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ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4545S

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McNamara Papers

Chronological files, 1968 (June)

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Chron
487/2/84

June 27, 1968

Mr. Larry Baxter, A.S.C.A.P.
Director-Aeronautica
385 Main Street
East Haven, Connecticut 06512

Dear Mr. Baxter:

Since Mr. McNamara receives so many requests similar to yours, it would be impossible for him to fulfill them. Therefore, he has asked me to return the commemorative envelopes to you.

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. McNamara

487/2/83

June 26, 1968

TO: Ambassador Ackley

AmEmbassy Rome

Margaret and I will be in Rome overnight on Friday, July 5. We hope the Ackleys can join us for dinner for four that evening.

Robert S. McNamara

487/2/81

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

June 24, 1968

MEMORANDUM FOR THE EXECUTIVE DIRECTORS

SUBJECT: IDA Policies

A meeting of the Executive Directors, sitting as the Financial Policy Committee, has been scheduled tentatively for July 23 for the purpose of undertaking a general review of IDA policies. There are a number of questions which I am sure the Executive Directors will desire to consider in this connection, including the following:

1. How should the IDA credits chargeable against the Second Replenishment be distributed geographically?

   This question involves the whole issue of what criteria should be applied for the distribution of IDA funds, and I attach hereto a Draft Discussion Paper on this subject on which I should appreciate receiving the initial reaction of Executive Directors before it is put in final form.

2. What should be the terms of IDA credits: maturities, interest rates and service charges, including the question of whether these should be uniform or varied for different countries and/or types of projects?

   Also attached hereto is a Draft Discussion Paper on this subject on which I should welcome initial reactions.

3. To what extent should IDA seek to control the "counterpart funds" which accumulate in local currency in the hands of borrowing governments as a result of relending procedures?

   Attached hereto is a discussion of this subject on which I should welcome initial reactions.

4. To what extent should credits be used to finance local currency expenditures?

   This is an issue which is common to the operations of IDA and the Bank, and the existing policy established by action of the Executive Directors in July 1964 refers equally to IDA and the Bank. A discussion of the general policy on this matter has been scheduled for a meeting of the Executive Directors on August 13, and I would suggest that consideration of this subject in relation to IDA operations be deferred until that time.

5. Should IDA credits be used solely for "project" financing or should "program" credits be considered in selected cases?

   This again is a policy question common to IDA and the Bank, although there may be grounds for feeling that IDA, in the light of the sources of its funds and in the light of the somewhat different spectrum of developing countries with which it deals, might pursue a somewhat more flexible policy in this matter than the Bank. In any case, I would see advantage in discussing this policy in relation both to IDA and Bank operations, and would suggest that this policy question be scheduled for a future meeting, which in the light of the pressure of work, might have to come after the Annual Meeting. No "program" loans or credits will be presented to the Board for approval in advance of this meeting.

6. What should be the rate of commitment of the funds received under the Second Replenishment?

   A paper containing my recommendations on this subject will be distributed to the Executive Directors prior to the Board meeting.

With respect to the Draft Discussion Papers relating to Items 1, 2 and 3 above, I propose to designate senior members of the staff to get in touch with individual Executive Directors during the next ten days for the purpose of obtaining their initial reactions. I would plan to review the papers in the light of these preliminary comments, and to circulate them once more by July 16 for consideration by the Financial Policy Committee on July 23.

In regard to Item 1, I should like to recall that the question of the criteria for the distribution of IDA credits was the subject of a paper on "IDA Lending Policy"[1] which was submitted by the President to the Executive Directors in November 1963, and was discussed by them at meetings of the Financial Policy Committee held in August 1964. This paper has been employed for guidance in IDA operations since that time, and I commend it to the attention of the Executive Directors in connection with our forthcoming discussion. In addition, the attached Draft Discussion Paper on "Criteria for the Distribution of IDA Funds" reviews the experience which IDA has had in operating under these criteria and addresses the question of whether any more specific guidelines might be established for the distribution of IDA credits in the future. In particular, the paper considers whether it would be feasible to establish some sort of advance country allocation with respect to the distribution of IDA credits, either by individual countries or by broad geographical areas; it comes to a negative conclusion.

Even if this conclusion is accepted, I would welcome an exchange of views with the Executive Directors regarding the relative weight which should be attached to the different lending criteria outlined in the paper, and their

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1/ IDA/SecM63-42 Revised

comments as to how far the results of IDA operations through June 30, 1968 have conformed to what they would regard as sound administration of IDA's resources. I hope that we may plan on similar reviews in the Financial Policy Committee at annual intervals in the future, perhaps each summer following the conclusion of the fiscal year's operations and prior to the following Annual Meeting.

There remains one specific point on which I should like to comment, namely, the widespread feeling that India and Pakistan have received a disproportionate amount of the IDA credits which have been considered thus far. The shares of India and Pakistan in total IDA lending up to the end of June 30, 1967 were 53 percent and 19 percent, respectively. In the lending program for fiscal 1968, including those credits which were presented to the Executive Directors before June 30, 1968 "subject to replenishment", I took steps - as explained to the Executive Directors at their meeting on June 18, 1968 - to reduce these shares to 45 percent and 16 percent, respectively, and as I stated at that time, I would regard these shares as a transition toward even lower allocations to these two countries in the future. In the case of IDA lending to India, I have sympathy with the general proposition that no single country, however large its population and great its needs, should receive as much as half of the assistance forthcoming from an international institution charged with a broad international mission. Similar considerations apply to the case of Pakistan. Furthermore, in the past, many countries which would have been promising candidates for IDA assistance either had not yet come into membership in the institution or had not yet established standards of economic performance and of project preparation which justified a substantial volume of IDA credits. Conditions are changing rapidly, however. The membership of IDA has increased by 22 in the last five years, with most of the new members being poor countries which are particularly deserving of IDA assistance. Also, great progress has been made in many of the IDA member countries in improving economic performance and in formulating development programs and projects which can form the basis for IDA credits. In these circumstances it is inevitable that we should witness a wider geographical distribution of IDA credits, and without being able to justify any precise figures, on the basis of an economic formula, I consider that it would be desirable to aim at reducing the shares of India and Pakistan in total IDA credits during the remaining period of the Second Replenishment to something like 40 percent and 12-1/2 percent, respectively. In view of the rising level of IDA lending - assuming of course that the proposed agreement on the Replenishment is ratified - the establishment of these limits would leave room for an increased absolute volume of credits to India and Pakistan, while leaving IDA the capacity to meet, on a substantially ascending scale, the needs of other developing countries.

Robert S. McNamara

Robert S. McNamara

Draft Discussion Paper

Criteria for the Distribution of IDA Funds

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

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

a) lack of creditworthiness,
b) economic performance,
c) ability to present projects offering promising investment opportunities, and
d) relative stage of economic development (poverty).

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

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

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

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

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

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

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

1/ See Table II which illustrates the blending process.

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

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

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

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

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

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

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

a) making stricter judgments on creditworthiness (or the lack thereof);

b) insisting on higher standards of economic performance;

c) setting higher standards for the economic return on IDA-financed projects, or reducing the categories of such projects which IDA would be prepared to consider;

and

d) lowering the level of per capita income which would qualify countries for IDA assistance.

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

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

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

a) a country just on the margin of lack of creditworthiness (very hard blend countries) ought not to receive as much IDA assistance as a straight IDA country;

b) a country only barely meeting performance tests ought not to receive as much as a country with an outstanding record of devotion to economic development;

c) a country presenting projects with very high rates of return ought to attract more assistance than one with only marginal investment opportunities; or

d) a very poor country should receive more than a country at or above the $250 per capita level.

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

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

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

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

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

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

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

a) IDA should continue to "slow down" in countries whose per capita receipts from IDA reach relatively very high figures, and

b) in cases where otherwise qualified countries fail to meet IDA's standards because of inadequate economic performance or because of their inability to produce acceptable projects, IDA should make special efforts to assist these countries in improving their economic performance and in identifying and preparing projects acceptable for IDA financing.

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

Attachments.

June 24, 1968.

TABLE I

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

AREA	Country	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 1/	Cancellations and Refundings 1960-1968	Total 1/ 1960/61-1967/68	Percent of Total
ASIA												
	Afghanistan					3.5				-	3.5	0.2
	Ceylon								2.0	-	2.0	0.1
	China		15.3							2.2	13.1	0.7
	India	60.0	62.0	178.0	90.0	95.0	191.0	215.0	125.0	3.6	1,012.4	51.4
	Korea			14.0					11.0	-	25.0	1.3
	Pakistan		21.0	11.5	146.5	90.8	57.2	27.8	46.0	24.8	376.0	19.1
	Sub-total	60.0	98.3	203.5	236.5	189.3	248.2	242.8	184.0	30.6	1,432.0 2/	72.8
AFRICA												
	Botswana					3.6				-	3.6	0.2
	Burundi						1.1			-	1.1	0.1
	Cameroon							11.0	.6	-	11.6	0.6
	Ethiopia			13.5			7.2		7.7	-	28.4	1.4
	Ghana								10.0	-	10.0	0.5
	Kenya					10.3		15.9	12.8	-	39.0	2.0
	Lesotho						4.1			-	4.1	0.2
	Malagasy Republic							10.0		-	10.0	0.5
	Malawi							6.8	21.2	.5	27.5	1.4
	Mali							9.1		-	9.1	0.5
	Mauritania					6.7				-	6.7	0.3
	Niger				1.5					-	1.5	0.1
	Nigeria					35.5				-	35.5	1.8
	Senegal							9.0		-	9.0	0.5
	Somalia					6.2			2.3	-	8.5	0.4
	Swaziland		2.8							-	2.8	0.1
	Tanzania				18.6		5.0		3.0	-	26.6	1.4
	Uganda							10.0	8.4	-	18.4	0.9
	Sub-total		2.8	13.5	20.1	62.3	17.4	71.8	66.0	.5	253.4 2/	12.9
WESTERN HEMISPHERE												
	Bolivia					15.0		2.0		-	17.0	0.9
	Chile	19.0								-	19.0	1.0
	Colombia		19.5							-	19.5	1.0
	Costa Rica		5.5							1.0	4.6	0.2
	Ecuador				8.0				5.1	-	13.1	0.7
	El Salvador			8.0						-	8.0	0.4
	Haiti			.4						-	.3	-
	Honduras	9.0				3.5			4.0	.6	15.9	0.8
	Nicaragua			3.0						-	3.0	0.2
	Paraguay		6.0		3.6		7.5			-	17.1	0.9
	Sub-total	28.0	31.0	11.4	11.6	18.5	7.5	2.0	9.1	1.6	117.5 2/	6.1
EUROPE												
	Turkey			26.7		39.0		15.0		.2	80.5	4.0
MIDDLE EAST AND NORTH AFRICA												
	Jordan		2.0		6.5			3.0		1.5	10.0	0.5
	Morocco						11.0			-	11.0	0.6
	Sudan	13.0							8.5	-	21.5	1.1
	Syrian Arab Republic				8.5					-	8.5	0.4
	Tunisia			5.0				19.0	8.5	.1	32.4	1.6
	Sub-total	13.0	2.0	5.0	15.0		11.0	22.0	17.0	1.6	83.4 2/	4.2
	GRAND TOTAL	101.0	134.1	260.1	283.2	309.1	284.1	353.6	276.1	34.5	1,966.8 2/	100.0

1/ Figures for 1967/68 & 1960/61-67/68 include all credits forwarded to the Executive Directors by June 30, 1968, including those credits "subject to replenishment" viz. India, $125 million; Pakistan, $36 million; and Tunisia, $8.5 million.
2/ Totals and sub-totals may not agree due to rounding.

June 24, 1968

TABLE II

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

	IDA COUNTRIES	Credits 1/	BLEND COUNTRIES	Credits 1/	Loans 2/	BANK COUNTRIES	Loans 2/	NO LENDING
GNP per capita $75 or less	Malawi	27.5	Ethiopia	28.4	45.7	Burma	13.8	Upper Volta
	Burundi	1.1	Tanzania	26.6	22.2 3/			Rwanda
	Somalia	8.5						Dahomey
	Mali	9.1						Nepal
	Afghanistan	3.5						Laos
	Niger	1.5						Congo, Dem. Republic
	Haiti	.3						Chad
								Gambia
								Central African Republic
GNP per capita: $75 - $125			Nigeria	35.5	157.5	Congo(B)	30.0	Togo
			Malagasy Rep.	10.0	4.8	Thailand	187.4	Viet-Nam
			Pakistan	376.0	309.2			
			Kenya	39.0	21.5 3/			
			India	1,012.4	438.6			
			Sudan	21.5	74.5			
			Uganda	18.4	25.4 3/			
			Cameroon	11.6	7.0			
			Korea	25.0	5.0			
GNP per capita: $125 - $175	Mauritania	6.7	Ceylon	2.0	18.1	Sierra Leone	3.8	United Arab Republic
	Bolivia	17.0	Senegal	9.0	4.0	Philippines	128.1	
						Liberia	4.3	
GNP per capita: $175 - $250	Syria	8.5	Morocco	11.0	60.0	Zambia	21.4 4/	Saudi Arabia
	Jordan	10.0	Ecuador	13.1	13.0	Ivory Coast	5.8	Dominican Republic
			Tunisia	32.4	34.0	Algeria	20.5	
			Paraguay	17.1	7.1	Iraq	23.0	
			Honduras	15.9	19.2	Brazil	291.1	
			China	13.1	104.2	Iran	140.9	
			Turkey	80.5	10.0	Gabon	13.8	
			Ghana	10.0	47.0			
			El Salvador	8.0	21.7			
GNP per capita: $250 - $500			Colombia	19.5	326.9	Malaysia	172.7	Lebanon
			Nicaragua	3.0	24.5	Guyana	.9	Libya
			Costa Rica	4.6	42.2	Peru	142.3	
			Chile	19.0	95.8	Guatemala	22.5	
						Mexico	581.2	
						Panama	11.2	
						Yugoslavia	270.5	
GNP per capita more than $500						Spain	188.0	Ireland
						Greece	12.5	
						Cyprus	18.1	
						Argentina	195.7	
						Israel	109.4	
						Iceland	20.0	

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

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

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

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

June 24, 1968

TABLE III

DISTRIBUTION OF IDA CREDITS

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

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

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

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

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

June 24, 1968

Draft Discussion Paper

IDA Lending Terms

1. At present IDA credits uniformly provide for a life of 50 years, a period of grace of 10 years and amortization in the 11th to 20th years at 1% per annum, and in the 21st to 50th years at 3% per annum. Credits are interest-free, and there is a service charge of 3/4 of 1% payable on amounts disbursed and outstanding. These are lenient terms. Discounted at, say, 8% per annum, the cost to the borrower is roughly one-fifth of the amount received.

2. These terms were designed to meet the needs of the poorest countries receiving IDA funds and essentially they were based on what might be called "country considerations". It would be possible to approach the question of IDA lending terms from a different point of view, and to fix them in relation to the kind of project which is being financed. Other international lending institutions have made this kind of a differentiation, loans for "social" purposes, such as education, health or low-cost housing, sometimes being at lower interest rates and on longer terms than those applied to loans for "economic" purposes. The Inter-American Development Bank, for example, uses part of its Social Progress Trust Fund and Fund for Special Operations in making loans for "social" projects on easier terms than those applied to "economic" projects. (For details see Annex I.) In IDA, however, the terms to the borrowing governments have been uniform, with project considerations being introduced only in the terms of relending operations. (See Draft Discussion Paper on "Counterpart Funds".)

3. The idea of varying the term according to the project has a superficial attraction in that "social" projects are generally not revenue-earning and may indeed involve substantial current expenditure, whereas many entities carrying out "economic" projects are revenue-earning and, therefore, have the financial capacity to bear harder terms, at least in terms of payment of loan service in local currency. However, the World Bank Group has always advocated that governments formulate their investment programs in terms of the fundamental economic benefits to be achieved rather than on the much narrower basis of direct financial returns. And if the investment of capital is to achieve its maximum effectiveness, investment decisions, whether for economic or social projects, should be based on the relationship between costs and benefits, and costs should include cost of capital generally rather than the cost of any specific financing. It is difficult for governments to be objective in their investment decisions if they are offered capital for one purpose on one set of conditions and for another purpose on another set of conditions. For this reason differentiation of IDA terms on account of project considerations is not recommended.

4. The countries which have received IDA funds in the past have all had limited creditworthiness for loans on conventional terms and have been relatively poor. Among these countries, however, there have been great differences both in their prospective ability to service external debt and in their poverty.

Account has been taken of these differences by a process known as "blending" in which countries in a somewhat better position have received funds both from the Bank and IDA in varying proportions.

5. In determining for any country the appropriate blend of Bank and IDA funds, the attempt is made not merely to reflect present conditions, but to look ahead and take into account probable changes in the future, particularly in the country's capacity to service external debt. In the past, IDA credits have been made for 50 years. Developments over a period as long as this cannot be foreseen with any accuracy, and forecasts even 15 or 20 years ahead are fraught with uncertainty. Some of the countries which have had IDA funds may develop to such an extent that they could have been asked to pay conventional terms had events been fully foreseen. But other countries which receive IDA funds may make less progress and may be little better off in 15 or 20 years' time than they are now.

6. The problem thus has two aspects: there is a need for differentiation between countries according to judgements about each country's prospective economic position, and there is the need for flexibility to deal with unforeseen changes in a country's economic position over a long period. Four ways of dealing with this problem are possible. The first is the one which has been followed thus far: differentiation has been dealt with by varying the blend of Bank and IDA funds, and flexibility has rested on the expectation that the World Bank Group will have a continuing relationship with its members, so that if a member's economic position improves, the blend can be made harder and the IDA element in it will finally disappear, or if the country's position weakens, the Bank will cease to lend and all World Bank Group assistance will take the form of IDA credits. One weakness of this system is that the degree of flexibility is limited, particularly in dealing with a country whose position improves rapidly.

7. The second possibility would be to make credits on much the present basis, but with the important difference that after, say, 20 years, i.e., when the credit had been repaid to the extent of 10%, IDA would have the right, exercisable at its discretion, to require repayments to be accelerated, provided that subsequent annual amortization payments could not exceed, say, 9% of the original amount of the credit. If, after 20 years, IDA hardened the terms to the maximum extent, the credit would be repaid in full at the end of 30 years from the time the credit was granted. IDA would, of course, not be obliged to harden to this extent and would decide on the degree of hardening, or not to harden at all, according to its judgement at the time of the situation of the country in question. The terms would not, by themselves, deal with the problem of differentiating between countries in accordance with present judgements of their future repayment capacity, and this aspect of the matter would, as hitherto, have to be dealt with by Bank/IDA blending.

8. The third approach would be, in a sense, the reverse of the one suggested above. The initial repayment terms for IDA credits would be hardened by providing for annual repayments after 20 years at the rate of 9% per annum, making a total term of 30 years. However, there would be a provision in the credit agreement whereby after 20 years, i.e. when the credit had been repaid to the extent of 10%, IDA would review the country's position and decide whether,

and if so to what extent, the repayment schedule covering the 21st to 30th years should be modified in the debtor's favor. This solution deals with the problem of flexibility by providing for relatively hard terms, with the possibility of their being relaxed if relaxation appears to be warranted. As in the first solution, differentiation according to the present judgements of the country's future would be dealt with by blending.

9. The fourth possibility would be to stress the need for differentiation according to present judgements on the borrowing country. This would involve abandoning the idea that all credits would be made on the same terms, and applying harder terms to countries judged to be in a better position. If such a distinction were made, countries would have to be classified in some way, if not rigidly, at least to create a strong presumption as to what terms they should receive. The greater the number of classes, the more difficult would be the classification process. Indeed, for practical reasons, two classes should be enough, especially in view of the possibility of making a further differentiation in blending IDA credits and Bank loans. To create two classes there would have to be a readily understandable and objective basis for the discrimination. It does not seem practicable to make it entirely a matter of judgement in individual cases; this would give rise to too much uncertainty and too much argument. Of the various possible bases of classification, that of per capita income seems to be the simplest and most understandable.

10. If this line of reasoning were adopted, it would be possible to envisage IDA having two sets of terms. One would be those now applied (called in this paper "standard terms") and would apply to all countries with a per capita income of below, say, around $175. For countries having a per capita income above this level, somewhat harder terms could be applied, such as a life of 30 years, including a 10-year period of grace, with principal repayments at 2% per annum during the 11th to 15th years, 4% during the 16th to 20th years, 6% per annum during the 21st to 25th years, and 8% per annum during the 26th to 30th years, with interest at 2% per annum after the ten-year grace period, and a service charge of 3/4%. Using an 8% rate of discount, the value of standard terms is 21 and the value of the terms now proposed (called in this paper "intermediate terms") would be about 40.

11. These terms, although still very lenient, might prove to be too hard in some cases. There is, however, a provision in Article V, Section 3, of IDA's Articles of Agreement which provides that IDA may "agree to a relaxation or other modification of the terms on which any of its financing shall have been provided" and resort could be had to this Article if in the event intermediate terms prove to be too severe.

12. It could be argued that two sets of terms--standard and intermediate--are unnecessary and that the hardness achieved by the introduction of intermediate terms could be achieved as well by having a somewhat harder blend of IDA funds on standard terms and Bank funds. Blending can probably achieve most of what would be achieved by the introduction of intermediate terms. There might be cases, however, in which the Bank itself was reluctant to lend because of existing heavy commitments or fears of political instability, and in such a case IDA could step in with intermediate terms.

13. Whatever lending terms are decided upon, there is one administrative simplification which could be adopted with advantage. Credit agreements now require service charge and amortization installments to be payable half yearly. The amounts are at present quite small and payments half yearly involve an unnecessary burden both on borrowers and on IDA. It is recommended that in future credit agreements, service charge and amortization be payable yearly.

June 24, 1968

Inter-American Development Bank Loan Operations

From the inception of its operations in 1961 to the end of calendar year 1967, the Inter-American Development Bank (IDB) approved loans in a total amount equivalent to U.S. $2.4 billion, of which less than 40 percent or some $900 million was at "hard" terms out of its Ordinary Capital Resources and the balance was at "soft" terms principally out of two Funds available to it for lending on concessionary terms (see attached table). The distribution among countries of "hard" and "soft" loans has been widespread. Most countries, including even high income countries such as Argentina, Mexico, and Venezuela, have received a blend of terms weighted generally on the "soft" side.

The several sources of funds available for IDB lending are kept segregated in the Bank's accounting, though they are administered by the one institution. The Ordinary Capital Resources correspond in nature to the resources of the IBRD. The other statutory resource of the IDB is the Fund for Special Operations, which is its principal source of funds for concessionary lending. The Social Progress Trust Fund is a special fund voluntarily entrusted to the IDB for administration by the U.S. Government, and it is not to be replenished. The "other resources" shown in the table refer to arrangements with non-member countries 1/ under which the IDB administers funds entrusted to it by them, generally on a concessionary basis. (Most of the "other resources" shown in the table are from Canada).

The IDB Ordinary Capital Resources consist of paid-in capital of member countries ($384 million) and callable capital (about $1.4 billion). The callable capital is intended to enable the IDB to borrow on world capital markets by constituting a guarantee for its securities. An increase of $1 billion in the callable capital has been approved and is expected to come into effect during the latter part of 1968. The funded debt of the Ordinary Capital Resources account amounted to $514 million as of December 31, 1967; outstanding loans as of the same date amounted to $417 million.

The interest rate on loans out of the IDB's Ordinary Capital Resources is fixed on the basis of the cost to the Bank of borrowings. The minimum rate on loans for most purposes was raised from 6½ percent to 7 3/4 percent per annum in December 1967.2/ There had been successive increases in the

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1/ Membership of the IDB consists of 21 countries: 19 Latin American Republics (i.e., all Latin American Republics except Cuba), Trinidad and Tobago, and the United States.

2/ Only loans to finance capital goods exports from Latin American countries were excluded from the increase; the rate on these continued at 6½ percent. The total earmarked for such financing, however, is small, amounting to a ceiling of $40 million.

minimum lending rate from the initial 5 3/4 percent in 1961 to 6 percent and 6½ percent. In addition a variable service commission is charged on portions of Ordinary Capital Resource loans extended from funds borrowed in non-member countries to offset higher costs of borrowing in such capital markets than in the U.S. The maximum service commission is now 1½ percent per annum subject to the limitation that the total rate may not exceed the cost to the Bank of such borrowing plus 1¼ percentage points.

Most maturities on Ordinary Capital Resource loans vary from 15 to 20 years including grace periods of 2½-3½ years. Such loans are repayable in the currencies loaned.

The Fund for Special Operations, like IDA, operates entirely through its subscriptions, which must be entirely paid-in. It started with $146 million, which was later increased by 50 percent, but the first major replenishment, effective in 1965, amounted to $900 million 1/, payable over a three-year period in equal annual installments. A larger, second major three-year replenishment, of $1.2 billion 2/ became effective at the end of 1967, i.e., at an annual rate of $400 million, compared to the earlier one of $300 million per year.

Loans out of the Fund for Special Operations are in effect grant-like contributions since they may be repaid in the currency of the borrower. 3/ Most maturities are in the range of 20-25 years, including a grace period of 3½-4½ years. The lending rate is 3 percent for social projects and 4 percent for economic projects, of which, however, only 3/4 of 1 percentage point is payable in the currency loaned, the balance being also payable in the currency of the borrower.

There is virtually no lending at present out of the Social Progress Trust Fund. As of December 31, 1967, a total of $501 million had been committed, out of the full amount of the Fund of $525 million. The original amount had been $394 million, and the U.S. Government made an additional contribution of $131 million in 1964. However, the first major replenishment of the Fund for Special Operations in 1965 was effected with the specific understanding that the U.S. would make no further contribution to the Social Progress Trust Fund. Loans out of the Social Progress Trust Fund also constitute a grant-like contribution since they are repayable in the currency of the borrower. Maturities have been similar to those for Fund for Special Operations Loans, but interest rates have been somewhat lower: 2 percent for loans for education, housing, and agriculture; and 3½ percent for loans for water and sewerage; in both cases including 3/4 of 1 percentage point payable in the currency loaned.

1/ Of which $750 million from the U.S.

2/ Of which $900 million from the U.S.

3/ Except for Mexico and Venezuela, which must pay both principal and interest in U.S. dollars.

Thus the major part of IDB lending is on "soft" terms. Compared to the cumulative ratio of somewhat less than 40 percent, of loans on "hard" terms to total loans, the ratio of "hard" loans was only about one-third in commitments during calendar year 1967. Furthermore, by virtue of the provisions that "soft" loans to most countries are repayable in the currency of the borrower, IDB "soft" terms are even "softer" than those of IDA. The only element in "soft" loans that must be repaid in convertible currency is the 3/4 of 1 percent component of the interest rate, which is identical with IDA's service charge. And the distribution of "soft" and "hard" loans among countries is much more widespread than in the case of IBRD/IDA operations, by virtue of the greater proportion of total resources available to the IDB for "soft" lending. Indeed, the allocation of "soft" funds is based on "special circumstances which might arise in specific countries or with regard to specific projects". 1/ Both "hard" funds (Ordinary Capital Resources) and "soft" funds (Fund for Special Operations) are loaned in all countries for economic projects in such fields as industry and mining, electric power, transport and communications, and agriculture, though "social" projects in such fields as water supply and sewerage, housing, and education are generally financed out of the "soft" resources of the Fund for Special Operations.

1/ Inter-American Development Bank, Eighth Annual Report, 1967, p.61.

June 24, 1968

INTER-AMERICAN DEVELOPMENT BANK
LOANS APPROVED SINCE INCEPTION, LESS CANCELLATIONS,
AS OF DECEMBER 31, 1967

(millions of U.S. dollar equivalents)

	Ordinary Capital Resources	Fund for Special Operations	Social Progress Trust Fund	Other Resources	Totals
Argentina	159.0	112.9	43.5	0.7	316.1
Bolivia	-	62.6	14.6	1.5	78.7
Brazil	241.7	214.4	62.1	-	518.2
Chile	90.4	88.1	35.4	8.9	222.8
Colombia	86.3	45.6	49.9	-	181.8
Costa Rica	13.1	11.5	12.6	-	37.2
Dominican Republic	6.0	10.1	10.3	-	26.4
Ecuador	9.3	22.0	27.8	1.2	60.3
El Salvador	7.0	0.2	22.0	3.0	32.2
Guatemala	11.6	19.3	14.3	-	45.2
Haiti	-	7.2	-	-	7.2
Honduras	0.5	36.4	7.6	-	44.5
Mexico	126.1	130.8	35.5	0.5	292.9
Nicaragua	13.5	22.1	13.0	-	48.6
Panama	1.5	22.7	12.9	-	37.1
Paraguay	4.7	42.1	7.8	0.7	55.3
Peru	29.6	60.7	45.3	0.5	136.1
Trinidad & Tobago	-	0.3	-	-	0.3
Uruguay	25.0	11.7	10.5	-	47.2
Venezuela	55.7	18.4	72.9	-	147.0
Regional	20.0	28.7	2.9	3.5	55.1
Totals	901.0	967.8	500.9	20.5	2,390.2

Source: Inter-American Development Bank, Eighth Annual Report, 1967.

June 24, 1968

Draft Discussion Paper

Control of "Counterpart Funds"

1. It has been generally accepted that the reason for offering concessional terms on IDA credits is to relieve the future external payments position of the borrowing country and not to subsidize the particular project being financed. Hence, when the ultimate beneficiary of an IDA credit has been a revenue-producing entity, the IDA credit with its concessional terms has been extended to the government of the country concerned, normally with the requirement that the proceeds from the credit be relent to the ultimate beneficiary on harder terms suited to the project (or the entity) being financed.[1/] The basic purpose of this relending procedure is to impose a measure of financial discipline upon the beneficiary entity, to encourage it to use the resources provided to it in an economic and efficient manner, and to reinforce the arrangements normally made requiring the beneficiary to make proper charges for its services and earn an adequate return on its assets.

2. About one-third of IDA lending has taken this form, and has yielded a reflow of "counterpart funds" in local currency to the hands of the borrowing government. Of course, if the project is carried out directly by the borrowing government, there is no relending procedure and no reflow of "counterpart funds". Also, even in some cases where the government passes on the proceeds of an IDA credit to a revenue-producing entity, it has been found appropriate to permit the government to provide these funds in the form of a contribution to the permanent capital of the entity rather than as a loan. If this procedure is employed, IDA will still require through appropriate arrangements with the beneficiary entity that the latter makes proper charges for its services and earns an adequate return on its assets, including those financed by the contribution of permanent capital. In this case no reflow of "counterpart funds" arises from capital repayments; there may be a reflow of dividends to the borrowing government, but often the borrowing government is content to leave the earnings generated by the entity to add further to its capital resources.

3. In cases where the "two step" lending and relending procedure described in paragraph 1 is employed, "counterpart funds" accrue in local currency in the hands of the government as a result of (a) the receipt by the government of interest charges exceeding the service charge on the IDA credit, and (b) a flow of amortization payments to the

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1/ In practice, these "harder terms" have varied considerably. Sometimes they have been more or less the terms employed by the World Bank, and sometimes they have been patterned on local market rates or on the terms normally applied by the government concerned in lending to its agencies. Interest rates have in fact ranged between 3.5% and 12%, and the amortization period between 6 and 42 years.

government well in advance of the government's repayment obligations to IDA. There is also the special case of IDA credits made to a government to provide foreign exchange for direct sale to importers rather than for relending (for example, the Indian industrial imports credits), in this case "counterpart funds" equivalent to the full amount of the credit accrue immediately to the government as local currency payments are received from importers.

4. In the past, as a matter of policy, IDA has not normally intervened to determine the use of "counterpart funds" in the hands of the borrowing government. In general there might be two motives for exercising controls over the use of "counterpart funds". Firstly, the purpose might be to influence the general fiscal and monetary management of the borrowing country, in particular by restricting expenditures from "counterpart funds" where this might be deemed to have undesirably inflationary consequences. However, in few, if any, cases would the "counterpart funds" be large enough to play a significant role in general monetary policy, and in any case restrictions on the use of these funds could be frustrated by other forms of financing in which the government might engage.

5. Alternatively, the purpose might be to assure the employment of "counterpart funds" for priority economic development purposes. But, for this purpose, the control exercised by IDA is likely to be illusory. The fact is that "counterpart funds" flow into the general coffers of the government concerned and attempts to designate them for particular purposes are essentially artificial. If the government would in any case have directed funds to the purpose agreed upon, the "IDA control" would be an empty gesture. And if the disposition of the funds is left as a matter for future agreement, IDA has very little bargaining power, since in the last analysis the "counterpart funds" can be left to accumulate as idle balances while the government expands credit in other directions to be employed in whatever manner it desires without consultation with IDA.

6. Despite these limitations, at least two possibilities should be considered. Firstly, it would be possible to have IDA credit agreements provide, in cases where "counterpart funds" arise, that these funds be employed "for purposes of economic development". Only in rare cases would such a broad earmarking of funds have any meaning, but it might offer some protection against uninformed criticism of IDA that it was indirectly contributing through the use of "counterpart funds" to undesirable government expenditures. If this procedure were adopted, it is suggested that IDA should be satisfied with a general commitment from the borrowing government, without requiring the segregation of the "counterpart funds" in earmarked accounts subject to IDA's review and scrutiny.

7. Secondly, it would be possible, in selected cases where IDA had a clear view of how "counterpart funds" should be directed to priority uses, for IDA to require advance agreement by the borrowing

government that "counterpart funds" would be deposited in a special account to be devoted to that purpose. If the funds were to be spent outright by the government, no further control by IDA would be required. If they were to be lent by the government for projects of economic development, the question would arise of whether IDA control should extend to subsequent reuses of the funds and any interest earned thereon. On the whole, it is concluded that a procedure for the specific earmarking of "counterpart funds" would rarely be worth the negotiating and administrative burden which it would impose upon IDA and upon the borrowing government. However, circumstances may rise in which it will also suit the convenience of the borrowing government itself to earmark the "counterpart funds" for a particular purpose, in which case IDA should be prepared to adopt the procedure, at least with respect to the initial use of the "counterpart funds".

June 24, 1968

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June 24, 1968

MEMORANDUM FOR THE EXECUTIVE DIRECTORS

SUBJECT: IDA Policies

A meeting of the Executive Directors, sitting as the Financial Policy Committee, has been scheduled tentatively for July 23 for the purpose of undertaking a general review of IDA policies. There are a number of questions which I am sure the Executive Directors will desire to consider in this connection, including the following:

1. How should the IDA credits chargeable against the Second Replenishment be distributed geographically?

   This question involves the whole issue of what criteria should be applied for the distribution of IDA funds, and I attach hereto a Draft Discussion Paper on this subject on which I should appreciate receiving the initial reaction of Executive Directors before it is put in final form.

2. What should be the terms of IDA credits: maturities, interest rates and service charges, including the question of whether these should be uniform or varied for different countries and/or types of projects?

   Also attached hereto is a Draft Discussion Paper on this subject on which I should welcome initial reactions.

3. To what extent should IDA seek to control the "counterpart funds" which accumulate in local currency in the hands of borrowing governments as a result of relending procedures?

   Attached hereto is a discussion of this subject on which I should welcome initial reactions.

4. To what extent should credits be used to finance local currency expenditures?

   This is an issue which is common to the operations of IDA and the Bank, and the existing policy established by action of the Executive Directors in July 1964 refers equally to IDA and the Bank. A discussion of the general policy on this matter has been scheduled for a meeting of the Executive Directors on August 13, and I would suggest that consideration of this subject in relation to IDA operations be deferred until that time.

5. Should IDA credits be used solely for "project" financing or should "program" credits be considered in selected cases?

   This again is a policy question common to IDA and the Bank, although there may be grounds for feeling that IDA, in the light of the sources of its funds and in the light of the somewhat different spectrum of developing countries with which it deals, might pursue a somewhat more flexible policy in this matter than the Bank. In any case, I would see advantage in discussing this policy in relation both to IDA and Bank operations, and would suggest that this policy question be scheduled for a future meeting, which in the light of the pressure of work, might have to come after the Annual Meeting. No "program" loans or credits will be presented to the Board for approval in advance of this meeting.

6. What should be the rate of commitment of the funds received under the Second Replenishment?

   A paper containing my recommendations on this subject will be distributed to the Executive Directors prior to the Board meeting.

With respect to the Draft Discussion Papers relating to Items 1, 2 and 3 above, I propose to designate senior members of the staff to get in touch with individual Executive Directors during the next ten days for the purpose of obtaining their initial reactions. I would plan to review the papers in the light of these preliminary comments, and to circulate them once more by July 16 for consideration by the Financial Policy Committee on July 23.

In regard to Item 1, I should like to recall that the question of the criteria for the distribution of IDA credits was the subject of a paper on "IDA Lending Policy"1/ which was submitted by the President to the Executive Directors in November 1963, and was discussed by them at meetings of the Financial Policy Committee held in August 1964. This paper has been employed for guidance in IDA operations since that time, and I commend it to the attention of the Executive Directors in connection with our forthcoming discussion. In addition, the attached Draft Discussion Paper on "Criteria for the Distribution of IDA Funds" reviews the experience which IDA has had in operating under these criteria and addresses the question of whether any more specific guidelines might be established for the distribution of IDA credits in the future. In particular, the paper considers whether it would be feasible to establish some sort of advance country allocation with respect to the distribution of IDA credits, either by individual countries or by broad geographical areas; it comes to a negative conclusion.

Even if this conclusion is accepted, I would welcome an exchange of views with the Executive Directors regarding the relative weight which should be attached to the different lending criteria outlined in the paper, and their

1/ IDA/SecM63-42 Revised

comments as to how far the results of IDA operations through June 30, 1968 have conformed to what they would regard as sound administration of IDA's resources. I hope that we may plan on similar reviews in the Financial Policy Committee at annual intervals in the future, perhaps each summer following the conclusion of the fiscal year's operations and prior to the following Annual Meeting.

There remains one specific point on which I should like to comment, namely, the widespread feeling that India and Pakistan have received a disproportionate amount of the IDA credits which have been considered thus far. The shares of India and Pakistan in total IDA lending up to the end of June 30, 1967 were 53 percent and 19 percent, respectively. In the lending program for fiscal 1968, including those credits which were presented to the Executive Directors before June 30, 1968 "subject to replenishment", I took steps - as explained to the Executive Directors at their meeting on June 18, 1968 - to reduce these shares to 45 percent and 16 percent, respectively, and as I stated at that time, I would regard these shares as a transition toward even lower allocations to these two countries in the future. In the case of IDA lending to India, I have sympathy with the general proposition that no single country, however large its population and great its needs, should receive as much as half of the assistance forthcoming from an international institution charged with a broad international mission. Similar considerations apply to the case of Pakistan. Furthermore, in the past, many countries which would have been promising candidates for IDA assistance either had not yet come into membership in the institution or had not yet established standards of economic performance and of project preparation which justified a substantial volume of IDA credits. Conditions are changing rapidly, however. The membership of IDA has increased by 22 in the last five years, with most of the new members being poor countries which are particularly deserving of IDA assistance. Also, great progress has been made in many of the IDA member countries in improving economic performance and in formulating development programs and projects which can form the basis for IDA credits. In these circumstances it is inevitable that we should witness a wider geographical distribution of IDA credits, and without being able to justify any precise figures, on the basis of an economic formula, I consider that it would be desirable to aim at reducing the shares of India and Pakistan in total IDA credits during the remaining period of the Second Replenishment to something like 40 percent and 12-1/2 percent, respectively. In view of the rising level of IDA lending - assuming of course that the proposed agreement on the Replenishment is ratified - the establishment of these limits would leave room for an increased absolute volume of credits to India and Pakistan, while leaving IDA the capacity to meet, on a substantially ascending scale, the needs of other developing countries.

Robert S. McNamara

487/2/62

Questions to be Discussed in Memoranda to the Board Reviewing IDA Policies

1. How should the IDA credits chargeable against the second replenishment be distributed geographically?

2. What should be the terms of such credits: maturities, interest rates, ~~service charges on undisbursed balances,~~ variability of terms by country and/or operation to be financed, etc.?

3. What should be the rate of commitment of the funds received under the second replenishment?

4. To what extent should credits be used to finance local currency requirements?

5. Should IDA funds be used solely for "project" financing or should "program" credits be considered in selected cases?

6. To what extent should IDA seek to control local currency which accumulates in the operation being financed prior to the time the credit matures?

Questions to be Discussed in Memoranda to the Board Reviewing IDA Policies

1. How should the IDA credits chargeable against the ~~the~~ second replenishment ~~chargeable against the \$1.2 billion of the second replenishment~~ be distributed geographically?

2. What should be the terms of such credits: maturities, interest rates, service charges on undisbursed balances, variability of terms by country and/or operation to be financed, etc.?

3. What should be the rate of commitment ~~by time period~~ of the funds received under the second replenishment?

4. To what extent should credits be used to finance local currency requirements?

5. Should IDA funds be used solely for ~~"program" in contrast to~~ "project" financing or should "program" credits be considered in selected cases.

6. To what extend should IDA seek to control local currency ~~generated by IDA credits prior to the time foreign exchange obligation matures?~~ ~~the~~ ~~repayment~~

~~thrown off by the operation~~

~~generated by the operation being financed~~

~~and~~ which accumulates in the operation being financed prior to the time the credit matures.

487/2/77

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

June 24, 1968

MEMORANDUM FOR PART I EXECUTIVE DIRECTORS

SUBJECT: The Rate of Commitment of the Funds Received Under the Second Replenishment

I refer to my memorandum addressed to the Executive Directors on today's date, presenting certain Draft Discussion Papers on IDA Policies, and in particular to Item 6 under the first paragraph of that memorandum, in which I refer to a forthcoming paper on the above subject.

I understand that during the discussions among the Part I countries regarding the Second Replenishment, an understanding was reached that there would be consultations with the Part I countries from time to time on this matter. I would therefore like to have the views of the Part I countries before circulating a Draft Discussion Paper on this subject to all of the Executive Directors. I am therefore transmitting to you herewith a further Draft Discussion Paper as the basis for a preliminary consultation with representatives of the Part I countries, and have asked Mr. Knapp (in my absence) to convene a meeting on Thursday, July 11, at 10 a.m. for this purpose. Will you please transmit this Draft Discussion Paper to the Part I governments that you represent, and request them to designate their representative for the purposes of the July 11 meeting.

Robert S. McNamara

Draft Discussion Paper

Rate of Commitment of IDA Funds Under the Second Replenishment

1. The Report of the Executive Directors to the Governors of IDA on the Resolutions covering the Second Replenishment contains the following paragraph:

> "11. The proposed Second Replenishment Resolution states that the additional resources should be made available to the Association for new commitments for the period up to June 30, 1970, it being understood that any amounts not so committed by that date would be held for commitment as soon thereafter as appropriate. In other words, the Second Replenishment is basically intended to cover, together with other resources available to the Association, the commitment requirements of the Association for the fiscal years 1967/68, 1968/69 and 1969/70. In the normal course of business, the Association would aim to commit the resources available to it over these three years at a reasonably even pace. It is necessary, however, to envisage the possibility that the Second Replenishment will not have become effective by June 30, 1968, in which case the actual signing of many credit commitments which are currently being processed in anticipation of the Second Replenishment will have to be postponed until after the fiscal year 1967/68 has closed."

2. The question therefore arises, assuming that the Second Replenishment becomes effective but sometime after June 30, 1968, of how IDA should plan to spread its commitments over the fiscal years 1969 and 1970. The resources available to it for this purpose would consist of the following:

	$ million
*Additional contributions to Second Replenishment	1,170.5
*Supplementary contributions to Second Replenishment by Canada, Denmark, Finland, the Netherlands and Sweden	17.5
Swiss loan	12.0
	1,200.0
*Further supplementary contributions from Sweden and Norway	22.7
Carryover from fiscal year 1968 of uncommitted pre-replenishment resources	7.2
Total	1.229.9

* Subject to effectiveness of Second Replenishment

	Amount
Plus: Further amounts accruing to IDA from such sources as:	
Transfers from Bank profits	Indeterminate
Further supplementary contributions	"
Releases from Part II member subscriptions	"
Earnings, cancellations, and refundings	"

3. The total amount of credit commitments presented to the Executive Directors in fiscal 1968 was \$276 million, of which \$169.5 million were "subject to replenishment". The amount of new credit commitments signed by IDA in fiscal 1968 was therefore \$106.5 million, leaving only \$7.2 million of IDA's pre-Second Replenishment resources uncommitted.

4. It is proposed that for purposes of determining the rate of IDA commitments in the fiscal years 1969 and 1970, the "backlog" of \$169.5 million of credits presented to the Executive Directors before June 30, 1968 "subject to replenishment" be regarded as consituting in effect part of the fiscal year 1968 program of the institution. Deducting this amount from the above total resources known to be available to IDA if the Replenishment is approved, this would leave about \$1,060 million of known resources to cover further commitments during the two fiscal years 1969 and 1970.

5. It is recommended that of this amount \$530 million be declared available for commitment in the fiscal year 1969, leaving \$530 million to be committed in fiscal year 1970. It is further proposed that any additional indeterminate amounts accruing to IDA from transfers of Bank profits or other sources listed above should be declared available for commitment during the fiscal year in which they are received.

June 24, 1968

487/2/73

June 21, 1968

Professor Kei Wakaizumi
Department of International Relations
Kyoto Sangyo University
Kamigamo-Motoyama, Kita-bu
Kyoto, Japan

Dear Professor Wakaizumi:

Mr. McNamara has asked me to tell you he very much regrets that your letter was not delivered to him until he was leaving the hotel, and that it was not possible for him to see you. He hopes that when he is next in Japan it will be possible for the two of you to meet.

Sincerely,

(Miss) Polly Yates
Secretary to
Mr. McNamara

487/2/72

June 21, 1968

Mr. Fred L. Palmer
3983 Plumcrest Circle
Smyrna, Georgia 30080

Dear Dr. Palmer:

I am complimented by your letter of June 11 with its more than generous comments about my service as Secretary of Defense. Thank you for taking the time to write to me.

Sincerely,

Robert S. McNamara

4877/2/69

June 21, 1968

MEMORANDUM FOR MR. EL EMARY

I very much agree with you that we should examine the possibility of establishing a third Regional Office in Africa, as well as an expansion of the functions of the present offices. I have asked Mr. Ripman to study the possibilities and report his conclusions to me.

Robert S. McNamara

RMcN:pay

487/2/68

June 20, 1968

Honorable Edward M. Kennedy
United States Senate
Washington, D.C. 20510

Dear Ted:

I have just returned from Indonesia to find your note of June 14 awaiting me. You asked for a reply by today outlining my suggestions on the nature of a permanent living memorial to be established for Bob. I shall have to ask for an extension of time. In the meantime, should you meet with Bob's friends and associates to discuss the subject, I hope I may be invited to participate in the discussion.

Sincerely,

Robert S. McNamara

487/2/67

June 20, 1968

Mr. Jeremiah S. Finch
Secretary
Princeton University
Princeton, New Jersey 08540

Dear Mr. Finch:

I am embarrassed to accept a reappointment to a task which I have failed to perform. Hopefully, however, my new assignment will make it possible for me to be more responsible in the future than I have been in the past.

Sincerely,

Robert S. McNamara

487/2/66

June 20, 1968

Dear Mr. Vice President

Margaret and I are deeply grateful for your note of condolence on Bob Kennedy's death.

I am sure you know how much Bob admired you and how much his views were built around the foundations which you labored so hard and with such courage to erect in years past.

Needless to say, if ever I can assist you with "counsel and guidance," I shall be delighted to do so.

Again, many thanks for your thoughtful note.

Sincerely,

Robert S. McNamara

The Vice President

Washington, D. C.

4 87/2/65

June 20, 1968

Mr. Brock Brower
Box 116
Chilmark, Massachusetts

Dear Brock:

You were indeed thoughtful to express to me your grief over Senator Kennedy's death.

I shall bring to the attention of the commission appointed to consider the question of violence your offer to assist in any way possible.

I hope you were as pleased with the reception to the LIFE article as I was.

Best wishes,

Sincerely,

Robert S. McNamara

487/2/64

June 19, 1968

MEMORANDUM FOR MR. RIPMAN
MR. TWINING

Attached is a table showing the budgeted staff for IBRD and IDA as of the end of Fiscal Year '69. The budget provides for an increase of 273 employees above the level of June 30, 1968.

Please work with each of the departments involved to prepare detailed plans for the recruitment of these individuals, plus the replacement of vacancies which will occur during the year, so that on June 30, 1969 we will be at authorized strength. The recruitment program should make every effort to reduce the percentage of the Bank staff represented by U.S. and U.K. nationals.

After you have developed plans for meeting the budgeted program, please review them with me. At the end of each month of the Fiscal Year I should like to receive a report showing the number of men recruited during that month, against the plan for the month, and a revised forecast of the end-of-the-year position. May I have the first report for the month of July on or before August 7.

Robert S. McNamara

Attachment

Approved by Board 6/18

6/10±/68

Authorized Positions and Staffing

		Actual end FY '65	Actual end FY '66	Actual end FY '67	End FY '68 Budget	End FY '68 Actuals	Budget FY '69	FY '69 over FY '68
Off. of Pres.	Pro	13	12	12	12	12	12	-
	Non-pro	13	15	19	19	18	19	1
Admin.	Pro	43	54	53	64	54	66	12
	Non-pro	163	205	208	231	229	244	15
	Young Pros	26	37	45	42	42	42	-
Areas								
Africa	Pro	23	33	35	38	34	42	8
	Non-pro	14	23	22	27	25	29	4
Asia	Pro	33	38	33	40	38	40	2
	Non-pro	27	28	28	32	31	32	1
Europe	Pro	16	17	11	12	11	12	1
	Non-pro	11	12	8	7	7	7	-
MENA	Pro	-	-	12	18	16	22	6
	Non-pro	-	-	9	12	11	14	3
West. Hem.	Pro	37	39	41	43	41	43	2
	Non-pro	18	26	27	28	27	28	1
Total Areas	Pro	109	127	132	151	140	159	19
	Non-pro	70	89	94	106	101	110	9
Proj. Dir. Off.	Pro	12	11	8	10	10	10	-
	Non-pro	12	11	12	12	10	12	2
Agri.	Pro	28	46	58	62	58	83	25
	Non-pro	16	22	32	33	31	41	10
Educ.	Pro	9	13	16	20	16	30	14
	Non-pro	7	7	9	12	9	14	5
Pub. Util	Pro	38	45	44	52	51	62	11
	Non-pro	23	25	23	26	23	32	9
Tourism	Pro	-	-	-	-	-	6	6
	Non-pro	-	-	-	-	-	3	3
Trans.	Pro	35	46	52	60	56	66	10
	Non-pro	20	24	30	32	31	35	4
Total Proj.	Pro	122	161	178	204	191	257	66
	Non-pro	78	89	106	115	104	137	33

		Actual end FY '65	Actual end FY '66	Actual end FY '67	End FY '68 Budget	End FY '68 Actuals	Budget FY '69	FY '69 over FY '68
..on. Dir. Off.	Pro	9	10	13	12	12	12	-
	Non-pro	5	9	15	17	17	17	-
Country Group	Pro	6	15	19	15	15	18	3
	Non-pro	4	15	21	19	16	21	5
Sect. & Proj.	Pro	10	12	18	20	18	21	3
	Non-pro	8	8	13	17	16	20	4
Intern. Gr.	Pro	8	16	15	17	15	21	6
	Non-pro	7	12	15	18	18	20	2
Gen. Gr.	Pro	6	13	15	19	18	27	9
	Non-pro	19	13	41	46	45	47	2
Basic Res.	Pro	-	-	-	-	-	7	7
	Non-pro	-	-	-	-	-	2	2
Total Econ.	Pro	39	66	80	83	78	106	28
	Non-pro	43	77	105	117	112	127	15
Devel. Serv.	Pro	15	13	11	14	14	14	-
	Non-pro	11	12	11	13	13	13	-
fo.	Pro	13	14	17	18	18	21	3
	Non-pro	12	15	17	18	18	20	2
Legal	Pro	18	19	18	22	19	22	3
	Non-pro	19	19	19	22	20	22	2
Prog. Eval.	Pro	-	-	9	12	11	12	1
	Non-pro	-	-	5	7	6	7	1
Sec. and AMUG Of.	Pro	8	13	14	15	14	15	1
	Non-pro	14	16	20	22	21	23	2
Treas.	Pro	48	63	62	62	61	66	5
	Non-pro	79	79	85	83	81	88	7
Euro. Off.	Pro	11	12	13	13	12	12	-
	Non-pro	21	24	25	28	28	28	-
NY Off.	Pro	4	4	3	2	1	2	1
	Non-pro	4	4	3	3	3	3	-
Res. Miss.	Pro	10	7	7	10	10	10	-
	Non-pro	6	5	6	6	4	6	2
Devel.Adv.Ser.	Pro	11	23	15	18	15	29	14
verseas staff)	Non-pro	1	3	2	4	3	6	3
EDI & ICSID	Pro	12	15	19	19	16	19	3
	Non-pro	13	19	21	21	20	21	1

		Actual end FY '65	Actual end FY '66	Actual end FY '67	End FY '68 Budget	End FY '68 Actuals	Budget FY '69	FY '69 over FY '68
Data Proc.	Pro	-	-	-	14	12	26	14
	Non-pro	-	-	-	32	25	35	10
TOTALS	Pro	502	640	688	775	720	890	170
	Non-pro	547	671	746	847	806	909	103
	Total	1049	1311	1434	1622	1526	1799	273

June 3, 1968

487/2/63

FROM: Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, Washington, D.C.

TO: Sultan Hamengkubuwono IX, Minister of State in charge of Economics, Finance and Industry, Republic of Indonesia

June 15, 1968

Hamengkubuwono IX,
Minister of State in charge of
Economics, Finance and Industry,
Republic of Indonesia,
DJAKARTA.

Your Highness,

This is in response to your letter of June 12, 1968 in which on behalf of your Government you request that the International Bank for Reconstruction and Development assist and advise you in your efforts to formulate and execute plans and programs for the stabilisation, rehabilitation and development of the Indonesian economy. I have discussed this request and the way in which the Bank could respond to it with you and your associated Ministers, with the representatives of the Governments which are providing aid to Indonesia and today with President Soeharto. I am happy to confirm here that the Bank is prepared to provide the assistance and advice you have requested.

You have suggested that for the purpose the Bank should establish a Resident Staff in Indonesia. I believe that this is desirable and we shall do so as quickly as the necessary arrangements can be made. I am designating as the Director of the staff Mr. Bernard R. Bell who is one of the senior executives of the Bank. He will be assisted by Mr. Alfred Matter, another senior member of the Bank's staff who is already resident in Indonesia and by others of our most qualified and experienced personnel.

I also agree with your suggestion that our Resident Staff should work in direct relationship to BAPPENAS, the National Development Planning Agency, to you as Minister for State for Economic and Financial Affairs, and that through your two offices the staff should work with the various Economic Ministries. This is on the basis of my understanding that BAPPENAS is responsible for preparing and co-ordinating the economic plans and programs of the Government and that you are responsible for co-ordinating the execution of these plans and programs by all the Economic Ministries of your Government. The Director of our Resident Staff will, as you suggest, be immediately available to and will have direct access to the Chairman of BAPPENAS, to you and to the Economic Ministers whose activities you co-ordinate.

.../2

Our Resident Staff will be prepared to advise and assist you in all phases of the effort which you have launched to achieve financial stabilisation, to rehabilitate your production and infrastructure facilities, and to begin the process of expansion of these facilities and of the output and income of the Indonesian economy. To this end it will be prepared to assist and advise first in the formulation of overall economic plans and programs, second in the planning of specific development programs and projects, third in the implementation of these plans and programs and fourth in the co-ordination of the utilisation of the technical and financial assistance which is available to you from various sources. We will co-operate in this endeavour with the International Monetary Fund which is already assisting and advising you in your stabilisation effort and with the other international agencies and Governments which are providing technical and financial assistance to you.

We recognise, as you do, that Indonesia faces serious and difficult problems but we believe that given the courage and the determination with which your Government is attacking these problems and the assistance which the Bank, other international agencies and other Governments can provide there is sound basis for hope that Indonesia will make the economic progress we all so much desire.

Sincerely yours,

Robert S. McNamara
President

FROM: Sultan Hamengkubuwono IX, Minister of State in charge of Economics, Finance and Industry, Republic of Indonesia

TO: Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, Washington, D.C.

June 5, 1968.

Mr. Robert S. McNamara, President
International Bank for Reconstruction and Development

Dear Mr. McNamara,

During the past week in accordance with the instructions of President Soeharto, I, the Economics Ministers responsible to me, the Chairman of the National Development Planning Agency and the Governor of the Bank Negara, have been discussing with your Vice President Shoaib and Mr. Bernard Bell, the desire of our Government for technical assistance and advice from the International Bank in planning and conducting a program of rehabilitation and development of the Indonesian economy. We have been pleased to learn from these discussions that the Bank is prepared to provide this assistance. On behalf of my Government, I request that you kindly do so.

We believe that for the purpose it would be desirable that the Bank establish a Resident Staff of some size in Indonesia which would be supplemented, as required, by short-term specialist personnel. As I have already indicated, we would look to and rely upon this staff for assistance and advice in our rehabilitation and development efforts, that is to say, in the management of our economic affairs. We are already receiving assistance and advice from the International Monetary Fund in our stabilisation efforts and, more specifically, in dealing with monetary and fiscal problems. We recognise that the task of rehabilitation and development cannot be separated from the task of stabilisation and we therefore expect that your international institutions will cooperate fully in assisting and advising us in our total economic effort. Similarly, we are receiving assistance from the Asian Development Bank in the field of agriculture. I have no doubt that there will be the fullest cooperation between the two Banks.

More specifically, we envisage two distinguishable but related tasks for the Bank Resident Staff. The first is to assist and advise us in the formulation and in the implementation of the overall economic plans and programs which will guide and direct our stabilisation-rehabilitation-development effort. The second is to assist and advise in the planning and execution of specific programs and projects or rehabilitation and development in various sectors of the economy. In this connection, an important part of the task would be assistance to us in co-ordinating our utilisation of the many forms and types of technical and financial assistance which are and may be available to us.

BAPPENAS, the........

BAPPENAS, the National Development Planning Agency, is the Agency of our Government responsible for and authorized to plan our economic efforts and to coordinate all the economic plans and programs of the Government. As Minister of State for Economic and Financial Affairs, I am responsible for the coordination of execution of the economic plans and programs of the Government. We believe that the Bank Resident Staff could function most effectively if it were directly related to and directly assisting BAPPENAS and through BAPPENAS, as well as myself, the Economic Agencies of the Government. We would expect the Head of the Bank Resident Staff to be immediately available to and to have direct access to the Chairman of BAPPENAS, myself and other Economic Ministers.

We hope that with this assistance, as well as that provided from other sources, we will be able to achieve the economic progress of Indonesia which has been so long delayed and is so much desired.

Sincerely yours,

Minister of State in charge
of Economics, Finance
and Industry

HAMENGKUBUWONO IX.

Not sent?

487/2/60

Dear John:

Thanks very much for your note appended to George Steiner's letter. I know of his work and am grateful for his invitation, but, as I am explaining to him in a separate letter, my schedule here is not very different from the old days at the Pentagon, and I am having to pass up a great many invitations to do things that would otherwise be most enjoyable.

Kindest personal regards,

Sincerely,

Robert S. McNamara

Mr. John H. Martin
Vice President
Lytton Industries
9370 Santa Monica Blvd.
Beverly Hills, Calif. 90210

DCF:jas

Chron
(Incoming filed Docherty)
487/2/59

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

6/4

Doctor Docherty please use the enclosed contribution in whatever way you feel best serves the needs of the church & community.

Bob M.

ROBT. S. OR MARGARET C. McNAMARA FOUNDATION
2412 TRACY PLACE, WASHINGTON, D.C.

74-102
764

No. 277

6/5 1968

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48712/58

June 4, 1968

MEMORANDUM FOR MR. IRVING FRIEDMAN

As I review the data showing the impact of the Bank Group's operations on the U.S. balance of payments, I am left with an uneasy feeling. I have not had an opportunity as yet to examine the figures in detail, but they leave me with a conclusion that the favorable effect on U.S. balance of payments is greatly overstated. If the same calculations were applied to all other member countries, would the net effect on balance of payments be zero or positive -- I am inclined to believe the latter. Perhaps the technical error results from a failure to take account of the imports into the U.S. necessary to reflect repayment of the loans. In any event, would it not be wise to arrange for a well qualified expert in the field of balance of payments statistics to review our data and certify that they reflect properly the full impact of the Bank Group's operations on the U.S. balance of payments?

(Signed) Robert S. McNamara

Robert S. McNamara

407/2/57

June 3, 1968

Dear Mr. Ambassador:

I am most appreciative of your sending me the stamps which your country issued in honor of President Kennedy.

I enjoyed our recent meeting and look forward to seeing you again in the future.

Sincerely,

Robert S. McNamara

His Excellency
Bangoura Karim
Ambassador of the Republic
of Guinea
2940 Edgevale Terrace, N.W.
Washington, D. C. 20008

Polly - FYI
487/2/56

June 3, 1968

Dear Mr. Wolf:

I would both enjoy and benefit from discussing with you the issues you have raised relating to international development. Could you let me know three or four days in advance of your next visit to Washington so that we may arrange a convenient time to meet together?

Sincerely,

Robert S. McNamara

Mr. Charles Wolf, Jr.
Head, Economics Department
The RAND Corporation
1700 Main Street
Santa Monica, Calif. 90406

RMcN:mss

487/2/55

Honorable U. Alexis Johnson
American Ambassador
American Embassy

June 3, 1968

Night Letter

Tokyo, Japan

AM PLANNING STOP IN TOKYO FRIDAY AND SATURDAY JUNE 14 AND 15 ON WAY HOME FROM INDONESIA. WILL SEE GOVERNMENT OFFICIALS FRIDAY. MARGARET AND I HOPE JOHNSONS CAN JOIN US DINNER SATURDAY. STAYING OKURA HOTEL. BOB MC NAMARA

ROBERT S. MC NAMARA

OFFICE OF THE PRESIDENT

487/2/54

June 3, 1968

The Honorable
David Horowitz
Governor
Bank of Israel
Jerusalem, Israel

Dear Governor Horowitz:

I am most appreciative of the invitation to visit Israel which you conveyed to me on behalf of the Government and the Bank of Israel in your letter of May 20.

The tasks which lie ahead in the coming months will not enable me to visit Israel as early as I would have liked. However, I look forward to acquainting myself with your country and its remarkable economic development, and to meeting the people which have made this success possible. I shall take advantage of an early opportunity to do so.

Meanwhile, you can rest assured that I will follow with personal interest the continuation of the close relationship between Israel and the World Bank Group.

Sincerely,

Robert S. McNamara

487/2/53 6/1

Check List of Projects to Refer to in Chapter 7

1. Re-examine the consortia and consultative group structure to determine whether additional groups are required for other LDCs.

2. Include a list of regional and other large projects requiring special study, for example, the Ganges-Brahmaputra water development program and the "worldwide fertilizer production" program.

3. Organize and plan for emphasis by the Bank on population control.

4. Develop a program for Bank financing of housing.

5. Re-examine IDA's lending policies, including the distribution of credits by country; the terms of the credits: maturity, interest rate, etc.; the extent to which the credit should finance local content; the policy to be followed on program credits vs. project credits, etc.

6. Design a set of management control reports to measure progress against the plan.

7. Develop a plan for a limited number of resident advisory and technical assistance missions similar to the one now contemplated for Indonesia.

8. Establish a policy and develop a program for "conditional" joint financing.

9. Re-examine the pros and cons of project vs. program lending.

10. Consider adding to the Bank's loans and credit operations the financing of housing, health, and urbanization.

11. Determine what role the Bank should play in population control.

12. Consider whether the Bank should accede to requests from donor countries (e.g., Canada) for assistance in appraising projects.

13. Determine whether IDA should accede to the requests of Part I countries to transfer certain bilateral aid to IDA for administration.

14. Organize to expand the Bank's work in the field of sectoral analysis.

15. Consider whether IFC's operations should be expanded by accepting participation in loans as well as in equity investments.

16. Develop a plan to better integrate the operations of the UN agencies (UNESCO, FAO, UNDP, UNCTAD) and the World Bank as separate arms of a unified development strategy.

17. Examine the role which the Bank might play in advancing the process of industrialization in the less developed countries.

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6/1/68

Changes to be Made in the 5-Year Program

1. Revise the five "Master Tables" as indicated.

2. Incorporate the 5 Master Tables in the text, at the end of Chapter 7, in lieu of all existing tables of similar data. Avoid redundancy.

3. Redesign the "machine run" and append to the text.

4. Agree on the list of countries for which individual Country Statements will be prepared.

5. Incorporate the "master economic data" table in the Country Statements in lieu of other tables of similar data. Avoid redundancy.

6. Expand the Country Statements to cover the Bank's lending strategy and lending program.

7. Incorporate the editorial and other changes noted in my copy.

8. Include a statement of general lending philosophy (perhaps at the state of Chapter 4) which emphasizes that "development" is our objective and that our lending programs will be directed toward breaking development bottlenecks.

9. Re-edit and clarify Chapter 3. Should we not show in Chapter 3 for each major country the absorption capability for Bank loans vs. the loans planned in our 5-year program?

10. Check the comments and data on the IFC with Rosen.

11. Where possible, shorten rather than lengthen the text.

12. Agree on a time schedule for revision of the text, the 5 master tables, and the Country Statements (including the statements of the Bank lending programs and the tables of economic data).

13. Mark up a revised text to allow RMcN to quickly review the changes made since he last reviewed it.

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June 1, 1968

QUESTIONS AND COMMENTS ON TABLES I THROUGH V

1. Reconcile "total loans and credits" of Table I with the similar figure of Table IV.

2. Omit from the "total loans and credits" loans to IFC and show this amount on a separate line below the "total."

3. Show separately on Table I the staff for IFC and IBRD. For each insert staff data for the future years. There is no need to total the staff of the two organizations.

4. Complete the income statements on Table I.

5. If IDA's "cash and securities" on Table I includes non-interest "notes receivable" from donor countries, split these out and show on a separate line.

6. Check all tables for internal consistence and consistency between tables.

7. Agree upon an IFC tab for Tables I and II and check the data for IFC with Mr. Rosen.

8. On Tables I and II, show a transfer each year to IDA, including FY '68, of 50% of the Bank's profit.

9. In all of the tables assume an IDA replenishment for FY '71, '72 and '73 of $600 million, $800 million and $1 billion respectively.

10. On Schedule 5 show the country totals as presently planned but provide for the aforementioned third replenishment by introducing the appropriate adjustment in the "slippage" factor.

11. Where in the IFC income statement on Table I is interest on the IBRD loan shown?

12. On Tables III and IV, list the individual Central Banks separately.

13. On Table V do not fail to differentiate between IDA credits and Bank loans for the future period.

14. On Table III show "detailed deliveries" separate from "net borrowings."

15. Introduce in Table III lines for "non-U.S. total: borrowings, repayments, net."

16. Insure that the "borrowings" data on Tables II and III tie together.

17. On Table III fill in the detail by country for the borrowings for Fiscal Years 1969 through 1973.

18. On Table III fill in the lower part of the schedule through FY 73. Assume for this purpose that in the future period all borrowings are at essentially current market rates. Assume an increase in the lending rate to 6-3/4% effective July 1, 1968.

19. On Table III add a line to show "average interest on cash securities."

20. On Table II split the IDA disbursements for future years into disbursements on "current credits" and "new credits."

21. On Table IV add a total of the borrowings for each year and insure that it agrees with the total on Table III. Note the present disparity between such totals, e.g., for FY 62.

22. On Table III add a line to show IBRD income, before transfer to IDA, as a percentage of "capital and reserves."

23. On Table V, split out the educational sector from "social services" and put the remainder of social services into the "other" category.

24. On Table V, show a separate line for the "tourism" sector.

25. Change the format of the detailed sector programs by country as noted on the machine run.