | 6.73 | 435 | 13 | 371 |
| Gabon | 0.53 | 1,755 | 125 | 3,302 |
| Indonesia | 127.03 | 180 | 3 | 118 |
| Iran | 33.10 | 1,280 | 63 | 1,994 |
| Iraq | 10.77 | 1,120 | 60 | 3,250 |
| Kuwait | 0.93 | 12,375 | 1,013 | 78,280 |
| Libya | 2.24 | 4,640 | 245 | 11,875 |
| Mexico | 58.01 | 1,025 | 2/ | 234 |
| Nigeria | 73.04 | 230 | 11 | 286 |
| Oman | 0.64 | 1,285 | 169 | 9,375 |
| Qatar | 0.19 | 7,185 | 1,000 | 31,579 |
| Saudi Arabia | 6.10 | 7,245 | 506 | 26,967 |
| Syria | 7.16 | 520 | 4 | 209 |
| Trinidad & Tobago | 1.07 | 1,735 | 50 | 2,336 |
| Tunisia | 5.64 | 570 | 4 | 195 |
| U.A.E. | 0.34 | 16,825 | 1,806 | 99,765 |
| Venezuela | 11.49 | 2,225 | 86 | 1,305 |

1/ Preliminary estimates.
2/ Mexico began exporting on September 20, 1974 at a rate of 35,000 bbls/day.
3/ As of January 1, 1975.

Sources: Oil and Gas Journal, IBRD estimates.

Table 2

EXISTING BANK POLICY FOR SOME OIL-EXPORTING COUNTRIES
(As of June 30, 1975)

| Country | Lending Program FY 1975-1979 Total ($mln) | Lending Program FY 1975-1979 Annual per cap | Offset Provisions | FY1976-77 Technical Assistance Per Year (Man Years) | Reimbursement for Technical Assistance | IBRD FY1975 Borrowings[1] ($mln) | IBRD FY1975 Borrowings[1] (as % 1974 Govt. oil revenues) |
|---|---|---|---|---|---|---|---|
| Algeria | 588 | 8.2 | none | none | -- | -- | -- |
| Bahrain | 35 | 35.0 | 90% | 0.5 | none[5] | -- | -- |
| Ecuador | 152 | 4.7 | none | none | -- | -- | -- |
| Indonesia | 2,350 | 3.9 | none | 4.0 | none | -- | -- |
| Iran | none after Dec.1975 | -- | -- | 29.1 | incremental cost | 350[3] | 2 |
| Nigeria | 652 | 1.9 | 90% | 0.5 | none[5] | 240 | 3 |
| Oman | 28 | 9.3 | none | 0.2 | none[5] | 30[4] | n.a. |
| Saudi Arabia | none | -- | -- | 20.0 | incremental cost | 891 | 3 |
| Trinidad & Tobago | 33 | 6.6 | 90% | none | -- | 5 | 1 |
| United Arab Emirates | none | -- | -- | 3.0 | incremental cost | 76[5] | 1 |
| Venezuela | 230[2] | 4.1 | none | 9.0 | none | 500 | 5 |

1/ Excludes 2-year issues to Central Banks; except for Trinidad & Tobago borrowing was not for offsetting projects.
2/ Of which $200 million to be lent only if Government specifically requests.
3/ Of which $200 million borrowed in FY1975, but allocated to FY1974 borrowing.
4/ Borrowed in FY1974.
5/ Under P&B Guidelines, technical assistance under one man-year is not reimbursable.

SOURCES: Most recent CPP or draft CPP; P&B Guidelines; Petroleum journals; IFS and Treasurer's Department.

Table 3

PROPOSED CLASSIFICATION OF OIL-EXPORTING MEMBER COUNTRIES FOR POLICY PURPOSES

| Country Grouping 1/ | Capital Market Status for Bank Group | ODA Commitments to LDCs in % of GDP 1974 | Proposed Bank Lending | Proposed Technical Assistance Program |
|---|---|---|---|---|
| **Group I** | | | | |
| UNITED ARAB EMIRATES<br>KUWAIT<br>QATAR<br>SAUDI ARABIA<br>LIBYA<br>OMAN<br>BAHRAIN | Long-term sources of Bank Group funds and co-financing | 8.4<br>6.5<br>7.3<br>10.7<br>6.1<br>1.8<br>0.5 | None | 1. Reimbursable T.A. where requested - the objective to establish and maintain informed relationship with long-term potential sources of Bank borrowing, co-financing and IDA or Third Window contributions; reimbursement to be based on incremental cost if in excess of one man-year.<br>2. Volume of T.A. to be determined by average "as if" guidelines 2/ but modifiable within a ±25% range of variation in accordance with their lending/grant posture vis-a-vis Bank Group.<br>3. An objective of the T.A. program should be to develop sufficient local capacity (or expertise in obtaining it from other sources) so as to enable Bank involvement to be phased out.<br>4. Given limited economic development alternatives, T.A. should focus on such areas as organization and management of overseas development Funds and Banks, international procurement procedures, and least-cost solutions in infrastructural or other investment.<br>5. Within the limits of Bank capacity and expertise, Bank posture should essentially respond to Government requests rather than actively initiate them.<br>6. T. A. should be programmed over a 2-3 year period. |
| **Group II** | | | | |
| GABON<br>TRINIDAD & TOBAGO<br>VENEZUELA<br>IRAQ<br>IRAN | Short to medium-term sources of Bank Group funds and co-financing. | n.a.<br>1.5<br>3.1<br>4.6<br>4.0 | 1. Limited and selective project lending in response to specific requests but on a repurchase basis of at least 90%.<br>2. Maturities of any Bank loans not to exceed 15 years.<br>3. Bank share of total project cost normally not to exceed 33%. | Where Bank project lending is not requested, we should be prepared to provide, on request, a modest T.A. program on a reimbursable basis if in excess of one man-year.<br><br>Condition of T.A. program should be the same as for Group I countries but can expect a broader area of focus, including macro-economic policy advice. |
| **Group III** | | | | |
| CONGO REPUBLIC<br>ECUADOR<br>ALGERIA<br>SYRIA<br>TUNISIA<br>MEXICO<br>BRUNEI-MALAYSIA<br>BOLIVIA | Unlikely sources of Bank Group funds and co-financing. | n.a.<br>1.2<br>n.a.<br>n.a.<br>--<br>n.a.<br>n.a. | 1. Modest lending program focussed largely on social sectors and based on flexible offset arrangements.<br>2. Maturities of Bank loans not to exceed 15 years.<br>3. No local cost financing; up to 100% foreign exchange financing but not to exceed 50% of total project cost. | None. |
| **GROUP IV** | | | | |
| NIGERIA<br>INDONESIA | Except for Nigeria, in the short to medium-term, are not sources of Bank Group funds or co-financing. | 0.4<br>n.a. | Regular Bank lending program with no offsets and designed in accordance with existing policy guidelines in respect of development priorities of external resource requirements, absorptive capacity, creditworthiness, Bank exposure, etc. | None. |

Note: The general policy guideline which cuts across the proposed country groupings is for the Bank to actively try to tap any excess liquid resources that emerge in any of the 19 countries. The case in point is Nigeria; it is likely to have unspendable surpluses between now and 1980, and should be expected to give the Bank access to some part of these funds but under arrangements separate from the Bank's lending program.

1/ The underlined countries are those for which actual Bank policies deviate from those proposed here. For Oman and Bahrain, Bank lending has been approved. For Trinidad and Tobago, the offset arrangements are for a roll over of Central Bank purchases of IBRD two-year bonds. For Venezuela, one loan operation has been approved along with a large non-reimbursable technical assistance program for three years. For Algeria, Tunisia and Mexico, the lending programs are comparatively large and not accompanied by any offset arrangements or (excepting Algeria) limits on maturities. For Nigeria, the lending program is both limited and subject to offset. Lending to Iran is to be terminated by Dec. 1975.

2/ "As if" guidelines to be derived from manpower content of an average Bank Group lending program for countries of similar size.

PRD 8/14/75

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

820/6/12

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: August 18, 1975

FROM: Ernest Stern, Director, Development Policy

SUBJECT: Interim Committee

IBRD LIB
WBG
820
ARCHIVES

I do not know whether your Annual Meeting schedule will permit you to attend the meeting of the Interim Committee, scheduled for Sunday, August 31, at 10 a.m.

8/18

In case you do, I attach for your information a draft report, intended to be the basis for discussion. We will prepare a full set of documents prior to the meeting.

Attachment

EStern/sc

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

Secretary - Bank

Room C-120
#3

Mr. E. Stern:
for information
[signature] 8.14.

SM/75/217

IBRD / IDA
WBG
820
ARCHIVES

August 12, 1975

To: Members of the Executive Board

From: The Acting Secretary

Subject: Report on the Work of the Executive Directors Since the Third Meeting of the Interim Committee

Attached is a draft of a report to the Interim Committee on the work of the Executive Directors since the Third Meeting of the Committee in June to be used by the Committee as the basis for its discussion of the subject matter at its next meeting. The Executive Directors wished to consider whether this report would be submitted by them or whether they would request the Managing Director to submit the report. The report would be modified in light of any action taken by the Executive Directors during the first week after the informal recess.

The matter will be brought to the agenda for consideration at an early date.

Att: (1)

Other Distribution:
Department Heads

DRAFT August 12, 1975

Report on the Work of the Executive Directors since Third Meeting of Interim Committee (June 10 and 11, 1975)

The Communiqué issued by the Interim Committee on June 12, 1975 at the conclusion of its Third Meeting noted that the Executive Directors would be dealing with certain topics and requested them to pursue certain other studies. This report deals briefly with the main aspects of the work of the Executive Directors since the Third Meeting of the Interim Committee. The order followed is that in which the topics appear in the Communiqué.

1. Financing Oil Facility. To finance purchases under the 1975 Oil Facility, the Fund has obtained commitments providing for loans up to the equivalent of approximately SDR 2,870 million from 12 lenders. In addition, the equivalent of SDR 464 million unused from the 1974 borrowing arrangements was available for financing purchases under the 1975 Oil Facility. As a result, total resources available for financing purchases under the 1975 Oil Facility to date amount to approximately SDR 3.3 billion. A number of lenders have indicated that they may consider further lending to the Fund later in the year if the Fund needs additional resources to assist in reaching the total of SDR 5 billion of additional funds for the 1975 Oil Facility agreed at the January 1975 meeting of the Interim Committee. The further lending now in sight is expected to aggregate about SDR 1 billion, which would raise the total available to SDR 4.3 billion. Efforts are being continued to add to this total.

2. Subsidy Account. On August 1, 1975 the Executive Directors adopted a decision establishing a Subsidy Account to which members can

make contributions that will be used to reduce the cost of using the Oil Facility by the 39 members most seriously affected by the current situation. The decision permits flexible arrangements to be made with members in order to maximize the amount of contributions.

In a document of March 28, 1975,possible contributors to the Subsidy Account were listed, together with suggested amounts which totaled approximately SDR 315 million. To date, responses have been received from 29 members, of which 18 have stated positive support subject in several cases to the requirements of domestic law and procedure or other conditions. A further six members have informed the Fund that decisions on contributions to the Account are under review. Five members have informed the Fund that they are not prepared to contribute. The amounts suggested for these countries total about SDR 30 million. The potential contributions by members that have replied positively so far are approximately SDR 150 million.

This amount is substantially short of the total that was contemplated. Efforts to obtain contributions will be continued. It is hoped, now that the decision to establish the Account has been taken, that additional commitments to support it will be received before or during the Annual Meeting of the Board of Governors. It is also hoped that those members that have made their contributions contingent on the contributions of others, will review that position.

3. Review of Oil Facility. The Committee endorsed the decision of the Executive Directors to review all aspects of the Oil Facility in July 1975. The Executive Directors completed their review on July 28. Improvements were adopted that made access to the Oil Facility easier.

In addition, the Executive Directors decided to increase the total amount of outstanding purchases that members may now make under the 1975 Oil Facility from 30 percent to 50 percent of the calculated maximum amounts. The Executive Directors also decided that the next review of the Oil Facility will be held not later than October 31, 1975.

4. Trust Fund. The Communique issued by the Development Committee on June 13, 1975 noted a report of the Executive Directors of the Fund and of the Bank on proposals "to create a special trust fund to be administered by the IMF to provide additional highly concessional resources to meet the balance of payments needs of low-income developing countries for the next few years." The Development Committee urged the Executive Directors of the Fund "to consider all aspects of the establishment of such a trust fund as well as to continue their study of all possible sources of financing." The staff prepared a legal study of the possibility under the present Articles of linking contributions to the resources of a trust fund to the sale of gold to members when the Fund deemed such sales appropriate for the purpose of replenishing the Fund's holdings of currencies in order to enable it to conduct its operations and transactions. The Executive Directors expressed their interest in a further study of the modalities of a possible trust fund. This study has now been completed and will be discussed by the Executive Directors at an early date.

5. Gold Substitution Account. The Communique of the Interim Committee requested the Executive Directors to "study the establishment of a gold substitution account through which members would be able to exchange a part or all of their gold holdings for SDRs issued by the Fund for this purpose." The Executive Directors will consider a staff memorandum on this subject in the near future.

6. International Buffer Stocks. The Committee agreed that "after amendment, a member using the Fund's buffer stock facility would be able to retain any portion of its reserves held in the form of a reserve position in the Fund; this provision now applies to drawings under the Fund's compensatory financing facility." The Executive Directors have agreed a suitable amendment for this purpose that could be incorporated in a comprehensive draft amendment of the Articles.

7. Quotas. Since the meeting of the Interim Committee, efforts have continued to agree a set of figures for individual increases in quotas. The present status of the current general review of quotas is the subject of a report by the Executive Directors to the Board of Governors.

820/6/11

INTERNATIONAL COFFEE ORGANIZATION

22 BERNERS STREET, LONDON, W1P 4DD, ENGLAND.

WBG 820 ARCHIVES

ALEXANDRE F. BELTRÃO
EXECUTIVE DIRECTOR

11 August 1975

cc: Messrs. Knapp, Stern

Mr. Robert S. McNamara
President
International Bank for
Reconstruction and Development
1818 H Street N.W.
Washington D.C. 20433

Dear Mr. McNamara,

Thank you very much for your letter of 25 July 1975 informing me about the Bank's policies concerning the financing of international buffer stocks. I am most grateful for this information and also for your offer to discuss further questions related to financing of buffer stocks as consideration of such arrangements develops in our respective organizations. Insofar as this Organization is concerned this will depend very much on the progress of the negotiations for a new International Coffee Agreement.

These are expected to resume at a meeting of the Council from 27 October to 14 November and I very much hope a representative of the Bank will be able to attend as an observer.

Yours sincerely,

Alexandre F. Beltrão

820/6/10

Mr. Robert S. McNamara, President August 6, 1975

Ernest Stern, Director, Development Policy

<u>Commodity Prices</u>

820

You will recall that Mr. Al Atrash asked us at the Board meeting on Report 802 about the relative importance of price increases of various commodities. The attached material was prepared by the Economic Analysis and Projections Department in response to this request, and I think you will find it of interest.

The cost of the total import basket increased by 51.0% in 1974; there is very little further rise in 1975. There is little difference between the low and middle income countries in aggregate, though the composition is very different. In 1974 the increase in the cost of fuel accounted for 36% of the increased import costs of the low income countries, while foodgrains accounted for 22%. For the middle income countries the increase in the price of fuel accounted for 43% of the increase in the total cost of the import basket, while foodgrains were much less important at 13%. The impact of price increases in intermediate and consumer goods was about the same in both groups of countries.

For the 40 Panel Countries, the increase in oil prices accounted for about 40% of the total increase in import costs in 1974.

Attachment

EStern/ls

## Import Price Increases 1973-1975

| | Import Categories as a Percent of Total Imports, 1973 | Commodity Groups Share of Price Increase 1/ of Total Imports | |
|---|---|---|---|
| | | 1973-74 | 1973-75 |
| **I. Low Income Countries** | | | |
| Food | 22.9 | 22.3 | 16.6 |
| Intermediate goods | 39.2 | 28.5 | 30.3 |
| Fuels | 6.4 | 36.3 | 36.2 |
| Capital goods | 24.0 | 9.7 | 12.3 |
| Consumer goods | 7.5 | 3.1 | 4.6 |
| Total | 100.0 | 100.0 | 100.0 |
| **II. Middle Income Countries** | | | |
| Food | 13.3 | 13.0 | 8.9 |
| Intermediate goods | 38.1 | 27.2 | 27.2 |
| Fuels | 7.8 | 43.4 | 40.9 |
| Capital goods | 33.0 | 13.1 | 18.5 |
| Consumer goods | 7.8 | 3.2 | 4.4 |
| Total | 100.0 | 100.0 | 100.0 |
| **III. 40 Panel Countries** | | | |
| Food | 15.1 | 15.1 | 10.4 |
| Intermediate goods | 36.5 | 26.9 | 26.9 |
| Fuels | 7.2 | 41.2 | 38.9 |
| Capital goods | 30.4 | 12.4 | 17.5 |
| Consumer goods | 10.8 | 4.5 | 6.3 |
| Total | 100.0 | 100.0 | 100.0 |

---

1/ The increase in import costs was:

| | 1973/1974 | 1973/1975 | 1974/1975 |
|---|---|---|---|
| Low | 51.5 | 56.1 | 3.6 |
| Middle | 52.5 | 60.6 | 5.1 |
| Total Panel | 51.0 | 58.8 | 4.8 |

Includes mineral producers

820/6/9

Mr. J. B. Knapp, SVP, Operations (o/r) August 6, 1975

Ernest Stern, Director, Development Policy

IBRD/IDA WBG 820 ARCHIVES

UNCTAD Report on Export Credit Refinancing

A. Background

1. The provisional agenda of the fifteenth session of the Trade and Development Board, to be held in Geneva from August 5, 1975, includes the discussion of the attached Report of the Expert Group on Export Credits. The subject of refinancing or guaranteeing of export credits of developing countries has been widely discussed for ten years in various international forums. The Bank has been asked on several occasions by UNCTAD and ECOSOC to consider how it could help by either refinancing or guaranteeing medium and long-term export credits granted by developing countries. The Bank responded with staff studies in 1967, 1968, 1971 and 1974, which were formally or informally transmitted to the U.N. The most recent study, "Export Financing for Capital Goods" (Report No. 531, September 1974), was forwarded to UNCTAD to facilitate the deliberations of the Expert Group which met in April and May this year.

2. The Bank's position, stated in Report No. 531 and reiterated by the Bank's representatives during the meetings, is that:

a. The major role in providing finance for export credits can, and should, be played by the strengthening of national export credit agencies and by the initiatives of the Regional Banks with the support of their member governments;

b. The Bank Group could eventually provide some assistance by:

i. Financing national export credit agencies under exceptional circumstances where it is the considered judgement of the country concerned and the Bank that this would constitute high priority use of Bank Group funds; and

ii. Making a callable contribution to the secondary reserves of an international or regional export credit insurance scheme, should it become apparent that financial or promotional support by the World Bank (along with the Regional Banks) would be a useful and necessary catalyst for the realization of such a scheme.

In general, we are doubtful that a guarantee scheme can be financially viable at rates which at least the more creditworthy exporters can obtain directly and skeptical that the Bank is the appropriate institution to deal with export credit financing directly.

B. Conclusions of the UNCTAD Expert Group

3. The Expert Group generally endorsed the need for international facilities for refinancing of export credits granted by developing countries. It was felt that, in principle, such facilities should cover export credits of all maturities, for exports to all destinations. It was recognized that so broad a scope would require an unrealistic amount of resources. The Expert Group conclusion (paragraph 42) that "as an immediate and practical step the establishment or expansion of facilities in regional lending institutions and the World Bank for direct refinancing of a proportion of export credit portfolios of developing countries, including that part arising from granting of short-term export credits and credits granted to importers in developed countries, was both desirable and feasible," nonetheless implies a broad coverage. The wide range of proposed coverage reflects the divergent interests of potential beneficiaries represented in the Expert Group.

4. The Expert Group further examined a proposal for the establishment of a new export guarantee facility submitted by the Israeli representatives (Annex II of the UNCTAD report). While this proposal did not receive the same degree of general support as the refinancing proposal, it was nevertheless concluded (paragraph 43) that "it would be useful to establish a guarantee facility that would allow developing countries to refinance export credits directly in international financial markets on more favorable terms." While earlier versions of the proposal envisaged that the facility be established and operated by the World Bank, the current version calls for a new institution in which the Bank would play a significant role. The conclusion was based on a broad

survey of the nature, operating procedures, size and costs of refinancing of a guarantee facility and the Expert Group consequently recommended that a more detailed study be undertaken before endorsing a definite proposal.

C. Current Status of the Proposals

5. A discussion of the Report of the Expert Group is expected during the August session of the Trade and Development Board. The Secretary General of UNCTAD intends to take up the question of further technical study of the guarantee proposal in an oral statement to the Board. There also appears to be some sentiment among industrial countries' representatives to recommend the convening of a governmental working group to reach a political consensus on the issue of export credit refinancing and guarantees before further technical studies. The Israeli guarantee proposal is likely to be supported by Dutch representatives, while the U.K., Germany and France are among those likely to oppose it. The establishment and expansion of refinancing facilities by regional development banks and the World Bank is most strongly supported by the Latin American countries.

6. The Asian Development Bank appears to have reservations about any intra-regional export credit financing schemes, while the Inter-American Development Bank apparently has not yet obtained a wider mandate than that underlying its present, limited refinancing scheme which has been in operation since early 1964. Under this scheme it has set aside up to $60 million of its regular resources to provide discounting of up to 85% of credits extended by Latin American national export credit agencies on capital goods exports to other developing member countries.

Attachment

cc: Messrs. McNamara, w/a
Chenery (o/r), w/a
Haq

PJacob/EStern:ls

TD

820/618

Distr.
GENERAL

TD/B/552
2 June 1975

Original: ENGLISH

IBRD/IDA WBG ARCHIVES 820

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fifteenth session
Geneva, 5 August 1975
Item 5(c) of the provisional agenda

# REPORT OF THE EXPERT GROUP ON EXPORT CREDITS AS A MEANS OF PROMOTING EXPORTS FROM DEVELOPING COUNTRIES

## Note of transmittal by the Secretary-General of UNCTAD

The Secretary-General of UNCTAD has the honour to transmit herewith the report of the Group of Experts, including experts from international and regional financial institutions, which he appointed in pursuance of a decision by the Trade and Development Board at the first part of its fourteenth session.1/

The Secretary-General is in broad agreement with the findings of the Group and in particular concurs with its conclusion that there is need for international facilities for the refinancing of export credits granted by developing countries and that this refinancing could be effected both directly, by regional lending institutions and the World Bank, and indirectly, through international capital markets on the basis of a guarantee provided by a new institution in which the World Bank would play a prominent role. The Group concluded that the first approach would require the establishment or expansion of facilities in regional lending institutions and the World Bank for the direct refinancing of a proportion of the export credit portfolios of developing countries, and that the second approach, since it would entail the creation of a new institution, would require further technical study (see paragraphs 42-44 of the report). The Secretary-General of UNCTAD will take up the question of further technical study in an oral statement to the Board.

1/ TD/B/528, para. 369.

GE.75-46013

Letter of transmittal to the Secretary-General of UNCTAD

Sir,

We have the honour to submit herewith our report entitled "Export credit as a means of promoting exports from developing countries".

This report reflects our deliberations on the question of export credit as a means of promoting exports from developing countries, which you invited us to conduct in pursuance of a decision taken by the Trade and Development Board at the first part of its fourteenth session.

In accordance with that decision, our terms of reference were "to examine proposals, including the idea of establishing an international export credit guarantee scheme to be sponsored by the international and regional institutions and regional development banks, as well as the question of refinancing of export credit with the aim of facilitating the expansion of exports from and trade between developing countries in manufactures, including industrial and capital goods and technical services".

Meetings of the Group were held at the United Nations Office at Geneva from 14 to 18 April 1975 and from 26 to 30 May 1975.

At the request of the Group, Mr. P.B. Satagopan served as Chairman and Mr. J.C. Ramaer as Vice-Chairman-cum-Rapporteur.

The Group wishes to thank the participants from the World Bank, the International Monetary Fund, the Organization for Economic Co-operation and Development, and European Economic Community, the Asian Development Bank and the Inter-American Development Bank for their valuable contributions during its discussions. They contributed to these discussions, like ourselves, in a personal capacity, bringing to us the benefit of their experience in the institutions to which they belong. We also wish to thank the World Bank and the Inter-American Development Bank for the useful documentation they provided.

Finally, we wish to express our appreciation and gratitude for the valuable and efficient assistance rendered by the UNCTAD secretariat in the preparation of our meetings and throughout our deliberations, as well as in the preparation of this report.

Respectfully yours,

E. BALDINELLI

I. FAKRIEH

A.P. FOWELL

M. GABAY

P. GEHRING

M.S. GHEEWALA

M. MANCERA

T. OKABE

J.C. RAMAER

H. ROWNTREE

F.I. SAGNA

P.B. SATAGOPAN

Kap-Chul SHIN

F. de SOUZA OLIVEIRA

# Report of the Expert Group on Export Credit as a Means of Promoting Exports from Developing Countries

CONTENTS

I. Trade credits, capital flows and export competitiveness

1. An important objective of economic policies in developing countries is to enhance foreign exchange availabilities in order to finance imports of a wide class of goods essential for economic development. Indeed, developing countries typically require a continuous and rapid expansion in their purchasing power over goods and services from abroad if their own growth is to proceed at a rapid pace. The expansion of the purchasing power of foreign exchange availabilities will be determined essentially by the magnitude of the export earnings of the developing country in question, plus its net receipts on capital account.1/ To be sure, during the period 1972-1974, export earnings financed on the average 80 per cent of the imports of developing countries, and attention to policies designed to enhance this source of foreign exchange availabilities seems particularly appropriate. Nonetheless, it is desirable that policies in the areas of financial flows and export promotion be complementary and mutually supporting: measures to expand exports should not, as far as possible, have the effect of reducing the net capital inflow.

2. It has been recognized, however, that the overwhelming majority of developing untries cannot sustain the required increases in export earnings without diversifying the structure of their output and trade; indeed, many developing countries have undertaken measures to diversify their exports by increasing the share of agricultural output that is processed before being exported, and by expanding the output of and trade in manufactures. Given the instability of the prices of most primary commodities, diversification of markets and of the type of goods exported is an important element in securing uninterrupted growth in the export earnings of developing countries.

3. In these efforts, developing countries are obliged to meet the requirements of international competition. In addition to considerations of price and quality, such competition requires that in those instances in which transactions are usually carried

1/ Changes in the prices of imports and in interest payments on debt outstanding will also have a bearing on the rate at which external purchasing power expands.

out on the basis of credit, developing country exporters be in a position to offer credit on terms comparable to those being offered by their principal competitors.

4. The credit terms characteristic of international trade vary considerably. A very substantial proportion of international transactions takes place on a cash basis or on the basis of very short-term credits. Other transactions are financed on a medium-term basis, with principal and interest usually payable in equal semi-annual instalments and with maturity of up to five years. Finally, a small proportion of transactions is financed on long-term credits, repayable in equal instalments with interest, and with a maturity of more than five years. Medium- and long-term credits normally require a cash payment of 10-15 per cent from the importer by the time of shipment and are refinanced or guaranteed to the extent of not more than 85-90 per cent of the balance. Short-term credits usually relate to exports of raw materials and light consumer goods; medium-term credits to durable consumer goods and light machinery; and long-term credits to heavy capital equipment and arrangements for setting up complete plants.

5. Information regarding the gross annual volume of total export credits extended by developing countries is not presently available. It is thus not possible to ascertain with any degree of accuracy what the aggregate magnitude of such credits might be. Information available from a number of developing countries indicates that 6-10 per cent of their export transactions has been insured against payments risks in recent years. If these figures are taken, on the average, as roughly indicative of the volume of transactions on which credit was granted, and if the figures cited earlier are assumed to be roughly typical of developing countries, the total value in recent years of developing country exports on which credit was granted, and the magnitude of gross credit disbursements associated with those transactions, would appear to range, as a rough order of magnitude, from $4 billion to $6 billion per annum. Gross disbursements of medium- and long-term export credits appear to have accounted for less than 10 per cent of this total. The amount of credit outstanding generated by these transactions could, of course, vary widely around these figures, depending on the weighted average maturity of the credits granted. As regards the future growth of outstanding credits with an original maturity of less than one year, these can be

expected to increase at about the same rate as the export transactions they typically finance. Gross disbursements of medium- and long-term credits are likely to increase rapidly, reflecting the expected rapid growth of exports usually financed by such credits. Gross disbursements of such credits are likely to amount to betwe.n $1.5 billion and $2.8 billion 2/ per year by 1980 and total outstanding credits may reach $2.2-$5.6 billion by that year, depending on the particular set of assumptions adopted. 3/

6. The provision of export credits of the magnitude suggested above presents difficulties to developing countries. Individual exporters are generally unable to finance such credits from their own working capital and typically apply to credit institutions in their own countries for pre- and post-shipment financing. In recognition of this difficulty, a substantial number of developing countries have established national export credit schemes designed to allow their exporters to provide internationally competitive credit terms, including interest rates. Other developing countries, however, do not yet have national schemes. 4/

7. The possibility of non-receipt of payment on due date is another difficulty cing the individual exporter. This difficulty can be resolved through provision of adequate protection against risk by a national export credit insurance scheme. Such provision would also enhance access to finance from domestic and foreign credit institutions, which often find it difficult to provide the credits required in the absence of protection against risk.

---

2/ Roughly 60 per cent of these disbursements may be vis-à-vis other developing countries.

3/ The figure of $2.2 billion emerges when it is assumed that gross disbursements grow at 20 per cent per annum and the average maturity of credits is two years. The figure of $5.6 billion emerges when it is assumed that gross disbursements grow at 28 per cent per annum and the average maturity of credits is four years.

4/ Considerations relating to the creation, expansion and improvement of national export credit financing schemes are set out in section III.

8. While a number of developing countries have succeeded in establishing and successfully operating national export credit insurance systems, many developing countries have encountered difficulties in this area. A major difficulty relates to the fact that the volume and the extent of diversification of exports sold on credit terms are insufficient to permit viable operation of a commercial risk insurance facility.

9. Even where national export credit financing and insurance schemes have succeeded reasonably well in alleviating the problems faced by an individual exporter and his credit institution, however, certain problems remain at the national level.

10. The first of these problems is that the granting of export credits involves a postponement of foreign exchange receipts. This postponement invariably causes difficulties for developing countries, and these difficulties will be particularly acute when exports sold on medium- or long-term credits have a high import component purchased on a cash or short-term credit basis. The balance-of-payments counterpart of this postponement is a portfolio of claims on non-residents denominated in foreign exchange. This portfolio, whether it arises primarily from the granting of short-term or of medium- and long-term export credits, reflects a financial capital export by the developing country that has granted the credits, and the result is a reduction in the net capital inflow to that country from levels that would otherwise obtain.

11. A second problem arises with regard to the risk to the economy that credits granted to finance export transactions will not be repaid on schedule, or, indeed, at all. Default or postponement of payments arising from export transactions would reduce the value of the receipts from exporting below levels that would otherwise obtain. Where national credit insurance institutions exist, reinsurance cover by foreign private reinsurers may be available for commercial, but not normally for political, risks. Large claims on public buyers or transfer delays by a relatively important market are risks that developing countries can ill afford to bear.

12. Special problems for developing countries arise with regard to trade in manufactures. The output of this sector plays a particularly important role in the efforts of developing countries to diversify the structure of their economies. For relatively sophisticated industries requiring large amounts of capital and skilled labour per unit of output, large markets are a prerequisite for realizing the advantages that can be derived from economies of scale and optimum capacity utilization. Such industries, for which expansion of output often necessitates exporting, may be found throughout the economy.

13. The provision of export credits plays an important role in international markets for durable manufactures and capital goods. Most developed countries provide their exporters with facilities for financing export credits at medium- and long-term, and at interest rates below those prevailing in domestic and international capital markets. The need to compete with the facilities at the disposal of exporters in developed countries has several consequences for developing countries. In the first instance, the relatively long maturities haracteristic of such credits require a substantial and significant postponement of payments. Secondly, the longer maturity on such credits makes manipulation of the interest rate a particularly effective instrument of price competition: a relatively small reduction in the interest rate can bring about a substantial reduction in the total cost of acquiring the export commodity in question. To the extent that export credits are provided internationally at preferential rates of interest, whether the exports are directed towards developed or developing countries, developing countries exporting the same goods have to match those interest rates, to the extent that they can, through their own export credit financing programmes.

14. International measures to overcome these problems would be of assistance to exporting developing countries. On the importing side, countries would benefit from a wider range of competition in price and quality. Developing importing countries might also specifically benefit by having at their disposal a wider range of capital goods on comparable credit terms, embodying technologies which in some cases may be more suitable for their particular stage of development.

## II. Proposals relating to the refinancing of export credits granted by developing countries

15. In the light of the difficulties encountered by developing countries in providing export credits, the Group considered proposals for international action to alleviate these difficulties. One approach would be to create a refinancing facility in the World Bank, and in those regional financial institutions not presently endowed with such a facility; to refinance directly the export credits granted by developing countries. Another approach would be to establish a regional or international facility to guarantee the export credit paper of developing countries, thereby making it readily marketable in international capital markets.

16. The view was also held that the external problems of developing countries associated with the granting of export credits would be alleviated if, in assessing the eligibility of a member country under its compensatory financing facility, the International Monetary Fund (IMF) were to take into account the size of export credits extended by that country.

### A. The direct refinancing of export credits by international institutions

17. The Group considered in some detail possibilities for the direct refinancing of export credits. Under this approach, international financial institutions would refinance a portion of the portfolio of export credits granted by developing countries and meeting certain criteria. The Group noted that the Inter-American Development Bank (IDB) was operating a programme along these lines which provided partial refinancing of medium- and long-term credit extended by developing countries members of the IDB to other such members. The Group also took note of proposals currently under consideration in the IDB to improve the facility.5/

18. The Group considered whether it would be desirable for the other regional development banks and the World Bank to create facilities similar to that of IDB. In examining this question, the Group took note of the following considerations:

(i) The cost of refinancing

19. The refinancing of export credits at the lending rates of the international financial institutions would result in interest costs to developing countries that were less than those incurred by those developing countries having direct access to

---

5/ A detailed description of the features of the IDB facility and the proposed improvements is contained in annex I. The description is designed primarily to illustrate the feasibility of this approach.

ernational financial markets. The fact that interest rates at which export credits would be refinanced directly by international institutions would be considerably lower than those that could be expected under other approaches, and the ready availability of finance from such institutions, were viewed by the Group as distinct advantages of such proposals.

(ii) Resource requirements

20. The size of any facility to refinance export credits granted by developing countries would depend upon the criteria making particular transactions eligible for refinancing, on the one hand, and the proportion of eligible transactions that is refinanced, on the other. The Group noted that the objective of a facility would be fully achieved only if it covered export credits of all maturities, for exports to all destinations.

21. A further consideration determining the size of any international facility would be the proportion of export credits to be refinanced. The size of any facility would have to be very large if the transaction coverage was broad and if the export credits granted by developing countries were to be refinanced in whole; indeed, some experts felt that the size of any such facility would be unrealistic. The Group also noted, wever, that the resource requirement could be reduced, and in some cases reduced substantially, depending upon the operational procedures of the facility. A reduction could be achieved, for example, by lowering the proportion of the export credit portfolio to be refinanced, or, alternatively, by reserving the refinancing facility for increments in net export credits outstanding or, finally, to a certain proportion of that increment.

(iii) Effect on allocation of financial resources

22. The Group considered the question whether the refinancing of export credits would divert available resources from other priority uses. It noted that the distribution among countries of concessional financing would not be affected by this proposal, since concessional funds would not be involved. The proposal would alter the form in which non-concessional lending to individual countries would take place if additional non-concessional funds were not made available.

(iv) The distribution of risk emerging from the granting of export credits

23. The Group noted that any facility for the direct refinancing of export credits along the lines of that presently operated by IDB would not alter the distribution of risk from the granting of export credits: the risk would still be borne ntirely by the developing exporting country.

B. A guarantee facility

24. The Group examined a proposal[6/] for the establishment of a facility to guarantee the export credit paper of developing countries, thereby making it readily marketable in international financial markets. The main questions that arose in this examination revolved around the following considerations:

(i) the nature, operating procedures and size of the proposed guarantee facility; and

(ii) the cost of refinancing in international financial markets.

(i) The nature, operating procedures and size of the proposed guarantee facility

25. The principal attribute of the proposed facility would be its ability to guarantee unconditionally payments to holders of export paper arising from the granting of export credits by developing countries. To be eligible for such a guarantee, the export paper would have to comply with certain standards regarding terms and be endowed with a guarantee by an appropriate institution in the exporting country. Once the export credit paper had obtained this guarantee by the facility, the national institution in the exporting country holding the paper would be able to rediscount the paper in international financial markets, thereby effecting the refinancing of the export credit. Because the actual refinancing would take place on international financial markets, the facility itself would not require financial resources equal to the volume of guarantees undertaken, but only to a fraction of the value of these guarantees. This was viewed as a particularly attractive feature of the proposal.

26. The ability of national institutions in developing exporting countries to rediscount in international financial markets, at comparatively low interest rates, the paper guaranteed by the facility would require that the facility's guarantee command confidence in international financial markets. With this in mind, earlier versions of the proposal for a guarantee facility envisaged that it be established and operated directly by the World Bank. Since the use of the World Bank's guarantee power is guided by the Bank's articles of agreement, and these articles specify that guarantees be treated as equivalent to loans in determining the maximum permissible size of Bank operations, a direct guarantee by the Bank would imply a potential reduction in its lending by an amount equal to the value of the paper guaranteed, rather than by a fraction of that amount. Thus, in its earlier versions, the most attractive feature of the proposal - the capacity of the facility to bring about refinancing of export credits to a value which was a multiple of the actual financing requirements - would have been lost.

---

6/ The proposal is set out in annex II.

In order to retain this important feature, the version of the proposal discussed by the Expert Group envisaged that the facility be established as a separate entity, with its own statutes, and with the World Bank as one of the major participants. The Group considered it essential that the facility be established in such a way that the advantages of World Bank involvement should not be significantly diluted by this alternative institutional arrangement.

28. The Group considered a number of interrelated issues regarding the nature of the risk that would be assumed by the proposed facility, the consequences for the required size of the facility, and the procedures that the facility might have to adopt to minimize its exposure to risk.

29. As regards the distribution of risk arising from the operations of the proposed guarantee facility, default by the importing country would in the first instance require the facility to make good the payments due. The facility itself would then have recourse to the official financial entity of the exporting country which had originally applied for the facility's guarantee. Thus, the risk arising from the granting of export credits would continue to be borne by the exporting country.

30. Losses would be incurred by the facility itself only in the event of default by the importer, and by its guarantor in the importing country, if any, followed by failure of the relevant institution in the exporting country to pay on recourse. The Group examined the question of what procedures the facility would have to adopt in order to minimize the risk of such losses, as well as the size of the financial resources that would need to be at the disposal of the facility in order to absorb such losses should they occur.

31. The facility would need to establish general rules determining access to it. These could include, inter alia, a ceiling on access by individual exporting countries, based on an evaluation of credit-worthiness, specifications regarding the nature of transactions and the terms of credit, and other provisions designed to control the terms of access.

32. Although the technical evaluation of risk might well indicate that a lower risk ratio would be adequate, the Group felt that, at least in the early years of its operation, it would be prudent to operate the facility on the basis of a risk ratio of 1:4; that is, with a 25 per cent backing, in the form of paid-in capital and reserves, of the guarantees outstanding. The ratio of callable capital to guarantees outstanding would also have a bearing on the terms on which paper guaranteed by the facility could be refinanced in capital markets. The precise magnitude of financial resources that the facility would require would be determined to some extent, however,

by the geographical coverage of the facility. If only trade among developing countries were to be covered, it seemed likely that larger financial backing for any given value of guarantees would be required than would otherwise be the case. In the event that the facility covered the entire export trade of developing countries usually eligible for export credit, the Group thought that 25 per cent backing would be quite adequate and that the ratio could probably be reduced after some years of operation.

33. The absolute size of the financial resources required would depend not only on the size of the risk ratio, but also on the criteria determining the eligibility of transactions, and, in particular, the question of geographical coverage.

(ii) The cost of refinancing in international financial markets

34. The proposed guarantee facility would have the effect of gaining access to international money and capital markets for paper that does not, as a general rule, currently enjoy such acceptability. Such access would be of benefit to developing countries. From the standpoint of cost, there would be advantages in the scheme to a developing country only if the sum of the service charge of the facility and the interest rate at which the paper was discounted was less than the interest rate at which the developing country could refinance its export paper without the guarantee. The differential between the interest rate obtainable with the facility's guarantee and that which would otherwise obtain would be determined by a number of factors, principally the relative size of the paid-in and callable capital and the standing of the subscribers, on the one hand, and the financial standing of the exporting country, on the other. The service charge of the facility would have to be determined in the light of the risks involved, and the costs of operation, including capital costs. All of these considerations should be subject to further study to determine the circumstances under which developing countries would benefit from the facility.

## III. National and regional export credit financing and insurance facilities

35. The Group noted that it would be impracticable for any international guarantee or refinancing facility to deal with individual firms in the exporting developing country whose export credits might qualify for inclusion under the schemes. It would therefore be necessary for each Government participating in the facility to nominate a national organization through which the facility's operations would be channelled.

36. The proposals examined in section II do not shift the burden of risk from the exporting developing country. This can be done only through more extensive use of reinsurance, which presupposes the existence of national credit insurance. Developing

countries should seek to establish national credit insurance institutions that could provide protection to their exporters against both political and commercial risks. As was noted earlier (see paragraph 8 above), many developing countries face serious difficulties in establishing and successfully operating such national institutions, and these difficulties vary according to national circumstances. The Group examined the role that multinational insurance schemes might play in this area. It was agreed that while there might be some practical problems for such multinational schemes in providing protection against political risks, it would be possible for them to cover commercial risks.

37. The Group felt that technical assistance by UNCTAD and other competent institutions could assist developing countries in their efforts to establish and strengthen national and multinational export credit financing and insurance schemes.

IV. Summary and recommendations

38. The pace and scope of economic development in developing countries is, in large measure, a function of the foreign currency resources at their disposal. Their single most important source of foreign currency is export earnings, which in recent years have financed some 80 per cent of their imports.

39. Sustained expansion of export earnings in developing countries normally entails growth in the export of manufactures and a concommitant increase in the amount of export credits which these countries must extend in order to compete in international markets. Although accurate information on total export credits extended by developing countries is not available, rough estimates suggest that in recent years gross disbursements of credits associated with export transactions may have amounted to between \$4 billion and \$5 billion annually, of which less than 10 per cent appears to have been accounted for by medium- and long-term credits. Annual disbursements of such medium- and long-term credit appear likely to grow particularly rapidly, however, to reach an order of magnitude of \$1.5 - \$2.8 billion by 1980.

40. The provision of export credits poses serious difficulties for the individual enterprises or banking institutions of developing countries. In recognition of this, a number of developing countries have established national export credit financing and insurance schemes. In many countries, however, the fact that the volume and the extent of diversification of exports sold on credit terms are insufficient to permit viable operation of an export credit risk insurance facility. The Group considered

that in such cases, multinational export credit insurance facilities for covering export credit risk could play a useful role. Assistance by the World Bank to such facilities in the form of callable capital would be useful.

41. Even when national schemes in developing countries are reasonably successful in providing support to individual exporters, however, problems remain at the national level. Foremost among these is that the granting of export credits entails the postponement of foreign exchange receipts. Given the importance of foreign exchange receipts to developing countries, this is a delay they can ill afford to bear. The Group felt that it was in keeping with the spirit of international financing co-operation that all efforts be made at the international level to assist developing countries with this problem. This form of international co-operation should strive to place exporting developing countries on a competitive footing with regard to the provision of export credits.

42. The Group felt that the logic of its analysis led to the conclusion that regional lending institutions and the World Bank should refinance all export credits outstanding granted by developing countries. As an immediate and practical step, it believed that the establishment or expansion of facilities in regional lending institutions and the World Bank for the direct refinancing of a proportion of export credit portfolios of developing countries, including that part arising from the granting of short-term export credits and credits granted to importers in developed countries, was both desirable and feasible.

43. Notwithstanding the need for the immediate establishment or expansion of refinancing facilities, the Group also was of the view that it would be useful to establish a guarantee facility that would allow developing countries to refinance export credits directly in international financial markets on more favourable terms. In order to obtain this result, the guarantee would have to be granted promptly, be unconditional and be provided by a name of unquestionable standing in these markets. The Group felt that a new institution, in which the World Bank would play a prominent role as one of the subscribers of paid-in and callable capital, might fulfil this function.

44. The Group also felt that a number of technical questions regarding the operations of the guarantee facility would have to be examined further. To that end, it suggested the Secretary-General of UNCTAD recommend to the Trade and Development Board that a further technical study of the proposal be undertaken in detail, with a view to drawing up an operative plan.

# ANNEX I

## The Inter-American Development Bank's Programme for Medium-Term Financing of Intra-Regional Capital Goods Exports a/

### A. The major aspects of the programme

1. Resolution AG-8/63 of the Board of Governors and resolutions DE-59/63 and DE-78/68 of the Board of Executive Directors established the basic rules governing the "Programme for Medium-Term Financing of Intra-regional Capital Goods Exports" of the Inter-American Development Bank.b/

2. The programme is limited to financing exports of capital goods and services originating in the IDB member countries of Latin America; such exports must be for use by the other countries of the region, provided such goods are usually sold and payable in instalments over a medium term.

3. To qualify for financing under the programme, an export operation must meet certain additional requirements, some of which are as follows:

(a) an importer shall have made a minimum cash payment (usually 15 per cent of the invoice value of the export transaction); the Bank may accept a lower down-payment to match other offers;

(b) an exporter shall have assumed commercial risk for at least 10 per cent of the value of the export credit;

(c) periods for amortization and interest rates applicable to that portion not financed by the Bank shall be consistent with international competitive trade practices in respect of export financing; and

(d) an importer's obligation shall be payable in United States dollars.

4. Under these rules, the Bank may finance up to 85 per cent of the export credit financed by the national agency, for which purpose IDB has allocated a revolving fund of $60 million from ordinary capital resources.

5. The programme operates solely through national agencies appointed by the member countries for this purpose. IDB, as a regional agency, has no direct relationship with importers or exporters.

---

a/ This material has been provided by the Inter-American Development Bank.

b/ Resolution AG-8/63 of the Board of Governors of the IDB dated 25 April 1963.

B. Evaluation of the major achievements of the programme

6. The Programme for Medium-term Financing of Intra-regional Capital Goods Exports was first put into practical effect in April 1964, when IDB concluded four contracts granting credit lines to the national agencies of Argentina, Brazil, Chile and Mexico. Four more countries have since signed contracts designed to secure regional support for their exports of capital goods: Peru (1965), Nicaragua (1966), Venezuela (1968) and Bolivia (1970).

7. As will be seen from table no. 1, 24 credit lines, amounting to a total value of slightly more than $81 million, had been approved by 31 December 1974.

8. Brazil, Chile, Nicaragua, Mexico, Peru and Venezuela have cancelled or reduced credit-line approvals by the equivalent of $20.2 million.

9. The remaining credit lines have given rise to programme disbursements totalling $102 million. This total has been built up through yearly credit operations carried on by Argentina, Brazil and Mexico since 1965. The other countries which have occasionally drawn upon the programme are Bolivia, Peru and Venezuela. Bolivia drew $194,500 in 1973 and 1974. Peru obtained disbursements of $290,000 in 1966, $269,800 in 1967 and $424,000 in 1974; Venezuela obtained a disbursement of $1.4 million in 1969.

10. An examination of the various data submitted brings out some salient features of operations under the programme:

(a) the small volume of operations recorded up to 1975;

(b) the sporadic nature of many exports although in some cases trade flows may be considered to have been created and to be now firmly established;

(c) the fact that in practice only three countries have been able to utilize regional support to finance their exports.

11. Despite these limitations, it should be emphasized that the programme has made possible some export operations which would have been difficult to carry out without it.

12. Moreover, it is clear that the existence of the regional programme has prompted member countries to create, improve, expand and strengthen national systems of export financing.

13. In response to repeated requests from the Board of Governors, and taking into account the studies which have been made, the Board of Executive Directors of IDB has examined the matter and has reached the following preliminary conclusions:

Table No. 1

INTRAREGIONAL PROGRAM FOR THE FINANCING OF EXPORTS OF CAPITAL GOODS AND SERVICES

EVOLUTION OF THE PROGRAM

(As of December 31, 1974)

(In thousands of US dollars)

| | Authorized Amount | Disbursements | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1964-68 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | TOTAL |
| ARGENTINA | | | | | | | | | |
| 91/OC-AR (Consol.) | 4 000.0 | 3.222.3 | 1 510.7 | 285.4 | 992.5 | 1 109.0 | 1 271.0 | 1 746.7 | 10 137.6 |
| BOLIVIA | | | | | | | | | |
| 229/OC-BO | 1 150.0 1/ | ... | ... | ... | ... | 23.0 | 131.0 | 40.5 | 194.5 |
| BRAZIL | | | | | | | | | |
| 88/OC-BR (Consol.) | 18 500.0 | 5 594.2 | 4 507.0 | 8 781.0 | 12 113.0 | 6 644.0 | 5 020.0 | 11 158.0 | 53.817.2 |
| 138/OC-BR | 10 780.0 | (Cancelled) | ... | ... | ... | ... | ... | ... | ... |
| 212/OC-BR | 1 320.0 | ... | ... | ... | 1 255.0 | 65.0 | ... | ... | 1 320.0 |
| 218/OC-BR | 3 040.0 | ... | ... | ... | ... | 3 040.0 | ... | ... | 3 040.0 |
| 219/OC-BR | 3 000.0 2/ | ... | ... | ... | ... | 1 600.0 | ... | ... | 1 600.0 |
| Subtotal Brazil | 36 640.0 | 5 594.2 | 4 507.0 | 8 871.0 | 13 368.0 | 11 349.0 | 5 020.0 | 11 158.0 | 59 777.2 |
| CHILE | | | | | | | | | |
| 89/OC-CH | 2 000.0 | (Cancelled) | ... | ... | ... | ... | ... | ... | ... |
| MEXICO | | | | | | | | | |
| 90/OC-ME | 5 000.0 | 7 018.0 | 1 097.8 | 879.6 | 2 232.0 | 226.0 | 2 085.0 | 2 978.0 | 16 516.4 |
| 163/OC-ME | 4 900.0 | 2 042.0 | 2 858.0 | ... | ... | ... | ... | ... | 4 900.0 |
| 171/OC-ME | 4 390.0 3/ | ... | 4 196.0 | ... | ... | ... | ... | ... | 4 196.0 |
| 191/OC-ME | 2 434.0 4/ | ... | ... | 2 164.0 | ... | ... | ... | ... | 2 164.0 |
| 220/OC-ME | 1 963.0 5/ | ... | ... | ... | ... | 1 812.0 | ... | ... | 1 812.0 |
| 276/OC-ME | 2 514.0 | ... | ... | ... | ... | ... | ... | ... | ... |
| Subtotal Mexico | 20 931.0 | 9 060.0 | 8 151.8 | 3 043.6 | 2 232.0 | 2 038.0 | 2 085.0 | 2 978.0 | 29 588.4 |
| NICARAGUA | | | | | | | | | |
| 129/OC-NI | 1 000.0 | (Cancelled) | ... | ... | ... | ... | ... | ... | ... |
| PERU | | | | | | | | | |
| 118/OC-PE | 1 000.0 6/ | 269.8 | ... | ... | ... | ... | ... | ... | 269.8 |
| 200/OC-PE | 290.0 | ... | ... | ... | 290.0 | ... | ... | ... | 290.0 |
| 223/OC-PE | 252.0 | (Cancelled) | ... | ... | ... | ... | ... | ... | ... |
| 237/OC-PE | 240.0 7/ | ... | ... | ... | ... | ... | ... | 216.0 | 216.0 |
| 244/OC-PE | 325.0 | (Cancelled) | ... | ... | ... | ... | ... | ... | ... |
| 245/OC-PE | 220.0 8/ | | ... | ... | ... | ... | ... | 208.0 | 208.0 |
| 246/OC-PE | 980.0 | ... | ... | ... | ... | ... | ... | ... | ... |
| 272/OC-PE | 1 000.0 | ... | ... | ... | ... | ... | ... | ... | ... |
| Subtotal Peru | 4 307.0 | 269.8 | ... | ... | 290.0 | ... | ... | 424.0 | 983.8 |
| VENEZUELA | | | | | | | | | |
| 160/OC-VE | 3 000.0 9/ | ... | 1 404.0 | ... | ... | ... | ... | ... | 1 404.0 |
| TOTAL | 81 034.0 | 18 146.3 | 15 573.5 | 12 110.0 | 16 882.5 | 14 519.0 | 8 507.0 | 16 347.2 | 102 085.5 |

1/ At the borrower's request this amount was reduced to US$147 100.

2/ At the borrower's request this amount was reduced to US$1 600 000.

3/ At the borrower's request this amount was reduced to US$4 196 000.

4/ At the borrower's request this amount was reduced to US$2 164 000.

5/ At the borrower's request this amount was reduced to US$1 812 000.

6/ At the borrower's request this amount was reduced to US$269 800.

7/ At the borrower's request this amount was reduced to US$216 000.

8/ At the borrower's request this amount was reduced to US$208 000.

9/ The outstanding balance of this line of credit was cancelled.

(a) There can be no doubt that developments in the external sector affect the economic growth of the developing countries. Particularly in the case of the Latin American countries, the sluggish growth of exportable surpluses of traditional products makes it imperative that the region's export operations should be broadened to include industrial manufactures calculated to improve the terms of trade for the region and to reduce the effects of fluctuations in the prices and volume of traditional exports.

(b) In order to promote exports of such products, it is clearly necessary and desirable to establish export financing machinery, since most of the goods in question are sold on credit terms.

(c) Following the guidelines laid down in resolution AG-8/63, as amended by resolution AG-5/71, the Bank's programme has been restricted to the medium-term financing of intra-regional exports of capital goods and services. The capacity of member countries to produce and export such goods and services is limited and is concentrated in the more developed countries of the region. As a result, the Bank's programme has yielded financial benefits, and benefits of institutional development, for only a few member countries.

(d) The best way for the Bank to co-operate to a significant extent in the creation and institutional development of suitable machinery for financing exports from other member countries in the region would be to make financial support available for exports of products other than capital goods.

(e) Bearing in mind that the chief beneficiary of export promotion through export financing is the exporting country - as witness the fact that all industrialized countries have specialized machinery for that purpose - it does not seem desirable to maintain the restriction that the Bank should finance only exports to other developing countries members of the Bank. If agreement was reached to widen the geographical area of destination of the exports eligible for financing, the Bank could make a more effective and meaningful contribution to the programmes of all its developing member countries.

(f) Since the existing limitations on the programme were set by resolutions of the Board of Governors, it is felt that without a further decision by the Board of Governors, it would not be possible to take action within the Bank in order to widen the programme to include other goods and/or to enlarge the geographical area of destination of exports eligible for financing. Since the Management has submitted a legal opinion drawing attention to various possible conflicts with the provisions of the Bank Charter, this matter is submitted to the Board of Governors so that it may take any measures which the Governors deem necessary to resolve this difficulty.

(g) Should the Board of Governors take a decision on the lines indicated above, the Board of Executive Directors would undertake a detailed analysis of:

(i) Possible ways of broadening the existing Medium-term Programme as regards the goods eligible, their geographical destination and the terms on which export credit is available;

(ii) The operating regulations and mechanisms to be applied to the new Supplementary Programme for Short-Term Financing and Pre-financing of Exports, with special emphasis on ways of favouring the less-developed countries of the region; and

(iii) The amount and type of resources that could reasonably be appropriated for financing the activities mentioned in (i) and (ii) above.

C. Current situation and proposed expansion of operations

14. In May 1974 the Board of Governors adopted a resolution calling upon the Board of Executive Directors to study such measures and resolutions as might be needed in order to expand the programme, and to that end authorizing it to consider the inclusion of other goods which could appropriately be financed in accordance with international practice and the enlargement of the geographical area of destination, preference being given to the less-developed countries. At the same time the Board of Governors requested the Board of Executive Directors, on such matters, to consider examining whether the Agreement establishing the Bank would allow the Bank to co-operate with member countries in financing exports which were not necessarily exports of capital goods or which might be intended for a wider area than Latin America.

15. In another resolution, the Board of Governors authorized the opening of negotiations with Venezuela for the establishment of a trust fund which, according to the offer made by the Governor from that country, could be used, *inter alia*, to expand the Export Financing Programme.

16. The Board of Executive Directors is at present examining draft amendments to the Regulations for Medium-Term Financing of Exports and draft Short-Term Supplementary Regulations.

Distr.
GENERAL

TD/B/552/Corr.1
6 June 1975

ENGLISH ONLY

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fifteenth session
Geneva, 5 August 1975
Item 5(c) of ~~the~~ provisional agenda

# REPORT OF THE EXPERT GROUP ON EXPORT CREDITS AS A MEANS OF PROMOTING EXPORTS FROM DEVELOPING COUNTRIES

## Corrigendum

Paragraph 40, fourth line

After however, delete the fact that

Paragraph 41, sixth line

For financing read financial

## ANNEX II

## Proposal[a/] for the establishment of an Export Credit Guarantee Facility

1. The proposal envisages the creation of an Export Credit Guarantee Facility (ECGF) which would foster trade among developing countries by enabling developing exporting countries to offer to developing importing countries credit terms which, if not equal to, would at least be closer to those offered by developed countries. This may be obtained by ECGF partially guaranteeing the medium- and long-term credits extended by developing countries to other developing countries, thus markedly improving the marketability of the promissory notes held by developing exporting countries. Provided ECGF had the support of international financial institutions such as the World Bank Group and the regional development banks, an ECGF guarantee would permit discounting of such notes in the private commercial capital markets at rates far better than those available for unguaranteed notes. While this improved discount rate would not be as low as that available to most developed exporting countries through their national export credit financing institutions, it could, at least, considerably narrow the gap between the financing costs for the developing, as against the developed, exporting country. This could best be achieved if an ECGF were to be established by the World Bank to serve all of the Bank's Part II member countries of IDA. This might be done either within one of the existing Bank Group institutions, such as IFC, or through the establishment of a separate entity in which the Bank is one of the major investors. In the latter case, the World Bank might well find it expedient to create the Facility in co-operation both with the regional development banks and with a consortium of private financial institutions.

2. The salient features of the proposal may be summarized as follows:

(a) ECGF would guarantee, in part, the financial obligations of one developing country to another developing country, provided these obligations arise from receipt of extended export credits attendant upon the purchase of industrial products, capital goods and services. Such obligations, in the form of promissory notes, would, prior to receiving the facility's guarantee, have to be guaranteed by the central bank (or similarly authorized agency) of the importing and exporting countries.

---

a/ This proposal follows closely the proposal first put forward by the Governor of the Bank of Israel to the Annual Meeting of the Board of Governors of the World Bank in 1972. See "Export credits as a means of promoting exports from developing countries: report by the UNCTAD secretariat" (TD/B/494), paragraphs 38-54. The proposal contained in this annex was put before the Group by one of its members, Mr. Mayer Gabay.

(b) The promissory notes arising from the receipt of medium- and long-term export credits would be eligible for the facility's guarantee, provided the terms and conditions of the transaction conform to internationally accepted standards.

(c) The goods involved would have to originate in the exporting developing country or, if they contain components imported from developed countries, at least have undergone substantial processing and alteration in the exporting developing country.

(d) In order to be effective, the facility's guarantee would have to cover a sizeable proportion of the promissory notes involved in each transaction.

(e) Promissory notes guaranteed by the facility would be freely negotiable.

(f) The Reserve Fund required for ECGF's operation would be funded from a variety of sources, with the World Bank Group and the regional development banks providing the major part of the resources. However, the World Bank, together with the regional development banks, need not be the sole source of funds for ECGF's operation. Additional funds could become available through charging the developing exporting country a service charge for use of the facility or requiring it to purchase a "participation share" in the facility. "Participation shares" could, as well, be sold to both private and public financial institutions. In the case of private financial institutions, their being accorded a priority position as discounters of ECGF-guaranteed notes might well serve as an inducement for them to purchase such shares.

# ANNEX III

## List of Participants

### Experts

Sr. Elvio Baldinelli,
Presidente,
Compañia Argentina de Seguros de Crédito a la Exportacion,
Juncal 721,
Buenos Aires,
Argentina.

Mlle. G. Barral (participated at the first session only),
Sous-directeur,
Compagnie française d'assurance pour le commerce extérieur,
32 Rue Marbeuf, 75008, Paris, France.

Mr. I. Fakrieh,
Managing Director,
Iranian Export Guarantee Fund,
3 South Kheradmand Jonuba,
Teheran, Iran.

Mr. A.P. Fowell,
Principal,
Export Credit Guarantee Department,
Aldermanbury House,
Aldermanbury Square,
London E.C.2, United Kingdom.

Mr. Mayer Gabay,a/
Deputy Attorney General,
Economic Affairs,
Ministry of Justice,
Jerusalem, Israel.

Mr. Peter Gehring,
Chairman,
Interministerial Committee on Export Credit Policy,
Federal Ministry of Economics,
Bonn, Federal Republic of Germany.

Mr. M.S. Gheewala,
Chairman,
International Consultancy Services Ltd.
P.O. Box 47629,
Nairobi, Kenya.

---

a/ Mr. Gabay was accompanied by Mrs. Channa Weinberg, Economic Adviser to the Governor, Bank of Israel.

Mr. Makoto Kobayashi, (participated at the first session and accompanied Mr. Okabe at the second session)
Director,
Export Insurance Division,
Japan Trade Centre,
127 Cheapside,
London, E.C.2, United Kingdom.

Sr. Miguel Mancera,
Director Adjunto,
Banco de México,
5 de Mayo y Condesa 2,
Mexico 1, D.F., Mexico.

Mr. Takashi Okabe, (participated at the second session only)
Deputy Director,
Export Insurance Policy Division,
Ministry of International Trade and Industry,
3-1, Kasumigaseki,
Tokyo, Japan 100.

Sr. Fernando de Souza Oliveira,
Carteira de Comercio Exterior,
Banco de Brasil,
Av. Presidente Vargas 328,
Rio de Janeiro, Brasil.

Mr. J.C. Ramaer,
Deputy Director,
N.V. Philips Gloeilampenfabrieken,
2 Brinkweg,
Waalre, Holland.

Mr. Henry Rowntree,
Former Executive Vice-President,
Export-Import Bank of the United States,
624 S. Lee St.
Alexandria, Virginia 22314, U.S.A.

M. Famara Ibrahima Sagna,
Président Directeur-Général,
Banque nationale de développement du Sénégal,
7 avenue Roume, 7,
Dakar, Sénégal.

Mr. P.B. Satagopan,
General Manager,
Export Credit and Guarantee Corporation Ltd.
Express Towers, 10th Floor,
Nariman Point,
Bombay 21, India.

Mr. Kap-Chul Shin, b/
Assistant Manager,
Export Insurance Department,
Korean Reinsurance Corporation,
185-10 Choong Jungro, Seoul, Republic of Korea.

---

b/ Mr. Shin was accompanied by Mr. Chin Yong Chung, Assistant Insurance Commissioner, Export Insurance Department, Korean Reinsurance Corporation, at the first session.

Participants from international and regional financial institutions

| | |
|---|---|
| World Bank | Mr. Peter Jacob, (participated at the<br>Senior Economist second session only)<br>Policy Planning Department,<br>1818 H Street, N.W.<br>Washington, D.C.,<br>United States of America. |
| | Mr. Frank Vibert, (participated at the<br>Chief, first session only)<br>Policy Planning Division,<br>Policy Planning Department,<br>1818 H Street, N.W.<br>Washington, D.C., U.S.A. |
| International Monetary Fund | Mr. Jack Pierre Barnouin,<br>Advisor,<br>IMF Office,<br>58, rue de Moillebeau,<br>Geneva, Switzerland. |
| Organisation for Economic Co-operation and Development | Mr. Walter Schwendenwein,<br>Administrator,<br>Financial Policies Division,<br>Development Assistance Directorate,<br>2, rue André-Pascal,<br>75016 Paris, France. |
| Inter-American Development Bank | Sr. Cristian Santa-Cruz,<br>Consultor General,<br>Departamento Operationes,<br>808 17th, N.W.<br>Washington, D.C.,<br>United States of America. |
| European Economic Community | Mr. P. Palmerini,<br>Administrateur principal,<br>Direction Générale des relations extérieures,<br>Commission des Communautés Européennes,<br>200 rue de la Loi,<br>1040 Bruxelles, Belgique. |
| Asian Development Bank | Mr. K. Nakagawa, (participated at the<br>Assistant Chief first session only)<br>Economist,<br>P.O. Box 789,<br>Manila, Philippines. |

# ANNEX IV

## List of documents

| | |
|---|---|
| TD/B/AC.16/R.1 | Provisional agenda and annotations to the provisional agenda |
| TD/B/AC.16/R.2 | Regulations of the Andean Trade Financing Agency |
| TD/B/AC.16/R.3 | Cover note - Export financing for capital goods - Possibilities of IBRD support for financing exports of capital goods by developing countries - Prepared by the staff of the World Bank. |
| TD/B/AC.16/R.4 | Interim report of the Expert Group |
| TD/B/AC.16/R.5 | Export credit as a means of promoting exports from developing countries - Note prepared by the UNCTAD secretariat |

# Record Removal Notice

The World Bank Group Archives & Records Management

| File Title | Barcode No. |
|---|---|
| VPD - Director, Development Policy - McNamara File - August 1975 - Folder 6 | 30124208 |

| Document Date | Document Type |
|---|---|
| August 6, 1975 | Memorandum |

**Correspondents / Participants**
To: Robert S. McNamara
From: Ernest Stern

**Subject / Title**
Chief Economist - EMENA Region

**Exception(s)**
Personal Information

**Additional Comments**

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

| Withdrawn by | Date |
|---|---|
| Vlada Alekankina | July 10, 2012 |

820/6/6 RSM

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

2852

# OFFICE MEMORANDUM

IBRD/IDA WBG 820 ARCHIVES

TO: Mr. Robert S. McNamara, President
Mr. J.B. Knapp, SVP, Operations (o/r)

DATE: August 5, 1975

FROM: Ernest Stern, Director, Development Policy

SUBJECT: Extended Fund Facility

Attached is a note on the first drawing on the Extended Fund Facility. Of particular interest is the close collaboration between Bank and Fund staff.

Attachment
EStern/ls

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

# OFFICE MEMORANDUM

TO: Mr. Ernest Stern, Acting Vice President, DP

DATE: July 25, 1975

FROM: Sidney E. Chernick, Acting Director, PP & PR SEC

SUBJECT: KENYA - First Operation Under the Extended Fund Facility (EFF)

IBRD/IDA WBG 820 ARCHIVES

1. On July 7, 1975, the IMF Executive Board approved a loan to Kenya in an amount equivalent to SDR 67.2 million under the Extended Fund Facility (EFF). It is the maximum allowable under the scheme (140% of the quota). This is the first operation since the EFF was established on September 13, 1974 (Decision No. 5477-74/114). In preparing this operation, there was close collaboration between the Fund and Bank staffs. The Bank staff was in an especially good position to help, since a $30 million program loan had been processed shortly before the IMF Board considered the extended facility for Kenya. Both the Bank's program loan and the Fund's extended facility are the results of a fairly continuous and intensive dialogue on economic and financial policies with the Kenya Government in recent years.

2. Even before the increase in petroleum prices, Kenya was faced with structural balance of payments difficulties; the current world inflation and recession served to enhance them. In July 1974, the Kenya Government requested a program loan from the Bank. At the same time, it approached the Fund for credit under both the regular and oil facilities. Even before the EFF was approved by the Fund Board, the Government indicated its intention to draw on it. The Bank's program loan appraisal mission of January 1975 was followed by a Fund mission in April. The President's Report on the Program Loan (P-154a-KE), dated May 5, 1975, took note of this parallel action as did the Fund report on "Kenya - Use of Fund Resources" (EBS-1751217), dated June 23, 1975. Indeed, the "letter of intent" requesting assistance under the EFF was dated May 28, 1975, one day after the program loan was approved by the Bank's Executive Board. The Fund and Bank staffs have maintained close contact at headquarters and have made coordinated policy recommendations to the Kenyan authorities. Although there were no overlapping, joint, or participating missions in the field, the Bank and Fund missions proceeded in close sequence with mutual briefings. The staff also had opportunities to read each other's draft reports.

3. The terms of the EFF loan call for drawings over a period of three years and repayment over 8 years (with 4 years grace) for each drawing. These longer than normal periods are provided so that medium-term structural balance of payments difficulties can be tackled. The review of the medium-term outlook and the Government's medium-term program in the Fund staff's report covers more or less the same ground as the Bank's economic report and the President's program loan report. However, the Fund report does not contain any long-term economic projections. The Bank's basic economic report was cited as a reference and the conclusions of all the Bank and the Fund reports are consistent with each other. The Government's proposed program is also consistent with the recommendations of the staff of both institutions.

4. Both Bank and Fund programs aim at improving the growth prospects with minimum import expansion. Recommended are the use of a flexible mix of policies to restructure economic growth by eliminating price and cost distortions, containing consumption, shifting investment pattern towards projects with quick return but small import content, and promoting exports. The Bank emphasizes the priority of agricultural development, equitable distribution of the burden of economic hardship and employment creation, while the Fund focusses more on maintaining the existing relatively liberal trade and payments system. Both programs expect that the present structural payments disequilibrium will be significantly attenuated, if not eliminated, in a period of five years.

5. As for some specific elements of the program, the President's Report on the Program Loan mentions the Government's commitment to promoting accelerated agricultural development by strengthening the Ministry of Agriculture, maintaining the cost/price incentives for agricultural production, and establishing priorities in the implementation of projects. The Fund's extended facility, as is usual in its stand-by agreements, contains more specific targets for 1975/76 regarding imports, exports, government revenues and expenditures, domestic credit expansion and the level of reserves. Moreover, "performance clauses" are specified in terms of a ceiling on the net credit extended to the Government from the banking system, a ceiling on the net domestic assets of the Central Bank and a commitment not to introduce multiple currency practice. As the extended facility credit will be disbursed in three years, suitable performance clauses are to be established, in consultation with the Fund, before the beginning of the second and the third year of the extended arrangement.

Conclusion

6. The processing of the EFF loan to Kenya was marked by a high degree of collaboration between the staffs of the two institutions. Problems of duplication and conflict which we expected might arise in implementing the EFF have not, in the event, emerged. Indeed this case is one of productive complementarity. The Fund staff expect that no more than a half dozen countries are likely to apply under the EFF. Some possibilities are Burma, Central African Republic, Haiti, Honduras, Philippines and Korea. If all potential applications are processed in a manner similar to that of Kenya, it will be all to the good. We propose to follow closely any other operations under the EFF.

cc: Messrs. Chenery (o/r)
Haq (o/r)

cc: PRD Staff

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

RS To Mr. Stern a constructive report Ernie - Let's continue to try to avoid duplication with IMF in every possible way. RMcN

3850

# OFFICE MEMORANDUM

820/6/5

TO: Mr. Robert S. McNamara

DATE: August 4, 1975

FROM: Ernest Stern, Acting VP, Development Policy

SUBJECT: IBRD/IMF Collaboration in Country Economic Work 1/

1. In September 1973 you asked us to review (1) the degree to which we utilize the work of the IMF, (2) the extent to which we could reduce duplication between the two institutions by utilizing it further, and (3) whether we are making maximum use of joint missions. In Mr. Chenery's memorandum of February 4, 1974, (copy attached) he detailed the present levels of Bank/Fund collaboration in country economic work as well as between the two central economic staffs.

IBRD/IDA WBG 820 ARCHIVES

2. In consultation with the Fund, we subsequently established a small working group of senior Bank and Fund staff, to review existing modes of collaboration and to explore new ones. As part of this review, the Regional Chief Economists were asked to designate a sample group of countries to evaluate the IBRD/IMF collaborative experience in country economic work. In the event, 10 countries were selected for monitoring; they were selected to ensure both a broad geographic coverage and a variety of types of collaboration (see Annex 1).

3. The Bank/Fund cooperation in the ten cases monitored was good. The sharing of data and draft reports was both prompt and helpful. There were few disagreements over policy matters that could not be resolved quickly at the divisional staff level. Bank staff that have worked closely with Fund staff are convinced of the benefits from collaboration.

4. For purposes of preparing updating memoranda, the practice of attaching a Bank country economist to IMF mission has been highly effective. Under this arrangement, the Bank country economist has been able to concentrate on areas of special importance to the Bank, as well as use the IMF draft report effectively as the basis for an updating memorandum, CPP, or President's Report. Moreover, the IMF mission leaders have welcomed this type of mission collaboration, since it reduces their own workload slightly (the IBRD staff member will often provide some information on public investment and the real growth of some sectors of the economy for the IMF mission) and facilitates a full understanding of IMF policies by Bank staff and (vice versa). Indeed, in Uruguay and Panama, the IMF mission chiefs solicited Bank staff views when drawing up the terms of IMF standbys.

5. Separate, but concurrent missions have also proven to be highly effective. However, because the Fund reports are produced in draft form much faster than the Bank's, the latter institution benefits more from the joint effort. Some Governments have welcomed this procedure since they are spared the burden of having to provide similar sets of data and answer similar questions for two missions arriving at different times. Others, however, believe that Bank and Fund missions should not be scheduled at the same time. Two out of the four planned parallel missions were rescheduled

---

1/ This memorandum incorporates comments on an earlier draft from Regional Chief Economists and IMF staff.

at the Government's request so as not to overlap in the field. In the case of Iran, the Government asked that the Bank mission be deferred until its revised plan was completed. The Yemeni Finance Minister requested that the IMF delay its mission for about a month since he would be absent from the country during the period previously agreed.

6. Parallel missions, whether sequential or concurrent, seem to work best when the general scope of the two missions is similar. Thus, while the two institutions do have differing time frames, an IMF consultation mission seems more similar to Bank updating missions, where either short-term issues or recent performance is often stressed. Bank basic missions may be inappropriate for joint collaboration with IMF consultation missions. The Botswana basic mission found the information provided by a parallel IMF consultation mission helpful, but its dependence on the IMF mission for fiscal and balance of payments matters may have reduced its own ability to analyze effectively the longer-term prospects of these key sectors.

7. The use of IMF consultation reports (prepared without Bank staff participation), in lieu of Bank mission reports, has also proven helpful in those countries where the Bank has only a minimal program or where the Bank is phasing out its lending. While the Fund staff have been cooperative in attempting to ascertain and include items of Bank interest in their reports in these cases, the weak data base in some of the poorest or smallest countries has led to major differences in statistical estimation. Since the IMF prefers to use estimates for balance of payments or fiscal projections that have been jointly agreed between the IMF and the Government, while Bank documents tend to rely more on the country economists' estimates, it is often difficult for a country economist to use the IMF report for alternative projections when he has not himself recently visited the country. It may be best, therefore, to continue to encourage the use of IMF reports only for those countries where the Bank's operational interest is marginal.1/

8. As we expected, truly joint missions are difficult to manage effectively, if both institutions assume joint responsibility for the report. The joint technical assistance mission to Panama produced a technical report that remained the responsibility of the mission itself. An initial proposal to produce a joint basic report on Indonesia was dropped by both institutions. The two Indonesian missions, however, complemented each other, agreed on a division of labor in preparing separate reports, and came up with mutually reinforcing conclusions. Although it is not expected to apply to more than a dozen countries, the IMF's extended facility will require country economic assessments which overlap those of the Bank; the chances of duplication of work in these cases will be greater. In these circumstances, the scope for collaboration through parallel, and perhaps in some cases, joint missions would be enhanced. Joint missions for new member countries would appear to be both desirable and feasible.

---

1/ In the case of Western Samoa, IMF's first hand information was used in preparing the economic section of the President's Report on an IDA credit, and IMF staff member was invited to attend the Board meeting to answer any questions pertaining to the economy.

Conclusions

9. i) Evidence from the ten sample countries confirms that the Bank and Fund staff are collaborating well on the scheduling of economic missions and the discussion of substantive matters. No major change in the existing procedures seems warranted.

ii) Arrangements for IBRD/IMF collaboration on country economic missions are made directly between the respective regional offices of the two institutions. These have been working satisfactorily so that no central coordination mechanism is required.

iii) As part of the revision of the O.M. on country economic work, the Regions should be encouraged to include a country economist on IMF consultation missions for updating purposes, and to use IMF reports for the updating of economic information on countries with marginal Bank lending programs during FY76-80. As we move on to an increased use of the updating economic memorandum, this type of joint collaboration may be the most efficient for the Bank and member governments.

iv) Truly joint missions producing a single report are difficult to manage, and may be possible in only a very few cases. Nevertheless, in consultation with the Fund, we shall continue our efforts to identify these cases where a joint mission is both appropriate and feasible.

Attachment

cc: Mr. H. B. Chenery (o/r)
DPS Directors
Regional Chief Economists
Mr. Kearns
Mr. Don Palmer, IMF

SChernick/PMeo:ra

## COUNTRIES SELECTED FOR MONITORING IBRD/IMF COLLABORATION

| Country | Collaboration | Mission Dates |
|---|---|---|
| Uruguay<br>Panama 1/ | Attached Bank staff member to Fund missions, resulting in a report or memorandum tailored to Bank operational requirements. | December 1974, March 1975,<br>July-August 1974 |
| Fiji<br>Western Samoa<br>Ireland | Relied on Fund mission, suitably briefed, to provide the economic information required for the Bank operations. | July-August 1974<br>July 1974<br>October 1974 |
| Yemen, A.R.2/<br>Iran2/<br>Botswana<br>Liberia 3/ | Separate missions, but close co-operation before departure, in the field, and during preparation of the report. | September-November 1974<br>November 1974, April-May 1975<br>May 1974<br>April 1975 |
| Indonesia | Joint Bank/Fund mission, but with separate, basic reports. | October-November 1974 |

---

1/ The Bank and Fund increased their collaboration by sending an additional, joint technical mission in August 1974 to examine and recommend improvements in public debt management.

2/ At the Governments' requests, the missions to Iran and Yemen were sent at different times.

3/ The Bank mission was reduced in size to only the country economist, so that - in effect - it was similar to the Uruguay and first Panama missions.

C
O
P
Y

# O F F I C E   M E M O R A N D U M

TO: Mr. Robert S. McNamara DATE: February 4, 1974

FROM: Hollis B. Chenery

SUBJECT: Bank/Fund Collaboration

1. You recently asked for an examination of Bank/Fund collaboration and suggestions for reducing duplication in economic work. After discussion with the Regions and the IMF, I now submit the following recommendations which I propose to pursue, subject to any modifications suggested by you or Burke.

Present Levels of Collaboration in Country Economic Work

2. Current Bank policy for collaboration with the Fund is expressed in OPM 5.10 (August 1971) and the arrangements for cooperation at Headquarters, in the field and generally in the economical use of staff resources are spelled out in an accompanying operational memorandum.

3. Within areas of shared interest in country economic analysis, the compliance with the policy varies. There is regular consultation and collaboration between Bank and Fund staff, both at headquarters and in the field. It is common practice for mission briefings to be arranged, draft documents to be circulated and final documents exchanged in accordance with the OPM. Bank missions are often timed to coincide, overlap or follow those of the Fund where this will facilitiate the work of the two institutions and is acceptable to the governments concerned. Although joint missions are rare, Fund staff participate in perhaps 5% of Bank missions and Bank staff in missions arranged by the IMF in about the same frequency. The two institutions commonly share the data and analysis contained in their respective reports. There are hardly any examples, however, where sections of the report of one institution are wholly incorporated in the reports of the other. The levels of cooperation also vary from country to country and from time to time. They depend largely on informal inter-agency relationships, which were affected by the Bank's internal reorganization but have now been largely re-established.

4. There is nevertheless scope for substantially closer collaboration in country economic work, particularly in relation to updating reports where the area of duplication of effort is large. Neither the Regional Chief Economists nor the Fund staff think joint missions are the answer. The few that have been mounted involving one mission chief, common terms of reference and a combined report, indicate that these are generally not productive forms of collaboration. However, there is considerably more scope for reducing duplication through coordinated mission scheduling whereby missions from the two organizations are timed to visit the country concurrently, with an overlap or in close sequence. Besides permitting work sharing in the field, coordinated mission scheduling should reduce the burdens on officials in the host country.

5. The specific arrangements for consultation in the field of taxation and fiscal administration, in which the Fund's Fiscal Affairs Department has technical assistance responsibilities, could also be more effectively implemented. Within this framework the Fund makes staff members available for participation in Bank missions, with some savings in staff resources. Collaboration between the Bank and the IMF's Central Banking Service could also be expanded. The CBS has already provided staff for a number of IFC missions concerned with capital market development, as well as Bank missions interested in central bank related studies.

6. There are several issues to be considered if the Bank and Fund are to collaborate more closely in country analysis and reporting. Bank analysis usually involves at least medium-term projections, while the Fund seldom forecasts more than a year ahead. In the field, Bank staff are as a rule excluded from Fund discussions on specific policy issues, particularly those connected with stand-by arrangements. And there is one sensitive area, that of exchange rates. Although a primary responsibility of the Fund, the question of the appropriate exchange rate is frequently addressed in the Bank's country analyses. Bank staff make a special effort to cooperate in this area, but occasional difficulties do arise and will probably continue to arise. I believe they have been and can continue to be settled in terms of the OPM, which calls on the Bank to obtain the prior consent of the Fund before critically reviewing exchange rate issues with member countries.

7. In short, the degree of informal collaboration between Bank and Fund staff is already large, but there is scope for an intensified effort at collaboration to avoid duplication and improve the quality of country analysis. In pursuit of these objectives, I propose to establish in consultation with the Fund's Economic Counsellor, a small working group of senior Bank staff to act with Fund staff in reviewing existing modalities for collaboration and exploring new ones. The group will consider strengthening working relations in respect of:

a) regular access to the flow of information from Fund and Bank representatives and the report of technical assistance experts in the field;1/

b) arrangements to include in IMF country questionnaires requests for information of particular interest to the Bank;2/

---

1/ The Bank and Fund are both represented in only three developing countries (Indonesia, Bangladesh and Afghanistan). Bank staff would benefit from regular access to the information supplied by other IMF representatives and general advisors, (19 in all) mainly in Latin America or Asian countries. Access to progress reports of experts in central banking and fiscal fields deployed by the Fund in nearly 50 countries would be valuable. Conversely, our permanent missions in Africa, the regional mission in Thailand and the 14 country missions could be useful sources of information to the Fund.

2/ The regular IMF Article VIII, XIV and standby consultations produce a basic flow of official data from member governments. Formal Fund questionnaires are sent in advance of these consultations and sometimes questions of more specific interest to the Bank have been included by arrangement. More use might be made of this procedure.

c) closer coordination in the timing of Bank and Fund missions whenever these could usefully be concurrent, overlapping or in close sequence;

d) increased participation by Bank staff in IMF missions for updating purposes; and

e) the feasibility of increased participation of IMF staff, especially fiscal and financial specialists, in Bank economic missions.

8. I believe that an increased reliance on Fund data and analytical material for our updating work would be desirable and could yield significant staff-time savings. Moreover, by releasing country economists for work on longer term development issues and sector analysis - subjects which they find more interesting and challenging - we stand to gain a higher level of staff morale. I will ask Regional Chief Economists to explore the possibility of more frequent use of IMF information as a substitute for updating work, where the focus is largely on short-term developments in the country's fiscal and balance of payments position. I will ask them to designate a selected group of countries for experimental purposes and evaluate the experience systematically. I will report the results of this experiment to you as soon as completed.

9. From an earlier exchange of views, I am led to believe that the Fund staff will respond positively to these proposals.

Collaboration between the Central Economic Staff

10. There are a number of linkages between the DPS and the Fund's Research Department. In particular, the Economic Analysis and Projections Department collaborates informally with the Fund in various areas of economic and statistical work. The commodities divisions of the two institutions share information and attempt to reconcile views and avoid duplication, with the Fund staff concentrating on short-term forecasting and Bank work emphasizing longer term projections. The two institutions are jointly engaged in a program to improve the capital accounts in the balance of payments of developing member countries, largely through the incorporation of our Debt Reporting Service data into these accounts. IMF data and analysis relating to higher income countries complement Bank projections for the developing economies in preparing our global framework. The Bank and Fund staff are consulting on Euro-currency lending and borrowing.

11. These contacts, however, are mainly at the technical level, and they operate without clear arrangements for the exchange of information and views on policies and work programs. Particularly in the light of recent international oil developments, which involve a new range of stabilization and development issues of concern to both institutions, I consider that a major effort to establish closer working relationships between the DPS and the Fund's Research and Exchange and Trade Relations Departments would be in order. This is an area to which the proposed working group of senior Bank staff would give special attention.

12. It would be helpful if, on the basis of this memorandum, you could raise with Mr. Witteveen the question of Bank-Fund collaboration in country and general economic work. This would provide a firm basis for the contact. I have in mind between senior Bank and Fund staff, from which I hope that strengthened working relationships will emerge.

cc: Mr. Knapp
Mr. Stern
Regional Vice Presidents
Regional Chief Economists

Mr. J.J. Polak, Economic Counsellor, IMF
Mr. E. Sturc, Director, Exchange and Trade Relations Department, IMF

GThompson/SEChernick/cl

270/6/4

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

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: August 4, 1975

FROM: Ernest Stern, Director, Development Policy

ES

SUBJECT: Trust Fund

IBRD/IDA WBG 820 ARCHIVES

1. Attached is a draft paper, as submitted to Mr. Witteveen. Few further changes are expected. The paper probably will be discussed by the Fund Board in the week after recess.

2. Pages 1-7 may be of interest (particularly Paragraph IV-1, p. 7); the remainder deal with various gold sale options and administrative/procedural matters.

Attachment

cc w/att.: Messrs. Knapp o/r
Cargill

EStern/ls

820/6/3

DRAFT - 8/1/75

IBRD/IDA WBG 820 ARCHIVES

# Trust Fund

## I. Introduction

The Development Committee has requested the Executive Board of the Fund to consider all aspects of the establishment and financing of a special trust fund. The Communique issued by that Committee at the conclusion of its June 1975 meeting contained the following paragraph:

> "The Committee considered the report of the Executive Boards of the IBRD and IMF on proposals to create a special trust fund to be administered by the IMF to provide additional highly concessional resources to meet the balance of payments needs of low-income developing countries for the next few years. Some members of the Committee felt there was an urgent need for establishing such a fund as soon as possible. In order to facilitate early concrete action on a trust fund, the Committee agreed to urge the Executive Directors of the IMF to consider all aspects of the establishment of such a trust fund as well as to continue their study of all possible sources of financing."

In accordance with the request of the Development Committee, this memorandum sets forth preliminary ideas on the establishment of a possible trust fund to be administered by the Fund, including the purposes of such a trust fund, the arrangements for its establishment, its organization and administration, its operations, and the sources and methods of financing. The question whether the Fund would have the power, when using its gold for replenishment, to make arrangements for financing the trust fund is discussed in SM/75/174. Statistical data on the effects of various suggestions on the use of a part of the Fund's gold made at the June meeting of the Interim Committee are set forth in SM/75/188.

## II. Purposes of Trust Fund

The type of trust fund considered in this memorandum is one that, as stated in the Communique of the Development Committee, would be intended "to provide additional highly concessional resources to meet the balance of payments needs of low-income developing countries for the next few years". As noted in the Report of the Executive Directors of the Bank and the Fund to the Development Committee, dated May 29, 1975, it is recognized that the balance of payments of the low-income countries will remain under severe strain for several years beyond 1975 and that, therefore, they will have a need for assistance on concessional terms, which, however, could not be met out of the financial resources of the Fund under its present Articles of Agreement. It was also noted in that Report that "such assistance will enable them to maintain constructive policies to strengthen the balance of payments over the medium term and to avoid resort to trade and payments restrictions and measures that would cause a further decline in the rate of growth and increase unemployment."

III. Operations of Trust Fund

The purposes of the trust fund would be compatible with the purposes of the Fund. Therefore, the trust fund would not be able to give assistance ~~make loans or grants~~ for development. In accordance with its purposes, the operations of the trust fund would involve the granting of additional balance of payments assistance to low-income developing members of the Fund on concessional terms. Among the questions that need to be considered, therefore, are (a) which members would be eligible for assistance, (b) the type of assistance and the terms on which it would be made available, and (c) the relation of the assistance to the assistance that members may obtain from the Fund.

1. Eligibility

During its first year of operation and without prejudice to re-examination in subsequent years, members eligible to obtain assistance from the trust fund would be those with per capita income of below US$250 in 1972, the latest year for which complete data are available (Table 1). In exceptional circumstances, other members with somewhat higher per capita income could become eligible on a case-by-case basis if it could be demonstrated that they had been especially affected by economic developments occurring at the time of contemplated use. While rigid rules need not be laid down to govern the sèlection of exceptional cases, it would be expected that developments in a country's reserves, its external debt, and access, or lack of access, to other sources of external financing, would be among the factors to be taken into account. There would be periodic reviews in order to determine the criteria for eligibility for subsequent years of operation.

2. Types of assistance

The assistance to be provided by the trust fund would be normally in the form of loans.[1/] The question arises whether the trust fund should be authorized to make grants for particular purposes related to the balance of payments. A distinction might be made between contributions from the sale of gold and resources derived from voluntary contributions in the form of contributions not associated with the sale of gold by the Fund. It might be advisable to limit the former resources to the extension of loans, so that they would constitute a revolving fund. The trust fund might have the power to make either loans or grants to the extent of the latter contributions. Indeed, it is possible that such contributions might be made available to the trust fund by members on the condition that they would be used, either wholly or at least in part, for the purpose of making grants to some or all eligible members. It would not be desirable, however, for the contributors to attach other conditions to their contributions, such as conditions on the use of the resources by the trust fund or recipient members.

---

1/ See the suggestion made by the German authorities (EBD/75/167 of July 15, 1975, entitled "Outline of a Credit Mechanism in the IMF to Finance Fluctuations of Export Earnings").

3. Terms of assistance

In view of the special character of the problems facing the low-income countries during the next several years and the sources of financing the trust fund, loans by the trust fund could be made for a longer period than the periods for the use of the Fund's resources[1] and at a very low rate of interest, e.g., 3/4 per cent per annum plus a minimal service charge of, say, 1/8 per cent. The rate of 3/4 per cent per annum is the same as the service charge on IDA assistance, which is additional to interest charged after the grace period of ten years. The loans would be repayable within ten years, with repayment beginning in the sixth year. While there is no logical connection between the financing of a balance of payments deficit and the period over which the financing is to be repaid, loans for longer periods might be open to the objection that they would constitute development assistance

The question should be considered whether the policies of the trust fund should be applied to eligible members on a uniform basis or whether the trust fund should be able to apply different terms to different sub-groups of the eligible class of members without incurring the objection of nonuniformity. There are various possibilities: One would be to permit distinctions among eligible members, another to prohibit them, and a third to make them possible as a matter of principle but to discourage them as a matter of policy. It would seem advisable to make the resources of the trust fund available to all eligible members on a uniform basis except to the extent that differentiation as to terms might result from the conditions attached to contributions not associated with the sale of gold by the Fund that are referred to in section 2 above.

---

1/ It should be recalled that under the provisions in the Articles, consultation on reducing the Fund's holdings would not take place until the beginning of the eighth year after a purchase and the possibility of applying special charges until the beginning of the tenth year.

4. Lending limits

The total amount to be made available for lending to eligible members would be determined annually, following a review of their total requirements for balance of payments financing and the availability of resources to the trust fund. Maximum borrowing limits for individual eligible members would be established on the basis of their quotas[1/] and of the total amount available for lending during a year (including a conservative estimate of income from the investment of temporarily idle funds). Actual borrowing by a member within the limit so calculated would be governed by an assessment of the member's balance of payments need for that year. The criteria for this assessment would be the same as those used for the assessment of need for use of resources under the Fund's own facilities. Should actual lending be less than the amount available for lending in any year, the total amount of the excess would be included in the ~~total~~ amount available for the succeeding year.

5. Adjustment policies

Assistance from the trust fund would be made available only to members making reasonable efforts to bring about a solution to their balance of payments problems over the medium term. Each member wishing to borrow from the trust fund for the first time would be expected to describe its balance of payments objectives over the medium term and the measures that it proposed to take over the next 12 months in the light of those objectives. A member wishing to borrow further from the trust fund in a subsequent year would similarly describe its policies for the next 12 months. In judging the adequacy of the member's efforts the Fund would take into account these policies and the progress made by the member toward the achievement of the

---

1/ Quotas could be those in effect at the time the calculations are made or, alternatively, the new quotas proposed under a resolution of the Board of Governors on the Sixth General Review of Quotas.

balance of payments objective since the previous borrowing from the trust fund. While the member's annual financial program would be formulated in quantitative terms, there would be no performance criteria governing the use of the resources of the trust fund.

6. Relationships to use of Fund resources

Borrowing by an eligible member from the trust fund would not affect its access to the resources of the Fund's General Account or vice versa. Programs supported by the Fund, whether by stand-by arrangements, transactions in the credit tranches, or extended arrangements, would also constitute the basis for assistance from the trust fund if the programs covered a major part of the 12-month period for which such assistance was requested.

IV. Resources of the Trust Fund

The trust fund would obtain resources in the two principal ways described below. In addition, some additional resources could be obtained under a power to invest funds that are not currently in use in operations.

One source of financing could be contributions in the form either of grants or of loans on terms at least as concessionary as the terms on which the resources of the trust fund would be made available to the recipient member countries. Another source would be contributions by members, in currency or in gold, associated with sales of gold to these members by the Fund in accordance with the provisions of the Articles of Agreement on replenishment. Whatever might be the source and character of the contributions to the trust fund, a number of policy and technical issues would have to be decided.

1. Contributions not associated with sales of gold

The character, source, and terms of contributions not associated with the sale of gold by the Fund would need to be considered in the light of the character, terms and projected volume of operations in which the trust fund would be expected to engage, as well as the amount of the resources that could be obtained in connection with sales of gold. Thus, it would be necessary to consider such questions as the amounts to be sought in the form of grants or in the form of loans, the terms of the loans, the source of the grants or loans, and how and in what currencies payments by contributors would be made. In this connection, the experience gained with regard to the Subsidy Account could be useful. ~~For instance, if it were decided to seek contributions in the form of grants rather than loans, methods similar to those used in connection with the Subsidy Account might be used for suggesting contributors and the size of contributions. Alternatively, other methods could be considered, such as contributions solicited on the basis of new quotas or on gross national product~~.

~~Whether-the-contributions-are-in-the-form-of-grants-or-loans,-it will-have-to-be-considered-what-types-of-conditions-the-contributors-could attach-to-the-use-by-the-trust-fund-of-the-resources-made-available-by-them.~~ Loans would be contracted on behalf of the trust fund. The Fund would not guarantee repayment or take on any other obligations or assume any liabilities connected with default under the loans. The assumption by the Fund of ~~financial-responsibility~~ a financial obligation toward the lenders would be inconsistent with the separate character of the trust fund and its property and assets from the Fund and its property and assets.

Provision might be made for the return to contributors of contributions not associated with the sales of gold by the Fund, to the extent that this could be done at the time the trust fund ceased to enter into further operations.

2. Contributions associated with sales of Fund gold

The question whether a trust fund set up to provide additional balance of payments assistance to the most seriously affected members of the Fund can be financed on the occasions when the Fund decides that it is appropriate to replenish its holdings of currency by the sale of gold is discussed in another memorandum, SM/75/174. On the basis of that memorandum, it could be concluded that if the Fund decided to sell gold to members under Article VII, Section 2 as an appropriate means of replenishment, it would not be debarred from generating additional resources for the benefit of the most seriously affected members. If the purpose as well as the language of the provision is satisfied, the Fund can maximize the promotion of its purposes. In order to comply with the textual meaning of replenishment, the gold would be sold to members issuing currencies that were below 75 percent of quota in the Fund or currencies that were to be used forthwith. To meet the purpose of the provision the currencies would have to be those usable in the operations and transactions of the Fund in accordance with the policies of the Fund.

As pointed out in SM/75/174, all sales would have to be made at the official price of SDR 35 per fine ounce of gold. The authority of the Fund to require a member to provide its currency in exchange for gold sold to it in replenishment under Article VII, Section 2, does not carry with it the right to require the member to contribute to the trust fund the profits on the gold acquired by it at the official price. When considering replenishment of its holdings of the currencies of members, therefore, the Fund would have to select, from among the currencies that it would replenish consistently with the provisions of the Articles as described in the preceding paragraph, the currencies of those members that declared their willingness to contribute to the trust fund. The contribution would involve the grant of an amount of currency determined by the realized profit, or the grant of the notional profit if a member decided not to sell the gold in the market, or the sale to the Fund as trustee of the trust fund of an amount of gold equal to the amount that the member bought from the Fund, with the understanding that the gold would be sold in the market and the member paid the price at which it bought the gold.

There are several ways in which the willingness of members to contribute to the trust fund could be made explicit. There would be understandings with these members, but, as has been pointed out already, the arrangements could not involve obligations on their part.

The Fund would have to adopt a policy with regard to sales of gold under Article VII, Section 2 that would deal with the following topics:

(a) The amounts and timing of gold sales by the Fund. It will be necessary to decide when and in what amounts the Fund will be selling gold for these purposes. Obviously, this question will have to be decided in the light of (a) the Fund's total liquidity position and more particularly the amounts of its holdings of currencies and the likely use of currencies in the Fund's operations and transactions; and (b) the estimated needs of the trust fund for resources which will, of course, depend on many factors, including the size and distribution of payments imbalances, the members eligible for assistance, and the character and operations of the trust fund.

A related question to which particular attention would need to be given is the effect of the replenishment operations on the ability of other members to make repurchases with currency, because replenishment could reduce the super-gold tranche position of the members to which gold is sold. One way in which this difficulty could be alleviated would be through the adaptation of the Fund's policy on the currencies to be used in purchases. It might be advisable to replenish only on the occasion of transactions of the Fund and to use replenished currency in those transactions.

(b) Calculation and timing of contributions. The method of determining the amount of profits on gold and the period over which the profits would be transferred to the trust fund will have to be considered. If the member decided to retain the gold, the profit should be determined forthwith on the basis of the current price in the market. If the member wished to sell the gold itself in the market, profits might have to be determined over a period of time. In those circumstances, understandings would be reached on the times or circumstances of sale, and profits would be transferred when realized.

If the contribution of a member were to involve the sale to the trust fund at SDR 35 per fine ounce of gold received from the Fund, this would endow the trust fund with an asset that it could use to obtain currencies for its operations. (It should be understood that references to actions by the trust fund mean actions by the Fund acting as trustee on behalf of the trust fund.) One possibility that could be considered would be for the trust fund to borrow temporarily against gold it holds with the loans to be repaid from the proceeds of gold sales in the market after payment of the purchase price to the contributor. The terms of the loan would have to be established, such as the rate of interest, the currency in which the loans would be made and repaid, and the period for which they would be outstanding. The Fund's responsibility under any loan agreements would be limited to its role as trustee. The property and assets held in the General Account would not be subject to claims under the loan agreements.

Repayment of the loans would be related to the timing and amounts of sales of gold by the trust fund. In order to prevent undue pressure on the gold market, such sales would need to be gradual.[1/] ~~and coordinated, to the extent possible, with any gold sales that members might make either of gold received from the Fund or of other gold held by them.~~

(c) Currencies of contribution. The question of the currencies in which contributions should be made would not present problems if contributions were made in freely usable currencies and if the trust account were authorized to convert the currencies held by it, either through the market or under arrangements with central banks, into the currencies needed for its operations. It would be convenient, however, if contributions in currency and payments by the trust fund were made in one currency, e.g., the U.S. dollar.

(d) Status of contributions. In view of the origin of contributions associated with sales of gold by the Fund, contributors would forgo any claim to the amounts thus contributed, or any part thereof, in any liquidation of the trust fund. In this respect the treatment of these contributions could be different from the treatment of other contributions. The recipients of gold would be expected to declare that they would make irrevocable transfers to the trust fund of the contributed profits (including profits from sales of gold transferred to the trust fund) in accordance with provisions to this effect in the decision establishing the trust fund.

If the trust fund was to be financed substantially by sales of gold, it might be both advisable and convenient to sell initially, and as conditions in the market permitted, a quantity of gold that would generate resources for

1/ Various approaches to market sales can be envisaged. If it were considered useful at this stage, they could be briefly described in a separate paper.

the trust fund equivalent to about SDR [1] billion over a period of a few months. Additional sales could then be made during the period in which the trust fund would be in operation, if necessary, in a total amount not in excess of an additional SDR [1 - $1^{1}/2$] billion.

~~As already noted, sales of gold in the market either by members or the trust fund raise the question of the need to work out coordinated arrangements so as to avoid the offer of quantities that would sharply depress the price and the profit that would be realized. A policy on coordinated sales in the market would need to be worked out and clear understandings reached before any gold sales for replenishment were made by the Fund.~~

For the reasons already mentioned, it is not possible to suggest, at this stage, the replenishment transactions that the Fund would have to undertake in order to generate these amounts of financing for the trust fund. The transactions and calculations described in the following paragraphs are offered only by way of illustration.

On ~~June 27~~ July 25, 1975, there were ~~22~~ 23 members that had super gold tranche positions in the Fund and currencies then in use in ~~purchases~~ transactions by other members. The total of the super-gold tranche positions of these members amounted to SDR ~~2,471~~ 2,512 million and the Fund's holdings of their currencies amounted to about SDR ~~9,411~~ 9,872 million. If it were decided to replenish these holdings by the equivalent of SDR 875 million, with about half of the replenishment taking place in the first six months from the date of the establishment of the trust fund, the Fund would need to sell 25 million ounces of gold or something approaching one-sixth of the Fund's gold holdings. These sales of gold could be made in proportion to the super-gold tranche positions of those members that were willing to contribute to the trust fund the realized or notional profits at the time of replenishment.

The notional profit might be calculated as the difference between the price of SDR 35 per fine ounce and the average of the daily prices for gold in the major gold markets for say the thirty days preceding the sale by the Fund to the member, less a margin ~~[10 percent]~~. The margin of say 10 percent would be designed, among other things, to take some account of the ~~reduction in remuneration receivable on super gold tranche positions as a consequence of replenishment, the~~ costs to the member of selling gold in the market, and the uncertainties about day-to-day movements in the market price of gold.[1/] If the notional profit calculated in this manner were, say SDR 85 per fine ounce, contributions to the trust fund on the basis outlined above would total SDR 2,125 million.

~~A similar, although perhaps somewhat lower, deduction would be warranted in cases of realized profits to take some account of the reduction in remuneration receivable on super gold tranche positions and the costs to the member of selling gold in the market.~~

The hypothetical example given in the preceding paragraphs suggests that there might be considerable difference of opinion as to how the notional profit should be calculated. For example, if any member were to sell in the market gold received from the Fund, other members might tend to feel that their notional profit should not be higher than the first member's realized profit. Possible difficulties in reaching agreement on the amounts of notional profits, ~~even under a general policy on gold sales in the market,~~ suggests that it would be operationally advantageous for members purchasing gold from the Fund in replenishment operations to sell the gold to the trust fund at the price they purchased it from the Fund. Such sales would be on ~~with~~ the understanding

---

1/ As a member which realized a profit from the sale of gold would retain the equivalent of SDR 35 per fine ounce in currency that presumably would be invested, and as the decision to sell or retain gold and contribute notional profits would be for the member to make, there would not be a case for including in the margin a specific allowance for the reduction in remuneration paid on super gold tranche positions.

that the trust fund would pay for the gold transferred to it out of the proceeds of sales in the market. ~~it it would pay interest on the outstanding amount of its indebtedness. The claim against the trust fund might be made transferable with the agreement of the Fund as trustee.~~ Pending such payment the member would have a claim on the trust fund for currency equivalent to SDR 35 per fine ounce of gold. It would seem reasonable for the trust fund to pay interest on such a claim at the same rate as the Fund's rate of remuneration and for the claim to be transferable with the agreement of the Fund as trustee.

If the members receiving gold from the Fund were to make contributions either in their own currencies (subject to later conversion if necessary) or in U.S. dollars, within a fixed period after the receipt of gold from the Fund, the amount of contributions to the trust fund and the timing of their receipt would be known and the operations of the trust fund would thereby be facilitated. Also, there would be no immediate and direct impact on the gold market if the members were to retain the gold or were to sell it very gradually in the market. However, members may find it more convenient to make contributions by selling the gold to the trust fund which, as mentioned above, could then either borrow against the gold or sell it. This course of action would obviate the need for the calculations illustrated above that would be needed in order to determine notional profits and would also overcome possible budgetary and other internal problems that members might encounter.

3. Income from investment

As it is highly unlikely that, in the operation of the trust fund, receipts and disbursements will be matched precisely either in amounts or in timing, it would seem to be desirable to arrange for the investment in government securities of any temporarily idle funds. This might be done under arrangements between the Fund and the central banks or other banks in which the trust resources are kept.

## V. Establishment and Administration of Trust Fund

### 1. Authority of Fund to administer the trust fund

It has been recommended by the Executive Directors that, in view of the character of the assistance to be provided by the trust fund, it should be "administered" by the Fund. The administration, i.e., management, of the resources of the trust fund by the Fund could take different forms depending on the arrangements under which the trust fund was established. These arrangements are examined in subsequent paragraphs of this memorandum.

The question whether the Fund has the power to administer financial resources, other than those it owns under its Articles, has been discussed in certain other staff memoranda, in particular in SM/75/7 of January 7, 1975 and SM/75/38 of February 7, 1975. The conclusion was that the Fund has authority under its present Articles of Agreement to administer financial resources other than its own provided that (i) these resources are kept separate from "assets and property" that the Fund owns fully under its Articles, (ii) the administration of the resources does not involve "operations on the account of the Fund" in the sense of Article V, Section 2, and (iii) the resources are to be used for purposes consistent with the Fund's purposes. This conclusion is reflected in Article V, Section 2(b) of the Draft Amendment of the Articles of Agreement which is intended to give explicit expression to the position under the present Articles and not to create new powers for the Fund. That provision in the Draft Amendment reads as follows:

(b) If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund. Services under this subsection shall not impose any obligation on a member without its consent.

As the purpose of the trust fund would be to provide balance of payments assistance to the most seriously affected members, it follows that the Fund would have the legal power to administer a trust fund of the kind envisaged. Appropriate arrangements to ensure that the resources of the trust fund would not be intermingled in any way with the assets and property fully owned by the Fund and that the operations involving these special resources would not be "operations on the account of the Fund" are discussed later in this memorandum.

2. Techniques of establishing the trust fund

There are various ways in which a trust fund could be established. These techniques, which are discussed more extensively in SM/75/38, on the "Legal Aspects of the Proposed Subsidy Account", are summarized below:

(a) The members expected to make contributions could enter into an agreement among themselves setting up the trust fund as a separate international entity with its own juridical personality. The agreement setting up the trust fund could provide that the new entity would be administered by the Fund under arrangements to be worked out between the Fund and the contributing members or the trust fund. The resources of the trust fund would be owned by the new entity, but would be administered by the Fund on behalf of the new entity. It would be possible under this technique to have substantive decisions taken by the new entity in accordance with rules different from those applicable for the adoption of decisions in the Fund. The decisions taken by the Fund in the administration of the trust fund would be according to its own system of voting. A similar situation prevails in connection with the GAB.

(b) The contributors, acting jointly under an agreement among them, could set up a special account with one or more of the Fund's depositories and give the Fund authority to administer that account on behalf of the contributors. The depository or depositories would be informed by the contributors of the Fund's authority to administer the account.

(c) A third technique could be the establishment of the trust fund under a decision of the Fund. Under this arrangement, contributions, whether they were in currency or in gold, would be deposited in an account or in accounts opened in the name of the Fund as trustee. The Fund would become the legal, but not the beneficial, owner of the resources of the trust fund and, therefore, would not be able to put these resources to the same uses as the resources it owned fully under the Articles. As the arrangement would be in the nature of a trust, the resources of the trust fund would have to be kept separate from the property and assets that the Fund owns legally and beneficially.

Each of the three techniques discussed above has advantages and disadvantages. The establishment of a separate international entity would provide for the complete separation of the trust fund from the Fund but would involve all the problems associated with the establishment of a new organization. In view of the limited purpose of the trust fund, the urgency of its establishment, and its temporary existence, it would seem to be disadvantageous to go through the procedures necessary to create a new international agency, although this course was chosen in connection with the Solidarity Fund. It seems particularly unnecessary to follow this procedure at a time when amendments of the Articles are under consideration that could make it possible to deal with the problems for which the trust fund is being considered.

The second technique also has the advantage of ensuring that the special resources would be administered by the Fund without the Fund's ownership of the account. A disadvantage of the technique is that the account would be established by agreement among the contributors and that the depository would be on formal notice that the Fund had a specialized function to perform in connection with that account. This notice might lead the depository to require special indemnities.

The third technique would provide a simple and expeditious way for the administration by the Fund of the special resources for the purposes for which they would be made available. The trust fund would be established under a decision of the Fund and would not require action by the contributors other than their adherence to the decision by action under it. The precedents for such a decision are the General Arrangements to Borrow and the draft decision on the Subsidy Account. It would not be necessary for the contributors to enter into an arrangement with a depository with regard to the administration of the resources of the trust fund. By transferring legal ownership of these resources to the Fund, the third technique would make it possible for the Fund to manage these resources in accordance with the same procedures as it follows for the management of its present accounts, while at the same time ensuring separation of these resources from the property and assets that the Fund owns fully and can use in the operations and transactions on the account of the Fund.

3. Organization and management of trust fund

The arrangements for the establishment of a trust fund in accordance with the third technique would be similar to those proposed for the establishment of the Subsidy Account. The resources of the trust fund would be kept in one or more special trust accounts in the name of the Fund, preferably with one or more of the Fund's depositories, in accordance with a decision of the Executive Directors. Implementing arrangements would be worked out with the depositories and the contributors.

The decision of the Fund would constitute the trust instrument and would deal with all essential aspects of the establishment and operation of the trust fund. The Fund would undertake to administer the resources of the trust fund for the purposes for which they were made available. Contributions would be made for use in accordance with the purposes of the trust fund as spelled out in the decision, and therefore the contributors would need to have protection against changes by the Fund in the decision.

The decision establishing the trust fund would prescribe the period during which it would be in operation. As its purpose would be to provide assistance to the most seriously affected countries in the next few years, it would seem that the period in which the trust fund would initiate assistance could be limited, at least at the outset, to say 3 {5} years. (The trust fund would remain in existence for a longer period in order to receive repayments of loans and to wind up all other aspects of its operations.) Provision might be made, however, for an extension or extensions of the period of operation by a decision of the Fund after a review, which would include consideration of the continued need for the trust fund and the prospects for obtaining necessary resources. Alternatively, the future of the trust fund might be settled as part of the second amendment of the Articles. For instance, provision might be made to merge the trust fund in the Special Operations Account that might be established under the amended Articles.

The Fund's decision would also contain provisions dealing with the liquidation of the trust fund, as well as the disposition of its resources before liquidation if these resources could not be used for the purposes for which they were made available. Provision should be made, in the latter event, for the return of assets to contributors in respect of contributions other than those associated with sales of gold by the Fund. It should also be provided that, after liquidation, any resources that represent profits from sales of the Fund's gold or income from operations or the investment of idle funds could be employed for other purposes consistent with the Fund's purposes. All of these provisions could be made subject to any provisions dealing with the trust fund that might be incorporated in the Articles.

Actions pertaining to the trust fund and its resources would be taken by the Fund under the same rules and procedures as apply for the purpose of the General Account. In other words, the administration of the resources in the trust account would be carried out by the Executive Directors, the Managing Director, and the staff in the same manner as they administer the resources of the Fund in the General Account.

The decision would declare that the property and assets of the Fund held in other accounts could not be used to discharge liabilities or to meet losses arising out of the administration of the trust fund, and that the resources of the trust fund could not be used to discharge liabilities or to meet losses incurred by the Fund in the administration of other accounts.

The decision would also make it clear that the expenses incurred in the administration of the trust fund would be met from the resources of the trust fund. It would be necessary to decide whether this principle would apply to the administrative costs incurred by the Fund in the management of the trust fund. The Fund may wish to charge a small fee to cover the costs of administering the trust fund (other than the expenses that would be charged to the resources of the trust fund).

Table 1. IMF Member Countries with a 1972 Per Capita Income of Below US$250

| Countries | GNP Per Capita 1972 (US$) | IMF Quota (In millions of SDRs) | Proportionate Share of Quota 1/ (In Per Cent) |
|---|---|---|---|
| Rwanda | 60 | 19.0 | 0.6 |
| Bangladesh | 70 | 125.0 | 3.9 |
| Burundi | 70 | 19.0 | 0.6 |
| Upper Volta | 70 | 13.0 | 0.4 |
| Mali | 80 | 22.0 | 0.7 |
| Somalia | 80 | 19.0 | 0.6 |
| Afghanistan | 80 | 37.0 | 1.1 |
| Nepal | 80 | 12.4 | 0.4 |
| Ethiopia | 80 | 27.0 | 0.8 |
| Chad | 80 | 13.0 | 0.4 |
| Guinea | 90 | 24.0 | 0.7 |
| Burma | 90 | 60.0 | 1.8 |
| Yemen, A.R. | 90 | 10.0 | 0.3 |
| Lesotho | 90 | 5.0 | 0.2 |
| Indonesia | 90 | 260.0 | 8.0 |
| Niger | 90 | 13.0 | 0.4 |
| Malawi | 100 | 15.0 | 0.5 |
| Yemen, P.D.R. | 100 | 29.0 | 0.9 |
| Zaire | 100 | 113.0 | 3.5 |
| Sri Lanka | 110 | 98.0 | 3.0 |
| Dahomey | 110 | 13.0 | 0.4 |
| India | 110 | 940.0 | 29.0 |
| Tanzania | 120 | 42.0 | 1.3 |
| Sudan | 120 | 72.0 | 2.2 |
| Khmer Republic | 120 | 25.0 | 0.8 |
| Haiti | 130 | 19.0 | 0.6 |
| Laos | 130 | 13.0 | 0.4 |
| Pakistan | 130 | 235.0 | 7.2 |
| Nigeria | 130 | 135.0 | 4.2 |
| Malagasy Republic | 140 | 26.0 | 0.8 |
| Gambia, The | 140 | 7.0 | 0.2 |
| Western Samoa | 150 | 2.0 | 0.1 |
| Uganda | 150 | 40.0 | 1.2 |
| Central African Rep. | 160 | 13.0 | 0.4 |
| Togo | 160 | 15.0 | 0.5 |
| Kenya | 170 | 48.0 | 1.5 |
| Vietnam, Republic of | 170 | 62.0 | 1.9 |

(Cont'd.) IMF Member Countries with a
1972 Per Capita Income of Below US$250

| Countries | GNP Per Capita 1972 (US$) | IMF Quota (In millions of SDRs) | Proportionate Share of Quota 1/ (In Per Cent) |
|---|---|---|---|
| Mauritania | 180 | 13.0 | 0.4 |
| Sierra Leone | 190 | 25.0 | 0.8 |
| Bolivia | 200 | 37.0 | 1.1 |
| Cameroon | 200 | 35.0 | 1.1 |
| Thailand | 220 | 134.0 | 4.1 |
| Philippines | 220 | 155.0 | 4.8 |
| Equatorial Guinea | 240 | 8.0 | 0.2 |
| Botswana | 240 | 5.0 | 0.2 |
| Egypt | 240 | 188.0 | 5.8 |
| Total: | | 3,240.4 | 100.0 |

Source: World Bank Atlas.
1/ Each country's quota as a per cent of the total of this group of countries.

# Record Removal Notice

The World Bank Group Archives & Records Management

| | |
|---|---|
| **File Title**<br>VPD - Director, Development Policy - McNamara File - August 1975 - Folder 6 | **Barcode No.**<br>30124208 |
| **Document Date**<br>July 31, 1975 | **Document Type**<br>Development Committee Document |
| **Correspondents / Participants** | |
| **Subject / Title**<br>Working Group on Access to Capital Markets, Remarks of the Executive Secretary at the First Meeting, July 31-August 1, 1975 | |
| **Exception(s)**<br>Information Provided by Member Countries or Third Parties in Confidence | |
| **Additional Comments** | The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website. |

| **Withdrawn by** | **Date** |
|---|---|
| Vlada Alekankina | July 10, 2012 |

820/6/1

IBRD/IDA WBG 820 ARCHIVES

Mr. Robert S. McNamara, President August 1, 1975

E. Stern, Director, Development Policy

1. I would urge again that we resist the compulsion to write letters to the editor every time a paper perpetrates a calumny. The most recent letter by Duke Merriam appeared a full week after the original article, by which time at most a dozen people remembered the specifics. Now they are reminded again for a while.

2. But if we must respond, we should do so accurately. Unfortunately, the per capita GNP figures used are in 1973 prices. This is before the oil price hike and consequently substantially understates the GNP of most of these countries. The 1974 estimated per capita GNP, in 1974 prices, is as follows:

| | Figures in Post (GNP in 1973 prices) | Correct Figures (1974 GNP in 1974 prices) |
|---|---|---|
| Algeria | 470 | 760* |
| Ecuador | 500 | 500 |
| Gabon | 1500* | 2000 |
| Indonesia | 125 | 190* |
| Iran | 830 | 1360* |
| Nigeria | 170 | 240* |

*Data underlying aggregates in R-802.

Since one of the points of the articles was that we bend the facts to OPEC's advantage, this mistake obviously could have unfortunate consequences. It apparently came about through the belief that the best place to obtain current GNP data is the budget office, instead of the Department responsible for the Bank's atlas.

EStern/ls

bcc: Messrs. Chenery, Holsen