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McNamara Papers

Travel b

Committee

SCHEDULE OF MEETINGS

Monday, January 5	Meeting of G-24 Deputies 9 a.m. Grand Jamaican Suite Jamaica Pegasus Hotel
Tuesday, January 6	Meeting of G-24 Ministers Time Not Set (Check with Registration Desk) Grand Jamaican Suite Jamaica Pegasus Hotel
Wednesday, January 7	Interim Committee 10 a.m. Grand Jamaican Suite Jamaica Pegasus Hotel
	Meeting of Mr. McNamara and Mr. D. Coore, Deputy Prime Minister and Minister of Finance, Jamaica Time: Late afternoon following Interim Committee
Thursday, January 8	Interim Committee Time: To be set at meeting preceding day Grand Jamaican Suite Jamaica Pegasus Hotel
Thursday, January 8	Development Committee Sub-Committee on Administration 10:30 a.m. Room not yet assigned (check with Registration Desk) Jamaica Pegasus Hotel
Friday, January 9	Development Committee 10 a.m. Grand Jamaican Suite Jamaica Pegasus Hotel
Saturday, January 10	Development Committee Time: To be set at meeting preceding day Grand Jamaican Suite Jamaica Pegasus Hotel

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JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

1. [illegible]
2. Take Jamaica [illegible]
3. See [illegible]
4. Discuss with [illegible] + [illegible]:
a. Date; Place [illegible]
b. [illegible]
c. [illegible]

DC/75-26

November 17, 1975

NOTICE OF MEETING

The fifth meeting of the Development Committee will be held on Friday, January 9, 1976 (morning session beginning at 10.00 a.m., followed by an afternoon session) and Saturday, January 10, 1976 (morning session only, beginning at 10.00 a.m.) in Meeting Room No.1, Grand Jamaican Suite, Pegasus Hotel, Kingston, Jamaica. The provisional agenda is as follows:

PROVISIONAL AGENDA

1. Adoption of Provisional Agenda
2. Approval of Record of Discussion of Meeting of September 3-4, 1975
3. Current Situation and Prospects of Developing Countries
4. Status Reports:
   a. Trust Fund
   b. Third Window
5. Current Commodity Issues
6. Interim Report of Working Group on Access to Capital Markets
7. Means of Improving the Current Situation Affecting Resource Transfers: Aid Targets and Their Implementation
8. Survey of Programs and Capital Resource Situations of Lending Institutions
9. Current Under-Utilization of Productive Capacity in Industrial Countries in Relation to Their Aid Effort
10. Place and Date of Next Meeting - [illegible]
11. Press Communiqué
12. Other Business

[illegible]

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FOR IMMEDIATE RELEASE

ANNEX B

DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

1818 H Street, N.W., Washington, D.C. 20433 Telephone: (202) 393-6360

September 4, 1975

PRESS COMMUNIQUE

1. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its fourth meeting in Washington on September 3-4, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. The meeting was held in the Sheraton-Park Hotel, during the period of the Annual Meetings of the World Bank and the International Monetary Fund. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary, took part in the meeting, which was also attended by representatives from twelve international and regional organizations and Switzerland as observers.

2. The Committee considered and approved for presentation to the Boards of Governors of the Bank and the Fund a report covering the progress of its work during the period October 1974-June 1975. The report, inter alia, noted the unanimous support given by the Committee to the establishment of a one-year Third Window in the World Bank for up to $1 billion of intermediate term lending; expressed the Committee's hope for early progress in the establishment of a Special Trust Fund, toward which end the Committee had urged a comprehensive consideration by the Executive Directors of the IMF; and recorded the Committee's action in establishing a 12-member Working Group on access by developing countries to capital markets, as part of the Committee's approach to the longer-term problem of the capital requirements of developing countries. The report noted the role the Development Committee expected to play in facilitating international actions in the field of development and transfer of resources. In this connection, it referred to the need for substantial increases in real terms in external assistance, improved access to capital markets, trade liberalization and commodity arrangements, the effective functioning of the international monetary system, and appropriate domestic policies in developing countries as areas where such possible future actions were needed.

3. The Committee was informed by the Managing Director of the IMF of the status of consideration by the IMF's Executive Directors of questions associated with the establishment of a Special Trust Fund. The Committee was also informed of the consensus in the Interim Committee that the IMF sell a portion of its gold for the benefit of developing countries without resulting in a reduction of other resources for their benefit. The Committee welcomed this understanding, and agreed in principle that a Trust Fund should be established using profits derived from IMF gold sales, without neglecting the consideration of other possible sources of financing, for balance of payments assistance primarily to lower income countries. The Committee also agreed to ask the Executive Directors of the IMF to continue their work on the Trust Fund, in response to the Committee's earlier request, with a view to completing it at an early date, taking into account various suggestions which have been made, including the possible use of gold profits for stabilization of export earnings.

4. The Committee was also informed by the President of the World Bank of the establishment and of the funding status of the Bank's new Third Window intermediate lending facility. The Committee stressed the important contribution this facility will make toward meeting the capital needs of the developing countries and urged that additional contributions be made in order to provide sufficient funds to support the $1 billion target level of lending operations.

5. The Committee agreed that the Executive Board of the IBRD should give prompt consideration to a selective increase of the capital of the IBRD, and subsequently consider a general expansion of the capital base of the Bank.

6. The Committee received a status report from the Working Group on Access to Capital Markets, covering the organization of the Group and its initial consideration of measures to support access to capital markets by developing countries, with particular attention to a possible multilateral guarantee facility, and a review of regulatory and other constraints on access to capital markets.

7. The Committee reviewed its program of work for the period immediately ahead, and in addition to the promotion of the establishment of a Special Trust Fund and work on improved access to capital markets, agreed to give special attention at its meetings during 1976:

- to an up-dating and enlargement of the analysis of the situation of developing countries prepared by the World Bank for the Committee's meeting last June, as well as a study of policies which developing countries might pursue to increase their growth;

- to means of improving the current situation affecting resource transfers, taking account of several suggestions made by members of the Committee, including quantitative aid targets and their implementation;

- to a survey of the policies, programs and capital resource situations of the various international and regional lending institutions and initiatives in other international bodies, to help avoid duplication of functions and to promote a coordinated approach to the problem of transfer of resources;

- to the relationship of the current under-utilization of productive capacity in the industrial countries to their development assistance efforts.

8. In considering its future work program, the Committee gave special attention to the question of commodity price fluctuations and to their consequences on the export earnings of developing countries. The Committee agreed to give priority attention to these questions in its program of work for 1976, including especially possible measures for the financing of buffer stocks, for the stabilization of export earnings, and other efforts to assist the developing countries in the area of trade, and to begin its examination of them at its next meeting.

9. The Committee confirmed its earlier agreement that it would meet next in Kingston, Jamaica, on January 9 and 10, 1976, immediately following the meeting of the Interim Committee of the IMF.

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JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

DC/75-31

December 17, 1975

CURRENT SITUATION AND PROSPECTS OF DEVELOPING COUNTRIES

Pursuant to the Committee's wish to be informed at each of its meetings on the current situation and the prospects of the developing countries, there are provided herewith two summary presentations prepared by the staffs of the IMF and the World Bank.

As was the case at earlier meetings, detailed background information on recent international economic developments will be available in the form of a new "World Economic Outlook" study prepared as of mid-December by the IMF staff. In the current project, the IMF staff has prepared a paper entitled "Developments and Prospects in the Non-Oil Primary Producing Countries" which is being distributed to the Committee separately as document DC/75-32. The summary attached as Annex I highlights the broad results of the IMF analysis and of the issues it raises.

The World Bank prepared for the Committee's June 1975 meeting a detailed analysis of the prospects of the developing countries and of their capital requirements to the end of this decade (Committee document No. DC/75-10, dated April 29, 1975). The summary presentation attached as Annex II provides a revision of the principal estimates included in the earlier presentation to the Committee. A more detailed up-dating and enlargement of this analysis, as requested by the Committee, will be presented for a subsequent meeting of the Committee in 1976.

The IMF analysis confirms earlier estimates that the less developed group of non-oil primary producing countries would incur current account deficits aggregating approximately $35 billion in the year 1975, reflecting a severe deterioration in their terms of trade. A decline in that deficit to about $31 billion is projected for 1976, but this is still very high in historical perspective. The non-oil developing countries were able to finance their large deficits in 1975, but at the cost of significant weakening of their net reserve positions and large-scale borrowings on commercial terms and relatively shorter maturities than would be desirable. Escalat-

* * *

ing short and medium-term debt burdens, together with weakened reserve positions, make the prospective positions of many of these countries increasingly vulnerable.

The World Bank paper concludes that, because of recent economic upheavals, the growth targets of the Second Development Decade are not now likely to be reached. The amount of time now remaining to the end of the decade makes it unrealistic to expect that the increases in commitments necessary to achieve the massive additional capital flows which would be necessary for the attainment of the growth targets can be made or, even if made, that the developing countries could fully compensate for the declines in growth which they are now experiencing.

The lower growth prospects of the developing countries presented in the Bank's revised projections will reduce the total amount of required external capital, and, taking account of new estimates of likely available flows of private and public capital, the additional amounts of capital required to reach these growth rates have been reduced from $29.7 billion, estimated in the earlier analysis, to $12.3 billion on the average in each of the years 1976-80. This would make it possible to raise the average growth rate in the period 1975-80 from 4.4 per cent to 5.4 per cent, still well short of the Second Development Decade targets, and especially so for the lower income countries. The additional resources required to achieve this result are of such magnitude, however, that the possibilities of expanded trade, through priority efforts at export promotion and the reduction of trade barriers, acquire considerable importance, along with the continuing high priority need to reverse aid policies in a number of donor countries and to increase the availability of concessional capital.

Attachments

Development Committee
Executive Secretariat
December 17, 1975

Situation of the Non-Oil Primary Producing Countries[1/]

Attention has already been called to the magnitude of the combined current-account deficit of the non-oil primary producing countries.[2/] Both the more developed and less developed groups have experienced very large increases in their traditional deficits on current account. (See Table 3.)

In the case of the less developed group, the current account balance has heretofore been estimated and projected in the aggregate rather than as a summation of figures for individual countries--a circumstance which has created statistical doubts and limited the scope for analysis. In order to improve this situation, a "decentralized" approach involving the preparation of individual-country estimates was introduced on an experimental basis in the World Economic Outlook project of last May and has been extended in the current project. The broad results, drawn from Section A-1 of ID/75/5 are as follows.

--The decentralized approach is statistically reassuring. It yielded a current account deficit for the non-oil LDCs amounting to $36.2 billion for 1975 and $34.3 billion for 1976, compared with the "macroeconomic" estimates of $35 billion and $31 billion actually used. Differences of this sort are not large in relation to the uncertainties involved in both sets of figures (which for 1975 still contain a substantial element of forecast because of the incompleteness of the available data).

--The estimates prepared by the Area Departments indicate widely diffused increases in current account deficits for 1975. With the combined deficit of non-oil LDCs increasing from $27 billion in 1974 to $35 billion in 1975, the geographic estimates show increases for all four major regions (Africa, Asia, Middle East, and Western Hemisphere) and for three fourths of the individual countries.[3/]

1/ The IMF staff paper on "World Economic Outlook--General Survey" (ID/75/4) contains a separate section on the non-oil primary producing countries. This is reproduced together with the statistical table to which reference is made.

2/ The definition of the primary producing countries, with the classifications into more developed and less developed groups, is the same as that used in the Annual Report for many years, as well as in previous World Economic Outlook papers. Some changes in these classifications are anticipated, together with a reconsideration of the category of industrial countries, but it has not been possible to make the necessary study at this time.

3/ It may be noted that some 20 countries account for the bulk of the $35 billion current-account deficit for 1975. But this point is of dubious significance in the present context, since it primarily reflects the relative size of the developing countries and of their trade flows. Thus, the same 20 countries also account for the bulk of the non-oil developing countries' combined flows of exports and imports in 1975.

--For 1976, the general picture afforded by the Area Department forecasts is still one of greatly enlarged current-account deficits. The combined deficit of Western Hemisphere non-oil LDCs is projected to decline from about $15.5 billion in 1975 to less than $13 billion in 1976 (the same as in 1974); a number of these countries are expected to be constrained by limitations of reserve availability and borrowing capacity to reduce imports. But outside the Western Hemisphere, the projected deficits on a regional basis are somewhat higher than in 1975 and substantially above 1974 levels; and the pattern on a country basis is similar.

In addition to this greater emphasis on the decentralized approach in estimation of current account balances, staff work on the non-oil developing countries has involved an increased attention to the problems of external financing. (See Section A-2 of ID/75/5.)

Whether prepared by the macroeconomic or the decentralized approach, the projections of current account deficits for the non-oil LDCs literally assume availability of the necessary financing (including use of reserves). The most obvious ground for a presumption that the non-oil developing countries will be able to finance a collective current-account deficit on the order of $30 billion in 1976 is simply their demonstrated capability of obtaining equally large or larger sums in both 1974 and 1975. However, the matter requires analysis of such factors as the nature and implications of past borrowing and the current levels of reserves; also required is attention to differences in the positions of individual countries. The following points may be noted.

--The record of net borrowing[1/] by the non-oil developing countries includes the striking contrast between a moderate and progressive growth in the half-dozen years through 1973 and a sudden escalation thereafter. In 1975, an estimated $3 billion use of reserves supplemented heavy borrowing to provide the needed current-account financing.

--With respect to the sources of net external borrowing, the outstanding feature is the extraordinary role of private banks after 1973. According to staff estimates, net expansion of credit from private banks to non-oil LDCs approached $14 billion in 1975--a sum considerably in excess of total borrowing by those countries from all sources in any year prior to 1974.

--The enlarged indebtedness is giving rise to a sharp escalation of interest charges and amortization payments. Moreover, the statistics for 1975 do not yet reflect much of the increase in current repayment obligations that will result from the recently greater reliance on market borrowing through Euro-banking and national commercial banking channels. (Such borrowing, of course, is of much shorter average maturity than the traditional forms of developmental loans predominant in the external financing of the less developed countries prior to 1974.)

1/ Defined as the total net inflow of capital (including borrowing by monetary authorities) except for equity investment.

(Excerpted from IMF staff document ID/75/4)

prepare a "standard" table from this, with projections at least for LDCs

Table 3. Summary of Payments Balances on Current Account[1/]

(In billions of U.S. dollars)

	1973	1974	1975	1976
Major oil exporters[2/]	5.6	67.6	35	33
Industrial countries	10.7	-10.7	16	7
Canada	--	-1.8	-5	-4
United States	2.3	2.1	14	6
Japan	0.1	-4.5	--	-1.5
France	-0.1	-4.8	0.5	-1.5
Germany	6.8	12.3	8	7.5
Italy	-1.2	-6.6	1.5	2
United Kingdom	-1.2	-7.8	-3.5	-3
Other[3/]	3.9	0.3	1	1.5
Primary producing countries (non-oil)				
More developed[4/]	1.2	-14.2	-15	-12.5
Less developed[5/]	-9.1	-27.5	-35	-31
Total[6/]	8.4	15.3	1	-3.5

Note: The figures for 1975 and 1976 have been rounded to the nearest half billion.

1/ Goods, services, and private transfers.

2/ Algeria, Bahrain, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

3/ Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

4/ Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, Romania, South Africa, Spain, Turkey, and Yugoslavia.

5/ Fund members not listed separately either in the table or in footnotes 2-4 above.

6/ Reflects balances of countries covered here on transactions with non-reporting countries, plus (quantitatively more important) statistical errors and asymmetries.

--High and still rising ratios of debt or debt service payments to export earnings have raised serious questions as to how much higher the indebtedness of non-oil developing countries can be pushed before the mounting burden of amortization and interest charges becomes hazardous. These questions are perhaps sharpened by the consideration that the increase has been concentrated to such an unprecedented extent in bank credit. But they are not easy questions to answer, in view of the importance of attitudes of both borrowers and lenders. However, it is clear that the financing of current account deficits by many of the non-oil developing countries has become more than usually vulnerable to possible shifts in attitudes.

--This vulnerability is increased by the weakening of reserve positions that has taken place. At present, the average ratio of reserves to imports for the whole group of non-oil LDCs is estimated to be only about 27 per cent, compared with 34-36 per cent in the late 1960s and early 1970s, and with nearly 45 per cent at the end of 1973. As in the case of debt ratios, it is to be stressed that the reserve positions of many individual countries are weaker than the average.

need this [illegible] in "[illegible] Table"

--In the financing of their $35 billion current-account deficit in 1975, the non-oil LDCs incurred an overall balance of payments deficit estimated at $5 billion, comprising the $3 billion use of reserves and some $2 billion of borrowing by the monetary authorities (mainly Fund credit); received about $5 billion in grants and roughly $4 billion in direct investment capital; obtained more than $8 billion in development loans from foreign governments and international agencies; and borrowed $14 billion, as noted earlier, through private commercial banking channels.1/ In consideration of the financing outlook for 1976, interest centers primarily on the degree to which flows of banking funds will be sustained, and on the availability and use of reserve-related credit from the Fund and other sources. The outcome with respect to these two elements of financing may be of critical importance for many countries.

In the individual country surveys provided by the Area Departments, the predominant theme was one of concern about the recent buildup of external debt, reflecting an even more pervasive rise in current account deficits. Cutbacks in imports because of financial pressures and slowdowns in export earnings because of the international recession have together been operating as constraints on domestic economic growth and development in the non-oil developing countries. At the same time, inflationary pressures have tended to moderate during 1975, especially in Asia and Latin America. Regional reviews of the economic policy problems of non-oil LDCs are contained in Section A-3 of ID/75/5.

The more developed primary producing countries, because of the predominance of food and raw or semiprocessed materials in their exports, have been affected by the international recession in very much the same fashion as the (non-oil)

1/ The complete statistical picture would have to take account of a few other forms of capital flows and of statistical discrepancies.

developing countries. The volume of exports from the more developed group leveled off in 1974 and turned down in 1975, but is expected to rise moderately again in 1976. The terms of trade of these countries have also deteriorated during the past two years, while their import volume rose through 1974 before declining in 1975. Consequently, they incurred unprecedentedly large current-account deficits in both of the past two years, and they face the prospect of another large (though moderately lower) deficit in 1976 (Table 3).

All 13 of the countries covered in this classification had a higher level of current account deficit in 1974 and 1975, and in most of them the deterioration from previous years was quite substantial. This situation is expected to improve somewhat, but not to change fundamentally, in 1976; the staff projections indicate declines in some of the largest deficits and increases or moderate changes in the rest. Most of the projected deficits are in the range of 3 to 6 per cent of GNP.

To finance the recent current-account deficits, the more developed primary producers drew heavily on reserves and related credit in 1974 and continued to use such resources on a substantial (though reduced) scale in 1975. In both years, but especially in 1975, they also relied heavily on their relatively good access to private capital and credit, chiefly from banking institutions in the industrial countries. Their net external borrowing is estimated to have risen from about $7.5 billion in 1974 (compared with a previous peak of $4.5 billion) to nearly $12 billion in 1975. External debt and debt service ratios have been pushed up by this heavy borrowing and are now a source of concern for many of the countries in view of the prospective need for continued heavy external financing in 1976.

Domestic economic activity, as well as foreign trade, has been widely affected by the recessionary influences emanating from the industrial countries. Growth of real output fell off in 1974 and 1975, and in the latter year turned negative in a number of countries. In general, however, economic growth in the more developed primary-producing group has been better maintained than in the industrial world--which probably is an important reason for the extent of deterioration in the position on current account.

The more developed primary producers have for some years experienced rates of inflation considerably higher than those in the industrial countries. The overall rate (in terms of GNP deflators) reached about 18 per cent in 1974 and declined somewhat in 1975, as inflationary pressures eased in several of the countries.

The foregoing summarization has necessarily neglected some important differences among countries. These are evident from the sketches for individual countries of the group contained in Section B-2 of ID/75/5.

A Review of the Capital Requirements of Developing Countries, 1976-1980[1]

Introduction

1. At the June meeting the Development Committee considered capital requirements of the developing countries estimated by the Bank to be necessary to achieve the Second Development Decade targets (Capital Requirements of the Developing Countries: 1975-1980, DC/75-10). Because of the massive amount of capital required beyond presently projected availabilities, the paper stressed that official capital flows would have to be supplemented by an expansion of export earning capacity of developing countries and a strengthening of their ability to borrow in private capital markets.

2. The present paper provides revised estimates of capital requirements based on the assumption that, because of the economic upheavals of 1973-1975, the targets of the Second Development Decade are not now likely to be reached. The amount of time now remaining to the end of the decade makes it unrealistic to expect that the increases in commitments necessary to achieve the massive additional capital flows which would be necessary for the attainment of the targets can be made or, even if made, that the developing countries could fully compensate for the declines in growth which they are now experiencing. The revised estimates of capital requirements also reflect changes in the world economy which affect the underlying assumptions regarding growth prospects and price developments in industrial countries. It has also been possible to study more closely the prospects of a substantial number of individual developing countries--for absorbing additional external capital and for improving their policy performance, particularly with regard to exports and creditworthiness.

Growth in the developing countries

3. The paper presented to the June 1975 meeting of the Development Committee (DC/75-10) sought to estimate how much additional capital would be required if the oil-importing developing countries were to achieve 6 per cent annual average GDP growth in the 1976-1980 period. The revised estimates presented here imply a more modest prospect of growth. They reflect the more recent assessment of capital availabilities--particularly at concessional terms from official sources and, more importantly, the conclusions drawn from the analysis of the prospects of 40 major oil-importing developing countries. This analysis considered the absorptive capacity, creditworthiness and access to capital markets of these countries individually.

4. The low income countries, which account for half of the population of the developing countries, have experienced relatively low rates of growth: an average of 4.4 per cent per year in the 1960s and only 1.6 per cent on average between 1970 and 1974. The "Capital Requirements" paper discussed by the Committee in June 1975 examined the capital required to support a rate of growth of

[1] This paper was prepared and made available by the staff of the World Bank.

4.5 per cent per year for the years 1976-1980. Subsequent analysis of the particular constraints to development which affect these countries suggests that, even under the best combination of external conditions and domestic absorptive capacity, their prospective growth is likely to average between 3.32 and 5.08 per cent. Achievement of the higher end of the range is critically dependent on the achievement of both better export performance and higher concessional capital flows.

5. The economies of the middle income countries are more resilient and their growth prospects are more directly constrained by their creditworthiness than by absorptive capacity. Since the major part of their capital inflows is at market terms, they are highly dependent on continued and expanded access to capital markets which, even with good export performance, may be limited by future debt servicing capacity. They attained an annual rate of growth of 5.7 per cent in the last decade and accelerated to 6.9 per cent between 1970 and 1974. The "Capital Requirements" study discussed in June 1975 examined the capital required to permit these countries to grow at 6.5 per cent per year. However, under the most favorable circumstances that can now realistically be assumed, it is unlikely that these countries will be able to grow during the remainder of this decade at the rate they achieved in the last one. Country studies have since indicated that a rate of 5.5 per cent is not likely to be exceeded.

Projected growth rates for developing countries

6. The ranges of projected rates of growth in Table 1 reflect alternative assumptions concerning trade and aid policies; these are discussed below, along with the revisions in the basic assumptions underlying the projections.

Include a similar table in speech

Table 1. Past and Projected GDP Growth Rates by Groups of Developing Countries, 1960-1980

(In per cent per annum)

	Low income countries	Middle income countries	Total (excl. OPEC)
Growth rates			
1961-1970	4.4	5.7	5.2
1971-1974	1.6	6.9	5.3
1975-1980	3.3-5.0	4.7-5.5	4.4-5.4
1971-1980	2.7-3.7	5.6-6.1	4.8-5.4
Per capita growth rates			
1961-1970	2.0	3.1	2.4
1971-1974	-0.8	4.3	2.7
1975-1980	0.7-2.4	2.0-2.8	1.8-2.7
1971-1980	0.2-1.2	2.8-3.4	2.1-2.9

OECD growth

7. The June 1975 "Capital Requirements" study was based on the central assumption of rapid recovery from the current recession in OECD countries. By 1980, unemployment levels would be reduced to their 1971-1972 levels and productive capacity would again reach a high utilization rate. Table 2 shows the assumption used in the "Capital Requirements" study and the assumption used in the revised estimates.

Table 2. Alternative GDP Growth Projections for the OECD Countries

(Average annual percentage changes)

	Projection in DC/75-10	Current projection a/
1960-1972	4.9	4.9
1973	6.3	6.3
1974	-0.4 p	~~-0.4 p~~ -0.1
1975 (est.)	-1.1	~~-1.1~~ -2.1
1976-1980	6.1	5.3

p = preliminary

a/ More recent data, based on preliminary information from the OECD for 1975 and 1976 would suggest further revisions, i.e., -0.1 for 1974; -2.1 for 1975; 5.4 for 1976-1980. These revisions are slight, and would have the effect of lowering the 1976-1980 growth rates in Table 1 slightly, or of increasing the additional capital required to achieve them.

Capital availability

8. The review of individual country projections and the assessment of their creditworthiness prospects indicate that the prospects for market access of the middle income countries had been underestimated and that they have a larger capacity to absorb private capital on market terms than previously assumed. In the June 1975 paper (DC/75-10) average annual inflows of private capital had been estimated at $18.4 billion (in current dollars) for the years 1976 through 1980; this estimate has been revised upward to $26.5 billion per year for that period. The increase is based on the assumption that larger amounts will be available in the private capital markets, and the analysis of the capacity of developing countries to absorb and service a higher level of borrowing from private creditors. The larger projected inflow from private sources reduces the gap between the estimated requirements for, and estimated availability of, additional public capital.

9. While the projected availability of private capital is now higher, that of public capital is lower. In the earlier paper, the availability of net capital from public sources was estimated to average $24.7 billion per year in 1976 through 1980, with the bulk originating in the DAC countries. Projected flows of Official Development Assistance (ODA) averaged 0.26 per cent of DAC GNP during the period. With the lower growth now projected for the DAC countries, but maintaining the same percentage for net public capital, availability falls to an average of $22.9 billion per year in 1976 through 1980.

Revised capital requirements

10. The lower growth prospects of the developing countries presented in the revised projections--5.4 per cent for 1975-1980--and the higher total availability of capital reduces the additional amount of capital required to $12.3 billion compared to the $29.7 billion estimated in DC/75-10. The lower rate of growth accounts for almost two-thirds of the difference. Additional capital requirements would be reduced further if policies in developing and industrial countries actively promoted the growth of exports from the developing countries. These policies include the (1) development of export oriented industries in the developing countries, (2) liberalization of trade policy by developed nations, diversification of markets into the OPEC and centrally planned economies, and export stabilization measures. Table 3 presents the alternative levels of average net capital flow requirements for the years 1976 through 1980.

Conclusions

11. These revisions imply significantly lower amounts of additional net public capital from the DAC countries for the oil-importing developing countries. The availability from OPEC sources remains unchanged from the earlier estimates. Nonetheless, even with the lower growth prospects presented above (5.4 per cent for 1975-1980), and assuming availability of the larger flows of net private capital, the required level of ODA from DAC countries--an average of 0.35 to 0.48 per cent of GNP in 1976-1980--requires a significant reversal of aid policies in a number of DAC countries. The higher figure corresponds to the situation where additional capital is the only means used to expand import capacity and improve growth; and the lower figure corresponds to the situation where these countries obtain some of the additional foreign exchange by more rapid export growth. Even the lower of these GNP shares is higher than the current figure which, under unchanged aid policies, is projected to decline to 0.26 per cent as an average for the 1976-1980 period.

12. For the middle income countries--in the "aid only" case--an additional requirement of $10.3 billion net capital on average in the years 1976-1980 implies an addition of some $20 billion by 1980, a 46 per cent increase over what is presently projected to be available to these countries. A substantial part of this net additional flow would need to be in the form of official capital.

Table 3. Alternative GDP Growth and Net Capital Flow Projections 1976 through 1980

(In billions of US dollars)

	Annual Average (1976-1980) Public capital	Private capital	Total (net)	Average GDP growth rate, 1975-1980
A. Net available capital	22.9	26.5	49.4	4.4
Low income countries	8.1	1.2	9.3	3.3
Middle income countries	14.8	25.3	40.1	4.7
B. Capital Requirements for higher growth rates				
1. With no change in export growth	35.2	26.5	61.7	5.4
Low income countries	10.1	1.2	11.3	5.0
Middle income countries	25.1	25.3	50.4	5.5
2. With additional export growth 1/	27.2	26.5	53.7	5.4
Low income countries	9.8	1.2	11.0	5.0
Middle income countries	17.4	25.3	42.7	5.5
C. Additional net public capital requirements				
1. Without additional export growth (B.1-A.)	12.3	--	12.3	
Low income	2.0		2.0	
Middle income	10.3		10.3	
2. With additional export growth (B.2-A.)	4.3	--	4.3	
Low income	1.7		1.7	
Middle income	2.6		2.6	

1/ Reflecting the impact of successful policies to increase exports, as discussed in paragraph 10.

13. The additional resources required are of such magnitude that the alternative, which considers the possibilities of expanded trade to offset part of the additional net capital requirements, acquires considerable importance. The potential of the middle income countries for expanding exports, and thereby earning more foreign exchange, can reduce their additional capital requirement considerably. With appropriate export promotion policies on their part, and the reduction of barriers by importing countries, the annual average requirement for additional capital in 1976-1980 could be reduced to $2.6 billion, which implies a level of about $5.5 billion in 1980. This is an increase of 13 per cent above the amount projected to be available in that year.

14. By contrast, the "trade and aid" case reduces the capital requirements of the low income countries only slightly, since their potential for increasing exports in the short to medium term is very limited. Moreover, while the average annual amount of additional capital required may appear modest, it implies a very major effort to increase concessional assistance flows. The average figure for 1976-1980 implies additional net inflows of about $3.2 billion in 1980, equivalent to almost 40 per cent of the amount of official capital projected to be available to those countries in that year. Nearly all of this would have to be on highly concessional terms.

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15. Moreover, as can be seen from Table 1, any shortfall will have much more serious consequences for the poor countries. The achievement of even a 1 per cent annual growth in per capita income for the full decade 1971-1980 depends on achieving a 5 per cent annual rate of growth in 1975-1980. This in turn depends critically on the availability of additional concessional capital. Without this capital, there is likely to be no perceptible increase in per capita income over the decade.

16. Since there are inevitable time lags between negotiations, legislative approval, commitments and disbursements, efforts to increase the availability of highly concessional capital must have a very high priority. Measures to facilitate the expansion of exports from developing countries and to assure effective access to capital markets are the two other issues on a priority agenda for action.

4

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

DC/75-34

December 29, 1975

TRUST FUND

Attached is a letter dated December 24, 1975, from the Managing Director of the International Monetary Fund to the Chairman of the Development Committee transmitting a report prepared for the Interim Committee by the Board of Executive Directors of the Fund entitled "Review of the Fund's Policies on the Use of Its Resources for 1976 and on the Trust Fund."

Attachment

* * *

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

DEC 24 1975

The Honorable
Henri Konan Bédié
Chairman, Development Committee
Ministry of Economy and Finance
Abidjan, Ivory Coast

Dear Mr. Chairman:

Pursuant to the request made by the Development Committee at its September meeting, the Executive Directors of the Fund have continued their work on the Trust Fund, with a view to completing it at an early date.

Enclosed, for distribution to the members of the Committee, is a report that the Executive Directors prepared on the Use of the Fund's Resources for 1976 and on the Trust Fund. Attached to the report is the text of the decision of the Executive Directors making certain changes in the Compensatory Financing Facility.

I very much hope that in the Jamaica meetings there will be a favorable resolution of the principal issues, so that soon thereafter the Executive Directors will be able to adopt a decision establishing the Trust Fund.

Sincerely,

H. Johannes Witteveen
Managing Director
International Monetary Fund

cc: Mr. H.J. Costanzo
Executive Secretary
Development Committee

Enclosure

INTERNATIONAL MONETARY FUND

Review of the Fund's Policies on the Use of its
Resources for 1976 and on the Trust Fund

Report of the Executive Directors to the Interim Committee
of the Board of Governors on the International Monetary System

December 24, 1975

1. The Executive Directors have conducted a review of the Fund's policies on the use of its resources under the established tranche policies for 1976, and on the Trust Fund. The review has been conducted on the assumption that the oil facility would not be continued for another year. It also took into account the recent decision of the Executive Directors making certain changes in the Compensatory Financing Facility, the text of which is attached.

2. Taking account of the world economic outlook, the projected pattern of international payments, and the availability of financing from other sources, most Executive Directors shared the expectation that many members would continue to experience severe payments difficulties in 1976, and that there would hence be a continued need for substantial financing of deficits of members through use of the Fund's resources in that year. In light of the large requirements of many members, the subjects of access for 1976 and the Trust Fund were widely seen as companions, not as alternatives.

3. Most Executive Directors also agreed that there is an urgent need for additional access to the resources of the Fund, that this need is not limited to low income members, and that the amounts available to low income members from the Trust Fund would not be sufficient for their requirements in coming years. From this it was concluded by these Executive Directors that for all members needed resources should come from the general resources of the Fund, with the role of the Trust Fund being to provide additional concessionary assistance for the countries in need of that special assistance.

A few Executive Directors were not convinced that a decision to enlarge access under the credit tranche policies is presently called for. Mentioned in this respect was the comparatively large unused access under the present tranche policies. At the end of September 1975, 18.6 per cent out of the total of 25 per cent of quota provided in the first credit tranche remained unused, while 73.3 per cent out of the 75 per cent in the higher tranches remained unused. They also stated that any enlarged credit tranche access should await a detailed assessment of the world economic situation and outlook, with attention to the positions of individual countries, and that the Fund's own liquidity and the implications for the Fund's balance sheet should be studied more deeply than hitherto. Such an assessment would, in the view of these Executive Directors, permit a more realistic view not only of the need for an expansion of access to the Fund's resources but also of the nature such an expansion might appropriately take.

As against these views, other Executive Directors pointed out that many members had drawn, on average, the equivalent of two credit tranches under the oil facility with respect to 1974 and again with respect to 1975; they also felt that the discussion of the Fund's liquidity had shown that additional access of the magnitude envisaged in the following paragraph was within the Fund's financial capacity.

4. The Executive Directors gave consideration to a number of approaches under which additional access to the Fund's resources might be extended to members on a temporary basis.

(i) Under one approach the Fund would double the size of the first credit tranche, beyond which three credit tranches with the present higher conditionality would remain. The Executive Directors supporting this approach felt that first credit tranche conditionality would be appropriate in present circumstances of world recession. Many of these Executive Directors would have supported a larger increase in access on first credit tranche conditionality and would be willing to support a doubling of the first credit tranche only as a minimum.

(ii) Another approach considered was that a change in credit tranche access be applied--possibly in combination with the approach under (i)--on the basis of the prospective quotas of individual members under the Sixth General Review, once they had been approved by the Board of Governors. Problems exist in this connection because the references to quotas in the Articles mean quotas currently in effect and also because of the need to respect the principle of uniformity on the basis of existing quotas. A uniform increase in credit tranche access based on the average increase in quotas--that is, by one-third--would not pose a problem in this respect, but some reservation was expressed to any action tied to new quotas that could give the impression of anticipating new quotas before they had entered into force.

(iii) Under a third approach the size of each credit tranche for 1976 would be increased by one half, from 25 per cent to 37.5 per cent of present quotas. This would keep the present structure of conditionality, while enlarging access under the credit tranche from 100 to 150 per cent of quota.

(iv) Lastly, the possibility was considered that members in exceptionally difficult circumstances could have access to a fifth credit tranche after use of the four tranches available to them under present policies.

Whichever of these approaches was selected, there was support for the idea that in exceptional cases, where this was necessary to maintain confidence of other lenders, the Fund should be ready to consider access beyond the limits envisaged under these approaches.

5. Directors agreed that the steps necessary to establish the Trust Fund should be taken as soon as possible. There was a widespread feeling that the main resources for the Trust Fund would probably come from profits on the sales of gold. The Executive Directors agreed that contributions by members to the resources of the Trust Fund would be extremely welcome. Many Directors felt, on the other hand, that the Trust Fund should avoid obtaining additional resources by borrowing, but many others felt differently. Directors held somewhat different views about the period over which gold should be sold for this purpose: whether the three-year period during which the Trust Fund is expected to provide assistance, or a somewhat longer period, such as four or five years. With respect to eligibility for use of the resources of the Trust Fund, a central view was that eligible members should be those with a 1973 per capita income not in excess of SDR 300, but some Directors believed that the cut-off level should be lower, while others favored extending eligibility to a somewhat higher figure, but with less concessionality for this group of members.

6. As regards the manner in which Trust Fund resources should be made available to eligible members, three approaches may be discerned. To some extent, these approaches could be combined; but some Directors favoring one approach were opposed to the use of others.

(i) One approach would consist in making the resources available, either as grants or as loans on concessionary terms, to eligible members with balance of payments needs, on the basis of uniform criteria to be worked out, and with an appropriate degree of conditionality. Many Directors supporting this approach felt that this conditionality should be that applicable to drawings on the Fund in the first credit tranche.

(ii) Under a second approach Trust Fund resources would be made available to eligible members in some quantitative relation to their use of the General Account (excluding gold tranche drawings and remaining drawings under the 1975 oil facility). Under this approach there would be no need for separate rules of access to the Trust Fund, as regards either conditionality or the assessment of balance of payments need. Some Directors who favored this approach would link Trust Fund assistance to any drawings (other than residual oil facility drawings) beyond the gold tranche, while others preferred to restrict the linkage to drawings under the Fund's regular credit tranche policies, excluding compensatory financing drawings on the ground that the latter are subject to much lighter conditionality. Under this approach resources could again be provided in the form of grants or loans.

(iii) Some Executive Directors held the view that an effective use would be made of the limited resources of the Trust Fund by using at least part of them to assist eligible members in coping with fluctuations in their earnings from the export of primary products, which could impair the implementation of their development programs. They proposed the use of loans from the Trust Fund on concessionary terms as well as, in special circumstances, grants to supplement the access available under the Compensatory Financing Facility.

7. The Executive Directors suggest that members of the Interim Committee might concentrate their attention especially on the following issues:

A. As regards the Fund's policies with respect to the use of its resources in 1976 -

(1) What is members' view on the need for additional access for that year?

(2) If it is agreed that there is such a need, which of the options described in paragraph 4 do they favor?

B. As regards the Trust Fund -

(1) Over what number of years should gold be sold?

(2) What should be the cut-off level of per capita income for purposes of eligibility?

(3) Should some part of the resources of the Trust Fund be used for the purpose of stabilizing export earnings, supplementary to the Compensatory Financing Facility?

(4) Should the main emphasis of the Trust Fund be on grants, or on highly concessionary loans?

8. Many Directors stressed that they considered the issued summarized in the preceding paragraph, relating to access to the Fund's resources and the modalities of the Trust Fund, as an integral part of the entire set of issues in front of this meeting of the Interim Committee, and that a satisfactory resolution of these particular issues was for them a precondition for agreement on all issues.

Attachment

Attachment

INTERNATIONAL MONETARY FUND

Compensatory Financing of Export Fluctuations

Executive Board Decision - December 24, 1975

1. The financing of deficits arising out of export shortfalls, notably those of primary exporting member countries, has always been regarded as a legitimate reason for the use of Fund resources, which have been drawn on frequently for this purpose. The Fund believes that such financing helps these members to continue their efforts to adopt adequate measures toward the solution of their financial problems and to avoid the use of trade and exchange restrictions to deal with balance of payments problems, and that this enables these members to pursue their programs of economic development with greater effectiveness.

2. The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can continue to expect that their requests for drawings will be met where the Fund is satisfied that

(a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

3. Drawings outstanding under this decision may amount to 75 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 50 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would increase the drawings outstanding under this decision beyond 50 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

4. The existence and amount of an export shortfall for the purpose of any drawing under this decision shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to draw in respect of a shortfall for a 12-month period ending not later than six months after the latest month for which the Fund has sufficient statistical data.

5. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects.

6. The shortfall for the purposes of this decision shall be the amount by which the member's export earnings in the shortfall year are less than the average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year average, earnings in the two post-shortfall years will be deemed to be equal to earnings in the two pre-shortfall years multiplied by the ratio of the sum of earnings in the most recent three years to that in the three preceding years. If the Fund considers that the result of the computations under the previous sentence is not reasonable, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast. When the Fund allows a member to draw under the proviso in paragraph 4 above, the Fund may use such methods of estimating exports during the period for which sufficient statistical data are not available as it considers reasonable.

7. Any member requesting a drawing under this decision will be expected to represent that it will make a repurchase corresponding to the drawing in accordance with the principles of Executive Board Decision No. 102-(52/11), adopted February 13, 1952, as renewed by Executive Board Decision No. 270-(53/95), adopted December 23, 1953. Approximately one year and two years after a drawing by a member under this decision, the Fund, after consultation with the member, may recommend to the member that, in view of an improvement in its balance of payments and reserve position, it should make a repurchase in respect of a part or all of the outstanding drawing. The Fund will expect the member to repurchase in accordance with the recommendation.

8. A member requesting a drawing under the proviso in paragraph 4 above will also be expected to represent that, if the amount drawn on the basis of partially estimated data exceeds the amount that could have been

drawn for the full 12-month period under paragraph 6 above, the member will make a prompt repurchase in respect of the outstanding drawing, in an amount equivalent to the excess.

9. Whenever the Fund's holdings of a member's currency resulting from a drawing under this decision are reduced by the member's repurchase or otherwise, the member's access to this facility, in accordance with its terms, will be restored pro tanto.

10. When drawings are made under this decision, the Fund will so indicate in an appropriate manner. Within 18 months from the date of any drawing made under the Fund's tranche policies or under the Extended Fund Facility, a member may request that all or part of the amount outstanding be reclassified and treated, for all purposes of this decision, as a drawing made under this decision. The Fund will agree to such a request if at the time of the drawing under the tranche policies or the Extended Fund Facility the member could have met the requirements for a drawing of an equal amount under this decision.

11. In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on the Fund's holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under this decision or (ii) to the extent that drawings in accordance with this decision are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under this decision.

12. The Fund will review the formula in paragraph 6 not later than March 31, 1977, and will review this decision as a whole when experience and developing circumstances make this desirable. The Fund will review this decision in any event whenever (i) drawings under this decision in any 12-month period exceed SDR 1.5 billion or (ii) outstanding drawings under this decision exceed SDR 3.0 billion.

INTERNATIONAL MONETARY FUND

Stabilization of Prices of Primary Products

Executive Board Decision - December 24, 1975

Paragraph 2 of Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, is amended to read:

> 2. In accordance with paragraph 1 above, the total of purchases outstanding pursuant to paragraph 1 of this decision shall not exceed 50 per cent of quota.

Third Window

~~I am pleased to be able to report that t~~ The Third Window was declared operational on December 23, 1975. At that time, the Interest Subsidy Fund was assured of approximately $103.5 million. ~~In a~~ Additional, contributions totalling $30 million have been promised, but not yet confirmed.

We estimate that approximately 51% of Third Window resources will go to countries with a per capita income of less than $200; 47% to countries between $200 and $375; and the balance to countries above $375. a subsidy fund of $135m would support 3rd W loans of approx. 600m. If a total of $600 million of Third Window loans are made, we expect ~~this~~ that the "ripple effect" would increase IBRD lending in FY1976 and 1977 to countries with a per capita income over $375 by $250 million.

We plan to place the first Third Window loans before our Board for consideration this month.

The amount now available in the Subsidy Fund will only support lending totalling about $600 million, considerably short of the original target of $1 billion. I would urge countries which have not contributed yet to do so, since the need for additional resources remains great.

Statement on the Negotiations for the Fifth Replenishment

Negotiations for the Fifth Replenishment of IDA resources started with a first meeting of the Deputies, in Paris, at the end of November. Both present members and potential new donors attended. The next meeting is scheduled for February 26-27.

Even though discussions are at a preliminary stage, it is clear that the two important issues are timing and the amount of the Fifth Replenishment.

As you know, IDA's resources under the Fourth Replenishment will be fully committed by July 1, ~~June~~ 1977. While the beginning of the IDA V commitment period is still 18 months away, experience indicates that this is the minimum time needed to reach agreement and to obtain legislative approval. In each of the last two replenishments, IDA has had to rely on advance contributions from governments in order to avoid a cessation of operations. If we are to allow a minimum of one year for governments to obtain legislative approval / negotiated agreements, this means that negotiations will have to be concluded in substance by this summer. ~~While some~~ Many contributors face difficult balance of payments and budget situations, and are fighting both inflation and high unemployment. However, the adequate and timely replenishment of IDA is of such fundamental importance to the development prospects of the poorest countries that ways must be found to prevent the ~~and~~ cyclical economic conditions in some of the wealthier countries from becoming ~~should not be a~~ bars to assisting the poorest.

Insert (A)

~~The amount of IDA V remains to be determined. In setting a figure, we should take account of the impact of inflation on the level of resource transfers which we thought we had provided for in the Fourth Replenishment, the effect of inflation during the next years and the substantially increased needs of the poorest countries that depend on IDA. This means that there should be a significant increase in resource flows in real terms.~~

Insert Ⓐ last

The amount of the replenishment~~, remains to be determined.~~ In setting the figure, it will be essential to recognize that the events of the past three years, which have brought difficulties to the economies of all nations, have compounded the problems facing the poorest countries. Even before the current crisis they were in need of growing concessionary capital flows in order to sustain their development. And ~~In~~ in recent years they have been hard hit by the decline in their terms of trade and by the slowdown in the growth of world trade. There has been no growth in their per capita incomes in the first half of the 1970s and there is likely to be little ~~none~~ in the second half of the decade unless concessional flows are increased. Therefore, we believe that the IDA V replenishment should:

. Provide for a full offset to price inflation, including the greater than expected rate ~~return~~ of price inflation that has affected IDA IV since the Nairobi negotiations.

. And ~~in addition, it should~~ result in at least a modest increase, [say a minimum of 5% per year,] in the real purchasing power of IDA's resources.

I hope that all Governments will accept this objective. Many govts have already stated they would do so. The Netherlands Government has indicated ~~already stated that~~ it would support a level of replenishment of at least $3 billion per year.

A number of governments have expressed their support for the general principles that should underlie an agreement on the amount of the Fifth Replenishment, and the Netherlands Government has given its generous support for a level of replenishment of at least $9 billion. I strongly urge present and new contributors to follow this lead.

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JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

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APR 09 2013
WBG ARCHIVES

DC/75-30

December 15, 1975

CURRENT COMMODITY ISSUES

The need for substantial improvement in the export earnings of developing countries has featured in the general consideration given so far by the Committee to the question of transfer of resources. The World Bank study of capital requirements of developing countries which was presented to the Committee at its meeting in Paris in June 1975 specifically called attention to the need for actions to increase export earnings of developing countries and referred to: (a) liberalization of policies affecting imports of primary products, with estimates that a substantial liberalization of policies affecting imports of primary products by developed countries would increase developing countries' exports by $12 billion per year by 1980; (b) avoidance of restrictive measures by industrialized countries as exports of manufactured goods of developing countries grow; (c) continuation and acceleration, where necessary, of efforts by a number of industrialized countries to phase out their less economic ventures; and (d) renewed attention to the stabilization of prices of primary products through production agreements and creation of buffer stocks.

The Resolution of the Seventh Special Session of the UN General Assembly (No. S-VII 3362) refers to a number of problems in the area of international trade, including the following:

a. concerted actions for accelerated growth and diversification of the export trade of developing countries in manufactures and semi-manufactures as also processed and semi-processed products;

b. improvements of market structures in the field of raw material and commodities of export interest to the developing countries, and in this context, appropriate international stocking and other forms of market arrangements for securing stable, remunerative and equitable prices;

c. adequate international finance facilities for such stocking and market arrangements;

* * *

d. substantially improved facilities for compensatory financing of export earnings; and

e. improvements in the buffer stock financing facility of the IMF, including the possibility of providing assistance directly to international buffer stocks of primary products.

The UN General Assembly also called for studies on a priority basis of options open to the international community to preserve the purchasing power of developing countries, and, in this context, suggested that the UNCTAD should continue to study direct and indirect indexation schemes and other options. A preliminary study was also called for from the UNCTAD on the proportion between raw materials and commodities exported by developing countries and the final consumer price in developed countries.

The Committee has already recognized the need for effective measures to reduce fluctuations in prices and earnings of commodities which account for a larger portion of the exports of developing countries. In its meeting held in Washington in September 1975, the Committee decided to give priority attention to commodity questions, including possible measures for financing of buffer stocks, stabilization of export earnings and other efforts to assist the developing countries in the area of trade, and to begin its examination of these issues at its meeting in January 1976. It should also be recalled that the Committee had requested the IMF Executive Directors, in their work on the Trust Fund, to take into account suggestions which had been made, including the possible use of gold profits for stabilization of export earnings.

In view of the complexity of the subject and the ongoing consideration of its various aspects in other forums, the Committee may wish to focus attention at this time on some of the issues which are currently active in other forums and on which expression of view by the Committee would be of help in advancing consideration elsewhere.

The attached background paper describes in brief the integrated program proposed by the UNCTAD; the improvements in (1) compensatory financing facilities under consideration in the IMF, and (2) those proposed by the UNCTAD; (3) the Lomé Convention scheme for stabilization of export earnings (STABEX); the current (4) status of some individual commodity agreements and buffer stock financing; and the current (5) status of the multilateral trade negotiations in the GATT.

The purpose of this presentation is to provide the Committee with a basis for beginning its consideration of these questions and deciding on its general approach as well as on specific issues in the area which should form part of its future work. The Secretariat would suggest that the Committee might give consideration primarily to the financial aspects of the various proposals being discussed in other forums.

The UNCTAD Secretariat has proposed an integrated approach to the problem of stabilization of commodity prices and earnings which involves setting up a Common Fund for the purpose. The Committee might wish to consider the financial aspects of the Common Fund, subject to agreement being reached in the UNCTAD on the main elements of the proposed integrated approach and the associated international stocking arrangements.

The Committee might also wish to consider the present and prospective role of the IMF and the World Bank in the financing of buffer stocks.

In the area of compensatory financing, in addition to receiving a report from the Managing Director of the IMF on the proposed liberalization of the IMF Compensatory Financing Facility, the Committee might consider aspects of the UNCTAD proposals in this respect, a possible generalization of STABEX-type arrangements, and similar proposals.

The attached paper also refers to the financial aspects of national and international grain stocking arrangements which may be a subject for Committee consideration at an appropriate time in the future.

Attachment

Current Commodity Issues

(Background Paper)

I. Introduction

1. Commodity issues have been given attention in the past but they have acquired a new urgency on account of the situation following the rise in prices of oil and food grains and increased cost to the developing countries of imports of manufactures. There has been an increasing convergence of interest of both producers and consumers in seeking a solution to commodity problems. While producers seek assured markets at stable and remunerative prices, consumers are interested in security of supplies at reasonable prices.

2. Primary commodities account for over one-half of the exports of developing countries (excluding major oil exporters). Manufactured exports from some developing countries are increasing rapidly, but as the manufacturing sector is still small in most developing countries, especially in the poor countries, no significant decline in their dependence on primary commodity exports can be expected in the near future.

3. The export revenues of many developing countries depend mainly on a small number of primary commodities. Of 79 developing countries which are not major oil exporters, 55 depended for 40 per cent or more of their export receipts on only three of their major commodities in 1970-72. For 25 countries, the share of the single most important commodity in export revenues was 50 per cent or more (Annex Table I).

4. The poorest developing countries are the most dependent on primary commodities. The share of primary goods in total exports is projected to decline less in the case of nations with an annual GNP below $200 per capita than in other developing countries. Of 36 nations below $200 per capita, 27 derived between 41 and 100 per cent of all export revenues from their three main primary commodities in 1970-72.

5. For many commodities, short-run demand and supply elasticities are very low, with the result that small demand or supply changes can cause large short-term price fluctuations. Technological innovations have tended to exacerbate this situation.

6. These three factors taken together--dependency on a few commodities, price volatility, and slow growth prospects--represent the commodity problem of developing countries. The resulting large annual fluctuations and slow growth in export receipts do not provide the needed growth in foreign exchange earnings for a reasonable rate of economic development. Given the importance of the foreign exchange constraint in the present circumstances, and with the many uncertainties which already beset investment planning, increased stability in prices of primary commodities and the foreign exchange earnings of the developing countries is of great importance. Price stability is the principal

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objective of one of the three schemes considered in this note--the UNCTAD proposal; the other two--STABEX and the IMF Compensatory Financing Facility--are mechanisms to stabilize foreign exchange earnings. The UNCTAD proposal and the liberalization of the IMF Compensatory Financing Facility are under active discussion; the STABEX agreement has been signed but has not yet been ratified by all members. Meanwhile a number of individual commodity agreements have been negotiated or are under current negotiation. These and the related questions of the role of the IMF and the World Bank in providing finance for buffer stocks in such agreements are described in Section V. In addition, Section VI provides a brief summary of the status of the current multilateral trade negotiations in the framework of the GATT.

II. UNCTAD Integrated Program

7. There are three major elements of the integrated program proposed by the UNCTAD:

a. Stabilization of prices of major commodities of export interest to developing countries at an adequate level. ?

It is proposed to establish a system of internationally held and managed stocks as a major mechanism for this purpose, and to create a Common Fund for the financing of stocks specifically designed for this function. Supply management would also be applied where appropriate. Stabilization of export prices of developing countries at equitable levels in real terms is considered the core of the integrated program, which also aims at access to supplies of primary commodities for importing countries, with particular attention to essential foodstuffs and raw materials.

b. A substantial reform of the existing compensatory financing facility as a complementary measure to the stabilization of prices.

The scope of the present facility would be broadened to include partial reimbursement of increases in import costs, in addition to export shortfalls. It is also proposed that the facility be automatic, that drawings by the poorest countries take the form of grants, and that the drawings of all developing countries be made partly convertible into grants if their exports in real terms fail to recover over a defined period.

c. A renewed effort to increase the scope and degree of domestic processing of primary products in developing countries and to accelerate diversification of their production and export structure.

Diversification is of special relevance in the case of so-called weak commodities for which stabilization measures would not be adequate. While most of the effort would be of a domestic nature, a vigorous pursuit of the initiatives to eliminate obstacles to imports from developing countries would also be needed.

Common Fund

8. Among the advantages adduced by the UNCTAD Secretariat in favor of a Common Fund, with associated negotiation of a number of commodity arrangements, are that such an approach would: (a) reduce the difficulties in negotiation of single commodity arrangements by offering the possibility of distributing the benefits of a number of such arrangements equitably among different countries; (b) permit consideration of other associated problems such as erosion of purchasing power of commodity exports, distribution and marketing systems, etc.: and (c) reduce the cost of stocking arrangements since a system of interlinked buffer stocks would permit off-setting the cost of acquisition of stocks of some commodities in a given year by sale proceeds of other commodities. The UNCTAD Secretariat also considers the establishment of a Common Fund as essential if impetus is to be given to the building up of international stocks of major storable commodities.

9. Based on an examination of 10 products ("core" commodities) of major export interest to developing countries (coffee, cocoa, tea, sugar, cotton, rubber, jute, hard fibers, copper, and tin) (Annex Tables II and III) and an overall allowance for other export commodities of these countries (exclusive of grains), the UNCTAD Secretariat has estimated that $3 billion would be needed in the near future to provide support to those products recently experiencing depressed markets (Annex Table IV). Of this amount, it is suggested that $1 billion be provided as paid-up capital, and $2 billion as loans. An equivalent amount of both capital and borrowed funds (i.e., another $3 billion) is proposed to be on call if and when needed.

10. The UNCTAD proposal suggests that the exporting, importing and petroleum producing countries be major suppliers of finance, in varying proportions depending on the capital ownership structure. In addition, support would be sought from multilateral financial agencies in the form of loans and borrowing from the capital market is envisaged. A tentative schedule of country contributions to capital has been worked out in three alternatives: a tripartite capital structure (petroleum producing countries 25 per cent of capital and exporting and importing countries 37.5 per cent each); exporting and importing countries only, at 50 per cent of capital each, and exporting and importing countries only, with exporters having a majority (Annex Table V).

11. The primary function of the Common Fund would be to lend to individual commodity organizations as they need resources for acquisition of commodities. These organizations would repay the loans through the sale of products in stock. It is these organizations that would trade in individual commodities by buying and selling, and which would own and dispose of the stocks. As an exception from this principle, the fund would have the authority to intervene directly, for a limited period and under proper safeguards, in markets of commodities for which specific arrangements do not yet exist, so as to be able to provide emergency price support when needed. The ability of the fund to provide market support in critical situations would be of major importance for the catalytic role of the fund in stimulating new commodity arrangements.

12. The discussion of the issues of price stabilization and the Common Fund will have been at the meeting of the UNCTAD Committee on Commodities in December (subsequent to the preparation of this paper) when specific government

What happened

reactions to the UNCTAD proposal are expected. Subsequent discussions will be at the UNCTAD Trade and Development Board meeting in March 1976 and the UNCTAD Conference in Nairobi in May 1976.

Food grains

13. The current UNCTAD proposal does not include stocking arrangements for grains. It is recognized, however, that security of basic food grain supplies at reasonable prices, involving the creation of international stocks of wheat and rice, is in the interest of developing countries as importers. At the World Food Conference, the establishment of an International Undertaking on World Food Security was discussed. The Undertaking forms a system of national food reserves under internationally agreed rules. To date, 59 governments and the EEC, comprising 95 per cent of world grain exports and 50 per cent of imports, have subscribed to the objectives, policies, and guidelines of the Undertaking, while another 9 have announced their intention to do so. A total of 60 governments and the EEC have also become participants in the Global Information and Early Warning System for Food and Agriculture. Recently, new proposals have been made for international reserves of food grains. These proposals are still under consideration. At an appropriate stage, the financial aspects of international arrangements for grain stocks would need to be considered and in that context attention given to the desirability and feasibility of international financing of food grain reserves whether held internationally or created and held nationally. Such financing would be of particular help for developing countries participating in such arrangements.

III. Compensatory Financing

The present IMF facility

14. The IMF Compensatory Financing Facility was established in 1963 to provide balance of payments support to member countries experiencing shortfalls in primary export receipts caused by circumstances beyond their control. The Facility is intended to address temporary disturbances in balance of payments rather than structural disequilibria of a long-term character.

15. Purchases under the Compensatory Financing Facility must be repaid within three to five years and are subject to:

- quota limits under which purchases during any single year cannot exceed 25 per cent of the member's quota, except in cases of disasters where the limit could be raised from 25 per cent to 50 per cent, which is the maximum of outstanding drawings. Moreover, the sum of the outstanding drawing under the Compensatory and Buffer Stock Facility cannot exceed 75 per cent of the member's quota;

- upper-forecast limit, which limits compensable shortfalls. Compensable shortfalls are calculated by subtracting nominal export earnings in the shortfall year from the average of nominal export earnings in the two pre- and two post-shortfall years. The two post-shortfall years are forecast by the Fund staff, but the average of the two forecast years must not exceed the average of the two pre-forecast years by more than 10 per cent. Thus, a member is not eligible for compensation if its nominal earnings in the shortfall year exceed its average nominal earnings in the two preceding years by more than 5 per cent. This limit has become very restrictive with high inflation rates.

16. Since the Facility was established in 1963, 32 countries have purchased a total of SDR 1050 million. The financial transactions under this scheme are shown in Annex Tables VI and VII. The figures apply to the 95 developing countries that have IMF quotas.

Proposals under discussion

17. There are several proposals for the liberalization of the IMF Compensatory Financing Facility now under consideration. These involve essentially measures to expand the definition of eligibility and the amount which may be drawn. Particular attention is given to the effect of inflation. Proposals include raising or eliminating altogether the upper forecast limit, expressing export earnings in real rather than in nominal terms, and raising the quota limits on both the total amount outstanding and the maximum annual drawing. Consideration is also being given to special provisions for the poorest countries.

18. The proposals for the modification of the IMF Facility do not include some of the elements in the UNCTAD proposal of improvement in compensatory financing. The UNCTAD proposal would give a choice in the calculation of shortfalls--either the total of all merchandise exports or the total of all commodity exports of the drawing country. It would also dispense with the criterion of balance-of-payments need and limits based on a country's quotas in the IMF. It would also include liberal provisions for amounts and terms of compensation. The UNCTAD proposal provides that export shortfalls should be calculated in real purchasing power terms, with nominal values of exports being deflated by an index of prices of the drawing country's imports.

IV. Stabilization of Export Earnings by the European Community

19. The Lomé Convention of February 1975 between the European Community and 46 African, Caribbean and Pacific states (Annex Table VIII) introduced a scheme for the stabilization of export earnings from individual commodities (STABEX). Eleven basic agricultural commodities and products made from them, plus iron-ore, which comprise together 29 primary goods, are covered by the scheme (Annex Table IX). Other commodities can be included in the future. If export receipts for one of the covered commodities is at least 7.5 per cent of

national exports, the government may request compensation payments in the case of a shortfall of at least 7.5 per cent of the preceding four years' average earnings of that commodity to the Community.1/ Compensation will be subject to determination by the European Community that the shortfall in question is the result of normal short-run fluctuations in prices and/or volumes.

20. The STABEX budget is 375 million units of account divided in five equal annual installments starting in 1975. Up to 20 per cent of annual installments may be used in advance and unspent balances of each individual tranch are automatically carried over to the following year. These resources form a part of the European Development Fund, with contributions made by the nine member states of the European Community. In addition, 25 million units of account may be made available for STABEX transfers to overseas territories of member countries. Transfers from STABEX are free of interest and recipients are free to decide on the use of their transfers and, except for the 34 least developed, land-locked or island states, the transfers are repayable if the unit value and volume of exports exceed their respective reference levels, the repayment being equal to the reference quantity multiplied by the difference between the reference unit value and the actual unit value.

21. If the STABEX transfers have not been reconstituted after five years, the European Community can decide if outstanding sums are to be waived or have to be repaid wholly or in part. In deciding this the Community will take into account the debtors' balance of payments, reserves, and general debt situation.

22. STABEX covers the 46 ACP states which comprise about half the UN's Third World members but contain only about 14 per cent of the population of the developing countries. However, the associated states include 34 of the least-developed, land-locked, or island states, 17 of the 25 least developed countries, and 24 of the 42 "most seriously affected" countries.

23. STABEX includes 5 out of the 10 core commodities of the UNCTAD proposal2/ plus iron-ore. One of the core commodities, sugar, is not covered by STABEX, but the European Community has undertaken to buy up to 1,375,000 metric tons annually from the ACP states at guaranteed prices, though the Community reserved the right to export sugar.

24. The total value of the 18 most important STABEX commodities imported by the European Community from ACP states in 1973 amounted to $2.4 billion.

1/ There are some important exceptions to these conditions, especially for the 34 least-developed, land-locked, and island states among the 46 ACP countries. For the 34, both the minimum share of the commodity in total exports, and the minimum compensable shortfall below the average earnings of the preceding four years, are only 2.5 per cent.

2/ Coffee, cocoa, tea, cotton, and hard fibers.

Of 33 ACP states most dependent on export of commodities to the European Community, 18 are dependent for at least 40 per cent of total export earnings on STABEX products. For 13 nations, dependence is at least 60 per cent.

25. The amounts of its compensatory payments may be affected by inflation since the difference between actual earnings in the year for which a transfer is requested and the average earnings of the preceding four years are based on nominal prices. With a high rate of inflation the eligibility threshold may not be reached even though export earnings in real terms decline.

V. Individual Commodity Arrangements and Buffer Stock Financing

26. A number of individual commodity agreements have been under negotiation in recent months. In mid-1975 the Fifth International Tin Agreement was negotiated and is to become effective on July 1, 1976. The proposal to double the size of the Tin Buffer Stock with compulsory contributions from consuming members was, however, not agreed to by such members. The international Coffee Agreement will expire in September 1976 and a new six-year agreement has recently been negotiated to come into effect, after ratification, on October 1, 1976. Similarly, negotiations for a new International Cocoa Agreement have been concluded, and discussions are in progress for the renewal of the International Sugar Agreement. Arrangements among producing members have been discussed for bauxite, coffee, iron-ore, rubber, and bananas. Buffer stocks have been proposed for rubber and copper and exploration is in progress for a joint copper agreement involving both producers and consumers. If such a latter agreement were to materialize, substantial financial need for a possible stocking arrangement might arise. At present, however, the only active case of an international producer-consumer agreement with a possible financial need for buffer stocks is the Tin Agreement.

27. In the context of these developments, and pending consideration of the UNCTAD integrated program, financial support from multilateral institutions for buffer stocks in such agreements acquires importance.

28. The World Bank has not provided any finance for buffer stocks. The management of the Bank has indicated a willingness to consider such financing if an appropriate request were received, and to place the matter before its Executive Board.

29. The IMF Buffer Stock Financing Facility was created in 1969 as a means of assisting Fund members in the financing of buffer stock schemes under international agreement. The Fund decided to apply the Facility to the Tin and Cocoa Agreements. However, drawings have only been made in respect of contributions to the Tin Buffer Stock. Total drawings by five countries amounted to SDR 30 million, of which SDR 7.5 million is outstanding. The

proposed amendment to the Articles of Agreement would allow buffer stock drawings to float in the gold tranche, in the same way as compensatory drawings. This liberalization will become effective only after ratification of the amendments to the Articles of Agreement. Consideration is currently being given to the possibility of abolishing the joint limit on drawings under the Compensatory and Buffer Stock Facilities. A proposal to amend the Articles of Agreement to allow direct lending to international buffer stock agencies did not meet with general approval.

VI. Multilateral Trade Negotiations

30. The ongoing multilateral trade negotiations (MTN) cover various commodities of interest to developing countries. At present, the negotiations are still in an exploratory stage. Six main subject groups have been formed: Agriculture, Tropical Products, the Sector Approach, Tariffs, Non-Tariff Barriers, and the Multilateral Safeguard System.

Tariffs and tariff preferences

31. Developed nations advocate either a linear (across-the-board) tariff cut, or reducing higher tariffs proportionately more than lower ones (harmonization approach). Developing nations prefer to determine tariff cuts for each item separately. The main objectives of the developing countries are to protect the principle of non-reciprocity embodied in the Tokyo Declaration and to avoid erosion of the preferential tariff concessions made as part of the Generalized System of Preferences (GSP). Although the present GSP concerns mainly manufactured and semi-manufactured goods, certain primary commodities also enjoy GSP benefits in importing countries. The developing countries are advocating improvement of GSP by extension to agricultural products, removal of quantitative restrictions and a further reduction of preferential rates to zero.

Tropical Products

32. About 25 developing countries have submitted to the GATT Secretariat a list of liberalization requests concerning primary, semi-processed, and processed tropical goods. Because of the importance of tropical goods for their economies, the developing countries have urged that progress on these products should be greater than on other goods, and occur sooner. Since there seems to be agreement in principle on the need for early implementation of measures for tropical goods, some action on tropical goods may take shape in the first half of 1976.

Products subject to the Sector Approach

33. The Sector Approach group contains selected products for which coordinated reduction of all forms of barriers is sought. It has been agreed that certain resource-based products, such as ores and metals, should be included. Substantial progress with sectoral trade liberalization, which is a complementary negotiation method, will probably have to await progress in other groups.

Annex Tables I - IX

Development Committee
Executive Secretariat
December 15, 1975

COMMODITY CONCENTRATION OF LDC EXPORTS, 1970-72

MIDDLE-HIGH INCOME COUNTRIES
(More than $200)

	Export Value Of 3 Most Important Commodities ($ Million)	Percent Of Total Exports
Mauritius		
1. Sugar	71	89
2. Manganese ore	5	6
3. Tea	3	4
Subtotal	79	99
Zambia		
1. Copper	765	94
2. Zinc	13	2
3. Lead	7	1
Subtotal	785	97
Equatorial Guinea		
1. Cocoa	15	68
2. Coffee	6	27
Subtotal	21	95
Liberia		
1. Iron ore	165	73
2. Rubber	35	15
3. Timber	7	3
Subtotal	207	91
Chile		
1. Copper	731	72
2. Iron ore	60	6
3. Fishmeal	19	2
Subtotal	810	80
Panama		
1. Bananas	65	68
2. Sugar	7	7
3. Beef	2	2
Subtotal	74	77
Colombia		
1. Coffee	425	65
2. Cotton	32	5
3. Sugar	20	3
Subtotal	477	73
Ghana		
1. Cocoa	240	62
2. Timber	36	9
3. Manganese ore	8	2
Subtotal	284	73
Ivory Coast		
1. Coffee	161	33
2. Timber	106	22
3. Cocoa	88	18
Subtotal	355	73
Congo		
1. Timber	23	59
2. Sugar	4	10
3. Hides/skins	1	3
Subtotal	28	72
Honduras		
1. Bananas	89	49
2. Coffee	27	15
3. Timber	13	7
Subtotal	129	71
Dominican Republic		
1. Sugar	143	53
2. Coffee	23	9
3. Tobacco	19	7
Subtotal	185	69
Malaysia		
1. Rubber	503	31
2. Tin	318	19
3. Timber	284	17
Subtotal	1105	67
Costa Rica		
1. Coffee	71	29
2. Bananas	69	28
3. Beef	22	9
Subtotal	162	66
Fiji		
1. Sugar	39	56
2. Coconut oil	5	7
Subtotal	44	63
Vietnam		
1. Rubber	5	63
Subtotal	5	63
El Salvador		
1. Coffee	103	42
2. Cotton	29	12
3. Sugar	12	5
Subtotal	144	59
Egypt		
1. Cotton	372	49
2. Rice	62	8
3. Sugar	9	1
Subtotal	443	58
Cameroon		
1. Coffee	55	25
2. Cocoa	50	23
3. Timber	20	9
Subtotal	125	57
Peru		
1. Fishmeal	269	28
2. Copper	208	22
3. Sugar	71	7
Subtotal	548	57
Uruguay		
1. Beef	73	33
2. Wool	45	21
3. Rice	6	3
Subtotal	124	57
Philippines		
1. Timber	237	21
2. Sugar	210	19
3. Copper	187	16
Subtotal	634	56
Syria		
1. Cotton	83	48
2. Wheat	5	3
3. Wool	4	2
Subtotal	92	53
Guyana		
1. Sugar	44	31
2. Bauxite	19	13
3. Rice	11	8
Subtotal	74	52
Nicaragua		
1. Cotton	48	24
2. Coffee	31	16
3. Beef	23	12
Subtotal	102	52
Guatemala		
1. Coffee	103	34
2. Cotton	30	10
3. Beef	16	5
Subtotal	149	49
Senegal		
1. Groundnut oil	49	31
2. Phosphate	14	9
3. Groundnuts	7	5
Subtotal	70	45
Jamaica		
1. Bauxite	89	26
2. Sugar	39	11
3. Bananas	12	4
Subtotal	140	41
Brazil		
1. Coffee	891	28
2. Iron ore	226	7
3. Sugar	167	5
Subtotal	1284	40
Argentina		
1. Beef	315	17
2. Maize	260	14
3. Wheat	93	5
Subtotal	668	36
Paraguay		
1. Timber	10	14
2. Beef	8	11
3. Tobacco	6	8
Subtotal	24	33
Thailand		
1. Maize	96	11
2. Rubber	95	11
3. Tin	77	9
Subtotal	268	31
Morocco		
1. Phosphate	125	23
2. Lead	13	2
3. Cotton	5	1
Subtotal	143	26
Sierra Leone		
1. Iron ore	12	12
2. Beef	7	7
3. Coffee	7	7
Subtotal	26	26
Trinidad & Tobago		
1. Sugar	25	21
2. Cocoa	3	2
3. Coffee	2	2
Subtotal	30	25
Jordan		
1. Phosphate	7	18
Subtotal	7	18
Mexico		
1. Sugar	94	6
2. Coffee	77	5
3. Cotton	74	5
Subtotal	245	16
Cyprus		
1. Copper	17	14
2. Tobacco	1	1
Subtotal	18	15
Tunisia		
1. Phosphate	21	12
2. Lead	4	2
3. Iron ore	2	1
Subtotal	27	15
Bahamas		
1. Timber	6	9
2. Sugar	2	3
Subtotal	8	12
Taiwan		
1. Sugar	64	3
2. Bananas	35	2
3. Timber	25	1
Subtotal	124	6
Lebanon		
1. Hides/skins	7	3
2. Wool	4	1
3. Tobacco	3	1
Subtotal	14	5
Korea		
1. Tobacco	14	1
2. Iron ore	3	-
Subtotal	17	1

LOW INCOME COUNTRIES
(Less than $200)

	Export Value Of 3 Most Important Commodities ($ Million)	Percent Of Total Exports
Nepal		
1. Rice	34	85
2. Timber	3	7
3. Jute	2	5
Subtotal	39	97
Uganda		
1. Coffee	146	59
2. Cotton	50	20
3. Copper	20	8
Subtotal	216	87
Burundi		
1. Coffee	17	74
2. Cotton	2	9
3. Hides/skins	1	4
Subtotal	20	87
Togo		
1. Cocoa	18	35
2. Phosphate	17	33
3. Coffee	9	18
Subtotal	44	86
Sri Lanka		
1. Tea	194	59
2. Rubber	60	19
3. Coconut oil	21	6
Subtotal	275	84
Khmer Republic		
1. Rice	14	61
2. Rubber	3	13
3. Timber	2	9
Subtotal	19	83
Rwanda		
1. Coffee	13	59
2. Tin	4	18
3. Tea	1	5
Subtotal	18	82
Chad		
1. Cotton	20	65
2. Beef	4	13
3. Hides/skins	1	3
Subtotal	25	81
Gambia		
1. Groundnuts	8	50
2. Groundnut oil	5	31
Subtotal	13	81
Laos		
1. Timber	4	80
Subtotal	4	80
Mauritania		
1. Iron ore	73	77
2. Rubber	2	2
3. Fishmeal	1	1
Subtotal	76	80
Zaire		
1. Copper	449	68
2. Coffee	38	6
3. Zinc	25	4
Subtotal	512	78
Yemen A.R.		
1. Coffee	1	25
2. Cotton	1	25
3. Hides/skins	1	25
Subtotal	3	75
Burma		
1. Rice	53	44
2. Timber	29	25
3. Rubber	3	3
Subtotal	85	72
Malawi		
1. Tobacco	30	42
2. Tea	14	20
3. Groundnuts	7	10
Subtotal	51	72
Bolivia		
1. Tin	102	53
2. Silver	15	8
3. Zinc	14	7
Subtotal	131	68
Sudan		
1. Cotton	199	61
2. Groundnuts	23	7
Subtotal	222	68
Haiti		
1. Coffee	19	44
2. Bauxite	7	16
3. Sugar	3	7
Subtotal	29	67
Ethiopia		
1. Coffee	74	54
2. Sugar	2	1
3. Bananas	1	1
Subtotal	77	56
Central African Rep.		
1. Cotton	9	27
2. Coffee	7	21
3. Timber	2	6
Subtotal	18	54
Kenya		
1. Coffee	62	30
2. Tea	40	19
3. Sisal	5	2
Subtotal	107	51
Niger		
1. Groundnuts	15	37
2. Groundnut oil	5	12
3. Hides/skins	1	2
Subtotal	21	51
Upper Volta		
1. Cotton	7	38
2. Groundnuts	1	6
3. Beef	1	6
Subtotal	9	50
Bangladesh		
1. Jute	115	36
2. Tea	35	11
3. Tobacco	1	1
Subtotal	151	48
Dahomey		
1. Cotton	7	19
2. Cocoa	6	16
3. Palm oil	3	8
Subtotal	16	43
Mali		
1. Cotton	8	26
2. Groundnuts	4	12
3. Groundnut oil	1	4
Subtotal	13	42
Tanzania		
1. Coffee	43	17
2. Cotton	39	6
3. Sisal	21	9
Subtotal	103	42
Malagasy Republic		
1. Coffee	40	27
2. Rice	7	5
3. Beef	6	4
Subtotal	53	36
Somalia		
1. Bananas	10	28
2. Hides/skins	3	8
Subtotal	13	36
Lesotho		
1. Wheat	1	17
2. Wool	1	17
Subtotal	2	34
Swaziland		
1. Iron ore	16	21
2. Timber	4	5
Subtotal	20	26
Yemen P.D.R.		
1. Cotton	4	18
2. Hides/skins	1	4
3. Coffee	1	4
Subtotal	6	26
Guinea		
1. Coffee	6	11
2. Timber	4	7
3. Bananas	2	4
Subtotal	12	22
Pakistan		
1. Cotton	70	11
2. Rice	43	6
3. Tobacco	30	4
Subtotal	143	21
Afghanistan		
1. Cotton	11	12
2. Wool	6	7
3. Hides/skins	1	1
Subtotal	18	20
India		
1. Tea	204	10
2. Iron ore	154	7
3. Tobacco	58	3
Subtotal	416	20

Source: The World Bank

Annex
Table I

ANNEX
Table II

UNCTAD PROPOSAL

TOP FIFTEEN COUNTRY PERCENTAGE SHARES
IN EXPORTS AND IMPORTS OF TEN "CORE"
COMMODITIES,a/ 1970-73 AVERAGE

Exports		Imports	
Country	Percentage Share	Country	Percentage Share
Brazil	9.4	United States	17.5
Malaysia	5.4	Japan	13.5
Zambia	5.0	Germany, F.R.	8.6
Chile	4.6	United Kingdom	7.7
Cuba	4.5	France	6.1
Canada	3.6	Italy	5.5
Zaire	3.5	U.S.S.R.	3.5
United States	3.5	China	2.5
India	3.3	Canada	2.0
Colombia	3.1	Spain	1.9
U.S.S.R.	2.9	Netherlands	1.9
Philippines	2.7	Germany, D.R.	1.5
Indonesia	2.6	Belgium	1.5
Egypt	2.4	Czechoslovakia	1.4
Peru	2.3	Sweden	1.3
	58.8		74.5

a/ Coffee, cocoa, tea, sugar, cotton, jute, hard fibers, rubber, copper and tin.

Source: UNCTAD, A common fund for the financing of commodity stocks: suitability for stocking of individual commodities, country contributions and burden sharing, and some operating principles, TD/B/C.1/196, 6 October 1975.

ANNEX
Table III

UNCTAD PROPOSAL

COUNTRY DISTRIBUTION BY INCOME LEVEL OF EXPORTS AND IMPORTS OF TEN "CORE" COMMODITIES

Country Group Based on per Capita GNP	Percentage Share in Exports	Percentage Share in Imports
Up to $100 per capita GNP	9.4	0.8
From $101 to $200	14.3	5.1
From $201 to $300	10.4	1.3
	34.1	
From $301 to $400	15.0	3.2
From $401 to $500	13.4	1.2
From $501 to $700	12.2	1.0
From $701 to $800	7.5	1.6
From $801 to $900	2.0	2.3
From $901 to $1,200	0.7	0.7
	50.8	
From $1,201 to $1,300	0.6	2.9
From $1,301 to $1,500	0.5	2.2
From $1,501 to $2,000	3.1	10.4
From $2,001 to $2,500	0.1	17.2
From $2,501 to $3,000	2.2	11.5
From $3,001 to $4,000	1.9	18.5
Above $4,000	7.1	21.1
Total	100.0	100.0

Source: UNCTAD, A common fund for the financing of commodity stocks: suitability for stocking of individual commodities, country contributions and burden sharing, and some operating principles, TD/B/C.1/196/Add.1, 7 October 1975.

UNCTAD PROPOSAL

Estimated Finance Needed for Stock Acquisition:

"Core" Commodities

($ billion)

A. Commitments and possible near-term disbursements		
	Coffee	1.10
	Copper	1.10
	Rubber	0.21
	Tea	0.09
	Tin[a]	0.27
	Total	2.77
B. Commitments only		
	Sugar	1.20
	Cotton	0.60
	Cocoa[a]	0.33
	Jute and manufactures	0.16
	Hard fibers	0.06
	Total	2.35
	Grand total commitments:	5.12

Source: UNCTAD (TD/B/C.1/184, Table III)

a/ A part of these funds has already been paid by the producers under the existing commodity arrangements.

ANNEX
Table V

UNCTAD PROPOSAL

Common Fund: Illustrative Capital Structures
($ million)

Alternative A: Tripartite Structure

	Paid-up	On Call	Total
1. Capital	1,000	1,000	2,000
Exporting countries) Importing countries) Petroleum-exporting countries)	1,000	1,000	2,000
2. Borrowing from:	2,000	2,000	4,000
Importing countries) Petroleum-exporting countries)	1,755	1,755	3,510
Int. and regional agencies and exporting countries	245	245	490
3. Total resources	3,000	3,000	6,000

Alternative B: Exporters and Importers, Equal Capital Shares

	Paid-up	On Call	Total
1. Capital	1,000	1,000	2,000
Exporting countries	500	500	1,000
Importing countries	500	500	1,000
2. Borrowing from:	2,000	2,000	4,000
Importing countries	938	938	1,875
Petroleum-exporting countries	817	817	1,635
Int. and regional agencies and exporting countries	245	245	490
3. Total resources	3,000	3,000	6,000

Alternative C: Exporters and Importers, Exporters' Majority Capital Share

	Paid-up	On Call	Total
1. Capital	1,000	1,000	2,000
Exporting countries	527	527	1,055
Importing countries	473	473	945
2. Borrowing from:	2,000	2,000	2,000
Importing countries	695	695	1,390
Petroleum-exporting countries	1,005	1,005	2,010
Int. and regional agencies and exporting countries	300	300	600
3. Total resources	3,000	3,000	6,000

Source: UNCTAD (TD/B/C.1/184, Table 6.)

THE IMF COMPENSATORY FINANCING FACILITY

PURCHASES AND REPURCHASES BY COUNTRY AND INCOME GROUP, FEBRUARY 7, 1963-SEPTEMBER 30, 1975
(in millions of SDRs)

		Country	Per Caput Income (1972)	Purchases	Repurchases	Net Outstanding
Per Caput Income Below 130						
	LLDC	Rwanda	60			
*		Bangladesh	70	62.5	-	62.5
	LLDC	Burundi	70	2.5	2.5	-
*	LLDC	Mali	70			
*	LLDC	Upper Volta	70			
	LLDC	Afghanistan	80	4.8	4.8	-
*	LLDC	Chad	80			
*	LLDC	Ethiopia	80			
	LLDC	Nepal	80			
*	LLDC	Somalia	80			
		Burma	90	29.0	9.5	19.5
*	LLDC	Guinea	90	6.0	-	6.0
		Indonesia	90			
*	LLDC	Lesotho	90			
*	LLDC	Niger	90			
*	LLDC	Yemen A.R.	90			
	LLDC	Malawi	100			
*		Yemen P.D.R.	100			
		Zaire	100	28.2	-	28.2
*	LLDC	Dahomey	110			
*		India	110	152.0	90.0	62.0
*		Sri Lanka	110	82.75	42.05	40.7
*		Khmer Republic	120	12.5	-	12.5
*	LLDC	Sudan	120	29.25	11.25	18.0
*	LLDC	Tanzania	120			
*	LLDC	Haiti	130	2.3	2.3	-
*	LLDC	Laos	130			
		Nigeria	130			
*		Pakistan	130			
		Subtotal		411.8	162.4	249.4
Per Caput Income Between 130-375						
		Gambia, The	140			
*		Malagasy Republic	140			
	LLDC	Uganda	150			
	LLDC	Western Samoa	150			
*		C.A.R.	160			
		Togo	160			
*		Kenya	170			
		Vietnam	170			
*		Mauritania	180			
*		Sierra Leone	190			
		Bolivia	200			
*		Cameroon	200			
		Liberia	220			
		Philippines	220	38.75	9.69	29.06
		Thailand	220			
	LLDC	Botswana	240			
		Egypt, Arab Republic of	240	86.0	39.0	47.0
		Equatorial Guinea	240			
*		Senegal	260			
		Swaziland	260			
		Jordan	270	7.35	7.35	-
		Morocco	270			
		Congo PDR	300			
*		Ghana	300	17.25	17.25	-
		Mauritius	300			
		Korea	310			
*		Honduras	320			
		Paraguay	320			
		Syrian Arab Republic	320	22.0	22.0	-
*		El Salvador	340	6.25	6.25	-
*		Ivory Coast	340			
		Ecuador	360	6.25	6.25	-
		Iraq	370	17.5	17.5	-
		Turkey	370			
		Subtotal		201.35	125.29	76.06

Country		Per Caput Income (1972)	Purchases	Repurchases	Net Outstanding
Per Caput Income Between 375-700					
	Tunisia	380			
	Zambia	380	38.0	19.0	19.0
*	Guyana	390	5.0	5.0	-
	Colombia	400	20.8	20.8	-
	Guatemala	420	5.25	5.25	-
	Algeria	430			
	Malaysia	430			
	Dominican Republic	470	6.6	6.6	-
	Nicaragua	470			
	China	490			
	Iran	490			
	Fiji	500			
	Peru	520	30.75	30.75	-
	Brazil	530	60.0	60.0	-
	Oman	530			
	Costa Rica	620			
	Bahrain	670			
	Lebanon	700			
	Subtotal		166.4	147.4	19.0
Per Caput Income Above 700					
	Mexico	750			
	Uruguay	760	26.75	9.52	17.23
	Chile	800	79.0	3.0	76.0
	Jamaica	810	13.3	-	13.3
	Romania	810			
	Yugoslavia	810			
	Panama	880			
	Gabon	880			
	Trinidad and Tobago	970			
	Cyprus	1180			
	Spain	1210			
	Venezuela	1240			
	Argentina	1290	64.0	-	64.0
	Singapore	1300			
	Greece	1460			
	Ireland	1580			
	Bahamas	2240			
	New Zealand	2560	79.7	29.2	50.5
	Israel	2610			
	Iceland	2810	7.5	7.5	-
	Finland	2810			
	Subtotal		270.25	49.22	221.03
Total LDCs under $200/cap.			411.8	162.4	249.4
Total MSAs			375.8	174.1	201.7
Total Least Developed Countries (LLDCs)			44.85	20.85	24.0
Grand Total			1049.80	484.31	565.49

Footnotes:

* Most severely affected nation (MSA)
LLDC Least Developed Countries

Sources: International Financial Statistics, November 1975
World Bank Atlas, 1974

IMF COMPENSATORY FINANCING FACILITY
ANNUAL GROSS PAYMENTS AND REPAYMENTS
(in millions of SDRs)

Year	Payments	Repayments	Total Amount Outstanding
1963	76.0	-	76.0
1964	-	-	76.0
1965	11.3	-	87.3
1966	23.9	15.5	95.7
1967	198.2	32.5	261.4
1968	68.5	78.4	251.5
1969	12.5	37.3	226.7
1970	2.5	97.1	132.1
1971	69.5	69.9	131.7
1972	299.4	50.6	380.5
1973	113.5	34.4	459.6
1974	107.2	32.0	534.8
1975 1/	68.5	36.7	566.6
Total 2/	1051.0	484.4	566.6

1/ As of September 30
2/ These totals are slightly different from Annex Table VI due to rounding.
Source: International Financial Statistics, November 1975, pp. 13 and 15. IMF Annual Report 1975, p.80.

DEVELOPING COUNTRIES ASSOCIATED UNDER THE LOME CONVENTION
BY WORLD BANK REGION

	Per capita income in 1972 in US dollars
Latin America	
Guyana	400
Grenada	420
Barbados	800
Jamaica	810
Trinidad and Tobago	970
Bahamas	2240
West Africa	
Upper Volta	70
Chad	80
Mali	80
Guinea	90
Niger	90
Dahomey	110
Nigeria	130
Gambia	140
Central African Republic	160
Togo	160
Mauritania	180
Sierra Leone	190
Cameroon	200
Guinea-Bissau	230
Equatorial Guinea	240
Liberia	250
Senegal	260
Congo	300
Ivory Coast	340
Gabon	880

	Per capita income in 1972 in US dollars
East Africa	
Rwanda	60
Burundi	70
Ethiopia	80
Somalia	80
Lesotho	90
Malawi	100
Zaire *	100
Sudan	120
Tanzania	120
Madagascar	140
Uganda	150
Kenya	170
Botswana	240
Swaziland	260
Mauritius *	300
Zambia	380
East Asia	
Western Samoa **	150
Tonga **	320
Fiji **	500

* For administrative reasons, this country is classified in the East Africa Region

** For administrative reasons, this country is classified in the East Asia Region

COMMODITIES COVERED BY STABEX

a. Groundnut products
   - groundnuts, shelled or unshelled
   - groundnut oil
   - groundnut oilcake

b. Cocoa products
   - cocoa beans
   - cocoa paste
   - cocoa butter

c. Coffee products
   - raw or roasted coffee
   - extracts, essences or concentrates of coffee

d. Cotton products
   - cotton, not carded or combed
   - cotton linters

e. Coconut products
   - coconuts
   - copra
   - coconut oil
   - coconut oilcake

f. Palm, palm nut and kernal products
   - palm oil
   - palm nut and kernel oil
   - palm nut and kernel oilcake
   - palm nuts and kernels

g. Raw hides, skins and leather
   - raw hides and skins
   - bovine cattle leather
   - sheep and lamb skin leather
   - goat and kid skin leather

h. Wood products
   - wood in the rough
   - wood roughly squared or half-squared, but not further manufactured
   - wood sawn lengthwise, but not further prepared

i. Fresh bananas

j. Tea

k. Raw sisal

l. Iron ore

6

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

DC/75-27

November 21, 1975

WORKING GROUP ON ACCESS TO CAPITAL MARKETS
INTERIM REPORT TO THE DEVELOPMENT COMMITTEE

1. The Committee at its third meeting in June 1975 established the Working Group on Access to Capital Markets, consisting of representatives of 12 members of the Committee, in order to make a review of regulatory and other constraints affecting access to capital markets, and also to study further proposals to support developing countries' access to private markets, including the use of multilateral guarantees.

2. Since its establishment, the Working Group has held three meetings, on July 31-August 1, October 9-10, and November 20-21. All designated members were represented at these meetings. In addition, the meetings benefited from the participation of representatives of other members of the Committee who are not members of the Group, a number of Executive Directors of the Bank and the Fund, and members of the staff of the Bank, the Fund, and the International Finance Corporation. The last two meetings were attended as well by observers from the Inter-American Development Bank (also representing the African and Asian Development Banks), the Commission of the European Communities, the Organization for Economic Cooperation and Development and the Development Assistance Committee, the United Nations, and the United Nations Conference on Trade and Development.

3. Following its first meeting, the Working Group submitted to the Committee's fourth meeting, on September 3, 1975, a "Status Report" on its initial activities (DC/75-21, dated August 15, 1975). It was indicated in that Report that the Group had given attention to two substantive areas: measures to support access to capital markets, including the possible use of multilateral guarantees, on which the Working Group had requested additional material as a basis for its continuing discussion; and the question of regulatory and other similar constraints on access to capital markets, which the Group planned to review on the basis of a report to be prepared by the Secretariat by early 1976. In accordance with this general plan of work, the Working Group devoted its second meeting to an informal seminar with the

* * *

participation of seven representatives of banks and other institutions active internationally in private capital markets. This seminar meeting provided the Working Group with an opportunity to make a wide-ranging survey of the present situation and prospects for developing country access to various segments of the capital market, as well as to exchange views with market representatives on the nature and potential impact of various possible measures which might be considered to improve market access. This background was used as the basis for additional material prepared by the Secretariat for discussion at the Working Group's third meeting, which concentrated on possible measures to improve developing country access to capital markets, including the use of multilateral guarantees, and on the lines of future work to be undertaken by the Group.

4. While legal limitations and several other factors have not yet been considered by the Working Group, preliminary analysis appears to indicate that among the most important limitations on developing country access to private capital markets are the market assessment of creditworthiness and the lack of knowledge among potential investors. These limitations are particularly severe in the market for long-term fixed-interest bonds, which is the type of finance developing countries urgently need. Although a great volume of resources flows annually through the various national bond markets and the Euro-bond market, only a few developing countries have borrowed relatively small amounts in these markets. The bulk of the capital market resources flowing to the developing countries in recent years has been through the medium-term loan market. These resources have been provided primarily by banks, which are better able to assess risks than are investors in the long-term bond markets.

5. In the course of its deliberations, the Working Group has identified a number of difficulties in the way of expanding and improving developing country access to capital markets, and a work program designed to address each of these in detail has been prepared.

6. Restrictive regulations and practices, as an aspect of the overall problem of developing country access to capital markets, were discussed at the first meeting of the Working Group, and are the subject of a work program adopted at that meeting. A report will be presented to the Working Group in the early part of 1976 on the existing situation with respect to laws, regulations and practices affecting developing country access to capital markets, identifying impediments which would warrant the particular attention of the Group.

7. The Working Group has given priority attention to the consideration of possible use of multilateral guarantees as a measure to directly support developing country access to capital markets. The Working Group has examined a number of aspects and critical issues which would arise in the consideration of multilateral guarantees, including a definition of their objectives, the need for reasonable assurance that additional resources could be generated for developing countries, and various institutional aspects. Since many aspects,

including the question of cost, of such guarantees would require further elaboration, the Working Group is generally of the view that the study should be continued. The Working Group agreed that the essential objective should be to make market access possible for some of the developing countries, particularly among the middle and higher-income groups. A second objective should be to assist such developing countries to establish suitable credit standing so as eventually to enable them to raise additional funds in these markets without the need for such guarantees. The Working Group also agreed that consideration should be given to the advantages and disadvantages of providing such guarantees by an active use of the existing guarantee authority of the World Bank and regional development banks.

8. Among the obstacles to developing country access to capital markets noted in the Working Group's seminar meeting with the experts, the lack of active and broad secondary markets which would endow foreign securities with the liquidity desired by investors was frequently mentioned. The Group believes that the lack of active and broad secondary markets poses a major problem in promoting the access of developing countries to private markets. The Group intends to give priority to a study of this problem, as well as techniques of dealing with it, drawing on the advice of institutions and private market experts.

9. The Working Group heard reports from the World Bank and Inter-American Development Bank, as well as the views of experts from private capital markets, on recent co-financing arrangements, that is, measures designed to promote a greater association of private capital with projects financed by the international and regional development banks. The Working Group concluded that such arrangements not only promote additional flows of private capital to developing countries directly, but also assist in stimulating increased future flows by introducing new lenders to developing country borrowers. The Working Group suggests that the Development Committee urge the World Bank and the regional development banks to expand such arrangements as rapidly as possible--including efforts to expand their geographical and institutional coverage--and report on their efforts.

10. The Working Group also agreed on the importance of immediate action to expand technical assistance to developing countries seeking market access, and noted certain announcements and actions by governments and institutions regarding their willingness to do so. The Working Group intends further to review actions which are being taken or could be taken in this area, including a sharing of the market experience gained by some developing countries themselves, and to inform the Committee at a subsequent meeting of technical assistance facilities of which the developing countries might avail themselves in seeking to establish or expand their access to capital markets. In addition, the Working Group considers that one of the major problems of developing country access to private markets is that of educating potential investors regarding the situation and prospects of developing countries. The Working Group intends to study further what actions might be undertaken to deal with this problem.

11. The Working Group is of the view that consideration needs to be given, within the Group's terms of reference, to other aspects of the broad problem of market access. The Group will therefore be giving attention to other possible measures, including a proposal which has been made for the establishment of an international investment trust. The Working Group would hope to identify measures to deal effectively with various types of problems affecting access of the developing countries to various segments of the capital market, and to provide its conclusions and recommendations to the Committee at subsequent meetings.

12. For the Committee's further information, there are attached a copy of the analytical portion of document DC/WG/CM/75-8 (as Annex A) and a copy of document DC/WG/CM/75-10 (Annex B), both prepared by the Executive Secretariat. Also attached is a copy of document DC/WG/CM/75-7 (Annex C), a summary of the seminar discussion by the Working Group with a panel of experts on October 9-10, 1975.

Attachments

Development Committee
Executive Secretariat
November 21, 1975

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

DC/WG/CM/75-8

November 3, 1975

Working Group on Access to Capital Markets

SUPPORT OF DEVELOPING COUNTRY ACCESS TO CAPITAL MARKETS AND THE USE OF MULTILATERAL GUARANTEES

1. The Development Committee established the Working Group to make a review of regulatory and other constraints affecting access to capital markets and also to study further proposals to support developing countries' access to private markets, including the use of multilateral guarantees. Preliminary discussion of both these areas of restrictions and guarantees has already taken place in the first meeting of the Working Group (on the basis of Secretariat papers DC/WG/CM/75-2 and 3, dated July 21, 1975). It was agreed that the Secretariat would aim to present a survey of restrictions to the Working Group early in 1976. It was also agreed that additional material elaborating on the issues raised in the discussion in the first meeting of the Working Group with respect to a possible multilateral guarantee facility, including one or more alternative formulations, should be prepared to assist further consideration of the subject by the Working Group.

2. In focusing attention on the guarantee arrangements as a measure to improve developing country access to private capital markets, the Working Group may wish to keep in mind the analysis presented to the Development Committee (document DC/75-11, May 8, 1975). The analysis included a brief review of obstacles and limitations to market access and concluded that the principal difficulties in the way of developing country access have been:

- their creditworthiness
- lack of information
- restrictions on the outflow of capital in developed countries
- weakness in the domestic capital markets of the developing countries and their regulations governing inflow of external capital.

The analysis also concluded that by far the most important limiting factor had been creditworthiness and the market assessment of creditworthiness.

3. For this reason, it was suggested that the Working Group should first advance its consideration of a possible multilateral guarantee facility. However, actions taken to improve market access need not be mutually exclusive. To the extent that modifications and relaxation of restrictions and regulations would tend to enlarge the pool of resources available in the market for developing countries, and to facilitate their access, such actions would reinforce the long-range objective of any guarantee arrangement to enable developing countries to improve the volume and terms of their borrowings in the private markets. In some segments of the markets, other arrangements, such as co-financing, may be the most appropriate and would need to be expanded, or new mechanisms such as a multinational investment trust might be considered. Throughout, the importance of an educational process-- both for borrowers and lenders--and of technical assistance to borrowers, would be relevant. These measures are not in conflict; they complement each other. The Working Group's further study of the details of a possible guarantee arrangement should be considered as proceeding in the framework of such a broad approach.

I. The Capital Markets

4. The deliberations of the Working Group with respect to the possibilities for multilateral guarantee arrangements have been facilitated by extensive discussions with capital market experts. A composite picture of the current situation in various segments of the relevant external capital markets has emerged which provides a first overview of present problems, future prospects and required remedial or supportive action.

Short-term financial markets

5. By definition, short-term financial markets would seem to be the least suitable for resource mobilization for development purposes. However, short-term transactions do play a role in the orderly flow and promotion of trade movements. In particular, to the extent that the promotion of developing country exports requires their short-term financing, there is involved a postponement of foreign exchange earnings which these countries can ill afford. In addition, the significance of active short-term financial transactions between developing countries and foreign financial markets should not be seen solely in the context of money flows, but also in the context of an integrated process of developing financial relationships between these parties. Increasing acquaintance of lenders with debt servicing records of developing country borrowers, familiarity with the financial systems of the borrowers, and the nature and implementation record of underlying business transactions, all serve to create a supportive foundation for the gradual process of financial market relationship.

6. Supportive action by the international financial community in this segment of the financial market might, therefore, be considered a worthwhile objective.

In general, specific actions which might be indicated could consist of assistance in the creation of acceptable financial instruments and institutions, measures to help in the establishment and maintenance of secondary markets for appropriate instruments, the possible modification of regulations in capital exporting countries to facilitate short-term commercial financing, information, etc. It is suggested, however, that requirements in this large, active, and highly competitive sector of the market are more apt to consist of individual situations which could benefit from attention and assistance rather than of any general problem calling for general solutions and priority attention.

Medium-term loan markets

7. This segment of the international and foreign financial markets has in recent years provided large amounts of private funds for a number of developing countries. This has been true particularly in the Euro-currency market for syndicated bank loans. After some internal difficulties last year, and some hesitation, the market appears to have resumed its growth and loans to developing countries appear to have continued to expand. However, inflationary expectations and greater caution have led to a deterioration in the terms available, with maximum maturities shortened to around 5 to 7 years, and higher spreads. At the same time, uncertainty and apprehension over the immediate outlook for developing countries is leading the banks toward more careful appraisals of risks and greater selectivity in their lending decisions.

8. Unlike bond financing, where the attitudes of individual investors and the fiduciary responsibilities of institutions dictate greater caution, loan financing by banks in this market offers some flexibility in risk taking. Thus, the relationships which individual developing country clients have established with particular banks can be an important factor in individual lending judgments and decisions, as are such elements as the attitude toward the private sector in developing countries. Moreover, there appears to be a marked interest in, and preference for, financing of specific projects which can be shown to have sound cash flows, which can be related to future foreign exchange earnings and savings, and which in some cases might be directly and legally related to the repayment stream for foreign loans. Government guarantees, and in some cases, central bank guarantees, are generally required, however. Creditworthiness assessments focus both on an ability to pay and on the prospective willingness and propensity to pay, as judged by historical patterns. In this connection, successful and soundly managed institutions, some created or developed with the assistance of international lending institutions, have an appeal in the private market beyond the mere application of ratios of public debt service to export earnings. An important linkage does exist between the credit availability from international institutions and the willingness of private parties to lend to developing countries; this linkage is sometimes explicitly included in loan agreements in the form of default clauses.

9. Under present and prospective circumstances, an expansion in the scope of this market to include a greater number of developing country borrowers, and an improvement in the terms of credits available, would appear to be the major

objectives for international action. In this connection, there appears to be scope for greater dissemination of information on borrower countries, an area in which the expertise of the international lending institutions is given great credit by the private banking community. Future action would also seem to be indicated, and promising, in the field of cooperation between international lending institutions and the private capital markets in co-financing arrangements through "cross-default" clauses or other techniques. Increased flexibility in co-financing arrangements, possible mobilization of syndicated loans through placing of financial instruments based on these loans with institutional investors, and a systematic effort to provide an up-to-date inventory of co-financing possibilities to interested lenders appear to be promising options for further improvement in mobilizing increasing amounts of funds from the loan market to a larger number of developing countries. The need for such measures as direct guarantees of operations in the bank market, and their impact in terms of mobilizing additional funds may be subject to some question in view of the demonstrated ability of the developing countries to raise substantial funds in this market without such measures.

Foreign and international bond markets

10. Long-term fixed-interest bond markets have provided, and are providing, a relatively minor amount of funds for a very small number of developing countries. Given the great volume of resources flowing annually through the various national markets and the Euro-bond market, it can fairly be said that most developing countries are excluded, and that the developing countries as a group have virtually no direct access to these markets. Indirect access is had through the intermediation of the international and regional development lending institutions which have tapped these markets under the callable capital guarantee coverage of their members. While it is true that current market conditions are unfavorable, and maturities, particularly in the Euro-bond market, are not substantially more favorable than exist in the bank credit market, this market, under normal conditions, has the potential to offer the only reliable continuous source of large amounts of funds on terms suited to the needs of the developing countries. It can fairly be said, also, that the real problem of developing country access to private capital markets exists, preeminently,with respect to the long-term bond market.

11. While significant differences exist in various national markets, the key problem area appears to be the perception of risks involved in purchasing foreign securities by comparison with alternative investment opportunities in which the risk element is felt to be known with greater assurance. The problem is aggravated by the fact that successful bond placement requires the persuasion of a large number of individual investors and of institutions, many of which are governed in their decisions by fiduciary responsibilities. In addition, restrictive legislation stemming from past unfortunate experiences limits the amount of funds which may be placed by certain institutions in foreign securities--although the extent of the basic risk-perception problem is revealed by indications that such limits as are set by certain laws have not yet been reached.

12. A fundamental problem thus appears to be one of education, and a systematic process of investor education might over a period of years yield substantial dividends in terms of increased receptiveness to developing country bond issues. The importance of the judgments of the U.S. rating services in the marketing of bonds should be noted, and their capacity to analyze foreign bond issues should be encouraged and promoted, in addition to efforts directed toward key institutional participants in the market. There is a possible role for the international lending institutions in such a process. In the immediate future, additional efforts might be directed toward the use of private placement techniques as well as a search for new markets such as those in the Middle Eastern local currencies. It would appear doubtful, however, whether the long-term bond market could be developed as a regular and substantial source of funds for the developing countries for many years to come in the absence of special supportive measures. The paramount contribution which could be made toward this objective by the capital-exporting countries would appear to be the provision of guarantees to developing country borrowers to directly support their entry into the bond markets and thereby to further the necessary process of educating and widening the experience of both lenders and borrowers and lay the foundations for regular unassisted market access in the future.

II. Possible Multilateral Guarantee Facility

13. A determined effort through international action to activate, promote and support the gradual process of financial market development aimed at making the developing countries eventually full and equal participants in the international financial market would thus involve: (i) measures by the developing countries, with the assistance of international development institutions where appropriate, to create conditions in these countries conducive to increased external mobilization or private loan capital; (ii) cooperation between international lending institutions and private parties in the international financial community in improving the conditions under which developing country borrowing in foreign and international markets can be arranged; and (iii) measures by the developed countries, and others with payments surpluses, to promote an increasing flow of private loan capital to eligible developing countries through such measures as guarantee arrangements and adjustments to modify or remove existing obstacles and constraints to market access.

14. A possible guarantee mechanism for developing country borrowers would have to be designed to meet the particular requirements for additional risk protection in a particular market segment. Unequivocal, simple and convincing guarantee arrangements aimed at breaking the "psychological barriers" confronting developing country borrowing attempts in private markets would have to be supplemented by a systematic educational process through dissemination of appropriate information about the financial and economic situation and prospects of borrowing countries. The success of such efforts would be reflected in the

acceptance by the market of guaranteed financial instruments at a comparatively advantageous interest rate. A guarantee mechanism would also have to be designed to promote an increasing flow of private loan capital consistent with sound development objectives in developing countries with basically good long-term economic potential. In promoting a more appropriate debt structure through lengthening of maturities and making available more reliable, continuous sources of external financing, the risk exposure of the guarantors would be reduced and the expectation of actual incidences of default under such guarantee arrangements could increasingly be reduced. Development policy in terms of a successful financial market strategy would thus have to aim at gradual elimination of the need for guarantees. If this can reasonably be expected to be achieved through implementation of a guarantee mechanism, supplemented by parallel actions, such as debt management assistance, and marketing and investor counselling, a guarantee arrangement would warrant support.

Objectives

15. In the light of the preceding discussion and review of financial markets, it is suggested that the primary objectives of any multilateral guarantee mechanism should be to develop in the private capital markets sources of increased flows of the external capital required by developing countries, in addition to existing sources and flows, with reasonable assurance as to their availability, and on terms suitable for and compatible with the financing of their long-term development programs. In order to pursue these objectives most effectively with minimum amounts of necessarily limited official assistance, the mechanism should be directed toward achieving the entry of selected developing countries into appropriate capital markets with the assistance of guarantees, with the expectation that, after a transitional period of experience and necessary market education and development, these countries would be able to achieve unassisted and regular access to these markets.

Additionality

16. Achievement of the objective of generating additional resources via a guarantee mechanism would require, in the first instance, that governments participating in the mechanism as guarantors be prepared to provide such support in addition to their existing aid budgets and various subscriptions and contributions to existing multilateral mechanisms for the provision of development finance. Clearly, given present circumstances, particularly as regards official development assistance and the need for concessionary resources, priority should be accorded to the maintenance and strengthening of the resource situation of existing multilateral institutions. In general, a possible advantage of a multilateral guarantee mechanism would be that only relatively minimal effective cash contributions would be required from individual participating countries, with the bulk of the support taking the form of a type of callable capital subscription which it could be presumed, on the basis now of many years of experience in multilateral development finance institutions, would not likely be called for payment. An effort would be required to present and explain a guarantee commit-

ment to legislatures in these terms, but it is recognized that there could be problems in securing additionality if authorizations should require counting the full amount of guarantee commitment assumed by a country as a part of the total aid budget of the year of contribution. If, on the other hand, only an estimate of the amounts likely to be invoked is counted, any resulting lack of additionality might be modest, and would not persist beyond the first year, on the assumption that there were no defaults. Any initial cash contribution to a reserve fund could also, if included in the aid budget, incur the danger of a corresponding reduction in other aid flows. But that amount is apt to be relatively small, and if the guarantees succeeded over time in augmenting private flows without the aid of guarantees, there would ultimately be some leverage exerted in terms of the aggregate flows of resources to developing countries. It would be necessary in any event, if a multilateral guarantee effort were to be undertaken, to seek a clear understanding and agreement from participating governments that support of the new mechanism is intended as a supplemental effort, of likely relatively moderate cost, over and above existing programs, in order to seek worthwhile objectives not currently being promoted by them.

17. Whether the provision of guarantees would immediately and directly result in a larger and additional volume of private lending, over and above what would otherwise have taken place, is a question to which there can be no definitive answer. However, there can be a very strong presumption of such additionality if guarantees are restricted to operations and areas of the market which can clearly be shown to have been beyond the scope of developing countries, and where the past record is clearly one of very limited or negligible access. Such appears to be the case in the long-term bond market, and to the extent that governments are prepared to take a risk that the market is not able to, and has been unwilling to, the volume of lending must expand to that extent at least through a redirection of market resources in favor of developing countries. A concern whether additionality can be expected in the flows to individual countries would be subject to similar considerations. To the extent that, as discussed above, the pool of certain resources available for developing countries would be enlarged through the operation of a guarantee mechanism, and guarantees are provided to countries which have not had market access, it could be expected that a number of individual countries would obtain additional resources. It would be difficult to demonstrate that countries already in the market without special assistance would also get additional funds, whether or not they were beneficiaries of a new guarantee scheme, but, by the same token, and on the above basis, there is no reason to presume that they would obtain less than otherwise. There could also be reason to presume that with an expanded volume of lending consequent to the establishment of a guarantee plan, improved information regarding the risks of foreign lending, and an enhanced credit standing resulting from acknowledgement by an authoritative international body that no special assistance is required to reduce the risk of lending to a particular country, such a country could benefit by improved and expanded market access even without guarantees. Again, this would be particularly likely in the long-term bond market. Finally, it should be noted that there would be a safeguard operating to

protect the position of such countries, inasmuch as a lender incurs a cost in choosing a guaranteed operation, since such an operation would reduce his yield which would be net of any guarantee fee collected by the guarantor.

Selection of markets

18. The foregoing discussion has made clear a series of grounds for favoring the selection of the long-term market for bonds as the only market in which a multilateral guarantee mechanism would operate. While it may be questioned whether there are any compelling logical grounds for excluding the market for medium-term bank credits, particularly under the circumstances which prevailed until recently of maturities extending to 10 years and beyond, it is suggested that the amounts already flowing to developing countries through this market, the presumably greater danger that additionality would be more difficult to achieve, the need to safeguard existing borrowers from any possible adverse impact, as well as some possible practical considerations involving the appropriateness of extending guarantees to commercial banks operating on their own behalf, all support the exclusion of this market from the scope of any guarantee mechanism. On the same basis, and because the purpose of issuing guarantees would be to promote the transfer of capital for economic development, guarantees should not be considered for purely short-term or trade credits. The question of eligibility of international (Euro-bond or offshore) markets, in addition to national markets for foreign bonds, may pose questions for some governments regarding the propriety of extending guarantees to expatriate funds, which they could not justify from the point of view of protecting their own national investors. However, as the principal purpose would be to assist developing countries, and unless such concerns would pose serious problems in mobilizing necessary support, it is suggested that any guarantee mechanism include within its scope the increasingly important international bond markets.

Beneficiary countries

19. In considering the eligibility of countries to benefit from the issuance of guarantees, a distinction can be made between what might be referred to as a "volume approach" and a "threshold approach." In essence, the former could make developing countries eligible to receive guarantees, whether or not already successfully established as a regular market participant, with the objective of increasing the volume of resources flowing from the private markets, and possibly improving the terms for the established borrowers. The second approach would restrict eligible countries to a category of "new borrowers," which would have to be defined in accordance with criteria to be developed, with the objective of assisting countries which have sound long-term development prospects and a debt-servicing capacity but which still find it impossible, given the information and risk perception problem, to enter the market. In both approaches, guarantees would not be extended to countries which failed to show the latter characteristics and must remain heavily reliant for some time on concessional assistance. It is suggested that the second of the above approaches, the "threshold approach," would present the case most likely to generate support,

under present circumstances, for the establishment of a new mechanism to issue guarantees. It is with this group of countries that a more convincing case could be made that the issuance of guarantees could generally be expected to generate one-for-one additionality in the flow of private capital. Moreover, it is also with operations for this group of countries that one could envisage the guarantee mechanism as a transitional support device, with the objective of gradually establishing unaided access to private markets, on a regular and sustainable basis. The prospect of such "additional additionality" may be viewed as the principal motivation for the consideration of a multilateral guarantee plan.

Institutional aspects

20. For purposes of discussion, there is annexed to this paper an outline of a possible formulation for a multilateral guarantee facility, which suggests certain institutional arrangements possibly relevant to this stage of the Working Group's consideration of the idea. There follow some brief comments on some of the principal institutional aspects which would have to be considered.

a. Participating countries

21. Participation by all of the major industrial nations as guarantors would for obvious reasons, be highly desirable. In addition, the participation of developing countries with large balance of payments surpluses would be desirable, in order to give expression to the cooperative efforts of these two groups of countries to assist the less fortunate developing countries. The participation of these countries could be on a uniform basis, with respect to both contributions to a reserve fund and subscriptions to the guarantee backing, or callable capital, possibly related to their shares in an existing institution. Alternatively, a system could be designed under which the developing countries with balance of payments surpluses could contribute more, or exclusively, to a cash reserve fund, while industrial countries would make their major or sole contribution to the callable capital. Given the objectives and the relatively limited scope of a possible scheme, other developing countries might well be excluded as participants in the sense of providing any cash resources or subscribing to the guarantee backing, with their participation as possible beneficiaries related to and made dependent upon their membership in one of the existing international institutions. Should it be considered advantageous for other reasons, nonetheless, to secure their full participation, it would be necessary for the mechanism to restrict its guarantee operations to a clearly defined limit represented by the guarantee backing of a specified number of industrial and surplus developing countries. The possible political need for such full participation might diminish to the extent that a new guarantee mechanism were established in close affiliation with one or more existing institutions.

b. Nature and form of guarantees

22. Guarantees to be issued by a multilateral guarantee facility could be contemplated in two forms:

(i) guarantees of individual members of the guarantee facility to enable access to their own capital markets with a recourse agreement to the multilateral facility to cover any losses under the guarantees; or

(ii) collective guarantees, in which the multilateral facility itself rather than individual countries, would act as guarantor.

It is suggested that, in order to emphasize the international character and protection provided by the system, collective guarantees, that is to say, guarantees provided by the multilateral mechanism itself, should be preferred. However, the mechanism has to be designed to meet the requirements for additional risk protection in a particular national or international market or segments of them. Unequivocal, simple and convincing guarantee arrangements must be designed to gain acceptance by the market, which would be shown in comparatively advantageous interest rates for the financial instruments issued under the system. Should the market prefer an individual country guarantee, it might be advantageous for the system to provide it, if such a single country guarantee is acceptable to the borrowing country, and if it did not pose problems for the guarantor country in the marketing of its own or other guaranteed securities. In any event, it would be very important to avoid the danger, that this approach could lead to, of the establishment of a rigid pattern of operations in specified national markets determined by individual guarantor shares. Flexibility in the placement of issues in various markets should be preserved.

23. While there may be questions regarding the market feasibility of partial as distinct from full guarantees, the ability to operate with partial guarantees would be very helpful in assuring a transitional, or "phasing-out" approach. In addition to obtaining an immediate multiplier effect from the use of an available guarantee authority, the market's willingness to assume full risks could be progressively tested with this approach, leading to greater assurance in the determination of a point where a country should be able to proceed alone and unaided. It is suggested that a facility should, in any event, be endowed with the authority to issue partial guarantees, so that this technique could be employed whenever determined to be feasible.

24. For a guarantee to be "unequivocal, simple and convincing," any default, which might occur, for whatever reason, would have to be covered. Of course, the multilateral guarantee facility would itself be covered by the obligation of the borrowing government, or by a guarantee extended by the government of the borrower (which should, in all cases, be required), and in turn, would seek full reimbursement from the borrower and his guarantor. It is important to note, in this connection, that issues of extra-territoriality or sovereign immunity which have arisen in the discussion of possible multilateral insurance of direct foreign investment, related to the succession of the multilateral insurance agency to the ownership of certain assets or claims, would not arise in the case of an exclusively debt transaction. The multilateral guarantee

facility should have available a paid-in reserve initially, and should follow a policy of appropriate reserve accumulation, in order to be in a position to meet possible cases of default by first using its own reserves to make payments to lenders. The availability of cash reserves would be important to establish the facility's credit standing in the capital markets. The size of such reserves should be related to arrangements made for eventual calls on the guarantors and their readiness to actually meet any such calls on their contingent liabilities. Given the latter, given that the facility would be dealing with the more creditworthy of the developing countries, and given the credit experience sustained by the existing international and regional development lending institutions, a modest fractional reserve would probably suffice.

25. Following the established pattern in other institutions, it is suggested that a joint and several guarantee on the part of the participating guarantor governments would be most appropriate. In other words, in the event of default, requiring a call, all participants would be liable for their pro rata share of the amount of the call and of any portion thereof which was not forthcoming, up to a limit established by a participant's subscribed guarantee or callable capital.

c. Financial considerations

26. It is considered that any multilateral guarantee mechanism should be constructed on as fully a self-supporting basis as possible, with appropriate fees or charges designed to cover administrative expenses and provide for some reserve accumulation. In the event of defaults, the mechanism would be obligated to seek recovery action and eventually to reconstitute any such losses. One area of possible difficulty in framing such a mechanism, however, concerns the possible exchange risk to which the mechanism might be subject. Such risk would be eliminated if the facility were required to match its currency liabilities (in the form of guarantees issued for securities denominated in specific currencies) and assets (in the form of guarantee coverage, or contingent liabilities of the participating guarantors, expressed in specific currencies). Such a rigid matching would not appear feasible in this type of operation. It would appear essential for the needed market assurance, however, that the facility always be in a position to demonstrate thats its liabilities do not exceed its assets in the sense indicated above. In general, two types of solutions can be suggested: that the contingent liability assumed by a participating guarantor in its individual currency be defined as identical to the current value of its share of net guarantees issued and outstanding, and adjustable from time to time to ensure this equivalence; or that the contingent liability be considered and fixed, in a specified currency, and the multilateral facility would be required in its operations to make suitable provision for exchange risks, and adjust such provision from time to time, by leaving unutilized a margin of the overall guarantee authority provided by the participants.

d. Existing institutions

27. Existing international and regional development lending institutions could function as administrators of a new multilateral guarantee mechanism, a role

which would appear, in any event, necessary and desirable in order to capitalize on staff and expertise already available in such institutions. It is also possible to conceive of these institutions as the owners and operators of a guarantee mechanism, such ownership being made possible by special additional capital subscriptions to the institutions by some of their present membership. Such possible roles by the existing institutions would have the advantage of presenting the market with a guarantee mechanism linked to fully known and proven institutions, rather than the appearance of an entirely new institution. The relationship to existing institutional frameworks could also facilitate the mobilization of necessary governmental support. It would be important, however, to provide for such an additional role by the institutions with supplemental resources over and above those necessary and planned to support their ongoing lending programs under existing procedures. To the extent that the existing institutions have guarantee authority under their charters, they could also, under either of the above possibilities, act in parallel with the guarantee mechanism as part guarantors.

Development Committee
Executive Secretariat
November 3, 1975

An Outline of a Possible Multilateral Guarantee Facility

The ideas put forth in the main paper are illustrated here with the help of an illustrative outline of a possible multilateral guarantee facility (MGF).

Objectives

The objective of the MGF would be to facilitate entry of developing countries to the capital markets in industrial countries by providing partial or full guarantees for the bonds floated by developing countries in national or international markets for financing projects or programs of economic development. The MGF will seek, through its guarantees, to encourage greater use of capital markets by developing countries, primarily by those that are potentially creditworthy and have not attempted or not been successful in raising private loan capital. Some degree of selectivity among countries is thus inevitable; the MGF will need to have operating guidelines for such selection, but the test, obviously, will have to be its judgment regarding market acceptability.

Extent of guarantee

The MGF may have an authority to give guarantees up to a specified amount every year, with a cumulative ceiling, in respect of bond issues by developing countries. Specific limits could be placed on the number of issues and amount of each issue for a country and, if feasible, partial guarantees could also be given in a phased manner for successive issues of a country. It will be important for the MGF to ensure a record of regular debt servicing and for this purpose it may have to establish fairly rigorous standards of appraisal of the issues it guarantees.

The MGF will require the guarantee of the borrowing country government in all cases in which the issue is by an entity other than the government itself. Such a guarantee will oblige the guarantor government to undertake debt service if the project authority which had issued the bond was, for whatever reason, unable to service the debt on due dates, and to ensure convertibility of debt service payments.

The MGF will guarantee bonds issued in the markets located in the territories of participating governments.

Resources of the fund

The MGF will be backed by the credit of the participating governments (participants) up to the limit of the share of each participant in the contingent liability and each participant will be required to be a signatory to an announcement to this effect. Participation will be invited from industrial and OPEC countries. The collective contingent liability of the participants will, obviously, be limited to the cumulative ceiling on the guarantee authority of the MGF and each participant's share in the liability will be determined in accordance with a formula or otherwise (see page 3). Paid-in capital as such is not visualized except for the small initial reserve (see below);

rather, the participants will agree to put up the funds in accordance with their shares in the event of a default and the guarantee being invoked.

The MGF will need to establish confidence in the investor (a) that debt service payments will be made by the borrower on due dates, or that in the case of minor defaults or delay--willful or otherwise, the MGF will have sufficient resources to meet the payments as guarantor, and (b) in the event of a major default in servicing the debt, the MGF will be able to mobilize resources, in accordance with agreed arrangements, from the participants. The MGF would thus need to have a reserve for these purposes, created primarily by contributions from participants, and replenished by a guarantee fee to be collected from the borrower.

The size of the reserve need not be set so as to provide full coverage for guaranteed payments. It might suffice, on an ad hoc basis, to start with a reserve equal to 10 per cent of the guarantees expected to be issued by the facility in its first year of operations.

An illustrative calculation was given in the table attached to DC/WG/CM/75-2, dated July 21, 1975. It showed that the MGF would have reserves sufficient to meet one-half of the debt service payments in most of the initial years, and this may be regarded as satisfactory coverage for most eventualities other than larger-scale major defaults.

In case of any major default, requiring resources in excess of those available in the reserve, the participants will review the situation with a view to (a) arranging, in accordance with the initial agreement, the funds necessary to honor the guarantee by additional contributions from participants, and (b) remedying the default situation.1/

The reserve will be invested in the bonds of participants; there would thus be no loss of liquidity for the participants as a group.

1/ This is the only point at which doubts may be raised about the modalities of (b) and the analogy drawn with the proposal, considered some time ago in the World Bank, of an International Investment Insurance Agency (IIIA). Three points may be made in clarification:

i. The proposed IIIA was concerned primarily with direct private investment; the MGF is concerned only with bond issues of developing countries.

ii. All bond issues to be guaranteed by the MGF will be issues of governments themselves or carry a guarantee of the concerned developing country government.

iii. In case of default, the recourse will be negotiation between the participants in the MGF on the one hand and the defaulting government on the other, and the question of any legal proceedings between non-government entities in two countries involving matters of extra-territoriality and subrogation will not arise.

It should be noted, then, that both the nature of likely problems and the proposed procedures for dealing with them are different from those in the case of IIIA.

Contributions to the reserve will be in the currency of the participant, provided it is actually convertible.

Participants (industrial and OPEC countries) will share in the initial contributions to the MGF in proportion to their share in the World Bank capital. The contingent liability of each participant will be proportional to its share in cumulative contributions at any given time.

Eligibility

Bonds issued by, or guaranteed by, developing countries which are, say, members of the World Bank, will be eligible for the MGF guarantee, provided the MGF is satisfied about the soundness of the borrowing and the creditworthiness of the borrower.

Organization

The policies and operations of the MGF will be regulated by a Committee of Management consisting of a representative of each of the participants. The Committee of Management will meet as often as is necessary and prescribe its own rules of business. No guarantees will be issued without the approval of the Committee. For approval of guarantees, dealing with defaults and other major questions of policy, a qualified majority may be prescribed. The administration of the MGF would be entrusted to one or more of the existing international institutions.

Voting rights will be proportional to the cumulative contributions.

Income

The MGF will charge a guarantee fee or charge from the borrower which will be set at a level sufficient to meet administrative expenses and generate a modest surplus which can be added to the reserve. Since the operations can be carried out by an existing institution, administrative expenses are expected to be quite small. The guarantee fee can be uniform or variable from time to time in respect of guarantees to be issued depending on the resource needs of the MGF and the experience gained in the record of satisfactory debt service.

Other activities of the MGF

Within the limits of its net income, and consistent with the need to accumulate suitable reserves, the MGF could undertake technical assistance functions.

Development Committee
Executive Secretariat
November 3, 1975

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

DC/WG/CM/75-10

November 7, 1975

Working Group on Access to Capital Markets

CHECKLIST OF POSSIBLE ASPECTS OF ADDITIONAL WORK ON ACCESS TO CAPITAL MARKETS

It was agreed at the conclusion of the Working Group's seminar meeting that the Working Group might usefully review its work program in the light of various aspects of the problem of developing country access to capital markets which were referred to in the course of the meeting. For this purpose, it was indicated that the Executive Secretariat would prepare for the Group's next meeting a summary, in checklist form, of such additional aspects, over and above those currently being considered by the Group.

In connection with such a checklist, which is presented below, it should be noted that some of the specific topics are also referred to and discussed in other papers for the Committee and the Working Group. The original presentation to the Development Committee on the subject of capital markets access (document DC/75-11, dated May 8, 1975) attempted to make a broad assessment of problems faced by developing countries in seeking access to capital markets, and possible measures which might be considered in the areas of technical advice and assistance, practices and regulations of capital exporting countries, and direct support of developing country borrowings. In addition, the discussion of the possible use of multilateral guarantees in the new paper now presented to the Working Group (DC/WG/CM/75-8, dated November 3, 1975) is placed in the context of a broader analysis of markets and of the problem of developing country access to capital markets.

1. Restrictive regulations and practices

This aspect of the overall problem of developing country access to capital markets is the subject of a work program proposed at the first meeting of the Working Group (see DC/WG/CM/75-3, dated July 31, 1975) and adopted, with some modifications, by the Working Group. It is suggested that the content and timing of this work, as reported in the Working Group's status report to the Committee (DC/75-21, dated August 15, 1975) be maintained. Briefly, a report would be presented to the Working Group in the early part of 1976 on the existing situation with respect to laws, regulations and practices affecting developing country access to capital markets, identifying impediments which would warrant the particular attention of the Group.

2. International investment trust

At its informal seminar meeting, the Working Group had the opportunity of hearing from the U.S. member an exposition of possible approaches to the creation of an international investment trust, as suggested before the UN Special Session, and to obtain some initial reactions from the members of the expert panel. It should be recalled, also, that the presentation for the June meeting of the Committee included a discussion of this type of idea among the possible measures which might be given consideration, and noted that "... the IFC would seem to be best suited to explore the possible investor interest in such a fund and, if warranted, to examine the feasibility of establishing it" (DC/75-11, Section IV.3b, pp.12-13). While no specific reference to this suggestion was made in the final communiqué of the meeting, the Committee's general injunction to the Working Group "... to study further proposals to support developing countries' access to private markets ..." can be taken to comprehend discussion by the Working Group of these suggestions. It is understood that the IFC is currently undertaking a study of the proposal, which could form the basis for a Working Group discussion of this topic in due course, with a view to possibly making recommendations to the Committee regarding the further pursuit of this proposal.

3. Private capital association with multilateral development banks

Among measures to promote a greater association of private capital with projects financed by the international and regional development finance institutions, there was discussion in the Working Group of co-financing possibilities and a mention of possible portfolio sales.

a. Co-financing

The presentation to the Development Committee discussed co-financing mechanisms (DC/75-11, Section IV.3a, pp.11-12) and suggested that the Committee recommend to the World Bank and the regional development banks that they "... review their internal procedures, as necessary, to assure the maximum utilization of co-financing possibilities, and pursue actively the consideration of techniques which would stimulate private sector participation" (Section V.3, p.16). The Working Group was informed at its informal seminar meeting of the interest of the institutions and of the considerable activity they have under way in pursuing this matter. In addition, it is suggested in the new Secretariat paper for the Working Group (DC/WG/CM/75-8) that co-financing might be a major area of effort especially to improve developing country access in the medium-term bank credit market. It is suggested that at an appropriate point the Working Group might wish to review activity and progress made in this field and report thereon to the Committee.

b. Portfolio sales

The question was raised in the informal seminar meeting of the feasibility of generating additional capital flows to developing countries by means of the sale by the World Bank and the regional banks, without recourse, of suitably structured packages of portions of their outstanding loan portfolios. It is for consideration whether the Working Group would wish to discuss this suggestion, with a view to possibly requesting the institutions concerned to examine its feasibility.

4. Educational problem

The discussion at the informal seminar meeting identified as a major obstacle to developing country access, especially to long-term capital markets, the problem of limited knowledge on the part of investors in assessing the risks/attractions of foreign securities. The problem appears to be one susceptible of only long-range remedial action, and the proposed guarantee mechanism is in part motivated as a means of helping to broaden the knowledge and experience of private investors with developing country borrowers. However, the discussion did raise a question whether any special effort or program could be mounted to educate and keep informed at least some key sectors of the markets (such as rating services, major institutional investors, etc.) on the position and prospects of developing countries, in general, and especially of individual countries which should be able to secure credit standing in the markets. The problem could be approached as a broadening of the area in which technical assistance needs were identified, and might be linked to the expanded programs of technical assistance referred to in the next paragraph.

5. Technical assistance

Based on the presentation to the Committee in June (DC/75-11, Section IV.1), the Committee recommended expanded technical assistance to developing countries seeking market access. The Working Group might wish to assemble information from various institutions on actions they may be in a position to undertake in accordance with this recommendation, as well as actions by individual governments, and submit a report to the Committee in due course.

6. Short-term money markets

Suggestions have been made that the Working Group consider possible measures to assist developing countries in improving and expanding their access to the short-term money markets for trade and acceptance credit. Pursuant to the discussion in the new Secretariat paper placed before the Group (DC/WG/CM/75-8, paras. 5 and 6), it is suggested that the Working Group should give its priority attention to problems of access to medium and long-term capital markets, rather than to any problems, which would not appear to be of a general nature, in the short-term markets.

7. Direct investment

Several references have been made in the discussions, both in the Working Group and in the Committee itself, to the importance of equity capital flows in the development process, and of the possible need to address measures in this area as well as in the area of debt capital. The suggestion for an international investment trust discussed above responds in part to this concern.

In addition, it has been suggested that the earlier discussion of a proposal to establish an international investment insurance agency might usefully be reviewed. A separate background note on the latter is being made available to the Working Group.

8. Secondary markets

Among the obstacles to long-term bond placements noted in the seminar meeting, the lack of active and broad secondary markets which would endow foreign securities with the liquidity desired by investors was frequently mentioned. This problem is, of course, an extension and reflection of the existing limited market for new issues of developing country bonds. Some of the proposed measures designed to attack this basic problem, such as a multilateral guarantee mechanism, would also tend to solve the secondary marketing problem by creating a highly-rated easily marketable instrument. Further study could be given, however, to the possibility that the marketing of bonds by countries already in a position to do so, or eventually able to do so after a transitional period of assistance by guarantees, might be facilitated by a mechanism designed to assure their liquidity and secondary marketability.

9. Multilateral "safety net"

The Working Group was provided with copies of a report regarding the consideration in ECLA of a regional "safety net" for the provision of last-resort, short or medium-term, balance-of-payments assistance via direct loans or guarantees. Designed primarily to facilitate the adjustment process faced by oil-importing developing countries under present circumstances, the proposal thus includes some features of possible variants of the multilateral guarantee fund idea which were mentioned in the June presentation to the Committee (DC/75-11, Section IV.3c(4), p.15). The Working Group might wish to keep itself informed of the progress of this proposal and consider whether, if it should be adopted, the Group would wish to bring any aspects of it (such as, for example, the question of extra-regional participation, or the question of undertaking similar initiatives in other regions) to the Committee's attention.

Development Committee
Executive Secretariat
November 7, 1975

ANNEX C

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

DC/WG/CM/75-7

October 29, 1975

Working Group on Access to Capital Markets

INFORMAL SEMINAR MEETING,
OCTOBER 9-10, 1975

The attached document summarizes the discussion of access to capital markets by the Working Group and the panel of experts that was held on October 9-10, 1975. The document was prepared in response to the request by a number of members for a summary that would serve principally as a record of the views of the invited experts. Accordingly, the comments of the experts have been summarized fairly fully in the attachment, and, for the same reason, the observations of other participants have been noted much more briefly. In accordance with the informal nature of the meeting, statements are not attributed to individual experts.

Attachment

Summary of Discussions at a Seminar Meeting of the
Working Group on Access to Capital Markets
with a Panel of Representatives from the
Banking and Financial Community

October 9-10, 1975

A panel of representatives from the banking and financial community met with the Working Group in its informal seminar meeting on October 9-10, 1975, to discuss problems of developing country access to private capital markets. The panel consisted of: Mr. Roger Azar, Director, Financial Affairs, Banque Arabe et Internationale d'Investissement, Paris; Mr. Raymond Bonham Carter, Executive Director, S.G. Warburg and Co., London; Mr. Keisuke Egashira, President, Nomura Securities International, New York; Dr. P. Grasnick, Manager, New Issues Department, Deutsche Bank, Frankfurt; Mr. John Petty, Partner, Lehman Bros., New York; Mr. Nicholas Rey, Vice President, International Financing Department, Merrill Lynch and Co., Inc., New York; and Mr. Marc Vienot, General Manager, Société Générale, Paris. In addition to the members of the Working Group present, the meeting (which was chaired by the Executive Secretary) was also attended by a number of Executive Directors of the Bank and Fund and other representatives of members of the Committee who are not members of the Group, as well as by staff of the World Bank, IFC, and IMF, and by observers from the IDB, CEC, OECD and DAC, UN, and UNCTAD.

The members of the panel were briefly informed of the general background leading to the establishment of the Working Group, and of its terms of reference and work. The Group had decided that it would be important in the early stages of its work to have the opportunity of meeting with experts with operating experience in the private capital markets and of posing questions to them, both with regard to the general situation and prospects of developing country access to capital markets, and with regard to issues which are raised by specific proposals, such as a multilateral guarantee fund, which have been suggested to facilitate and expand such access.

1. General situation and prospects

The atmosphere in the capital markets today, according to one member of the panel, is dominated by the recession, inflation and uncertainty. The impact of the recession on lenders--predominantly the commercial banks, insofar as concerns developing countries--has resulted in their striving for improved liquidity and quality of their loans, a better return, and shortening of maturities. All of these factors work to the comparative disadvantage of new borrowers, or even established lesser developed country borrowers, when measured against approaches to the market by preferred borrowers. It might be said, reversing Gresham's Law, that good borrowers drive out or take precedence over less good borrowers. As illustrations of the liquidity concerns of US commercial banks, he cited the difficult situations, involving sizable sums, of loans made to real estate investment trusts, international shipping loans, the problem in New York City, and the normal increased failure rate on loans during a recession, dramatized last week by the failure of a large domestic retail chain store. The problem is compounded by public recognition of the concern by bank regulating authorities that the capital adequacy of the banking community may not be as high as it should be. In this context, questions were being raised as to how US commercial banks could provide the usual contributions they are expected to make to an expanding domestic US economy, even before addressing the aspect of additional resources for the less developed countries. Moreover, the recession has created a capital borrowing need by developed countries, and this may have pre-empted the market from the developing countries in the last year and a half to the extent that the US lending banks maintain some overall general limits on foreign as distinct from domestic loans in their portfolios. The inflation factor, at the same time, has stimulated a shift towards shorter maturities and higher rates and compounded the borrowers' debt service problem, creating circumstances which can be summarized as a lenders' market. Another major element of the current situation is the fact that governments of the leading industrialized economies of the world have been and will continue borrowing actively in their own domestic markets to finance the large deficits they are incurring. Obviously, these governments are always going to get preference in their own local capital markets, thus making more difficult market access on the part of others.

Another member of the panel said that, in his view, capital demands from developed and developing countries will be larger and competition will be stronger during the next few years than it was some years ago. He cited the example of the tremendous needs which firms in Western Europe will have because of the energy crisis and the cost of developing substitute energy sources. He suggested that what should be particularly explored is what sort of device could be set up to give developing countries some room in the difficult market in prospect. He thought it would have to be a question of some sort of international guarantee, which, in his view, should be a very large one, as total as possible, and a very simple one if it is to have any impact on the market. In pursuing these questions, the distinction between bond market and credits should be emphasized, because these are rather two different types of markets and some measures would be more appropriate for one than another. It is not a very safe one and we may prove the credit market, which, unlike the bond market, has been very active during the last few years, is a rather special market, shorter and riskier. There can be two different types of reaction and maybe two different needs for help when dealing in the credit market and the bond market.

While agreeing with the general tone of the foregoing remarks regarding factors which are making commercial banks more cautious and selective, seeking higher returns, shorter maturities, another panelist thought that it was fair to say there had been a considerable easing in the market for medium-term currency loans and that the less developed countries have benefited from it. With the reduction in domestic loans, the problem of capital adequacy has eased somewhat and we have seen in the Euro-currency market since the last part of 1974 much more positive and even aggressive attitudes by leading banks, both in the US and on the continent, in willingness to lend medium-term. This has translated itself into a willingness to lend to developing countries on terms that would not have been seen six months ago, and several recent examples were cited. Within the context with which he agreed, of more selective lending by the commercial banks, of much bigger spreads, of much more conscious credit analysis of the country creditworthiness--which means that those countries which have succeeded in tapping this market have gone through much closer scrutiny than they would have two or three years ago--money has been available, and, he thought, will continue to be available until the commercial banks, once again--which could easily happen--run into a capital adequacy problem. But a new factor has arisen now, and it goes to the point mentioned by the previous speakers of others competing in the market, in that we are beginning to see the oil-exporting countries come back into the market. This new factor is going to make it harder for the less creditworthy to compete for what is not an unlimited amount of funds.

The next member of the panel who spoke emphasized the importance, as had been mentioned, of making distinctions between the commercial bank-type lending markets--the Euro-currency syndicated loans, the direct commercial bank loans by US banks and other banks--and the longer-term, bond markets. He thought the key distinction to be kept in mind was that in the case of commercial bank loans the lender is directly using his own money. In the case of the bond market, the problem is to educate a market about a new type of security, one which is not prevalent in the market. He submitted that the commercial banking problem is not the most important for this Group to focus on, because he thought it clear that there were enormous amounts of funds available to the developing countries through that market, while the amounts that flow to the developing countries through the other markets are minimal. For example, he estimated that during the last 12 months to September, only four developing countries (including one with the guarantee of an advanced country) had been able to raise long-term funds, in a total amount of only about $337 million.

Following these general statements, a member of the Working Group asked whether the panel, which had already touched on the prospects for the near future, could address themselves more specifically as to what developments could be expected in the capital markets during the next year. He thought it was important for developing countries to have some views as to whether the various difficulties, which were currently affecting access to the various markets, could be expected to continue, or whether the circumstances which can be foreseen for next year would point to an improvement or deterioration.

In response, a member of the panel observed that, with respect to bond markets in the U.S., there is a considerable body of opinion that would argue that we could well see a fairly good bond market next year, particularly in the first half of next year, based on the view that the financing of the US budget deficit will be considerably smaller in the first few months of next year than it is now, and that inflation will in fact be abating in that period. Also, the huge amounts of public corporate bond issues in the US markets earlier this year are expected to probably fall off next year, as many corporations have solved their long-term borrowing needs. While there are various views, and he could not say that there was any consensus, there could be some basis for optimism as to the future, at least over the next nine months, and for believing that the atmosphere may be better for the types of issues of concern to the Group--although this is not to say that there will therefore be a great deal of money available for developing countries in the US market.

As regards the German capital market, a member of the panel said that the coverage of the Government's deficit thus far in 1975 was such that the Government should be able to reduce its call on the capital markets, and it might be possible shortly to reopen the capital markets without having interest rates go up. This would mean that the market could offer new Deutschemark financing, although in a smaller volume than the exceptionally high volume of the first six months of this year. For next year, the German Government will probably have a large deficit to cover in the markets again, but he would be relatively confident that the market could maintain the export of capital on a limited basis in the field of Deutschemark bond financing. The European capital market as a whole may also be receptive, as there is no reason to believe that the fundsavailable in this market, including the dollar sector of the market, which is greater than the Deutschemark sector, will diminish, although inflationary expectations may continue to force maturities down.

Another panelist said that he would agree with what was just said about the Euro-bond market, but would equally agree with previous speakers that this market is virtually insignificant as a source of funds for developing countries. He also thought that there was another scenario which could be contemplated for the first half of next year in the bank market, which is the big source of money, depending on what assumptions were made about the pick-up in world economy. If the rate of inventory decline slows down, and inventories begin to increase early in the year, then that could have an impact on bank loan portfolios, which could again mean that their willingness to make balance of payments loans and other loans for developing purposes would become more restrictive.

2. Institutional aspects

Referring to the distinction drawn by a panelist between the bond market and bank markets where banks are using their own money, a member of the Working Group wondered whether one ought to draw a further distinction in the bank market between the type of bank operation that you might be getting in New York when banks are lending directly out of their own funds, their own balance sheet, and the sort of bank Euro-market which is primarily a market in foreign currencies, and banks are in fact taking in money from various sources and lending out money to other sources. He asked whether, with the latter sort of market, there may be greater possibilities for tapping external sources of capital than with the former.

A member of the panel replied that he would not draw any distinction between the two. He noted that the major factors in the Euro-currency market are the American banks operating abroad. They are lending funds generated by deposits and the fact that the deposits are taken out of the United States does not constitute a distinction in principle. Another member of the panel agreed, noting the inter-relationship of the market during the first quarter of this year, for example, when the major source of fundings for foreign bank claims that were created came from the United States, representing the arbitrage in interest rates between New York and London. Another panelist added the comment that since the bank is taking the risk itself, the source of funds really is not very important at all. The fact is that there might be a little more flexibility for London banks, but this comes more from their knowledge of less developing countries. The stage has not yet been reached where the depositors themselves, even if they are very large and important governments, can direct their deposits to certain countries--although this might suggest a way of increasing the flow of money to less developed countries, by the earmarking of a certain percentage of deposits made by such depositors.

Noting the constraint on the ability of commercial banks to extend balance of payments support or development financing to developing countries, and precisely for this reason the important role of the IMF and the World Bank in recycling part of the surpluses of oil-producers, a member of the Working Group asked to what extent the panelists, as practitioners in the market, could suggest measures to enable the commercial banking system to provide out of the considerable surplus of the oil producers deposited with it, more balance of payments support or development financing for developing countries. In this connection, he wondered to what extent the commercial banks had been successful in persuading central banks to place their deposits for a longer term than is traditional with them.

On the latter question, a panelist replied that most central banker deposits continue to be placed on short-term, usually either 24-hour or 7-day notice, exceptionally 1 month or 3 months, and in no case for more than 1 year. As for what can be done, the panelist noted that the actual choice of to whom money is loaned is basically made by the management in the best interest of the shareholders. One way of lending more to less developed countries might be if some of the surplus oil-producing countries applied different creditworthy criteria, either in a bank in which they have their own management, or as shareholders in a bank in which they direct the actual decision-making. But one could not practically expect the large banks to make exceptions to their credit ratios, their limits for certain countries, or other exceptions in response to the wishes of one or two depositors.

As a follow-up on this reply, a member of the Working Group wondered to what extent the attitude of the commercial banks toward lending to developing countries is affected by actions or regulatory actions taken by national supervisory authorities--for example, if loans to foreign countries are treated in a given way in portfolio analysis, regardless of the bank's own view of the creditworthiness of the particular country. He also expressed an interest in hearing the views of the panel with respect to the longer-term picture, say, through 1980, noting in this connection some recent and very preliminary projections of private capital flows drawn up by the Bank for the Development Committee.

One member of the panel said that he would have to respond that even short-range forecasting attempts are marked by remarkable uncertainty under present circumstances. Uncertainty would also have to be stressed for the longer time framework, given the fundamental changes which have been occurring in the whole structure of the world economy, and the new thinking going on in such areas as international trade and pricing arrangements. He would say that the private sector is resilient, strong, and imaginative, and that a competitive atmosphere, particularly in the commercial banking lending community, all would work in the direction of transferring as much capital as possible to developing country borrowers. With respect to the first question, the panelist noted one experience about a year ago, which he regarded as unfortunate, of statements made, or interpreted to have been made by some regulatory agencies in the United States, about foreign borrowers. Insofar as the private sector is concerned, his experience is that individual judgments are made by each bank, based on its own position and situation. In this connection, he noted that it was becoming increasingly common for banks to weigh heavily the possibility of establishing a long-term relationship with the client.

Another panelist said that there was no action on the part of the regulatory authorities in his country of the type alluded to, but even with no restriction on any list of countries, the share of developing countries' issues in his country's market was very poor. Regarding statements made to the effect that there was no real difference in the position of various banks, he wished to point out, while agreeing in principle, that there is a problem of finance when working in a foreign currency, and at a difficult stage last year, there was in fact some discrimination among banks, according to their size or their country, when they went for financing in London. Turning to an earlier question, regarding the duration of deposits by central banks, the panelist noted that the socialist countries of Eastern Europe, and also some oil-producing countries, sometimes place rather long deposits and over one year. Roll-over deposits are also arranged sometimes with central banks, with a slight spread on this deposit and adjustments on a six-month basis. But he thought that the only measures which might be suggested would have to be some sort of system to improve the quality of the risk. There is no halfway measure which would lead lenders to choose developing countries in preference to others which have been on the market. He noted again in this connection distinction between the bond market and the credit market, and the possibility in the latter that banks can go a bit further in assuming risks because of their interest in dealing with a country, commercial considerations, and related interests.

Given the fact that the bulk of the money currently available for the developing countries appears to be in the banking market, while the bond market for these countries is virtually insignificant, and given the concerns which exist over the suitability of this kind of financing for the developing countries, particularly as maturities have become shorter and spreads higher, and the impact that the acceptance of large amounts of credit in this market may be having on the debt structure of some of the developing countries, the question was posed as to what sort of prospect, short of extraordinary measures or special new mechanisms, there might be for expanding the availability of the long-term fixed-rate funds really needed for development.

A member of the panel said that a reply to this question might best be attempted by describing what the existing problem is in the placement of long-term funds. Starting with the US market, investors are not used to investing their funds outside of the United States. US bond buyers have been geared almost for the last 50 years to meeting large capital needs in their own country on a basis very remunerative to the buyer. They have never been forced to look beyond their own borders. The type of problem faced by a practitioner trying to bring foreign credits to the US market is one just of pure education. Major insurance companies in the United States, for example, have scores of analysts thoroughly familiar with the position of US corporations, and the risks of buying domestic bonds, but with few exceptions have no one familiar with or capable of assessing the risks of buying a bond of a foreign government. He felt there is a great role for the World Bank and the regional development banks--the Inter-American Bank for instance--in an effort to educate the market in the United States. While a similar problem may exist in the European markets, the problem is not as great as in the U.S. There is a much greater basic familiarity with investing funds across their own borders, and this has been done for years. While an educational effort in the US market might not expand the market for developing countries by very much in terms of the aggregate problem faced by the Development Committee, it could still bring in a fair amount, particularly for some countries which are reaching the stage where they should be able to look toward direct access to the market.

Another member of the panel recalled the evolution of development assistance since World War II, with the creation of a multilateral institution, the World Bank, to borrow in the markets given the inability of developing countries to borrow on their own. The Bank, in practice, initially borrowed under the credit of the U.S. Government in amounts limited by the callable capital, or guarantee, of the U.S. Only after many years was it possible to pierce that limit.

Similarly, in the Inter-American Bank, the history is roughly parallel: there was initially an explicit limitation of borrowing to the amount of the callable capital of the U.S. and only recently has the process begun of concluding arrangements whereby that restriction will not pertain in future borrowings. Even before it pierced the limit of the US callable capital, the World Bank paid several base points more than the U.S. Treasury for comparable maturities, and the Inter-American Bank in turn paid marginally more than the World Bank for the identical maturities. These differences reflect a variety of factors and intangibles related to the perceptions of bond buyers who have a broad range of choices, and this brings up the education process, which is a long and slow process, and can be approached in various ways. In some cases, it might be useful to hire financial public relations firms, to place the story of a country, and its statistics, in financial analysis journals over the years in a coherent and enlightening way. The process of introducing the country to the rating agencies is a critical ingredient to borrowing publicly in the US market; in some cases, laws and regulations--and in all cases the practices of institutional lenders, and savings banks--prohibit the purchase of unrated bonds. A program of educating the individuals involved, inviting them to visit the country and getting exposed to it, so that they have confidence in their judgments, can be undertaken over a period of time. In some cases, for example the European Coal and Steel Community, there were carefully planned stages, beginning with borrowings from commercial banks, subsequently shifting the loans from the loan portfolio to the investment portfolio of the banks, and placing some of their trust accounts--all indicating an improvement in the investment rank of these obligations, and all of which preceded the placement of a public issue later.

In connection with the educational process, a member of the Working Group asked to what extent the market may be assisted by the fact that a developing country either: (a) has been in receipt of World Bank loans over a period of time; or (b) has received an IMF drawing or stand-by arrangement; or (c) is an IMF country with an Article VIII status.

A panelist replied that the more sophisticated investors, particularly the lending banks, are aware of these elements, understand them, and are impressed by them. The investment banker and manager who analyzes an operation considers these factors a critical ingredient, and makes it his job to see that institutional lenders and rating agencies understand and appreciate them. The individual bond buyer, however, does not really understand or care very much about these aspects.

Another panelist noted that, after an interruption following the oil crisis, the Japanese capital market has now resumed activity in new foreign issues on a limited basis which can reasonably be assumed to improve further in the coming year. At the moment certain investment and issue criteria are applied, which raise the question whether the Japanese market can be readily available for developing countries. He considered, however, that there is a willingness among the Japanese financial community to provide as much as possible, particularly in the case of countries where large amounts of direct investments have been made. It is not a question of whether investment funds are available--they are available--but how to fill the gap between acceptable issue criteria and the growing needs of the developing countries, and this is where constructive suggestions from the Working Group can be very helpful.

In response to a query from the Group regarding the factors which should affect decisions as to whether to seek private placement or public flotation of bond issues, a member of the panel noted that in the US market the key features of a "private placement" are the exemption from SEC registration and sales to a relatively limited number of investors who each buy a certain minimum amount. The economic distinction in the US market is that private placements can be made usually more rapidly, and with more precise market timing and interest rate determination than is possible with public issues. Miscellaneous expenses of issuance tend to be lower in a private placement because the registration process is avoided and the investment bank acts merely as an agent and takes no underwriting risk. However, the cost of money, excluding the differences in the miscellaneous expenses, is usually higher because the buying institutions must be compensated for the fact that they are buying illiquid instruments which cannot be sold in the open market. The participants in the private placement markets in the U.S. are overwhelmingly the major insurance companies, as well as bank trust departments, and private pension funds. The domestic borrowers in that market tend to be the weaker rated US companies which find it advantageous to present their story to a limited number of investors, rather than to the overall market place. Secondarily, it is issuers who in fact may be very highly rated, but may wish to attract a substantial amount of funds rapidly or who come to the bond market with such frequency that they wish to do a portion of their issues privately. As to foreign issuers in this market, and in view of the problem of building and educating a market for a foreign issuer, it is probably easier first to attempt a private placement, where sophisticated investors can be individually approached; the interest rate distinction that occurs in the domestic market would probably not occur, for a foreign issuer. As regards the European market, the panelists noted that private placements have been done mostly in local currencies, but also in the Euro-markets, with the distinction that they are not quoted on the exchanges; but it was doubted that they could be looked to in the aggregate as a very important source in Europe for the developing countries.

As regards the general problem of placement of long-term bonds, one of the panelists said that he did not believe that the issuance of bonds by the less developed countries, either in the U.S. or in Europe, could take place in the next five years in any substantial or significant amounts. However, he noted that there was developing in the Middle East a sort of new market in local currencies. It has been assumed that these relatively new currencies are explosive in the sense that they would strongly appreciate over the next decade, but in fact this has not happened--if anything, they have depreciated vis-à-vis major European currencies and now with their link to the SDR some will probably devalue vis-à-vis the dollar. There are not too many borrowers right now that know very much about these currencies and therefore the demand from the first quality borrowers is not very substantial. Also, the local decision-makers in these markets apply criteria and make judgments on creditworthiness somewhat differently from the usual Western approach. Most of the institutions concerned prefer to invest in their own currency rather than taking an exchange risk and investing in dollars or other European currency. All of this creates a supply of funds and opportunities which less developed countries should seek to take advantage of in the next five years.

Referring to an earlier query on the suitability of the bank market, which could be extended to the Euro-bond market in its present state, for meeting the requirements of developing countries whose balance of payments problems are closely linked to a longer term development program, a member of the panel noted that there is a number of developing countries where one can see foreign exchange revenues increasing sharply in the medium term, particularly as new raw material extractive industries, to take one instance, are brought on stream. But there are others today, including some which have borrowed large amounts in the past, which as partly as a consequence of the increase in the price of energy, and partly for other reasons, have much greater structural problems, accompanied by a very high level of existing debt and medium-term debt. He felt that lenders today, particularly the banks, are becoming much more discriminating and careful in their analyses, and that some countries which may have borrowed very easily two and three years ago without undergoing a very close scrutiny may find it much harder when the debt service is related to their probable foreign exchange earnings. For those in that category, he thought that neither the bank lending market nor the Euro-bond market, under present conditions, could be considered a suitable source or substitute for the kind of money which comes from the World Bank.

A member of the Working Group noted, with respect to the last comments, that financing from the World Bank and regional institutions does not solve the needs of developing countries since these institutions can only lend for projects and, within the projects, only for direct imports. He thought it very important to distinguish between balance of payments assistance of a very short term nature, such as the IMF covers, and coverage of the impact on the balance of payments, direct and indirect, of general development expenditures. Developing countries need resources which can be used to finance development without the lender necessarily intervening in the type of expenditure that is being covered, and it is these type of resources which for the most part have been received through bonds and bank credits. He pointed out that the bulk of the resources that developing countries have received and expect to receive in the near future will not come from the issue of bonds, but rather from the syndicated credit market. In this light, he thought that perhaps too much emphasis was being given in the discussion to bonds, and asked whether the panel could comment further on the future of syndicated credit operations, on the possibility of their further expansion, and giving them more flexibility, and what benefits or disadvantages there may be vis-à-vis other types of lending.

In response, one member of the panel said that under present circumstances the maturities in the bond market are just as short as loans, and the amount of bond issues does not represent a significant part of the total financing requirement. Nevertheless, he thought it very important for developing countries to establish credit in the bond market, as one should expect from the long-term point of view that market conditions will change and that bond maturities will at some point again lengthen. Regular borrowers in the bond market, even with today's shorter maturity, will be in a position to obtain substantial benefits when the market situation improves. Another member of the panel noted the process involved in the evolution of credit relationships with a country. He outlined a process which might begin with purely short-term trade financing, involvement with officially supported export credits, credits to meet supplementary costs associated with export credit transactions, and then as knowledge and experience with the country gradually increased to purely financial arrangements with no basis in trade or projects.

A panelist added that it would be worthwhile to take the process one step further and get to the bond market. While the syndicated loans are where the money is coming from in volume, the development of bond market access will widen the opportunities for refinancing such loans and thereby help in maintaining opportunities for syndicated financing. A further aspect relevant to the question posed, according to another member of the panel, is the lending limits maintained by banks, based on their capital possibilities. With this in mind, the private banks would prefer to undertake financing related to the interests of their clients, and that involves mostly project finance. Banks are reluctant to go into the general kind of development program financing referred to because there is no direct link to the private interest of the banking sector and because it is much more difficult to assess the need for and impact of this kind of financing. For this reason, he thought it was very essential for countries which need long-term financing for projects to try to get into the real long-term market, that is, the bond market, even though this might be very difficult and take a long time to achieve. In this connection, he added that the bulk of the investors in the European capital market are private individuals, whom it is very difficult to educate into new credits. But the effort must be made, and once a country has established credit, then the market seems to be relatively open.

Noting the size of the long-term bond markets and the very large amounts of money there, a member of the Working Group suggested that, in terms of the interest of developing countries, it is not necessary by any means to tap all of that market. He thought that, if they could find a small place in that market where they would be welcome, that would be of considerable interest and value to the developing countries, and asked how members of the panel would react to this suggestion in the light of their knowledge of the various purchasers of medium and long-term securities.

A member of the panel said that the buyers of bonds on the Euro-bond market, in the narrow sense, are individuals whose accounts are usually managed on a discretionary basis by banks. The criteria which the bank managing the portfolio adopt are obviously related to creditworthiness, but equally very important is marketability. Banks are very disinclined to take the risk of buying the issue of a new name with unproven marketability. And because the Euro-bond market does not have institutions in it--such as pension funds and trust funds coming into the market with a steady flow of funds--it is a much narrower market and does not compare in its secondary market with the US domestic market. This compounds the problem, and even though in one sense, as has been mentioned, it is easier to introduce a new name into the Euro-market than in the US domestic market, this is by no means easy to do, and it is particularly difficult to think in terms of trying to find a niche in the market which would welcome issues by the best of the developing countries, particularly today, when the market in any case is more selective than it has been for some time. Another panelist, in response to the question posed, said that among the categories of bond buyers in the US market the insurance companies for the most part prefer to write their own bonds--that is, seek private placements. The pension funds, which are ideally suited to fixed income long-term bonds, savings banks, trust banks and the trust departments of commercial banks and individuals, represent other categories of buyers. One element of difficulty with these categories is the legal responsibility of the fiduciary that manages the fund and the risk of subsequent lawsuits on judgments that are made on particular investments. Persons responsible in that area are not at all inclined to take additional risks or to move into areas where personal liability may be involved. He thought the principal buyers of foreign securities have been the savings banks, but with maturities shorter than what would be desirable. On the latter point, a member of the panel noted that the current structure of maturities referred to is not a function of foreign or less developed country issues, but rather of the bond market in general, as a result of inflationary expectations, etc. Regarding purchasers in the market, he outlined the distribution of a recent foreign issue in the U.S. The largest single group of purchasers among the institutions, were bank trust departments, followed by life insurance companies, corporate pension funds, and savings institutions. Investment companies and investment counselors were significant purchasers, as were individuals in the case of this particular issue. As regards some of the restrictions which apply to the purchases of these various institutions, banks and trust companies, and fiduciaries generally, are subject to what is referred to as the "prudent investor" rule. Now in practice that means that if there is an opportunity to invest in competing securities, it is safer to choose the more established and better known, which again points to the attitudinal and educational problem faced by foreign issues. Insurance companies and savings institutions are probably regulated in the greatest detail, and this is done at the level of state laws and not federal law. The laws usually include very specific limitations on investments. In the State of New York there is a specific limitation of foreign security holdings of no more than 1 per cent of assets. (Canada has an exemption in most states for up to 10 or 20 per cent of assets in Canadian securities, so that Canada does not face this problem.) Usually the laws provide that up to 4 or 5 per cent of assets may be placed in any type of investment not specifically enumerated. In the case of the New York law, the latter unspecified category, the so-called "basket clause," has recently been re-interpreted to permit its use for foreign issues as well as the 1 per cent. Very roughly, application of the 1 per cent rule in the State of New York to insurance companies would mean perhaps that $2 billion could be placed in foreign paper. However, account must be taken of the fact that some insurance companies (including the second largest in the U.S.) do not, as a matter of policy, invest in foreign paper. Also, there is already an amount of foreign paper covered under the 1 per cent rule. There are no statistics available, but a "wild guess" might place the amount of remaining funds available at around $0.5 billion. It would be the wrong approach to focus on the latter availability, however, as he personally felt that if there were sufficient knowledge, interest, and willingness to purchase foreign securities, these rules could be changed and expanded sufficiently to make room for additional purchases. Along these lines, another member of the panel referred to the historical experience in France, with a predelection for gold and foreign bonds, but a very bad experience with Russian bonds held on a very large scale. It is understandable that there are now some reservations about buying foreign bonds and this is reflected in legislation. Foreign bonds are not quoted on the Paris stock exchange, except for very rare exceptions. The banks are not allowed to canvas for or to advertize foreign bonds. However, the French still buy between $9 - 10 billion a year of bonds, which is comparatively a rather high rate, notwithstanding the impact of inflation on that sort of investment.

Only some pension funds and some insurance companies are interested in foreign bonds, on an even tighter basis than described for the U.S. The insurance companies may consider holding foreign bonds related to their foreign risks, but as they are not very externally oriented in their operations, this is usually very low.

Another member of the panel noted, in connection with the reference to Russian bonds, the importance of some policies of bankers, including the World Bank, about borrowing countries curing their defaults on outstanding issues as a pre-condition to new lending programs. He noted the activities of the Foreign Bond Holders Protective Council in recent negotiations with Poland and Rumania and some other countries in Eastern Europe. Although the settlement terms are often very generous to the borrowers, it is important to promote the idea that the bond holders are not forgotten in the long run, and that the continuity of the obligation is maintained whatever the political fortunes of a particular government may be. This type of action has been an important additional step in creating an atmosphere that is conducive for individuals to buy foreign bonds.

Further on the matter of categories of buyers, a member of the panel described some recent experience in the US market with highly-rated Japanese issues which had not at all been easy. Considering the even greater difficulties likely to be encountered by developing countries, he believed that when developing countries want to tap the US market, they should first attempt a private placement. He thought there were many interesting opportunities in this vast capital market, with its variety of institutions which have their own policies toward foreign securities, but institutions must be individually approached to find the basis for some satisfactory arrangement. He also considered that a rating by one of the agencies plays a vital role in investment decisions, and that if a multilateral guarantee were to be considered, it would be worthwhile for the Development Committee to consider making very discreet inquiries with rating agencies as to what kind of rating they would be able to give.

With respect to other institutional aspects included in the "Topics" paper before the Group, but not yet touched upon, one member of the panel offered the view that the reporting and disclosure requirements associated with market borrowings should not pose any unusual difficulties compared to what a national government usually does for its own purposes and its reporting to the IMF and World Bank. At times, in the case of some governmental agencies there may be problems of uniform accounting practices or the necessity of audits, which would have been required in any event for any expanded international borrowing. In short, there may be difficulties in this area, but not insurmountable ones. With regard to particular forms of security or collateral in bond issues, he suggested that any need for that kind of support would probably make it impossible to sell the issue. On syndicated loans, particularly for very large sums and in the case of large natural resource developments, there have been arrangements where a portion of the sales proceeds of the raw material may be funneled through a trustee for servicing of the debt. On occasion, such arrangements may be useful, but a tight legal structure is necessary if one has to resort to that type of credit. Another panelist commented, with regard to institutional aspects listed in the paper, that the purpose of the borrowing has very considerable influence on the lending decision. While there had been a number of loans made, and more would be made, for "general balance of payments or budgetary support," the appetite for a project loan is much more considerable, and both larger amounts can be borrowed and also, what is more important, can be borrowed for a somewhat longer term if it can be demonstrated that this is only sensible on the basis of a project's cash flow. With the outlook for strong competition for syndicated loans, those who are borrowing on a project basis should have the better chance of obtaining funds on the syndicated bank market. With respect to the influence on lending decisions of country guarantees offered, the panelist pointed out that in certain cases there is a strong preference for a central bank guarantee over a government guarantee, or for seeking both, because of a feeling that central banks have a sort of continuity in practice which governments have not always demonstrated.

In response to a suggestion from a member of the Working Group, the panelist indicated that he would agree that even countries which are marginally creditworthy are much more likely to be attractive to a lender, and probably command a better rate of interest, if they can present a project with a very good cash flow. Such cases might, however, lead to a loan structure alluded to previously, with arrangements to assure that the foreign exchange proceeds generated by the project are paid direct to the lenders.

With respect to the comment made by the panelist on guarantees, a member of the Working Group asked about the market for borrowings by private enterprises from the developing countries and the relationship to a government or central bank guarantee. The panelist replied that private enterprise borrowings are limited by the disclosure factor and the question of accounting practices which had been commented upon. There had been recent cases of private borrowing, and he would not exclude the possibility of other private or semi-private entities, but it would be limited, and only in the bank loan market.

Another member of the panel thought that the possibilities for private borrowers from developing countries were very limited. They would in any event require either central bank or government guarantee, raising the question whether the latter should not themselves come into the market, and obtain better rates than possible for private borrowers and perhaps strengthen their market rating. Agreeing that the credit could be made only with a guarantee, another panelist commented that for this reason perhaps the preference for project over non-project financing should not be over-stressed. Also, he noted the case of private enterprise loans with the guarantee of the parent corporation or group abroad in an industrial country.

A member of the Working Group noted that much of the discussion had concerned what could be done by borrowers to have greater market access, but the Group was also to see what lending countries could do to improve and to facilitate access. He wondered what the panel might suggest, particularly in the area of legal and other restrictions and the many administrative barriers which discourage borrowers.

A panelist stated in response that he did not think such restrictions in the US market were really a problem or of the first order of importance. With interest on the part of lenders at a sufficiently high level, there is plenty of money in the country available on an unrestricted basis and, as stated earlier, many existing restrictions would probably be dropped. One thing that might be done would be "moral suasion" from the U.S. Government, encouraging this type of lending by US institutions, given the role the U.S. is trying to play in the world.

Another panelist commented that market forces are a very important element which should not be put aside in a discussion about what can be done, and unfortunately today market forces are very much against not only developing countries but most borrowers. As the market improves, there will certainly be a tendency to see new countries coming to the market and the existing countries getting more funds, and this factor is certainly much more important than small administrative problems from time to time which can be taken care of. Regarding the preceding comments, a member of the panel said that in the case of the Japanese national market, he thought underwriters were prepared to undertake educational and marketing efforts necessary if these steps are in line with government policy. When it comes to the international market, the questions of national policy or restrictions did not apply and the controlling element is the amount of risk international investors are prepared to take.

3. Creditworthiness assessments

Although touched upon in many of the preceding comments, the panel's attention was invited to Section III of the paper before the Group, regarding the formation of basic creditworthiness assessments of particular developing countries.

In response, a panelist said judgments were formed on both the ability to pay and the propensity, or willingness, to pay. Analysis of the ability to pay as conducted by the private sector does not differ in substance, and may be less sophisticated, than the analysis conducted by the official and public agencies, with which he was sure the Group was quite familiar. Focusing more on the willingness to pay, this is composed of many elements, the most important of which is the record of the borrowing government in meeting its international obligations. He cited the record and the reputation of Finland in the US money market, as an example. Issues regarding the attitudes of a country toward the private sector, whether local or foreign, has an important bearing on the attitude of international bond buyers, who as private owners of funds look for respect for private ownership. The institutional structure and stability of the country is very relevant; institutions designed with sound objectives and with a record of good management help very much. The issue of continuity of obligations is a further important factor. A private lender does not believe he can get involved in trying to assess whether the successor government will consider a preceding government as duly constituted and will honor the obligations it incurred. Many of these tend to be subjective considerations, but they are very real, and they are all considered. Another member of the panel added the comment that when all these aspects of creditworthiness are assessed, private investors come to a certain qualification of the quality of the paper; but if the risk premium exceeds the prime market by more than a certain amount, then it would not be possible to sell these because investors would be suspect of buying a non-creditworthy investment.

Another panelist pointed out that there are some differences between the credit and bond markets in this field of creditworthiness. The bond seller is responsible to sell good bonds, and therefore has very complicated methods of assessment and proceeds very cautiously. In the credit field, on the other hand, considerations other than the soundness of the paper may influence the banks. Maintenance of a relationship with a very important customer in a country, for example, could induce a bank to take a risk that would not be taken by a bond seller trying to protect his customer. There is also an element of competition in the field of project financing, which may arise from the involvement in the operation of an important industrial customer or the feeling that there is a national interest in securing a large operation for a national industry.

With regard to other points of Section III of the paper, a member of the panel said that in some loan agreements, particularly in balance of payments loans to governments, there is an explicit linkage to continued access of the borrower to credit facilities of the IMF. Also, increasing attention is paid to creditworthiness ratios, and the analysis made is constantly moving in the direction of greater sophistication. He agreed that the number of foreign borrowers with government guarantee is likely to be limited, but noted the case of projects in developing countries largely or in part owned by overseas companies. While finance for such projects may rest in part or in whole on the creditworthiness of the overseas companies involved, it does nonetheless result in a capital inflow from abroad into those countries. He thought this sort of pattern could form an increasingly important part of the finance of projects in developing countries, and suggested that the role of equity finance should also be touched upon.

4. <u>Possible multilateral guarantee mechanism</u>

The background and nature of the Working Group's consideration of possible new mechanisms, and specifically of a possible multilateral guarantee mechanism to support developing country access to capital markets was explained to the panel. The members of the panel were invited to offer any general comments they might wish to make regarding the market feasibility, dangers, advantages, etc., of such new mechanisms.

One member of the panel said that he personally felt that a guarantee mechanism would be the only way that really substantial amounts of money could be obtained from the non-commercial bank sector for the developing countries. He would exclude syndicated bank loan-type operations from such a guarantee fund, mainly because the banks are already providing substantial finance and much more could be obtained, from the marketing standpoint, from the private bond markets. He was particularly taken by an idea noted in a background paper on this subject which referred to the possibility of setting up such a fund able either to guarantee directly issues by foreign governments or to back up guarantees provided by the country in whose national market the issue would be placed. In the US market, for example, because of the laws mentioned earlier, the market for an issue which would be guaranteed by a group of countries would be more limited than one for which the guarantor would be the U.S. Government itself. The interest rate differential could also be significant.

Another panelist remarked that the quality of any multinational guarantee which is effective prorata would only be as good, and as weak, as the weakest part of the guarantee. If there would be weak countries in the whole range of guaranteeing countries, then it might be difficult to persuade investors that this guarantee would be as good as the highest-ranking country in the group of guaranteeing countries.

Another panelist felt that some sort of international guarantee device could generate additional money for the developing countries as compared to the present situation, but was not sure whether this could really be demonstrated. It may well be argued that the present international institutions could increase their access to capital markets and channel these additional funds to developing countries. The type of device suggested could add something to that, in his view.

A third member of the panel said that he also thought that such a guarantee mechanism would have the impact of more private capital market funds to the less developed world. He pointed out, however, that there would also be a question whether or not the particular donor countries that provided the guarantee would make this support available over and above and additional to their support of existing mechanisms and institutions. With respect to the nature of any guarantees, it was important that they be very carefully, technically arranged so that the lender has nothing to do but present his bond at due date and he would get his money; in other words clean, simple, and technically perfect in terms of the buyer's interests. More specifically, the form of the guarantee should be such that if there were occasion to call upon the guarantee, each individual participating country would put up its prorata share and if one of them did not perform, the others would be required to do so up to the limit of their particular responsibility. It should also be possible to state in any prospectus that all necessary procedures have been appropriately concluded within each guarantor country to bring the money forth in the event of default, with the only requirement a simple notice that there has not been payment.

Another panelist said that the consequences of giving guarantees to some developing countries have to be very carefully assessed as to whether this would increase the total amount or whether it would merely result in a shift in funds available. He thought one could argue that if guarantees were made available on a wholesale and indiscriminate basis, covering bank lenders in the short to medium-term market, as well as the long-term lender, there might be an unconstructive result. Countries which have succeeded with some difficulty in establishing a credit rating on their own in this market might find that lenders would either ask for a guarantee or would in effect reserve, within the limited amounts of their portfolio, rather more money for guaranteed borrowers at the expense of ungaranteed borrowers. On a more technical aspect, he called attention to a possible issue of negative pledges, which exist in most loan agreements and a possible situation of triggering such p pledges or having to negotiate a whole range of amendments to negative pledge agreements. If a guarantee scheme were to be introduced, it should be used selectively as part of an effort to improve the debt maturity structure, confined to longer-term lenders and restricted also in amount. If very large sums were obtained for a country by the guarantee route, it could affect its borrowing capacity and reduce amounts the country could borrow by other methods. Finally, he did not think that a guarantee on a several basis could work. There would have to be an unconditional guarantee by one body analogous to the World Bank so that lenders would not have to look to the performance of the individual donor countries underlying it.

With respect to the extension of guarantees to Euro-money, whether credit or bonds, a member of the Working Group remarked that he thought a guarantee scheme could work only if there were a clear interest on the part of the country that lent the money in obtaining an added security for its national reserves, for savings that leave the country and should return. But Euro-money, whether long or short, bond or currency, is expatriate money and by that very definition could not know a host country, and by that definition a backup guarantee scheme poses some contradictions. He did not think that Euro-loans could be a proper subject for a multilateral guarantee scheme because the country in whose money the Euro-currency loan is defined has no interest in that particular part of its national resources any more. Since a guarantee scheme of the type envisaged would have countries borrow under the umbrella of substantially the same country guarantees supporting the World Bank and the regional development banks, he asked whether this would not create a number of competitors for the bonds of these institutions, and in addition to an impact from the quantitative point of view might create distortions in interest rates and the proper functioning of the markets.

The member, and another member of the Working Group, raised the question whether the panel saw any advantage in going this route--developing countries themselves going to the market under the umbrella of a guarantee--as distinct from the traditional route, where certain institutions go to the market under the umbrella of certain guarantees and then pass these funds on to the developing countries.

A member of the panel said he would put the question differently: there is an existing institutional and banking structure today, which diverts a certain percentage of the funds to developing countries; the basic question is whether a change in this institutional setup could divert more than would otherwise be diverted into these developing countries. He would answer in the affirmative, and one of the simpler ways of doing so would be the creation of a mechanism whereby countries could approach the market under a guarantee umbrella. He thought there was need for a new mechanism to divert more funds to developing countries; otherwise, if market mechanisms were left as they are, the percentages would most probably remain what they were. He had no doubt that the developing countries that were not in the market would benefit immensely from a guarantee umbrella for borrowings in both the syndicated loan market and in the bond market. For countries already in the market, the principal advantage would come from the bond market; most of the large banks have a special credit line for these countries and they would continue lending to these countries, even without an umbrella. In this connection, and also touching upon the creditworthiness concept, he stressed the importance of the banker-client relationship which involves a progression from, for example, a credit line to the central bank, followed by export and trade credits, then into syndicated loans, and finally to bond issues; countries have to go through this process before they really come to the market, although from time to time there are certain countries which are lucky and become fashionable. But he did not think there was any way to divert more funds to developing countries without changing the present structure.

Turning to another aspect of the question, and considering the history of development assistance and efforts to expand the sources of capital for the developing countries, another panelist thought that multiplicity of sources should be one of the cardinal objectives of the whole development scheme. An aspect of that is the education of those with capital of the advantages of a particular use of it which would also benefit developing countries. He also thought that the use of multilateral guarantees would be one more consistent, rational, and worthy element of a coherent development financing program, as a stepping stone in the strategy of reducing and phasing out countries from reliance upon exclusively official assistance such as provided by the World Bank. Western Europe went through this process some 20 years ago; other countries have also, and more are being prepared to do that.

Noting the implied progression of a developing country's movement from borrowing with the help of a guarantee scheme to a point where, its creditworthiness having been established, it could borrow without a guarantee, a member of the Working Group asked whether this would be a realistic expectation or whether there would be a reliance on the multilateral guarantee scheme for an indefinite period in the future. The question was further amplified to include whether, as a part of such a progression, it could be contemplated that countries could go from full guarantees, to partial guarantees, and finally borrow with no guarantees.

A member of the panel said that he did not think that the problem of indefinite reliance on guarantees would arise as posed in the question. As to partial guarantees, he found the concept difficult to grasp, considering what had been said regarding the importance of clear and absolute guarantees. He would rather contemplate much more easily a clear switch from guarantee to non-guarantee as a country's basic economics enabled it to go directly to the market. Assuming that the borrower has to pay for the guarantee, with a service charge perhaps of some fraction of a percentage point, another member of the panel said he could imagine an issue with an option to the lender of giving up the next installment, or more, of the guarantee as an inducement to getting the guarantee fee directly.

As regards the bank loan sector, another panelist thought that the bankers would be very interested in gaining the equivalent of the guarantee fee themselves by a straightforward loan, if they felt the country creditworthy to that extent. The contrary argument implied by the question would be valid only if the guarantee were free. A member of the panel pointed out that there was a number of elements in any loan--the amount, the term, and the cost factor--which would vary with the availability of a guarantee or not, and would have to enter decisions and choices of lending or borrowing with a guarantee or not. As regards partial guarantees, there are precedents on the bank market, but he would doubt their feasibility on the bond market. Taking into consideration all that had been said, he thought the interest should be in a restricted guarantee scheme, for longer maturities in the bond market, or possibly longer term maturities in the bank market beyond the 10-year range. Regarding questions concerning possibly different interest rates for guaranteed borrowings and those of the existing institutions, it was pointed out by a member of the panel that this type of situation already existed in the markets for very similar securities--including the international and regional institutions, various public agencies or nationally guaranteed securities, and also corporate issues. This is a very common, every day, situation, and should not be considered a problem.

Considering what had been said about the strength of a multinational guarantee being as strong as the value of the weaker part of it, and considering some quite large industrial countries are having difficulty in borrowing on capital markets at the present time, a member of the Working Group asked what the panel would think about a multilateral guarantee at the present time which included the guarantee of such a country. Also, would a contribution by a country in such circumstances to a multinational guarantee be offset by the market against the potential borrowing by that country in the market or be reflected in the cost of its borrowings.

With regard to the second question, a member of the panel said he did not think that guaranteeing another country would hamper a country's own credit, although he agreed there would be a question of degree, and the significance of the amounts involved. On the first part of the last question, a member of the panel said he could imagine the structuring of a given guarantee liability by subscribing countries in such a way that the undertaking is as good as its strongest part, citing the structure of the World Bank itself and the time when its first borrowings were in effect covered only by the callable capital of the United States. On a point raised earlier, the panelist added that he wished to record a doubt about any possible negative pledge issue, as he thought it could be argued that a multilateral guarantee would not be offered by the borrower himself and therefore would not violate any negative pledge undertakings. Further on the first part of the last question, another panelist said he would have thought that any multilateral guarantee would really demonstrate the willingness of certain countries to give direct support to developing country borrowers, and therefore the main question would be whether the market would accept this or not rather than a question of what share is guaranteed by a particular country which may be experiencing balance of payments difficulties.

Referring to earlier statements that, given the current state of the market, one must be very circumspect as to the type of activity into which funds would be directed, a member of the Working Group asked whether a multinational guarantee would serve to widen the scope or range of possible projects or activities that would be attractive to lenders.

In response, a panelist said that he thought it would do so and that it should represent a rather flexible form of financing from the borrower's standpoint. His own view would be that multinational guarantees should cover general purpose loans, provided the funds were directed toward development, and need not be directly linked to specific projects.

Following on that question, a member of the Working Group asked what balance of influence of a multilateral guarantee might be expected as between broadening the scope of countries which could have access to the market, and an improvement in terms for countries borrowing in the market.

A panelist replied that he would see the most important influence as obtaining funds from private markets which otherwise could not have been obtained, rather than any improvement in interest rate or terms, as such. Complementary to this point, a panelist added that a useful way to use a guarantee mechanism would be to permit countries to extend their debt maturity by entering the long-term bond market, for countries--the majority of the less developed countries--which could not otherwise enter the bond market.

Several members of the Working Group at this point commented on a number of aspects of a possible multilateral guarantee mechanism which would have to be addressed, including various institutional aspects, criteria for granting guarantees taking account of considerations of optimal distribution of necessarily limited capital, and returned to several questions already touched upon in the discussion. Would a new guarantee mechanism really work to bring forth additional resources? Should a guarantee be offered only to new participants in the market? What would be the impact on those countries which were already in the capital markets?

One panelist responded that the answers to these types of questions may basically be matters of judgment, and his own judgment would be that more countries would be able to get more money than otherwise would be the case if a guarantee scheme were implemented. Regarding the issue of competition for countries already in the market, an argument could be made that the more people are educated to the value of international risks by means of a broadened market supported by guarantees, the more a beneficial fallout could be expected adding to the marketing opportunities of countries already in the market and of developing countries in general. Another panelist said he thought it was important to approach the consideration of a multilateral guarantee bearing in mind the objective to secure long-term facilities to be laid down for the financing programs which developing country borrowers will require in the years to come. As had been discussed, the educational process necessary and the entry to markets was not easy, but unless a start were made, the goal could not be obtained. A mechanism of this kind should not be expected to solve the whole problem, but it should be instrumental and helpful at least in solving part of the problem developing country borrowers face. In this vein, he would think such a facility should be offered to those countries which have not yet tapped the market, rather than those countries which have already established their own credit in the market. Another panelist repeated that he still believed there would be the possibility with a guarantee mechanism to get something more than what is presently obtained in the market by developing countries. He felt that it would be necessary to think of a limited scheme in order to avoid any problem of adversely affecting the ability to borrow of the World Bank by granting guarantee facilities to developing countries. While he saw no intellectual grounds for the exclusion of the bank credit sector from guarantees, he could agree with it on the practical grounds that this market is reasonably successful now, and needs no special help, and it is long-term borrowing which is most badly needed, and which needs most backing in the market. He did not think there would be any deterioration in the relative position of a country which had already successfully issued bonds, if the scheme had careful criteria governing the circumstances in which guarantees were granted, although this might be difficult in practice. He would see this sort of scheme primarily directed toward launching countries in the market, as interim help to facilitate entry into the market. The creditstanding of a country which had already achieved this would not be affected by such support to other countries.

A member of the Working Group suggested that another dimension be introduced into the discussion in terms of any additional or new benefits which might be obtained, from a new scheme to guarantee certain securities of developing countries, over and above the amount of flows guaranteed over time. If the scheme would only add to the existing flow of funds the amount guaranteed, he thought there could be many other, and perhaps cheaper, ways. He wondered whether a plan could be structured so as to generate over time a much larger flow of resources to the developing countries than the guaranteed amount, and in this respect he was disheartened to hear what he had about the use of partial guarantees, because it had seemed to him that one way of getting a multiple effect would be to use the guarantee only to upgrade the risk and to increase the flow by some multiplier of the guarantee itself. He wondered if the use of a 100% guarantee really introduced a country into the market, or whether the person buying the bond really looked only to the security of the guarantor government. He asked whether members of the panel might have any ideas how much a program might be structured, and given added dimensions in terms of promoting the growth and welfare of the developing countries by involving much more flow than the guaranteed amount.

Another member of the Working Group pointed out that the guarantees being discussed were after all a kind of insurance, and that there were two types of loss which might arise: that the borrower would default, and the exchange risk which might arise from variations in exchange rates of the currency in which the operation was done and the currencies put up by the guaranteeing countries. He doubted that governments would be willing to assume a foreign exchange risk which could be very considerable, in which event it would have to be absorbed within the operating costs of the guaranteeing institution and shared out as part of the fee charged to the borrower. The question thus arises, if the guarantee institution is not over time to bear a loss, whether the additional cost to the borrower would be so large that it would deter any potential borrower from ever applying for a guarantee.

A panelist said that he thought the purpose of a guarantee fund, as the purpose of direct lending by the World Bank, must be that funds were going to be applied toward some useful purpose in increasing the productive capacity of a country, improving its debt structure and indeed making it a more creditworthy country. If this is achieved, then the country is more likely to be able to attract funds generally, and to this extent there could be a multiplier effect from the use of guarantees.

Another panelist doubted that there could be a kind of multiplier effect in that the additional amounts that could be borrowed would exceed the amounts of guarantee coverage provided by the subscribing countries. Rather, the contrary might be the case with a system of joint and several guarantees of both strong and less strong countries, and it were not possible to effectively use the guarantee coverage corresponding to the share of the less strong countries.

If, as indicated by the panelist, it were true that part of the guarantee coverage were considered to be strong, and part weaker, a member of the Working Group said that this could also mean simply that the price that investors would ask for would be somewhat higher than if the guarantee were provided by only strong countries. Similarly, he would not expect a bond could be sold at the same coupon with a partial guarantee as with a full guarantee. The question which he would put is whether a bond could be sold at all under these preceding circumstances, and what sort of cost differences were involved. He thought this question would have to be addressed if the purpose of the guarantee were not to reduce the cost, but to expand the amount of money, and to stretch this to obtain maximum access to the capital market.

With respect to the use of partial guarantees, one panelist responded that he continued to feel, as indicated earlier, that one must think in terms of a single bond issue which either has a guarantee or does not. Within the context of a private placement, however, it might be possible to convince institutional investors to take, in effect, a partial guarantee, which could take a variety of forms, some of which might be similar to co-financing arrangements used by the World Bank and the Inter-American Development Bank. These would be specialized transactions, however, and their use probably limited. Another panelist said he would start with the premise, fundamental to his judgments, that the likelihood of nonpayment and therefore the need to call upon the guarantee is--as shown by the experience of the World Bank--negligible. Callable capital has not proven to be at all expensive for donor countries, and the amount of a guarantee fund would thus provide something additional to what otherwise would have gone to lesser developed countries, with the added benefit that the average life of the debt incurred would be better. He would add to these benefits the educational value of the exercise and the fact that the use of guarantees would lead to a situation where market access could be had without guarantees. A panelist said that he would not rule out, as a matter of technical feasibility, various partial guarantee devices, such as guarantee of later maturities, percentage guarantee, guarantee as to principal only, etc. He would certainly structure the fund in such a way that all of those might be possible avenues to proceed on any one given transaction. Much would depend upon the transaction, the country, the market, etc. He also suggested consideration of a device which would not be an actual guarantee of paper, but would provide for an institution to stand behind a security to the extent of willingness to take it back from the buyer after a certain period, say five years, for reasons other than the interest rate. Again, this kind of transaction may be possible in a special circumstance rather than as a general rule.

In response to a question regarding the acceptability to the market of a new institution, and whether it would take several years to establish its name in the markets, one member of the panel said that he would envisage a multilateral entity constituted in the manner in which the IDA had been established, with its own charter and rules, but with the staff support and management of the existing multilateral lending institutions. The market would be reassured by having the World Bank or IDB staff make the judgment whether an operation was consistent with the development program of the country and deserving of a guarantee.

A member of the Working Group indicated that he continued to be troubled by what appeared to be a black and white distinction on partial guarantees. It had been said that some "moral suasion" from the U.S. Government could be helpful; this is a question of practical measures going beyond moral suasion, but no so far as a 100% guarantee. If it is true that there are countries very close to being able to borrow without a guarantee, but cannot yet do so, was the only alternative to provide a full guarantee, or should it be possible in such a case to make a difference with something, however structured, that would be less than a full guarantee?

In response, a panelist cited some earlier precedents of transactions which excluded interest from a government guarantee coverage, as well as special transactions arranged from time to time along these lines. He would thus not say that there would be no opportunities to make use of partial guarantees; but he thought it would be misleading to say that this program could be adopted on the expectation that a broad usage of partial guarantees were likely.

Another panelist agreed, adding that while it would be true that partial guarantees would enable the use of a guarantee fund on a more than one-to-one basis, it would unfortunately also be true that the number of buyers and amounts would be much smaller, with the result that much less could be done with reliance on this kind of technique. Two other panelists agreed that the use of partial guarantees would not be possible in the public market--whether Euro-bond or national markets--but possibly thinkable only in the case of private placement deals with some institutions.

A member of the Working Group pointed out that the possible use of partial guarantees or other elements in an effort to obtain the greatest leverage possible out of a guarantee fund would require extensive negotiations for private placement with banks and institutions. He wondered whether in order to be manageable a guarantee system should be limited to certain types of transactions, for instance public bond issues, and be, to a large extent, "automatic" in its application rather than relying heavily upon subjective elements of decision-making. This, in turn, would raise questions of the quantitative consequences for national or other capital markets.

A member of the panel commented that, whether a plan were automatic or not, there should be some "traffic control" point for the timing of access to the market, and various sectors of the national and international markets.

5. Multinational Investment Trust Fund

A member of the Working Group noted that very recently a high U.S. official had made certain proposals to establish some sort of mutual trust fund, and that it would be useful to hear more about this and take advantage of the presence of the panel to obtain their reactions to this type of proposal.

It was explained that the idea referred to, which is not yet in the form of a proposal, arose from a consideration of how one can find capital for developing countries in areas of international capital markets which are not providing as much as it seems they might to developing countries to further their investment. There appeared to be two areas which might be reached with the sort of proposal referred to. One of these areas is private investors in the United States and perhaps in other developed countries who, other things being equal, would be interested for moral and humanitarian reasons in investing in a developing country. Unless such an investor were himself knowledgeable on developing countries, and able and willing to make a direct investment, there is no offer available to an investor of a broad, diversified, portfolio of equity or fixed interest or a combination of these investments in a series of developing countries. A second category of capital is represented by the holdings of some countries whose export earnings have increased very rapidly during the last few years, and where there is some willingness to invest in developing countries to diversify their investment and to obtain a commercial rate of return. It was thought that these circumstances provided the opportunity or organizing what is referred to in US terminology as a mutual fund, or several funds, and that the experience and operations of the IFC in developing countries would make it particularly suited as an organization to manage such a fund, not as an integral part of its operation or with any claim on its capital, but as a collateral operation for which the costs would be charged to the investors. As the needs of the developing countries are quite immediate and, as with any sort of mutual fund proposition, it would take some time to become established in the market and have very large amounts of money, it was thought such an operation could be initiated on a larger scale and enabled to attract money more rapidly if governments were prepared to provide a first-loss reserve, which might consist of $200 million, and which could be structured in many ways. It was thought that such a first-loss reserve or guarantee fund would be designed to give confidence to investors--both private investors and governments--to invest a multiple of several times its amount, with the confidence that they would have a fairly safe investment and a good return. There are many technical details and options which would have to be examined carefully, but these would be the main lines of the suggestion, which would be aimed at providing stronger support for the directly productive private sectors or mixed enterprises in the developing countries.

One of the panelists cited evidence that there would be increasing interest in the United States in the type of investments referred to, as well as the fact that a number of mutual funds in the U.S. were already able to handle foreign securities, so that he thought there could well be a market for this type of instrument in the United States. The proposal to select IFC as the fund manager was important because in order to make a new mutual fund attractive to investors one of the key factors is to be able to show a previous record of performance. From a marketing standpoint, he would note that closed-end mutual funds were not very well regarded, so that he would suggest that such a fund be an open-ended one. He suggested that the recent experience of Brazil, where a great deal of thought had been given to mechanisms to open up the Brazilian capital market to foreign investors, could be relevant. He also suggested an approach whereby existing mutual funds might invest in the new fund managed by IFC, rather than looking exclusively to individuals to invest directly in that fund, at least as an initial approach. Another panelist thought there might be a problem whether the equity market in developing countries could absorb the large amounts of money referred to. In addition, there could be problems of liquidity arising from the application of exchange controls as well as the ability of local markets to handle any block selling which the manager might need to undertake. There are very few markets in the world whose market ability and liquidity are big enough to handle very large amounts of money in and out, and for this reason he thought the mechanism should be considered on the basis of a closed-end rather than an open-end type of fund. The dilemna would be between the desirability of an open-end fund from the marketing viewpoint, and a closed-end fund if one were to avoid great managerial difficulties. Another member of the panel expressed the view that a mutual fund of this type could not enter the area of venture capital or new investments, but would have to restrict itself to established ongoing operations. Perhaps a strategy of investing in a selected portion of the portfolio of the IFC could be considered as a way of initially raising capital and building the operation. While he would agree that the fund would have to be a closed-end fund, this would not foreclose the possibility of frequent additional offerings as funds were usefully placed; the first-loss reserve could be structured in a way that would also provide the liquidity that is required. He thought that the element of government sponsorship was a necessary ingredient of the proposal in order to re-establish the faith of capital markets around the world in the mutual fund idea after the abuses and unfortunate experiences of the past. Finally, he thought it would be very important to dispel--if the investments were to be successfully sold--the general feeling that in the developing part of the world the private sector capital did not have the basic political ideological support of the governments over the long term, that it is not allowed to flourish and is diminishing, and that this applies even more strongly to foreign private capital. From the viewpoint of at least some European investors, a panelist said they would certainly look for liquidity of the investment, and that, in addition, of course, to performance and yield, would be difficult to provide. While he felt that this type of plan could work, he did not think the amounts could be very large. He thought it very useful to raise this type of idea because it focused attention on attitudes toward equity investment, which is crucial in considering less developed country access to debt markets. Equity investment is particularly fruitful for countries with a high level of debt, because equity investment has no mandatory debt service and dividends are not paid until the operation is productive, either by producing exports or saving imports. And the equity base of so many countries is inadequate in this respect to sustain a level of debt. Development, in his view, could not be financed exclusively on debt and this could not be disregarded in the context of this discussion. Another panelist thought that Middle Eastern investors, both private and public institutions, would receive the idea very positively and give a very good response. However, he noted the fairly limited, although good, results of similar organizations such as ADELA and PICA, and wondered whether this proposal could succeed in the crucial objective, which is to get substantial additional funds to less developed countries. Even if managed by the IFC and even if aggressively pushed into making investments and loans in less developed industries, he thought that the fund would face the limitations that all the other organizations, and the IFC itself, had been facing.

In connection with this discussion, the Group was informed that the rate of return on IFC closed-out equity investments had been something like 12 per cent on an annual basis translated back into dollars. IFC generally attempted to seel equity investments once the company had matured, however, while other shareholders may stay in for the longer pull and anticipate higher rates of return. In the selling out process, the interest is to sell back into domestic financial markets, but narrow markets sometimes make this difficult. It could therefore be very helpful to have some form of investor such as the proposed investment trust, as a possible source to sell. In this context, it would be desirable if a trust, if established, could be considered either as neutral or national from the point of view of the country from which the securities would emanate.

It was also emphasized to the Group that what was being considered would not be limited to equities; in fact the greater proportion of the money might well be in fixed interest securities. There might also be considered an overall umbrella organization of the investment trust, which would back several different individual trusts investing in different sorts of securities, each with its own appeal to some segment of the market. As regards amounts of money, it would be hoped that in fact the limiting factor would be the availability of money from the investors and not the availability of projects in the private sector of the developing countries; there are increasingly series of very large projects in developing countries, with the inflation and with economies of scale, which could provide quite large investment opportunities. While the market is still untested, one can only speculate on what the total flows might be, and it is to be hoped that an initial $200 million shared out among various donor countries would support operations of perhaps ten times that amount over a period of two or three years.

6. Co-financing

The attention of the panelists was invited to the type of question posed in Section VIII of the "Topics" paper, which referred to ways and means of stimulating increased co-financing by the private sector of projects normally financed by the international and regional lending institutions and possible new techniques which might be employed.

A new financing technique just used for the first time by the Inter-American Development Bank was explained to the Group. Two loan contracts were involved: one for a loan from the Bank's own ordinary resources and the second for an amount that the Bank had already agreed to sell to participating banks, renewable every six months, with the interest rate pegged to LIBOR, without recourse, and for a 7-year period. The circumstances of this operation are such that without this operation these resources probably otherwise would not have been available; the borrower is a very reputable institution, but the country is experiencing balance of payments difficulties. This operation on somewhat better terms than otherwise would have been possible was made feasible by the Bank's evaluation of the project and its cash flow, but also by the "moral umbrella" constituted by the fact that the loan was made by the Bank and the record of priority service of loans to the Bank by the country concerned.

It was also explained that the World Bank is now also looking into new devices or the revival of older devices to try and tailor them to present market demands. In the earlier years of the Bank, there were cases of public offerings, for example, which went along with Bank-financed projects, and from time to time there have been individually-arranged private placements and the use of cross-default clauses. The effort is to move in this direction with more and more countries to the extent that the private banks and, hopefully later, insurance companies will find it attractive. The advantage of these arrangements is that all the very careful studies of projects and countries are made available on a confidential basis to the co-lender, and the entire financing comes under the umbrella of the Bank, with the Bank at least in the first instance taking up any problems which might arise--in the servicing of the debt, for example, although there would be no guarantee.

One panelist said he considered these efforts a positive factor, and thought that more use could be made of these techniques, at least in the bank market, in the context both of project loans side-by-side with the World Bank and by using in a different way the type of cross-default clause concept already used in balance of payments loans to some countries.

A member of the Working Group asked whether, if the interest rate were in some way made satisfactory to the market, it would be possible to sell to longer-term investors a package of established loans from the portfolio of one of the development banks, say, from the World Bank, which had a well-established servicing record and perhaps an average of five to eight years to run. The interest rate might be set in the vicinity of rates on World Bank bonds by adjusting the price, and the package could consist of what would be seen as the better credit risks.

One panelist expressed some doubts that an investor would be very interested in such a package of matured loans, and thought that the interest rate might have to be a great deal higher than the direct World Bank rate. Another panelist said that he would be more optimistic that something along these lines could be worked out, and a third member of the panel said that he thought this possibility might be well-received in the Middle East, certainly for Bank loans to countries either in the market already or about to be in the market. He thought amounts of $20-50 million would certainly be feasible, with maturities today averaging five years, and that sponsorship by the World Bank would give the package an advantage over a sort of general banking or Euro-bond issue. He did not think that this would raise any problem of competition with a country's own ability to raise funds in the market, as he thought there was flexibility as to how much the market would be prepared to place in securities of a country at a given time. Also, he would not exclude loans to countries which might not yet be ready to go into the market directly. Another panelist said he would tend to be pessimistic as regards any attraction these investments might have for institutions.

7. General and concluding observations

A member of the Working Group said he thought it would be very helpful if there could be some greater precision on the form of a guarantee which would be acceptable in the type of scheme discussed--whether several guarantees, or joint and several guarantees. He also considered that one of the most crucial points in the proposed guarantee scheme would relate to the additionality factor, and he wondered whether this could be further probed, taking into account the different categories of developing countries as regards their present situation with respect to market access. In addition, he wondered whether the leverage or multiplier effect spoken of for a guarantee mechanism could be found in the educational aspects of operations under the mechanism--the knowledge and familiarity gained with a country--and the ultimate ability to raise funds without reliance on a guarantee facility. Finally, he wondered whether there could be some clarification of the issue whether a more general country evaluation would be acceptable in connection with a guaranteed offering, or whether specific projects would be required.

A member of the panel responded that with respect to the use of proceeds he thought the preference expressed for project loans was identified primarily with syndicated bank financing, but that with respect to guaranteed bond issues, general purpose would probably be more acceptable and attractive. As regards the form of the guarantee, he thought the problem referred to of the weakest link could be reconciled by maintaining the total of borrowings below the total of the individual guarantees made available by the participating countries. While this may be seen as posing a political problem in asking donor countries for a larger guarantee obligation than would otherwise be required, it should be remembered that the likelihood of ever having to call upon it, and certainly to call on it in full, is negligible. Regarding the issue of additionality, or multiplier effect, he would not underestimate the opportunities this type of vehicle would provide to educate investors, find new borrowers, and buyers of bonds, and constantly expand contacts of the financial community.

In response to an invitation to each of the panelists to make any additional comments or concluding remarks he might wish to make, one panelist noted that short-term money market aspects of financing for the developing countries, which were very important, had not been touched on. A very large number of these countries has access to that market either in terms of short-term trade financing or the opening of letters of credit by commercial banks and, therefore, he thought that any consideration of guarantees for this short-term end of the market would not bring any additional funds and also would be quite cumbersome. Generally, he felt that a sort of solid full-pledge guarantee was really necessary to change the actual structure of the flow of funds in the international market so that the less developed countries received larger shares of these funds than the market is willing to give them. To the extent that any country is now receiving funds in the market and there is a diversion to other less developed countries, he thought this would be more than offset by the overall expansion of amounts that would be available to all less developed countries. The application of a guarantee to the loan market could also be useful in stimulating the banks to allocate more of their funds to the less developed countries, although he agreed that there would be questions whether these funds would be useful to the countries because of their short-term, expensive, and fluctuating nature. He suggested that the creation of a guarantee mechanism could also provide a powerful instrument for negotiating with various governments the removal of various administrative or legal restrictions mentioned. In this connection, he felt that the administration of any new guarantee scheme should remain with one of the existing international organizations because of their expertise, the good name they have established in the market, and their reputation and contacts.

Another panelist said he came away with the conclusion that if a guarantee scheme were applied in a satisfactory form, it could give additionality, and other benefits, provided it were confined to the longer-term end in the money market. Operation in the short-term end of the market, the bank credit sector, could have negative consequences, and, in any event, the real needs are at the longer-term end of the market where additional borrowing would help improve the debt structure of the developing countries. In the bank syndicated market, he felt that the role of co-financing with the multilateral institutions could be exploited further. While he did not think guarantees would be appropriate for acceptance credits, he thought it would be worth studying how this medium of finance could be exploited further.

Another panelist agreed that the types of money required for developing countries were mostly of a long-term nature, and that the discussion should be primarily centered on this area. It is, of course, true that the syndicated loan market is the more important in terms of available resources for the time being, but he would stress that the efforts to find long-term resources should not be neglected for that reason, and there is a long-term educational process necessary which should be started, even under the present difficult circumstances.

In connection with the necessary educational process, another member of the panel stressed the importance in the consideration of a guarantee mechanism of avoiding the danger that some countries might not be eager to progress to a stage where they would be able to tap the markets without a guarantee. Although there is competition in the market, and investment bankers may be interested in helping to phase out a country which has been under the guarantee umbrella, the countries may be reluctant once they have been guaranteed.

Another panelist said that he thought that, were a guarantee mechanism to be established, the first countries to use it should be countries whose basic situation and prospects were good, but faced psychological blocks against direct issues without a guarantee because of the sorts of amorphous fear associated with investing abroad and especially in developing countries. He did not think the scheme should be viewed as one that would be helpful to countries whose basic circumstances were not such that the financing had an excellent chance of repayment. He thought the use of guarantees would speed up the process of countries coming to the market directly without assistance, and he would not agree that the "weaning" process would become impossible.

Development Committee
Executive Secretariat
October 29, 1975

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JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

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AID TARGETS AND THEIR IMPLEMENTATION

1. The Development Committee, at its meeting held in Washington in September 1975, agreed to give special attention at its meetings during 1976, among other things:

> "to means of improving the current situation affecting resource transfers, taking account of several suggestions made by members of the Committee, including quantitative aid targets and their implementation."

The Committee has already given consideration to some of the suggestions for improving the current situation affecting resource transfers and progress has been made in the establishment of the Third Window and the establishment of a Special Trust Fund is under active consideration. Looking beyond the immediate problems facing the developing countries to the medium-term prospects for their growth, consideration needs to be given, specifically, to the aggregate resource flows and the prospects of improving on the current flows to enable developing countries to carry out the adjustment process without harmful effects on their growth. In view of the unfavorable climate of political and public opinion with respect to aid in general and concessional assistance in particular, which is reflected in the virtual stagnation in real terms of flows of official development assistance for the past few years, the Committee could advance the question of resource needs of developing countries by reference to four factors: (i) maximum feasible expansion in export earnings of developing countries in the immediate period ahead; (ii) sustained effort by these countries at mobilizing additional domestic savings as also improving the effectiveness of capital; (iii) greater flow of external private capital, through direct investment and improved access to capital markets; and (iv) a phased movement towards realization of the aid targets in the light of the needs for external capital flows in the immediate period ahead. Growth rate in developing countries is dependent on many factors and external capital is but one among them. It is possible that, in certain circumstances when there is inadequacy of complementary inputs, external capital flows would not make much difference to the prospects of growth. But until such a point is reached, external capital can make an effective contribution to growth and could also help in promoting domestic effort.

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2. International efforts would no doubt need to be directed towards (i), (iii) and (iv) above, including efforts in the area of stabilization of commodity prices and export earnings, and access to markets, and could be related to the domestic efforts made by developing countries themselves to maximize domestic savings and exports and improve generally the effectiveness of implementation of programs and projects of development. In an attempt to meet a part of the problem through expanded flow of private capital, the Development Committee has given preliminary consideration to a number of measures to improve the developing country access to capital markets and has established a Working Group to study further the proposals in this regard.

3. In this paper, an attempt is made to focus attention on the recent flows of official development assistance in the light of the United Nations "targets," and the medium-term needs of the developing countries. The paper is divided into three parts. Part I provides a brief background of the targets themselves and summarizes the conclusions of the Seventh Special Session of the United Nations in regard to the transfer of resources. Part II describes the nature and magnitude of the current resource flows from the industrial countries, the oil-exporting countries and the multilateral institutions. Part III deals with some issues and suggestions for consideration by the Development Committee.

I. Aid Targets

4. As part of the strategy for development in the 1960s, the United Nations formulated the target of financial resource flows to developing countries equivalent to 1 per cent of the national income of developed countries. In subsequent discussions at the UNCTAD and the United Nations the definition and the content of this goal have undergone a change. Also, a separate objective related to the official development assistance *per se* has been formulated. It has been the main focus of attention for the past several years and is the subject of this paper. The aggregate target of 1 per cent (now related to GNP and not the national income) refers to (a) official transfers, viz. grants including technical assistance, loans, net of amortization, for periods exceeding one year and grants and paid-in capital subscriptions to multilateral agencies, and (b) flow of private capital, again on a net basis. The separate, and currently the more prominent, objective has been that developed countries should provide by a certain date official development assistance (ODA) equal to 0.7 per cent of their GNP. The current definition of ODA adopted by the Development Assistance Committee (DAC) is official assistance for development with a minimum grant element of 25 per cent.

5. The ODA target has not been universally accepted. While some countries have accepted the target or are using it as a goal for internal planning (Australia, Belgium, Canada, Denmark, Finland, France and New Zealand) others have accepted the target without a date and/or introduced medium-term plans until about 1980 (Germany, Japan and UK) and still others have not accepted the target at all (Italy, Switzerland, USA). Austria has announced the in-

tention of reaching an intermediate level of 0.3 per cent. Netherlands, Norway and Sweden have announced goals of surpassing the target and reaching an ODA level of 1 per cent of GNP or higher.

6. The UN and the UNCTAD Resolutions have, on several occasions, drawn attention to the need for improvement in the terms of assistance and in its quality. The Development Assistance Committee of the OECD has attempted to monitor the progress towards the volume objectives and also formulated over time quantitative norms of improved terms. As currently defined, the DAC norm for its members is to reach a grant element of 84 per cent in their programs of official development assistance (and, in the aggregate, this norm has already been reached). The DAC has also given attention to the improvements in the quality of aid, especially to the need and possibility of untying, but no norms have been defined. More recently DAC has given consideration to the distributional aspects of ODA, and the proposal, in this context, to provide low-income countries with a share in aggregate ODA which is at least equal to their share in the total population of less developed countries.

7. The UN-formulated goals and other related objectives in the area of official development assistance have been addressed primarily to the developed market economies. The members of the OPEC, all developing countries, have recently played an active role in contributing to the flow of financial resources to other developing countries, but they have not so far been asked to subscribe to any specific quantitative norms of volume, terms or quality. The centrally planned economies have explicitly not subscribed to the UN goals.

8. The most recent international discussion of the aid targets occurred during the Seventh Special Session of the UN in the broad framework of the question of transfer of resources. The Resolution (S-VII 3362) adopted by the General Assembly makes the following points on the subject of official development assistance:

a. Recognition of the need for:

(i) substantial increase in concessional flows;

(ii) amelioration in terms and conditions;

(iii) making the flows predictable, continuous and assured; and

(iv) untying, as a general rule.

b. Confirmation of commitment to the ODA target of 0.7 per cent of GNP by the end of the decade, with reservations by some countries as to the target itself and by others as to the specific date of reaching the target.

c. Recognition of the urgent need to:

(i) increase substantially the capital of the World Bank Group, especially the resources of the IDA;

(ii) increase the resources of the UN system, in particular the UNDP; and

(iii) augment the resources of the regional banks.

d. The need to ensure that increase in the resources of multilateral institutions should be without prejudice to bilateral development assistance.

e. The need for early contributions to the UN Special Fund.

f. The need for preponderant grant element in the assistance provided by developed countries to least-developed, land-locked and island economies.

g. Specific measures in favor of the most seriously affected countries in provision of additional resources by developed countries, developing countries in a position to do so and international institutions such as the World Bank and IMF.

h. Consideration of establishing a link between SDRs and development assistance as part of consideration of creation of SDRs in accordance with the needs of international liquidity.

i. Expeditious consideration in other bodies (i.e., other than IMF) of other means (i.e., other than link) of transfer of real resources which are predictable, assured and continuous.

j. Reference to the increasing burden of debt on developing countries and consideration by the UNCTAD at its fourth session of the need for and possibility of convening, as soon as possible, a conference of major donor, creditor and debtor countries to devise ways and means of mitigating this burden, taking account of the development needs of developing countries, with special attention to the plight of the most seriously affected.

9. Some of the conclusions of the UN General Assembly are in the nature of affirmation of general principles governing assistance; others call for specific action by the concerned bodies. It is suggested that, at this time, the Committee might focus attention on a., b. and c. above, with some general consideration of i. as part of its work in the immediate period ahead. Issues which arise in this connection and specific recommendation for Committee consideraton are dealt with in Part III below. As a background to Part III, the current situation and trends with respect to ODA are analyzed in Part II.

II. Recent Trends in Aid [1/]

10. In absolute terms, the aggregate net disbursement of concessional resources amounted to about $15 billion in 1974:

	$ billion	Per cent
DAC	11.3	75.8
OPEC	2.4	16.1
Centrally Planned Economies	1.2	8.1
	14.9	100.0

DAC assistance

11. The net flow of official development assistance (ODA) has remained stagnant in absolute real terms since about 1967 and has been declining as a ratio of GNP of the developed countries (i.e., members of the DAC) over the last decade and a half--from 0.53 per cent in 1961 to 0.30 per cent in 1973, registering a small improvement in 1974 to 0.33 per cent. On the basis of commitments made and the known intentions, net disbursements are likely to decline as a ratio of GNP in the coming years, reaching 0.29 per cent by 1980.

12. The net flow of ODA in 1974 has ranged from 0.14 per cent of GNP in the case of Italy and Switzerland and 0.25 per cent in the case of the USA and Japan to 0.72 per cent in the case of Sweden, the only country to have already attained and surpassed the UN target. The next highest levels were attained by Netherlands (0.63 per cent) and France (0.59 per cent); and Norway, Australia, Denmark, Canada and Belgium (in the middle-range of 0.57 to 0.50 per cent). UK, Germany, and New Zealand are close to the average (0.38, 0.37 and 0.31 per cent, respectively). The ranking of performance with respect to UN goals does not correspond with ranking in terms of GNP per capita, some of the richer countries being way below the UN target or the average DAC performance (details in Table 1).

13. Official development assistance comprises grants and concessional loans for development and includes food aid and technical assistance. Technical assistance, much of which consists of provision of expert services and training facilities has been close to 25 per cent of the total ODA provided by DAC members. The share of multilateral assistance has been increasing in recent years. The broad composition of ODA in 1973 and 1974 is shown below:

1/ This section is based mostly on information in the DAC Chairman's Report for 1975.

	Average 1970-1972	1973	1974
	(In per cent)		
I. Food aid	14.2	12.1	11.9
Technical assistance	21.8	24.3	22.1
Other grants and loans	64.0	63.6	66.0
Total	100.0	100.0	100.0
II. Bilateral	81.0	75.8	73.0
Multilateral	19.0	24.2	27.0
Total	100.0	100.0	100.0

14. Paid-in capital subscriptions and contributions to multilateral institutions on concessional terms (IBRD, IDA, regional banks, UN agencies) are included in the official development assistance. Thus, contributions of a concessional nature, as also the paid-in capital subscription to the World Bank and other multilateral institutions are reflected in the overall ODA performance and are not additional to the target of 0.7 per cent.

15. Over the last 10 years, ODA in nominal terms from the members of the DAC has gone up from $6 billion in 1964 to $11.3 billion in 1974; but when allowance is made for the rise in prices and figures expressed in constant dollars, there has been hardly any increase in real terms. Over a more recent period, for instance, during 1970 to 1974, ODA in real terms declined by nearly 5 per cent (Table 2).

16. Trends in ODA commitments or gross disbursements, as distinct from net disbursements do not show a picture that is materially different (Tables 3 and 4). In nominal terms, commitments of ODA amounted to $14.5 billion in 1974, an increase of 11.4 per cent from 1973, which was about the same as the increase in gross disbursements and net disbursements. To the extent that some countries have been able to increase their commitments of ODA in recent years, this would be reflected in disbursements in coming years. Projections of net disbursements of ODA through 1980 take account of current and known prospective levels of commitments and these indicate that net disbursements of ODA by 1980 would be around $20.7 billion, or 0.28 per cent of GNP of DAC countries (Table 5).

17. With respect to specific quantitative targets for terms of aid, the Development Assistance Committee of the OECD has established a norm of 84 per cent grant element which has been reached in the aggregate, although with dif-

ferences as among countries. In 1974 the average overall grant element of the ODA provided by members of the DAC was 86.5 per cent. Several countries had reached a grant element substantially higher than this, and only two countries (Japan and Austria) were below the DAC norm of 84 per cent.

18. The quality of aid also depends on two other factors, namely, composition as between projects, programs and sectors and the freedom with which the funds are usable. In both these respects there has been some move toward improvement although no specific targets or agreements have been arrived at. The DAC had attempted to reach an agreement on untying of aid in 1970, but this exercise remains incomplete. Currently, nearly 45 per cent of the ODA (excluding technical assistance) provided by members of the DAC is procurement tied; but an equal percentage is also untied, the rest being assistance with undetermined tying status. Individual country performance is shown in Table 6.

19. Aggregative analysis of performance suffers from a number of deficiencies. It does not allow for the differences in the relative contribution of technical assistance and capital aid; the flows to countries with which particular aid givers have special relationships; for the contribution of aid which is of considerable relevance in its effectiveness depending on the situation of the recipient country; and, finally, for the distribution of aid as among recipients with reference to some criterion of need. All these have been discussed in a general way from time to time and it is only in recent years that quantitative targets have been proposed as to the composition of aid and its distribution. For instance, proposals have been made in the DAC for formulating norms for distribution of aid as between countries.

OPEC assistance

20. Information on the flow of OPEC assistance is still not available in a systematic form. But such data as are available show that OPEC commitments of ODA during 1974 amounted to $5.3 billion and disbursements are estimated at $2.2 billion, equivalent to 1.4 per cent of GNP and 2.4 per cent of oil revenues. The largest givers of ODA were Saudi Arabia, Iran, Kuwait and the United Arab Emirates.

21. OPEC assistance was concentrated among neighboring Arab and Islamic countries. Nearly 66 per cent of concessional bilateral assistance provided by OPEC went to Arab countries and 90 per cent to Arab and other Islamic countries. Over 40 per cent of OPEC bilateral commitments of concessional aid went to two countries--Egypt and Syria.

22. OPEC flows to multilateral instituions display a similar pattern--a large concentration of flows to regional institutions, mainly Arab/Islamic institutions. Some of these institutions, which have been newly set up, will take time to start operations, and hence it would take some time before all the commitments made during 1974 were translated into disbursements.

23. Information on the terms of OPEC aid is even less precise than that on flows. DAC estimates that the total grant element in OPEC concessional flows might be around 65 per cent (Table 7).

III. Issues and Suggestions for Consideration

24. The foregoing brief survey of trends in development assistance shows the virtual stagnation in real terms in concessional flows from DAC since the middle of the 1960s. At the other end the capital requirements of developing countries to sustain even modest growth rates are substantially larger than the present flows of concessional and other official capital and private capital can meet. The Development Committee had occasion to discuss this subject at its meeting held in Paris in June 1975 on the basis of a study prepared for the Committee by the World Bank. Estimates of capital requirements can be made on a variety of assumptions, but experience with such estimation has shown that, within the broad range of feasible alternative assumptions, the need for a substantial expansion in concessional flows emerges as one constant element. Studies of capital requirements prepared by the Bank have shown that the level of net ODA from DAC would have to reach close to the target of 0.7 per cent of GNP by 1980 for developing countries to attain the Second Development Decade target of annual growth rate of 6 per cent. It is important, therefore, that as a medium-term objective both the target of 6 per cent growth rate and achievement of 0.7 per cent aid target are kept in the forefront of consideration of alternative strategies for mobilizing resources.

25. The World Bank studies have specified the broad magnitudes of requirements to the end of this decade. The projections made by the Bank were presented to the Committee for consideration at its meeting in June 1975, and an updated summary in the light of developments since the beginning of the year is being made available to the Committee. They suggest a range of additional annual capital requirements (in current dollars) of between \$20-\$40 billion by 1980, as compared with the current flows of medium and long-term private and official capital of around \$40 billion, in order to approach or reach the target growth rate of 6 per cent in developing countries. The wide range of the estimates is a consequence of differences in assumption regarding growth, export performance and trade policies and the availability of private capital.

26. In addressing the problem of capital needs and the ways to meet them, the following factors may be borne in mind:

a. The existing and prospective debt situation of developing countries, with the excessive reliance they had to have in the last two years on relatively short and medium-term borrowing on hard terms, suggests that a corrective is urgently needed in the form of a shift towards flows on relatively softer terms.

b. The above consideration suggests that while every effort must be made to secure additional flows of private capital on suitable terms, the need and scope for substantial increase in official capital, especially official development assistance remains.

c. Since there are inevitable time-lags between commitments of new aid and disbursements, the large prospective deficits of developing countries in the next one year or two would require continuing support in the form of quick-disbursing balance-of-payments assistance. Mechanisms such as the Special Trust Fund and oil facility, and food aid, are relevant in this context. Also, this kind of short-term prospect would continue to face the international community unless positive steps are taken as early as possible to raise the level of new long-term commitments of official development assistance.

d. At present, bilateral official development assistance from some of the DAC countries as well as most of the OPEC countries tends to be concentrated in a few developing countries with which aid-giving countries have special relationships. As already noted, proposals have been made in the DAC to establish certain norms for distribution of aid such that the poorest countries in need receive a larger share in the bilateral official aid. A relative shift in the ODA towards soft-loan multilateral channels might help serve a similar purpose.

27. In the light of these considerations, two approaches (not mutually exclusive) may be considered.

One approach would be to consider the steps by which the "target" of 0.7 per cent can be reached in a phased manner over a reasonable time and define specific intermediate steps for this purpose.

The second approach would be to consider the external capital needs of developing countries in the immediate period ahead to enable them to achieve even modest targets of growth and to define the specific manner in which these can be met.

Either approach should lead to a definition of the specific actions required over the next few years in order to raise the flows of official development assistance. In view of the lags between commitments and disbursements, implementation through additional commitments alone may not suffice and additionally special emphasis on quick-disbursing assistance would be needed. In the figures mentioned below, attention is focused on the four years 1977-1980, since not much improvement in disbursement can occur in 1976.

28. Following the first of the approaches described above, the concept of a phased move towards the target would involve a systematic and agreed attempt to secure a reasonable additionality in the ODA over and above the presently projected flows. A possibility worth considering--among other possible approaches--is that developed countries which have not yet attained the target might agree to provide additional ODA equal to a small proportion of the additional GNP expected to accrue to them over the next five years

until the target is attained. If, for instance, ODA is increased each year by an amount equal to one per cent of the additional GNP of DAC countries, a fairly substantial additional flow of aid would materialize. On the basis of current projections of GNP and likely levels of aid on present policies, additional flows of about $13 billion a year during the four years 1977 to 1980 could be generated in this manner (see accompanying text table).

29. There are several advantages in adopting an approach related to the increments in GNP. A situation of high or satisfactory growth in developed countries, with declining unemployment, might be propitious for securing legislative and public opinion in favor of augmenting aid especially if the increment in aid is presented as a tiny fraction of the increment in GNP. Second, a target formulated in such terms implies a phased move towards the main target. If one per cent of additional GNP is transferred as additional aid, the total level of ODA by 1980 would reach about 0.59 per cent of GNP. Third, an adoption of such an aggregative target might provide a possible criterion for distributing the shares as among the aid-giving countries.

30. The presently projected levels of ODA would, on the other hand, imply a reduction in the ratio to GNP of DAC ODA from 0.33 per cent to 0.28 per cent by 1980. Even if the present ratio were to be maintained, this would generate additional resources of less than $2.5 billion a year in the period 1977 to 1980, which may be regarded as totally inadequate to meet the situation.

31. The second approach, mentioned in paragraph 27, is to make an assessment of the minimum external capital needs of developing countries and reach an agreement to increase the flows of resources required to meet these needs. Recent projections made by the World Bank provide the basis for such an approach, but alternative bases could also be formulated. In terms of these projections, external capital requirements of developing countries could be kept at moderate levels during the period 1976-1980 if the target growth rate was lowered from 6 per cent to 5.4 per cent and policies in developing countries and industrial countries actively promoted the growth of exports from the developing countries. Additional capital flows required on this basis are estimated at about $20 billion for the entire five-year period, or approximately $4 billion per annum. Since the actual disbursements in 1976 would depend to a large extent on commitment already made, these figures imply a minimum requirement of average annual additional disbursements of $5 billion in the remaining four years of the decade.

32. These minimum additional needs, it might be argued, could be met by private capital in addition to increased flows of long-term official capital. But, a substantial expansion in private capital has already been assumed before arriving at the estimate of additional requirements of external flows. Thus, an agreement to increase official aid commitments sufficiently from 1976 onwards would be required if the minimum target referred to above is to be implemented. These additional commitments could be of bilateral as well as multilateral assistance. In view of the considerations mentioned in para-

DAC Official Development Assistance

$ billion

(1)	DAC GNP 1/ in current prices (2)	Increment in GNP (3)	Additional ODA 2/ (4)	Total ODA (5)	Projected ODA 1/ (6)	Additional ODA over presently projected (7)
1973	3105			9.4 3/		
1974	3413			11.3 3/		
1975	3750			12.2 1/		
1976	4323			13.5 1/		
1977	4953	630	6.3	19.8	15.0	4.8
1978	5644	691	6.9	26.7	16.6	10.1
1979	6388	744	7.4	34.1	18.6	15.5
1980	7197	807	8.1	42.2	20.7	21.5
Annual Average for 1977-1980				30.7	17.7	13.0
ODA in 1980 as per cent of GNP				0.59	0.29	

1/ World Bank estimates.
2/ If one per cent of increment in GNP is transferred as additional net disbursement from 1977 over the net disbursement of the preceding year.
3/ Actuals.

Note: This is an aggregative calculation and does not make allowance for the situation of countries which have already reached the target of 0.7 per cent of GNP or would reach it before 1980 on the above basis.

graph 26 above, however, almost the entire additional flow would need to be on concessional terms and a substantial proportion of it through multilateral channels. A number of proposals are already under formulation/consideration to augment the resources of multilateral institutions. These include: the fifth replenishment of IDA, an increase in the capital of the World Bank, contributions to the soft windows and capital of the regional banks, especially the ADB and the IDB, the IFAD and voluntary subscriptions to the Special Trust Fund. The resource requirements of these institutions need to be accorded the highest priority.

33. On either approach, the question arises of the contribution to the increase in ODA flows by the non-traditional aid givers (primarily the oil-exporting countries). It has been suggested that these countries cannot be expected to contribute significantly to concessional aid, and that, given the facts that their own per capita incomes are low and that their own development needs are large, it would be more appropriate to expect them to provide non-concessional flows, but in a substantially larger measure. The test of grant equivalent has also been suggested as a measure of performance in this context. Other suggestions include measurement of an appropriate share in aid by the surplus oil countries by reference to the contribution of oil deficits to the total deficit of non-oil developing countries.

34. Members of the OPEC have recognized their new responsibilities and have extended concessional as well as non-concessional assistance in a substantial measure. Concessional assistance provided by them in 1974 was close to 1.4 per cent of their GNP, which is twice as high as the UN target. In terms of grant equivalent, the concessional assistance from the OPEC in 1974 was close to 0.9 per cent, which is three times higher than that of the DAC.

35. The question, however, arises as to the nature and magnitude of the OPEC flows in the future. On the one hand, projections of OPEC balance of payments suggest that their ability to provide capital would be a diminishing one and that some of the oil-exporting countries might soon be facing a balance-of-payments problem themselves. On the other hand, there is no internationally agreed criterion of performance especially by those of the OPEC countries which are likely to be able to continue providing assistance, and the question arises as to whether fair and appropriate criteria governing aid contributions can be devised that would be accepted by the OPEC countries; this question is particularly relevant for participation by the OPEC countries in multilateral institutions.

36. It needs to be recognized that any test of performance which might be applied to oil surplus countries may well have to be somewhat different from that being considered for the DAC countries in view of their different economic positions. The strongest argument for capital flows from OPEC to meet the needs of developing countries is the great increase in liquidity which members of the OPEC have experienced. It is to be hoped that in addition to concessional aid, they will continue to provide other resources in a substantial measure both bilaterally as well as through multilateral institutions. Consistent with their own needs, OPEC countries--at least some of them--could

also reasonably be expected to transfer a proportion of the increase in their liquid resources as a contribution to concessional assistance. The great rise in the liquidity of these countries since 1973 has been due to the rise in the price of oil which has also been a factor mainly responsible for the substantial prospective increase in their GNP. Additional contributions by such of the OPEC countries as are in positions to do so could be at the same rate as that determined for industrial countries (i.e., one per cent of additional GNP) or at some different rate considered appropriate, having regard to the foregoing considerations. Alternatively, following the second of the two approaches mentioned above, a given minimum external capital requirement of non-oil developing countries could be shared by the DAC and the aid-giving members of the OPEC in appropriate proportion having regard to the additional GNP expected to accrue to each group, liquid resources, and other such factors.

37. The discussion of quantitative aid targets cannot be separated from questions concerning the quality of aid. Reference has already been made in Part II above to the considerable improvement which has occurred in regard to untying of bilateral aid. Nevertheless nearly 45 per cent of the concessional assistance provided by the members of the DAC still remains tied to procurement, and there is need for improvement in this regard. There are also other aspects of the quality of aid which need to be looked at: the appropriateness of the purposes for which assistance is given in relation to the priorities of the recipient countries; the need for greater program assistance on appropriate terms, especially during the immediate period ahead when quickness of disbursement is as important as increasing new commitments; in this context, the role of selective debt relief in an effort to provide freely useable and quick-disbursing assistance; and finally, a shift in the distribution of bilateral concessional aid in favor of low-income developing countries. Uncertainties in aid flows also affect the quality of aid, and the UN Resolution suggests the need to consider possible new methods of transferring real resources which are "predictable, assured and continuous." These subjects have been discussed more than once in different forums and the Committee may wish to address some of these in the future.

Conclusion

38. It is clear that the problem facing the non-oil developing countries in 1976 can hardly be met even if decisions were taken now to increase substantially the commitments of additional long-term assistance in view of the time it takes to disburse such aid. For the next year, at any rate, it would be necessary to secure a substantial volume of finance to meet the continuing balance-of-payments deficits in prospect for the developing countries--through the Special Trust Fund, additional food aid, and other similar quick-disbursing assistance.

39. A repetition of such a situation is almost inevitable in 1977 and beyond unless decisions could be taken now to increase substantially the commitments of long-term assistance in 1976. The Committee may wish to consider the various approaches which have been analyzed above with a view to adopting specific recommendations for implementation in the immediate period ahead.

Development Committee
Executive Secretariat
December 8, 1975

Table 1. Comparative Aid Performance of Members of the DAC in 1974

Countries ranked in order of per capita GNP	GNP per capita	Net ODA as percentage of GNP	Net ODA flow Rank
1. Switzerland	7172	0.14	17
2. Sweden	6804	0.72	1
3. United States	6595	0.25	12-13
4. Canada	6345	0.50	8
5. Germany	6193	0.37	10
6. Denmark	6044	0.55	5-6
7. Australia	5869	0.55	5-6
8. Norway	5747	0.57	4
9. Belgium	5462	0.51	7
10. France	5233	0.59	3
11. Netherlands	5110	0.63	2
12. Finland	4427	0.18	14-15
13. Austria	4373	0.18	14-15
14. Japan	4125	0.25	12-13
15. New Zealand	4092	0.31	11
16. United Kingdom	3420	0.38	9
17. Italy	2702	0.15	16
DAC average		0.33	

Source: DAC Chairman's Report for 1975, Statistical Annex.

Table 2. Real Level of Net ODA from DAC Members, 1964-74

(In billions of US dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Total ODA in nominal terms	6.0	5.9	6.0	6.5	6.3	6.6	6.8	7.7	8.5	9.4	11.3
Price deflator, 1970 = 100	88.3	88.2	91.6	92.7	94.3	96.2	100.0	106.6	116.9	143.7	174.4
Total ODA in real terms	6.8	6.7	6.6	7.0	6.7	6.9	6.8	7.2	7.3	6.5	6.5

Source: DAC Chairman's Report for 1975, Statistical Annex and DAC Chairman's Report for 1973.

Note: The price deflator is the "ODA deflator" prepared by the DAC Secretariat which is an index of price changes relevant to each category of aid, i.e., technical assistance, food aid, and other assistance.

Table 3. Total ODA from DAC Members: Disbursements, Commitments, and Gross Flows, 1970-74

(In billions of US dollars)

	1964-66 Average	1970	1971	1972	1973	1974
Net total ODA disbursements	5926	6811	7691	8538	9378	11316
as percentage of commitments	(75.6)	(83.7)	(81.9)	(74.0)	(72.5)	(76.1)
as percentage of gross flows	(91.7)	(89.7)	(89.4)	(87.8)	(88.4)	(90.8)
Total ODA commitments	7833	8133	9393	11544	12930	14864
Total ODA gross flows	6460	7595	8604	9727	10614	12465

Source: DAC Chairman's Report for 1975, Statistical Annex.

Table 4. ODA from DAC Members: Disbursements, Commitments, and Gross Flows for 1974

(In millions of US dollars)

	Net disbursements	As percentage of commitments	As percentage of gross flows	Commitments	Gross flows
Australia	430	94.1	99.3	457	433
Austria	60	47.6	101.7	126	59
Belgium	271	74.9	99.3	362	273
Canada	713	87.4	99.9	816	714
Denmark	168	77.8	96.6	216 1/	174
Finland	38	74.5	100.0	51	38
France	1615	85.0	90.4	1899 1/	1787 2/
Germany	1430	59.6	86.0	2397 1/	1662
Italy	218	55.3	74.6	394	292
Japan	1126	58.6	91.0	1921 1/	1238
Netherlands	435	79.2	97.8	549 1/	445
New Zealand	39	60.9	100.0	64	39 3/
Norway	131	63.3	98.5	207	133
Sweden	402	66.0	99.8	609	403
Switzerland	68	98.6	97.1	69	70
United Kingdom	731	67.4	87.8	1084	833
United States	3439	94.3	88.8	3648	3873
Total	11316	76.1	90.8	14861	12465 3/

Source: DAC Chairman's Report for 1975, Statistical Annex.

1/ Excluding debt reorganization.
2/ Excluding repayments for technical assistance.
3/ Estimated by the DAC Secretariat.

Table 5:

FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE a/
(Calendar Years)

		1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Australia	- ODA	59	119	202	202	267	286	430	490	560	650	760	850	970
	- as % GNP	.38	.53	.59	.53	.59	.44	.55	.55	.56	.57	.58	.58	.59
Austria	- ODA		10	11	12	18	40	60	60	70	80	90	110	130
	- as % GNP		.11	.07	.07	.03	.15	.18	.16	.16	.16	.16	.17	.17
Belgium	- ODA	101	102	120	146	193	235	263	330	400	470	550	650	740
	- as % GNP	.88	.60	.46	.50	.55	.51	.49	.55	.57	.59	.61	.63	.64
Canada	- ODA	75	96	346	391	492	515	713	800	1040	1290	1570	1870	2220
	- as % GNP	.19	.19	.42	.42	.47	.43	.50	.51	.56	.59	.62	.63	.64
Denmark	- ODA	5	13	59	74	96	132	168	200	240	290	340	400	460
	- as % GNP	.09	.13	.38	.43	.45	.48	.54	.57	.61	.64	.66	.68	.70
Finland b/	- ODA		2	7	13	20	28	38	50	60	70	90	110	130
	- as % GNP		.02	.07	.12	.15	.16	.18	.20	.22	.23	.25	.26	.28
France	- ODA	823	752	971	1075	1320	1488	1638	1880	2200	2520	2920	3270	3690
	- as % GNP	1.38	.76	.66	.66	.67	.58	.60	.60	.61	.61	.62	.62	.62
Germany	-ODA	223	456	599	734	808	1102	1435	1490	1610	1730	1830	1920	1980
	- as % GNP	.31	.40	.32	.34	.31	.32	.37	.35	.33	.31	.29	.27	.25
Italy	- ODA	77	60	147	183	102	192	204	230	250	270	300	330	360
	- as % GNP	.22	.10	.16	.18	.09	.14	.14	.14	.14	.13	.13	.12	.12
Japan	- ODA	105	244	458	511	611	1011	1126	1150	1330	1470	1620	1770	1910
	- as % GNP	.24	.27	.23	.23	.21	.25	.25	.23	.22	.21	.20	.19	.18
Netherlands	- ODA	35	70	196	216	307	322	429	570	700	810	940	1060	1200
	- as % GNP	.31	.36	.61	.58	.67	.54	.62	.72	.76	.76	.76	.77	.77
New Zealand c/	- ODA			14	17	21	29	37	50	70	90	120	150	190
	- as % GNP			.23	.23	.25	.27	.30	.36	.41	.47	.54	.62	.70
Norway	- ODA	5	11	37	42	63	85	131	170	200	250	300	350	420
	- as % GNP	.11	.16	.32	.33	.43	.42	.57	.61	.65	.69	.73	.75	.75
Sweden	- ODA	7	38	117	159	198	275	402	470	560	650	750	860	960
	- as % GNP	.05	.19	.38	.44	.48	.56	.72	.75	.78	.81	.84	.85	.87
Switzerland	- ODA	4	12	30	28	65	65	67	80	90	100	110	130	140
	- as % GNP	.04	.09	.15	.12	.21	.16	.14	.15	.15	.15	.15	.15	.15
United Kingdom	- ODA	407	472	447	562	609	603	722	700	710	850	900	1010	1150
	- as % GNP	.56	.47	.37	.41	.39	.34	.38	.33	.30	.30	.30	.30	.30
United States	- ODA	2702	3418	3050	3324	3349	2968	3439	3440	3440	3440	3440	3760	4050
	- as % GNP	.53	.49	.31	.32	.29	.23	.25	.23	.20	.17	.15	.15	.14
GRAND TOTAL														
ODA ($m. - Nominal Prices)		4628	5875	6811	7690	8538	9376	11304	12160	13530	15030	16630	18600	20700
	- as % GNP	.52	.44	.34	.35	.33	.30	.33	.32	.31	.30	.29	.29	.28

a/ Countries included are members of the OECD Development Assistance Committee. Figures for 1974 and earlier years are based on actual data from DAC. The projections for 1975-80 are based on OECD and World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments.

b/ Finland became a member of DAC in January 1975.

c/ New Zealand became a member of DAC in 1973. ODA figures for New Zealand are not available for 1960 and 1965.

Source: The World Bank.

Note: This table had been prepared before the latest DAC figures for recent years became available. Hence figures for recent years in this table are slightly different from those in other tables in the Annex.

Table 6: Tying Status of Total ODA, 1973-74

(In per cent)

		Tied assistance		Technical assistance	Partially tied assistance		Untied Assistance	
		Total	Of which: grants		Total	Of which: grants	Total	Of which: grants
Australia	1973	19.2	19.2	35.7	--	--	45.1	44.0
	1974	26.8	26.8	29.2	--	--	44.0	43.8
Austria	1973	--	--	13.1	3.8	--	83.1	26.3
	1974	19.2	1.7	11.5	--	--	69.3	21.6
Belgium	1973	11.8	2.1	44.2	13.2	11.9	30.8	30.0
	1974	15.7	3.0	43.5	15.4	14.6	25.4	24.0
Canada	1973	46.7	23.1	11.5	8.8	3.3	32.9	32.9
	1974	53.3	28.3	8.4	--	--	38.3	32.2
Denmark	1973	25.2	4.1	17.3	4.1	4.1	53.3	49.2
	1974	25.0	6.0	15.3	4.9	4.9	54.7	49.3
Finland	1973	33.9	17.1	9.6	0.4	0.4	56.1	52.5
	1974	22.9	15.6	26.4	4.0	4.0	46.7	44.8
France	1973	(19.9)	(0.3)	44.8	(4.6)	(4.6)	(30.7)	(28.1)
	1974	..	..	..	..	..	..	..
Germany	1973	22.8	5.4	21.9	4.2	3.1	51.1	20.9
	1974	9.2	3.7	22.9	6.3	5.3	61.5	20.8
Italy	1973	10.9	--	9.8	18.8	17.9	59.5	11.2
	1974	2.9	--	9.6	26.6	25.1	60.8	52.5
Japan	1973	60.6	12.1	5.0	2.1	--	32.3	22.8
	1974	54.8	9.5	5.1	5.6	--	34.4	21.7
Netherlands	1973	33.5	10.7	22.8	10.9	10.0	32.8	24.6
	1974	25.3	5.7	22.0	10.7	10.2	42.0	33.3
New Zealand	1973	(16.4)	(16.4)	(25.4)	..	..	(7.9)	(7.9)
	1974	..	..	..	..	..	..	..
Norway	1973	11.4	11.4	10.7	--	--	77.9	77.4
	1974	15.0	15.0	11.7	--	--	73.3	73.3
Sweden	1973	5.2	5.2	9.9	--	--	84.9	67.2
	1974	9.1	9.1	4.4	--	--	86.4	69.6
Switzerland	1973	34.1	28.0	6.4	3.0	3.0	50.9	29.0
	1974	31.7	26.7	6.1	3.3	3.3	58.9	50.6
United Kingdom	1973	24.5	x	25.3	7.9	4.2	19.9	10.5
	1974	24.5	0.5	21.5	12.6	9.5	41.4	29.6
United States	1973	42.3	27.1	17.9	17.6	5.4	22.2	16.4
	1974	..	..	..	..	..	..	..
Total DAC countries	1973	32.9	13.7	22.5	9.2	4.4	33.7	23.6
	1974	..	..	..	..	..	..	..

Source: DAC Chairman's Report for 1975.

x = less than half the smallest unit shown.

Table 7. Commitments and Estimated Disbursements of OPEC Members' Concessional Aid in 1974

(In millions of US dollars)

Donor	Commitments			Estimated disbursements				
							As per cent of	
	Bilateral	Multi-lateral	Total	Bilateral 1/	Multi-lateral	Total	Oil revenues 2/	GNP 3/
Algeria	3	114	117	3	32	35	0.9	0.3
Iran	1,247	23	1,270	378	23	401	2.0	0.9
Iraq	347	68	415	210	27	237	3.3	1.8
Kuwait	575	221	796	328	56	384	4.6	3.1
Libya	182	195	377	73	24	97	1.4	0.8
Nigeria	2	10	12	2	9	11	0.1	0.1
Qatar	83	65	148	42	9	51	2.8	2.6
Saudi Arabia	995	461	1,456	710	100	810	2.7	2.3
U.A.E.	376	197	573	107	30	137	2.6	1.8
Venezuela	20	91	111	20	41	61	0.6	0.2
Total 4/	3,830	1,445	5,275	1,873	351	2,224	2.4	1.4

Source: DAC Chairman's Report for 1975.

1/ Bilateral disbursements estimates are highly tentative.
2/ Oil revenue figures are DAC Secretariat estimates (except for Iran).
3/ GNP figures are based on World Bank estimates of June 1975.
4/ Nigeria was omitted in computing disbursements as a percentage of oil revenue and GNP for these countries as a group.

8

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

DC/75-33

December 18, 1975

A SURVEY OF THE PROGRAMS AND CAPITAL RESOURCE SITUATIONS OF INTERNATIONAL DEVELOPMENT LENDING INSTITUTIONS

In its communiqué of September 4, 1975, issued at the conclusion of the fourth meeting held September 3-4, 1975 in Washington, D.C., the Development Committee agreed that one of the items to receive special attention during 1976 should be

> ". . . a survey of the policies, programs and capital resource situations of the various international and regional lending institutions and initiatives in other international bodies, to help avoid duplication of functions and to promote a coordinated approach to the problem of transfer of resources."

In view of the very substantial work program for 1976 emerging from the discussions at the fourth meeting and the need to keep the agenda for the Jamaica meeting within manageable bounds, the Executive Secretariat thought it advisable to confine initial consideration of this topic to the programs and capital resource situations of certain of the existing international and regional lending institutions. This approach also seemed appropriate and timely inasmuch as donor countries are being, or will shortly be, called upon to give consideration to a variety of proposals for further funding of the existing institutions, and resources provided to such institutions represent a substantial proportion of the total flow of official resources for the benefit of developing countries.

As the next phase in consideration of the topic, the Executive Secretariat would contemplate presenting to subsequent meetings following the January 1976 meeting in Jamaica a broadening of the survey to include other institutions not covered in this first approach and new initiatives, particularly those arising in forums other than the international and regional development lending institutions, as well as other aspects of the topic as set forth in the September 1975 communiqué. For example, that phase would include within the survey the proposed International Fund for Agricultural Development (IFAD), a new initiative coming out of the World Food Conference of November, 1974 which is already under active international discussion.

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In order to obtain an authoritative basis for a document for presentation to the Committee, the Executive Secretariat addressed requests to international and regional development lending institutions for summary presentations or comparable materials that would outline the present and projected lending programs of each body, as well as the capital resource situation and future funding plans of each. Because of the marked differences in the financial structures and procedures of the various institutions, only general guidelines were suggested for the coverage of the presentations and the institutions were advised that the presentations as submitted would be forwarded to the Committee. Accordingly, members of the Committee will find as annexes to this document information on the programs and capital resource situations of the following institutions:

World Bank/International Development Association
International Finance Corporation
African Development Bank
Asian Development Bank
European Investment Bank/European Development Fund
Inter-American Development Bank.

The balance of this document is devoted to an aggregative analysis of the information presented together with some general observations on it, as well as some conclusions with respect to the importance that favorable donor reaction to the prospective funding plans of the existing institutions will have in relation to the broad problem of transfer of resources.

As the Committee is aware, the basic responsibility in each of the institutions concerned for both approval of lending programs and for consideration of financial requirements and ways to meet them rests with the Boards of Executive Directors and Boards of Governors of each institution. It is not the intention of this document to provide a basis for discussion of the merits or demerits of any particular proposal for a capital resource increase in any given institution, since such discussion can only properly take place through the appropriate mechanisms. Some of the presentations annexed hereto were provided only on the understanding that they represented the tentative and preliminary views of managements, and had in no way been endorsed by Boards of Directors or Governors.

I. General Significance and Structure of Multilateral Lending

Priority attention by the Development Committee to the programs and capital resource situations of the existing international development lending institutions seems fully justified in the light of the important position they have come to occupy during the last 5-10 years in the total picture of official financing for development. According to DAC statistics, multilateral lending agencies (defined almost identically to the group of institutions reviewed below) made loan commitments in calendar 1974 to developing countries totaling $6,705 million; during the same year, total bilateral commitments of official development assistance (ODA) by DAC countries, including bilateral grants, totaled $11,608 million. The $6,705 million of multilateral loan commitments was the principal component of multilateral aid activity, representing 84 per cent of total multilateral commitments in 1974, the balance being accounted for by estimated grants of $1,323 million by United Nations agencies and the European Development Fund. On a net disbursements basis, DAC estimates that in calendar 1974 the flow of loan resources from the multilateral lending agencies to developing countries was $3,020 million, compared with $8,255 million of total bilateral ODA flows, of which the bilateral lending component was $2,919 million.

The importance of the core group of international developing lending agencies is also evident in statistics on the contributions of donor countries to the capital of such institutions, which contributions form part of their overall ODA effort. In 1974, subscription payments by DAC members to multilateral lending agencies amounted to $1,536 million, representing 14 per cent of total ODA. This amount comprehends only actual disbursements to the agencies on paid-in subscriptions, and leaves aside subscriptions of callable capital that make possible market borrowings by the institutions. DAC has estimated that the continued flow of resources from DAC donors to the institutions pursuant to firm agreements accounted for 73, 43 and 40 per cent of the annual increase in total ODA in each of the years 1972, 1973 and 1974, and was thus a major factor in the upward movement of ODA, at least in nominal terms, apparent in those years. In addition to the quantitative significance of the flow of resources through the multilateral institutions, certain qualitative aspects of their lending are important, notably their virtually uniform practice of providing untied assistance, the substantial technical assistance associated with their project lending, and their concern for continuing adaptation and improvement in the distribution of lending.

During the three-year period 1972-1974, the group of multilateral lending institutions with which this document is concerned made total loan commitments, net of cancellations, of $15.7 billion or of an average $5.2 billion per annum (see Table 1). Year to year increases during the period were especially large, the total for 1973 being 19 per cent above the preceding year, and the total for 1974--which reached $6.5 billion--being 29 per cent higher than 1973. Even making allowance for the accelerating rate of increase of prices generally toward the end of the period, the rate of expansion remains impressive.

As may have been expected, the share of the World Bank Group of institutions (the Bank itself, IDA and IFC) in total lending was high--73 per cent in 1972, 71 per cent in 1973 and 70 per cent in 1974.

In regard to the terms on which loan commitments were extended, the concessional lending facilities--IDA and the soft loan windows of the various regional banks--accounted for 34 per cent of total commitments in 1972, 40 per cent in 1973, and 29 per cent in 1974. Statistical and timing factors appear to account for the rather irregular pattern in those years. More significant, however, is the fact that in 1975, despite a substantial rise in IDA commitments reflecting the Fourth Replenishment, the concessional component of multilateral

Table 1. Loan Commitments by International Development Lending Institutions, 1972-80

(In millions of current US dollars)

	Actual 1972	Actual 1973	Actual 1974	Projected 1975	Projected 1976	Projected 1977	Projected 1978	Projected 1979	Projected 1980
A. Non-Concessional									
IBRD	1966	2051	3218	4320 1/	5200 2/	5500	6100	6800	7700
IFC 3/	116	147	203	212 1/	250	282	375	420	470
AfDB 4/	30	43	89	107 1/	120	145	175	(175)	(175)
AsDB	222	303	375	490	550	625	700	725	850
EIB 5/	16	13	73	(73)	(73)	(73)	(73)	(73)	(73)
IDB 6/	444	452	634	655	755	865	980	(980)	(980)
Subtotal	2794	3009	4592	(5857)	(6948)	(7490)	(8403)	(9173)	(10248)
B. Concessional									
IDA	1000	1357	1095	1576 1/	1625 7/	1625 7/	1900 7/	2150 7/	2400 7/
AfDB 4/	--	--	47	93 1/	110	130	145	(145)	(145)
AsDB/ADF	94	118	173	198	250	300	350	400	450
EIB/EDF 5/	9	130	103	(103)	(103)	(103)	(103)	(103)	(103)
IDB/FSO 6/	339	416	457	575	665	760	855	(855)	(855)
Subtotal	1442	2021	1875	(2545)	(2753)	(2918)	(3353)	(3653)	(3953)
TOTAL	4236	5030	6467	(8402)	(9701)	(10408)	(11756)	(12826)	(14201)

1/ Actual.
2/ Includes $500 million of Third Window lending on intermediate concessional terms.
3/ Includes also equity investments.
4/ Projections for 1979 and 1980 are not available, but, illustratively, are projected at 1978 level.
5/ Includes only loans to Greece, Turkey and associated African states, Madagascar and Mauritius. Values have been converted from EIB units of account. EIB lending in associated countries is not programmed in the manner of other institutions. Illustratively, figures are indicated for 1975-80 by projecting forward without increase the last levels realized (1974). It should be noted that the substantial grant operations of the EDF are not included in this tabulation.
6/ Projections for 1979 and 1980 are not available, but, illustratively, are projected at 1978 level.
7/ As projected in May 1975. Exchange rate changes are likely to reduce 1976 and 1977 figures somewhat. With respect to 1978-80, the figures are notional; IDA Fifth Replenishment discussions have begun, with the objective of supporting higher levels than those shown.

Notes: Fiscal years ending June 30 for IBRD, IDA and IFC; and fiscal years ending December 31 for other lending institutions.
"Current dollars" are based on differing assumptions used by each institution.
Figures rounded and may not add to totals.

lending appears likely to remain in the 30 per cent vicinity, compared to the 34 per cent average for the 1972-74 period.

II. Projected Lending by Multilateral Agencies, 1976-1980

On the basis of information drawn largely from materials provided by the lending agencies (and which are annexed to this document), it appears likely that their aggregate loan commitments for fiscal years ending in 1975 will be approximately $8,400 million. From that base level, the highly tentative lending projections shown in Table 1 would forecast a commitment level rising at least to $11,750 million in 1978, and to at least $14,200 in 1980. Such an expansion would represent a compound growth rate of at least 10 per cent between 1976 and 1980 in nominal terms.

The various multilateral lending institutions have differing objectives for growth of their lending commitments in real terms, and, as indicated in the notes to Table 1, have also made differing assumptions as to future rates of inflation in trying to arrive at projected current dollar lending levels. There are, therefore, serious statistical problems in attempting to portray the aggregate lending levels in Table 1 on a constant dollar basis. One approach to doing so, however, would be to apply to the totals the World Bank's "Commitment Deflator," an index designed to take into account the fact that commitments in a given year will be disbursed over an estimated five year future period, thus reducing sharply their real value in a period of rapid inflation. Table 2 shows, in constant 1974 dollars, the purchasing power of commitments based on application of the Commitment Deflator.

Taking into account that projections are not available in certain years and for certain institutions, it would not appear that an evolution of multilateral lending along the lines shown in Table 1 would involve much variation in the share of total lending carried out by each institution. The World Bank Group would continue to maintain its predominant position.

A significant feature of the pattern of multilateral lending that would exist in 1980 if the levels of lending proved to be along the lines shown in Table 1 is that the concessional component of multilateral lending would not show any relative expansion, and indeed may decline still further, to approximately 28 per cent of total commitments. The difficulties of the institutions planning for substantial increases in concessional resources, reflected in the modest growth rates of such lending, together with quite substantial percentage increases in their non-concessional lending, would contribute to producing the result just mentioned. The Committee may wish to take particular notice of this possible trend in the light of its previously expressed views concerning desirable directions for evolution of official financing. In that regard, it would appear highly important, if a decline in the proportion of concessional multilateral lending is to be avoided, for IDA to be replenished at levels above those shown in Table 1, as well as for the concessional lending plans of the regional banks to be realized.

Table 2. Total Loan Commitments by International Lending Institutions, 1972-80

(In millions of constant 1974 dollars)

	Actual 1972	1973	1974	Projected 1975	1976	1977	1978	1979	1980
A. Non-Concessional									
Nominal	2794	3009	4592	(5857)	(6948)	(7490)	(8403)	(9173)	(10248)
Constant 1974 dollars	2524	2458	3461	(4128)	(4620)	(4729)	(5050)	(5251)	(5585)
B. Concessional									
Nominal	1442	2021	1875	(2545)	(2753)	(2918)	(3353)	(3653)	(3953)
Constant 1974 dollars	1303	1651	1412	(1794)	(1830)	(1842)	(2015)	(2091)	(2154)
TOTAL									
Nominal	4236	5030	6467	(8402)	(9701)	(10408)	(11756)	(12826)	(14201)
Constant 1974 dollars	3827	4109	4873	(5922)	(6450)	(6571)	(7065)	(7342)	(7739)

Note: Based on World Bank Commitment Deflator, values as follows:
FY1972 - 110.7 FY1977 - 158.4
FY1973 - 122.4 FY1978 - 166.4
FY1974 - 132.7 FY1979 - 174.7
FY1975 - 141.9 FY1980 - 183.5
FY1976 - 150.4

III. Implications of Lending Plans for Geographic Pattern and Sectoral Emphasis of Multilateral Lending

Consideration by donor countries of the resource needs of particular multilateral lending agencies should take place against a background that provides an integrated picture of the geographic distribution of lending by all the multilateral agencies taken as a group. Accordingly, it may be of considerable interest to the Committee to examine the results of aggregating, by geographic regions, the lending patterns of the worldwide and the regional institutions. Table 3 sets forth such an aggregation, based on the actuals or forecasts of 1975 lending provided by each institution.

Because of the preponderant weight of World Bank and IDA lending in total multilateral lending, the geographic pattern of those institutions' operations will largely determine the overall pattern. Nevertheless, the pattern of operations of the regional banks affect the total picture. Taking account of the impact of the regional institutions, Latin America is seen to be the largest recipient of multilateral lending (30 per cent), followed by Europe, Middle East and North Africa (19 per cent), and East Asia, South Asia and Africa closely grouped (17, 17 and 16 per cent respectively). Grouping these areas roughly in accordance with their income characteristics, South Asia and Africa, which include the majority of the lowest income countries, account for 34 per cent, while East Asia and Latin America, which include most of the middle-income countries, have a share of 47 per cent, and Europe, Middle East and North Africa 19 per cent.

The geographic pattern of multilateral lending is affected both by the existing institutional structure and the availability within each institution of regular and soft funds. The regional banks are, of course, restricted to operations within their particular regions. At the same time, the poorest countries are limited in their ability to accept the funds available in each institution on hard terms. It was not possible, on the basis of information made available, to analyze in an aggregative way the distribution by 1980 of hard and concessional lending by geographic region or per capita income levels of recipient countries. However, given the interrelationship of institutional and geographic factors noted above, it may be concluded that changes in the existing patterns of distribution are likely to be determined primarily by the availability of resources for concessional lending. In view of the relative weight of IDA in total concessional lending, the magnitude of the IDA V Replenishment would be critical in this respect. Given the discussions in previous Committee meetings about adaptation of official lending to meet the needs of the most seriously affected and of the poorest developing countries, the Committee may wish to give further consideration to the possible broad geographic and income characteristics of the multilateral lending picture at the end of the decade.

Aggregate analysis of the sectoral distribution of multilateral lending is complicated by differences in the definition of categories by different institutions. For example, water supply loans are classified as public utilities by the Asian Bank but as social infrastructure by the Inter-American

Table 3. Geographical Distribution of Multilateral Institution Loan Commitments, 1975

(In millions of 1975 US dollars and per cent)

	IBRD		IDA		IFC		AfDB		AsDB		EIB 1/		IDB				
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Total	Per cent	Per cent of Population 2/
Africa	648	(15)	433	(27)	5	(2)	200 3/	(100)	--		60	(34)	--		1346	(16)	(14)
East Asia	972	(23)	4	(1)	42	(20)	--		446	(65)	--		--		1464	(17)	(16)
South Asia	269	(6)	921	(58)	13	(6)	--		242	(35)	--		--		1445	(17)	(41)
Europe, Middle East and North Africa	1264	(29)	170	(11)	72	(34)	--		--		116	(66)	--		1622	(19)	(15)
Latin America and Caribbean	1166	(27)	49	(3)	80	(38)	--		--		--		1230	(100)	2525	(30)	(15)
Total	4320	(100)	1576	(100)	212	(100)	200	(100)	688	(100)	176	(100)	1230	(100)	8402	(100)	(100)

Note: See footnotes to Table 1.

1/ Estimated on basis of 1974 data.
2/ Based on mid-1973 estimates of population of current IBRD/IDA borrowing countries.
3/ Includes North Africa.

Bank, and agro-industry loans pose similar problems of categorization. In addition, there are the usual problems of strict categorization, such as, for example, accounting for important and perhaps costly agricultural investment aspects of a hydroelectric power project. Table 4 nevertheless, attempts to array a broadly defined sectoral distribution of recent lending commitments by the multilateral agencies in percentage terms and, for ease of reference, in numerical priority order.

Two general observations may be made from this table. First, the agricultural sector enjoys high priority in multilateral lending programs. Second, the regional banks maintain a relatively heavy emphasis in the power, water and transportation/communications fields. In general, sectoral emphasis in the various institutions may be regarded as complementary and appears to reflect a broad tacit division of labor among the institutions.

For the future, some qualitative indications of new trends in lending have been given by the various institutions. The World Bank and IDA intend to continue their emphasis on the agricultural sector which accounted for 30 per cent of all their commitments in 1975. It is estimated that slightly over half of these operations in agriculture are in new-style rural development projects. Projects in other sectors, such as education, are also increasingly oriented toward the rural poor. In addition, the Bank Group is embarking on a broad program aimed at alleviating urban poverty within the previously planned application of resources for the urban sector. The International Finance Corporation is making an important effort to increase its commitments in poorer countries and anticipates larger commitments in Africa in particular. The African Development Bank anticipates that it will continue to lay emphasis on the financing of infrastructural projects, mostly in the transport and public utilities sectors of its more well-to-do member states, while the African Development Fund will give priority to agriculture, health and education, as well as transportation, primarily in the more needy member states. The Asian Development Bank expects continued emphasis on assistance enabling its borrowers to reduce their dependence on imported food, fertilizer and fuel, to improve export capabilities through development of indigenous agricultural and mineral resources, and to build up infrastructural facilities that are essential to economic and social development. At the same time, the Asian Bank will be giving attention to means of more equitably spreading the benefits of its lending and achieving social impact across a wide spectrum of society. The European Investment Bank anticipates carrying out significant responsibilities pursuant to the Lomé Agreement, from its own resources (generally on a subsidized interest rate basis) and those of the European Development Fund, in the form of both loan and risk capital investments. These would tend to be for productive projects in the industrial, mining and tourism fields, although self-liquidating infrastructure projects could be included. The Inter-American Bank foresees that its lending program in the next several years will be determined by the world food and fuel crisis, so that increased food production and development of energy resources will be accorded priority consideration. Continued support is envisaged, however, for social infrastructure and urban development, as well as other traditional aspects of lending.

Table 4. Sectoral Emphasis of Multilateral Agency Lending Commitments

	IBRD 1975	IDA 1975	IFC 1975	AfDB 1975	AfDB/ ADF 1975	AsDB 1975	AsDB/ ADF 1975	EIB 1974	EIB/ EDF 1974	IDB 1974	IDB/ FSO 1974	Aggregate Percentage (approx.)1/
A. Percentage distribution												
Agriculture and agro-industry	28	40	1	8	29	28	54	--	4	21	21	29
Industry and industrial development banks	26	10	95	17	--	25	1	77	4	16	--	22
Public utilities (including electric power and water supply)	14	3	--	46	24	29	41	--	86	40	44	18
Transport/communications	21	18	--	30	26	15	5	23	6	17	19	19
Education and other social	4	7	--	--	22	3	--	--	--	--	9	4
Other	7	22	4	--	--	--	--	--	--	6	7	9
	100	100	100	100	100	100	100	100	100	100	100	100
B. Priority ranking												
Agriculture and agro-industry	1	1	3	4	1	2	1	--	4	2	2	1
Industry	2	4	1	3	--	3	4	1	3	4	--	2
Public utilities (including electric power and water supply)	4	6	--	1	3	1	2	--	1	1	1	4
Transport/communications	3	3	--	2	2	4	3	2	2	3	3	3
Education and other social	6	5	--	--	4	5	--	--	--	--	--	6
Other	5	2	2	--	--	--	--	--	--	5	4	5

Percentages rounded and may not add to totals.

1/ Estimate utilizing 1974 or 1975 data from institutions, as available.

IV. Proposed Bases for Capital Increases

In order to carry out the projected lending programs that are described in the preceding sections, the multilateral lending agencies have pending, or are in the process of formulating, proposals for strengthening their capital resource positions through new subscriptions and contributions by members. These proposals vary widely in a number of respects, such as the number of years ahead they are intended to cover, the relationship between paid-in and callable capital, the timing of subscriptions and note or cash payments, the relationship between hard window and soft window capital, and even the membership group that may be expected to participate in the capital increase.

In view of the diversity of the pending or anticipated capital increase proposals, this section attempts no more than to outline each of them briefly, leaving the presentations of the various institutions (Annexes A to F) as the definitive statements on behalf of each institution. This approach should suffice to acquaint the Committee with the scale of current proposals, without focusing attention on the appropriateness of particular features of one proposal or another, consideration of which in any event is the responsibility of the relevant Board of Directors.

World Bank. The World Bank management and Executive Directors are considering (December, 1975) the Bank's capital needs in a long-term framework. The management has suggested as an initial step a selective capital increase of about $10.0 billion (an increase of 32 per cent above current levels), in parallel with the increases in quotas of the IMF. In order to allow time for completion of legislative actions by the beginning of the Bank's 1978 fiscal year, agreement of governments on the basis for capital increase would be sought in the spring of 1976.

IDA. Discussions on a Fifth IDA Replenishment, aimed at insuring uninterrupted IDA commitment authority for the three-year period beginning July, 1977 and ending June, 1980, have started and a first meeting of Deputies took place in November, 1975. IDA IV resources are expected to be fully committed by June 30, 1977. The basic principles for the Fifth Replenishment have been stated by management as, first, a full offset both to the price inflation affecting IDA IV since the last agreement on contributions (September, 1973) and the price inflation expected to affect IDA V, and second, an appropriate increase in the real purchasing power of IDA's resources; these principles, it was felt, would be in keeping with the steps necessary to meet the needs of the poorest countries that have greatly increased since the negotiations on IDA IV. In addition to traditional donors, a number of countries which since the last replenishment have benefited from major increases in their national incomes and foreign exchange reserves are being looked to as potential new contributors. Acceptance of the management's principles by the traditional IDA donors and the achievement of significant contributions from new donors would lead to a replenishment for the three-year period, 1978-1980, of something over $9 billion, more than twice the level of the Fourth Replenishment. It is hoped that negotiations can be concluded by the summer of 1976, thus allowing governments a year to complete the ratification process.

IFC. Discussions have been initiated by the IFC management with stockholders on a major expansion of the Corporation's financial base, aimed at meeting its resource needs during the period 1978 to 1985. The increase would be the first since IFC's establishment in 1956. The suggestion under discussion would involve a total increase in subscribed capital of $480 million, payable in five equal annual installments during 1978-82. Together with existing subscriptions of $108 million and a proposed stock dividend to existing members, IFC capital following the increase would total $641 million. Further consultations with stockholders are planned for January, 1976, following which formal consideration by IFC Directors could begin.

African Development Bank. The African Development Bank foresees a serious shortfall in financing its projected lending program from 1976 forward, and is pursuing a number of approaches toward increasing its capital availabilities. Apart from urging further voluntary subscriptions by members up to the full amount of $482 million of ordinary capital authorized by earlier resolutions, these approaches include seeking long-term bilateral loans from non-member developed countries, and negotiating for trust funds, lines of credit or other arrangements with certain African, Latin American and Middle Eastern nations. In regard to the African Development Fund, a similar financing shortfall problem already exists, with cumulative commitments as of October, 1975 virtually equal to the Fund's existing resources of $110 million. Negotiations are under way toward a replenishment of the Fund, and the African Bank believes there is a consensus on a target figure of $350 million in contributions during the period 1976-1978. Efforts are also being made toward an expansion in the membership of the Fund, and Argentina and Saudi Arabia have given indications of their intention to join.

Asian Development Bank. The Asian Bank's present ordinary capital resources will permit lending only through early 1977, and it is expected that the balance of the available funding for its special resources window will have been fully committed as of the end of 1975. With respect to ordinary capital, the management in November, 1975 submitted capital increase proposals to the Board of Directors, but these proposals must be regarded as tentative and provisional until the Directors discuss the proposals and process the matter with the Board of Governors. The proposals contemplate an increase in capital to become effective in mid-1977, of 135 per cent, or approximately $4.2 billion, which would raise the Bank's capital from $3.0 billion to $7.2 billion (in 1966 dollars, equivalent to approximately $8.7 billion in current dollars). The Directors have been requested to consider a 15 per cent paid-in proportion of which 40 per cent is proposed to be payable in convertible currencies and 60 per cent in member currencies. An increase along the lines proposed would be expected to fund ordinary capital operations through 1981. With respect to the Bank's special resources, the Bank's Governors have adopted a resolution covering a proposed replenishment of the Asian Development Fund totaling $830 million, to be provided by

17 donor members over a three-year period beginning in 1976, for loan commitments during the period 1976-78; however, not all developed members have indicated an intention to contribute, and the resolution provides for possible revisions in contribution allocations, at the request of individual members, prior to the ninth annual meeting (April, 1976).

European Investment Bank. The capital position of the European Investment Bank is determined by the members of the European Community in relation to the Bank's basic responsibilities for financing within the Community. (Loan financing to developing countries outside the Community represented 13 per cent of the Bank's total operations through October, 1975, of which 5 per cent was financed from the Bank's own capital and the balance from resources provided by Community members on a project-by-project basis through the European Development Fund.) It is, therefore, not feasible in the case of the European Investment Bank to describe possible capital increases related to lending to developing countries, as is being done with other institutions.

Inter-American Development Bank. Both the ordinary capital and the Fund for Special Operations of the Inter-American Bank require additional capital resources in order to permit full execution of 1976 lending programs. The pending capital increase proposal is intended to raise the Bank's present subscribed capital of \$5.9 billion by a further \$3.9 billion to a total of \$9.8 billion, expressed in current dollars. The proposed increase would consist of a \$2.8 billion increase in the Bank's ordinary capital, to be subscribed by its present members, and a \$1.1 billion initial subscription by three of the present members--Canada, the United States and Venezuela--of a newly created class of inter-regional capital. Twelve developed donor countries are expected to enter the Bank as new members, and also to subscribe initially \$373 million of the new inter-regional capital. Subscriptions to the callable portion of the capital increase by present members would be completed by the end of 1977, and payments on the paid-in portion by mid-1978. The resources proposed to be made available would be intended to cover the Bank's non-concessional lending to the end of 1978. With respect to the Fund for Special Operations, a proposed replenishment is pending under which a total of \$768 million in convertible currencies would be made available by present members in three equal annual installments during 1976-78; in addition, the 12 prospective non-regional members would make available \$124 million in each of the three years of the same period, and Latin American members would provide in that time \$277 million in their own currencies. It should also be noted that the Inter-American Bank has available, in addition to its own resources, the proceeds of a new \$500 million Venezuelan Trust Fund, which became operational in 1975, as well as the reflows from the earlier \$494 million Social Progress Trust Fund of the United States and \$118 million of other funds in administration.

Table 5 summarizes the amount and timing of the foregoing capital resource proposals.

Table 5. Pending or Anticipated Capital Resource Proposals of International Development Lending Institutions

(In millions of 1975 US dollars)

Institution	Amount (See text for details and qualifications)	Subscription/Contribution During: 1976	1977	1978	1979	1980
A. Non-Concessional						
IBRD	10000			x	x	x
IFC	480			x	x	x
AsDB	4200		x	x	x	
IDB	4275	x	x	x		
B. Concessional						
IDA	9000			x	x	x
AfDB/ADF	350	x	x	x		
AsDB/ADF	830	x	x	x		
IDB/FSO	1170	x	x	x		

Note: The amounts shown include callable capital for which no cash payment is anticipated, and contributions payable in notes which would only be cashed at a later time. The amounts and timing shown should therefore not be read as a guide to donors' obligations to provide cash.

V. Concluding Observations

The projected lending programs of multilateral lending agencies described in Section II above will undoubtedly continue to represent a significant proportion of official aid through the balance of the decade. The operations of these agencies to the developing countries and to the process of resource transfer will remain of crucial importance.

If the importance of the flow of loans from the group of multilateral lending agencies is accepted, it must also be accepted that adequate capital financing for those agencies is also of great importance. The projected lending levels set forth in Section II were formulated in the light of the pending or contemplated capital resource increases described in Section IV. The loan programs can only be executed if the financing proposals are fully or at least substantially implemented. This is particularly true of concessional facilities such as IDA and the soft loan windows of the regional banks, where annual lending levels are determined almost dollar-for-dollar by replenishment levels.

As stated at the outset, it was not the purpose of the document to examine in detail the programs or financing proposals of individual institutions. That process is taking place within the Boards of the institutions themselves. The Executive Secretariat does recommend, however, that the Committee give attention to the totality of multilateral lending, including its geographic and sectoral composition and relevant aspects of the terms of such lending, as it would unfold if all present proposals were implemented. In the light of that review, the Committee might then seek a consensus on the desirability of according first priority, in national decisions on long-term financing of development through multilateral mechanisms, to the resource needs of the established multilateral lending agencies.

Annexes A - F

Development Committee
Executive Secretariat
December 18, 1975

ANNEXES

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

Washington, D.C.
December 1975

I. INTRODUCTION

The lending programs of the World Bank and IDA are reviewed annually by the Executive Directors in the context of a five-year plan. The most recent five-year plan was submitted to the Executive Directors in May 1975[1] and discussed by the Board in June. The material below regarding the projected lending program is based on that document. Discussions regarding the capital resources of both the Bank and IDA are in progress. The first meeting of IDA contributors was held in November 1975 and discussions are expected to be continued in February 1976. The capital requirements of the Bank were analyzed in the "Review of the IBRD Capital Structure" (R75-215), which was discussed by the Executive Directors in December. The material below relating to the capital resources of the Bank is drawn from this document.

II. PLANNED LENDING PROGRAM FY1976-1980

Volume of Lending

The planned lending program of the Bank and IDA during the period FY1975-1979 consists of 1,111 projects, and an aggregate lending volume of $36.1 billion. The program includes notional amounts of lending by IDA for the period 1978-1980 pending the outcome of the Fifth IDA Replenishment:

IBRD/IDA Lending to Countries, FY74-80 ($ Million)

	Actual FY74	Est. FY75	FY76	FY77	FY78	FY79	FY80	FY75-79
Commitments								
IBRD	3218	4100	4700[1]	5500	6100	6800	7700	27,200
IDA[2]	1095	1637	1625	1625	1900	2150	2400	8,937
Total								
Current $	4313	5737	6325	7125	8000	8950	10100	36,137
FY74 $	3251	4043	4205	4498	4808	5123	5504	22,677
Number of Projects								
IBRD	105	127	145	155	165	175	190	766
IDA	69	70	65	65	70	75	80	345
Total	174	196	210	220	235	250	270	1,111

1/ An additional amount of $500 million has been approved for Third Window lending.
2/ IDA figures for FY1978-1980 are notional.

1/ Document R75-88, "Revision of IBRD/IDA Five-Year Program dn Bank Group Operating Programs and Administrative Budgets for Fiscal Year 1976," dated May 15, 1975.

Lending Priorities

The following table shows the FY75-79 percentage distribution by sector, the actual results for FY74, the estimated results for FY75, and the program for FY76.

	IBRD/IDA Commitments (% of Total)			
	Act. FY74	FY75	Program FY76	Program FY75-79
Agriculture	22	30	27	29
Education	4	4	5	4
Population/Nutrition	1	1	1	1
Urbanization	3	2	3	3
Water Supply	4	2	5	5
Subtotal	34	39	41	43
Communications	3	3	3	2
Power	18	11	11	11
Transportation	22	17	18	17
Subtotal	43	31	32	30
DFCs and Industry	18	22	18	19
Tourism	1	1	1	1
Subtotal	19	23	19	20
Non-project	5	9	8	7
TOTAL 1/	100	100	100	100

1/ The sum of the subtotals in some cases is not 100% because of rounding.

In 1975 slightly over half of the operations in agriculture were in new-style rural development projects. Projects in other sectors, such as education, are increasingly oriented towards the rural poor. In addition, the Bank Group is embarking on a broad program aimed at alleviating urban poverty within the previously planned application of resources for the urban sector.

The share of commitments to the least developed and other poorest countries has increased significantly in FY75 and is expected to reach the target level of the five-year program (FY75-79) in FY76.

IBRD/IDA Lending to Least Developed and Other Poorest Countries[1/]

	Act. FY74	FY75	Program FY76	Program FY75-79
	Commitments			
Total IBRD	9%	18%	19%	20%
Total IDA	88%	91%	92%	92%
Total IBRD/IDA	29%	38%	38%	37%

1/ Countries with a per capita GNP up to $200 in 1972 according to the 1974 World Bank Atlas (excluding Nigeria).

III. RESOURCE REQUIREMENTS

IBRD commitments have grown very rapidly over the past decade, in part to offset the effect of inflation and in part to help meet the needs of the developing countries for larger real transfers of external capital. The growth is already beginning to cause major changes in the Bank's capital structure and will lead to even more rapid changes in the next few years. For example, the ratio of the Bank's funded debt to its equity (excluding callable capital), which was 1.13 in FY68 and 2.68 in FY75, is currently projected to rise to 5.57 at the end of FY80. The same pattern emerges when funded debt is compared to total equity (i.e., including callable capital): the ratio increased from 0.15 in FY68 to 0.39 in FY75 and is projected to go up to 0.90 in FY80. Changes of this magnitude inevitably raise questions about the adequacy of the Bank's capital base. Moreover, the rapid growth in loans outstanding and disbursed has brought forward the date when either a Bank capital increase will be needed or the limitation on the Bank's operations laid down in its Articles of Agreement will have to be amended.

IBRD Capital Increase

The Bank's Articles of Agreement limit the volume of loans which may be disbursed and outstanding to the total of the Bank's unimpaired subscribed capital and reserves. This limitation will become a critical constraint on Bank operations in the next few years unless corrective action is taken soon. As shown in the following table, the projected volume of disbursed loans corresponding to presently projected Bank commitments would first exceed the statutory limit in FY82 if there were no intervening increase in subscribed capital. The gap between disbursed loans and the statutory limit would grow by about $5 billion per annum in the ensuing years.

Statutory Limit and Disbursed Loans: FY81-87 1/

(current $ billion)

End of:	FY81	FY82	FY83	FY84	FY85	FY86	FY87
Disbursed Loans	31.6	36.4	41.4	46.8	52.2	57.5	62.7
Statutory Limit	33.8	34.1	34.3	34.6	34.9	35.2	35.6
Difference	(2.2)	2.3	7.1	12.2	17.3	22.3	27.1

1/ Projections assume Bank commitments in current prices grow at 5% per annum after FY80. "Disbursed Loans" refer to amounts disbursed and outstanding at the end of the year.

As a practical matter, it seems desirable to consider solutions which would "close the gap" for at least five years. Since a gap first appears in FY82, this objective requires consideration of the impact of proposed actions on the Bank's financial position at the end of FY87.

It appears that the scale of the Bank's subscribed capital problem by FY87 could reasonably be placed anywhere between a minimum of about $20 billion and a maximum of approximately $35 billion. Within that range the particular figure selected is a matter of judgment, heavily influenced by the view one has of the prospective role for the Bank in the early 1980s. For discussion purposes, a figure of $30 billion is used. Such a figure can be interpreted either as allowing for somewhat faster than expected disbursement rates and a more generous policy with respect to IDA transfers or, alternatively as providing a modest margin for real growth in commitments after FY80.

The major conclusion which emerges from a review of the options open to the Bank for conducting its operations within the existing statutory limit is that an increase in subscribed capital is unquestionably preferable to other possible courses of action. Indeed, if a substantial reduction in future lending is to be avoided, then, without a change in the statutory limit, an increase in subscribed capital is indispensable. The scale of increase required could be altered somewhat by financial policy changes designed to increase Bank net income, raise allocations to reserves, tighten repayment terms on Bank loans or encourage prepayments and sales of loans. But, at most, these changes would permit a somewhat smaller increase in capital; they could not substitute entirely for such an increase.

There are two alternatives for proceeding with an increase in capital subscriptions:

a. A "two-step" approach involving a Selective Capital Increase (related to the IMF quota increase) followed by a General Capital Increase a few years later;

b. A "one-step" approach combining both Selective and General Capital Increases.

The review of the Bank's capital structure led to the recommendation for a "two-step" approach with the Selective Capital Increase based on a policy of parallelism with the IMF.

It is currently expected that final agreement to revised IMF quotas will be obtained at the meeting of the Interim Committee in early January. As soon thereafter as agreement is reached on appropriate amendments to the IMF's charter, a formal resolution will be submitted to the IMF Board of Governors. A selective increase in IBRD capital should be negotiated early in calendar 1976, so as to enable member governments to enact legislation for the Selective Increase in a single package with the IMF quota revisions.

The Executive Directors of the Bank are presently considering the possible modalities of a selective increase in IBRD capital which might involve a "first step" increase in the order of $10 billion. The next discussion in the Board is planned for January. The effect of such an increase in subscribed capital is shown in the attached tables.

Fifth IDA Replenishment

IDA - Discussions on the Fifth Replenishment of IDA have started and a first meeting of Deputies was held in November 1975. The resources of the Fourth Replenishment are expected to be fully committed by June 30, 1977. In order to insure uninterrupted commitment authority for IDA for the period starting July 1, 1977 (and ending June 30, 1980), it will be necessary to conclude the agreement on IDA 5 in the summer of 1976, allowing one year for governments to implement the agreement. The principles put forth for the amount of IDA 5 are that the Replenishment should provide for a full offset to the price inflation that has affected IDA 4 since the time of the Nairobi agreement (September 1973) as well as the inflation that may be expected to affect IDA 5, and that contributions to IDA 5 should result in an appropriate increase in the real purchasing power of IDA's resources. These principles would be in keeping with the increased needs of the poorest countries since the IDA 4 negotiations. Acceptance of these principles by the traditional IDA donors and achieving significant contributions from new donors would lead to a Replenishment of something over $9 billion, more than twice the level of the Fourth Replenishment.

The need for speedy Replenishment of IDA at a high level was supported at the Annual Meeting of the Bank and Fund by a large number of Governors representing both donor countries and recipients of IDA credits. Such an objective has also been endorsed in the resolution adopted by consensus at the Seventh Special Session of the UN General Assembly in October and by a subsequent resolution in the General Assembly in November. At the Annual Meeting of the Bank and the Fund, a large number of contributors to as well as recipients of IDA funds also supported the view that participation in IDA should not be limited to the traditional donors but should also include other countries whose financial position enables them to make contributions.

IBRD: FINANCIAL PROJECTIONS WITHOUT SUBSCRIBED CAPITAL INCREASE[a]
($ millions, fiscal years)

ANNEX Table 1

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
IBRD BALANCE SHEET AND INCOME STATEMENT																				
Cash and Securities	1167	1707	2049	2549	3218	3734	3824	5110	5967	6638	7265	7748	8137	8394	8824	8862	8917	9190	10089	11193
Receivable from Delayed Deliveries	234	141	43	17	11	43		120	0	0	60	150	180	156	176	188	183	210	211	207
Receivable from Loans[b] - Part I	1712	1630	1357	1378	1433	1491	1427	1324	1220	1097	980	858	732	615	541	442	375	312	253	193
- Part II	5774	6907	8322	9754	11651	14185	16673	20578	24525	29380	34703	40590	47160	53866	60679	67615	74597	81638	88724	95840
- IFC[m]	100	100	200	200	260	297	400	442	496	646	793	909	1031	1150	1275	1404	1546	1480	1405	1321
- Total	7586	8637	9879	11332	13344	15973	18500	22344	26241	31123	36476	42357	48923	55631	62495	69461	76518	83430	90382	97354
Receivable from Subscribed Capital	479	462	432	458	492	551	484	461	421	421	421	421	421	421	421	421	421	421	421	421
Land & Buildings Net of Deprec. Res.	29	34	37	37	36	58	59	58	58	58	58	58	58	58	58	58	58	58	58	58
Accruals, Prepayments & Other Assets	125	163	198	209	281	460	447	513	546	603	678	755	836	915	1001	1074	1142	1219	1299	1382
TOTAL ASSETS	9620	11144	12638	14602	17382	20819	23314	28606	33233	38843	44958	51489	58555	65575	72975	80064	87239	94528	102460	110615
Due to IDA	43	92	163	240	289	342	358	454	553	647	721	779	799	772	791	770	744	771	834	832
Undisbursed Loans	2371	3007	3905	4741	5480	6279	7978	10148	12638	14914	17086	19269	21725	24080	26130	28083	29716	31250	32931	34621
Funded Debt[c]	3524	4222	4612	5441	6962	8925	9650	12407	14438	17495	21160	25217	29553	33971	38990	43815	49010	54335	60065	66021
Miscellaneous Liabilities	59	89	100	137	211	297	297	338	334	395	460	532	609	689	779	865	959	1054	1158	1265
Capital & - Special Reserves	291	292	292	292	292	292	292	293	293	293	293	293	293	293	293	293	293	293	293	293
Reserves - Retained Earnings[d]	1038	1135	1250	1364	1487	1644	1696	1885	1891	2013	2152	2313	2490	2684	2906	3152	3431	3739	4093	4497
- Paid-in Capital	2294	2307	2316	2387	2661	3040	3043	3081	3086	3086	3086	3086	3086	3086	3086	3086	3086	3086	3086	3086
- Total	3623	3734	3858	4043	4440	4976	5031	5259	5270	5392	5531	5692	5869	6063	6285	6531	6810	7118	7472	7876
TOTAL LIABILITIES & CAPITAL	9620	11144	12638	14602	17382	20819	23314	28606	33233	38843	44958	51489	58555	65575	72975	80064	87239	94528	102460	110615
Total Uncalled Capital	20648	20733	20843	21484	23946	27357	27388	27729	27774	27774	27774	27774	27774	27774	27774	27774	27774	27774	27774	27774
Income from - Securities	66	88	149	187	187	215	267	383	443	479	528	570	603	629	654	672	676	689	733	808
- Loans: Part I[e]	84	91	92	72	74	74	78	80	85	92	97	102	106	109	112	114	115	115	113	105
Part II	200	224	253	311	378	463	576	686	801	1029	1298	1617	1974	2348	2761	3221	3701	4176	4664	5153
Total	284	315	345	383	452	537	654	766	886	1121	1395	1719	2080	2457	2873	3335	3816	4291	4777	5258
Other Income	7	8	11	7	6	6	8	9	10	10	10	10	10	10	10	10	10	8	7	8
Less: Administrative Expenses	34	41	45	56	66	79	91	110	126	149	170	191	214	228	243	259	275	293	312	333
Interest on Borrowings	151	195	242	305	392	487	614	765	981	1229	1512	1832	2183	2550	2943	3379	3810	4243	4701	5186
Financial Expenses	2	3	4	4	4	6	8	8	9	10	12	15	19	24	29	33	38	44	49	52
Net Losses on Devaluation	23		-2	-2	-50	-81	54	-14	108											
NET INCOME	147	172	216	214	233	267	162	289	115	222	239	261	277	294	322	346	379	408	455	503
IBRD SOURCES AND APPLICATIONS																				
Net Income	147	172	216	214	233	267	162	289	115	222	239	261	277	294	322	346	379	408	455	503
Less: Transfer to IDA[d]	10	75	100	100	110	110	110	100	110	100	100	100	100	100	100	100	100	100	100	100
Net Income Retained	137	97	116	114	123	157	52	189	5	122	139	161	177	194	222	246	279	308	355	403
Receipts of Capital Subscriptions	29	30	39	45	69	63	70	61	24	0	0	0	0	0	0	0	0	0	0	0
Repaid to IBRD on Loans - Part I[e]	68	87	109	67	72	75	89	110	110	118	119	125	126	121	111	110	107	105	104	103
- Part II	168	211	220	252	312	380	398	459	573	637	765	907	1130	1383	1655	1989	2369	2786	3238	3735
- Total	236	298	329	319	384	455	487	569	683	755	884	1032	1256	1504	1766	2099	2476	2891	3342	3838
Borrowing by IBRD	735	1224	735	1368	1744	1723	1853	3510	3800	4400	5000	5700	6500	6746	7549	7286	7105	8588	8113	8263
Less: Debt Retirement	514	526	436	548	608	768	863	1027	1274	1343	1335	1643	2164	2328	2531	2461	1910	3263	2382	2308
Net Borrowing	221	698	299	820	1136	955	990	2483	2526	3057	3665	4057	4336	4418	5018	4825	5195	5325	5731	5956
Exchange Adjustment on Funded Debt	-6		90	10	385	1009	-267	274	-495											
Exchange Adjustment on Capital					171	257														
Receipts from Sale of Loans[f]	65	52	195	27	29	25	27	48	25	25	25	25	25	25	25	25	25	25	25	25
Increase in Misc. Liabilities	6	30	11	37	74	86		41	-4	61	65	71	78	80	90	87	94	95	103	107
Payments to IDA over (-) or Under Transfer to IDA	-49	49	71	77	49	53	16	96	99	94	74	58	20	-27	19	-21	-26	27	63	-2
TOTAL SOURCES	639	1254	1150	1448	2420	3060	1375	3761	2863	4115	4852	5405	5892	6194	7141	7261	8043	8671	9617	10327
Disbursement on Loans	772	762	772	955	1202	1209	1608	2096	2789	3386	4090	4755	5392	5882	6605	7138	7925	8293	8638	9145
Exchange Adjustment on Loans	-7	2	96	8	484	1101	-266	195	-651											
Real Estate Investment	5	5	3			22	1													
Increase in Accrued & Prepaid Exp.	7	38	35	13	72	179	-13	65	9	57	75	76	81	79	86	73	68	78	80	82
TOTAL APPLICATIONS	777	807	906	976	1758	2511	1330	2355	2147	3443	4165	4831	5473	5961	6691	7211	7993	8371	8718	9227
Cash, Securities & Delayed Deliveries: Year End Balance	1401	1848	2092	2566	3229	3778	3824	5230	5967	6638	7325	7898	8317	8550	9000	9050	9100	9400	10300	11400
MEMORANDUM ITEMS																				
IBRD - Commitments[g]	847	1399	1580	1921	1966	2051	3218	4320	5200	5500	6100	6800[i]	7700	8085	8489	8914	9359	9827	10319	10835
- Net Transfer to Current Borrowers[h]	146	129	160	268	441	271	415	783	1229	1514	1843	2056	2123	1986	2022	1749	1663	1232	732	254
- Loans Disb. & Outstanding	5215	5630	5884	6591	7864	9694	10522	12196	13603	16209	19390	23088	27198	31551	36365[i]	41378	46802	52180	57451	62733
- Sub. Capital & Total Res.	24269	24497	24702	25526	28389	32336	32418	32988	33044	33166	33305	33466	33643	33837	34059	34305	34584	34892	35246	35650
- Usable Equity[j]	3144	3272	3426	3585	3948	4425	4547	4798	4849	4971	5110	5271	5448	5642	5864	6110	6389	6697	7051	7455
- Usable Equity as % of Disbursed Loans & Liquid Holdings	49.3	44.6	43.2	39.2	35.6	33.0	31.7	27.7	24.8	21.8	19.2	17.1	15.4	14.1	13.0	12.2	11.5	10.9	10.4	10.1
- Funded Debt/Callable Capital[k]	.24	.29	.32	.37	.43	.49	.52	.66	.76	.92	1.11	1.32	1.54	1.76	2.02	2.26	2.53	2.80	3.09	3.39
- Debt/Equity Ratio (excl. call capital)[l]	1.13	1.32	1.39	1.58	1.84	2.09	2.20	2.68	3.09	3.65	4.28	4.93	5.57	6.16	6.78	7.30	7.79	8.23	8.64	8.97
- Interest Coverage Ratio	2.12	1.88	1.88	1.70	1.48	1.38	1.35	1.36	1.23	1.18	1.16	1.14	1.13	1.12	1.11	1.10	1.10	1.10	1.10	1.10

a/ Projections assume:
- Annual transfers to IDA out of IBRD income are $100 million (including grants for agricultural research and onchocerciasis control) from FY77 on.
- Liquidity equal to at least 40% of the next three years' borrowing requirements.
- Borrowing costs of 8.5% in FY76, and 8.25% thereafter.
- A lending rate of 8.5%.
- Rates of return on security investments of 7.3% in FY76, and 7.6% thereafter.
- Commitments totalling $500 million in FY76 from the Intermediate Financing Facility.
- No substantial increase in capital.
- The assumed rate of inflation after FY79 is 5% p.a. The rates for FY76 - 10.5%, FY77 - 8.2%, FY78 - 6.6%, FY79 - 5.5%.
- After FY80, IBRD commitments remaining constant in real terms.

b/ Amounts receivable from loans include undisbursed portions. Loans guaranteed by IDA Part I countries are included in the Part I category.

c/ IBRD funded debt includes delayed deliveries.

d/ Transfers to IDA out of IBRD net income have been charged to IBRD retained earnings, and added to IDA's resources in the year of authorization, i.e. the year following that in which the income was earned.

e/ Loans guaranteed by Part I countries and from IBRD to IFC are included in the Part I category.

f/ Sales of Part II loans are assumed to be $25 million p.a.

g/ IBRD commitments shown here are to countries, i.e. excluding loans to IFC.

h/ Net transfer to current borrowers indicates disbursements, net of repayments and loan charges, paid to both the Bank and third parties. Includes IBRD loans to Part II countries guaranteed by Part I members.

i/ Unless amended, the Article III, Section 3 limitation on loans disbursed and outstanding would be reached in FY82. Without an increase in capital subscriptions by that time, the Bank would have to cease new commitments no later than FY79 to avoid disbursements which would exceed the limit.

j/ Usable Equity equals paid-in capital and reserves less receivable from subscribed capital.

k/ Funded Debt plus Due to IDA divided by callable capital of Part I countries and capital-surplus oil-exporting countries.

l/ Funded Debt plus Due to IDA divided by Usable Equity.

m/ These figures do not take into account a possible IFC capital increase and a resulting greater volume of commitments which would reduce IBRD loans to IFC in FY77-83 but increase them after FY83.

IBRD: FINANCIAL PROJECTIONS WITH SUBSCRIBED CAPITAL INCREASE OF $10 BILLION[a]
($ millions, fiscal years)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
IBRD BALANCE SHEET AND INCOME STATEMENT																				
Cash and Securities	1167	1707	2049	2549	3218	3734	3824	5110	5967	6540	7220	7681	8071	8296	8727	8716	8721	9042	9844	10898
Receivable from Delayed Deliveries	234	141	43	17	11	43		120			60	150	180	154	173	184	179	208	206	202
Receivable from Loans[b] - Part I	1712	1630	1357	1378	1433	1491	1427	1324	1220	1097	980	858	732	615	541	442	375	312	253	193
- Part II	5774	6907	8322	9754	11651	14185	16673	20578	24525	29380	34703	40590	47160	53866	60679	67615	74597	81638	88724	95840
- IFC[m]	100	100	200	200	260	297	400	442	496	646	793	909	1031	1150	1275	1404	1546	1480	1405	1321
- Total	7586	8637	9879	11332	13344	15973	18500	22344	26241	31123	36476	42357	48923	55631	62495	69461	76518	83430	90382	97354
Receivable from Subscribed Capital	479	462	432	458	492	551	484	461	421	421	508	594	681	681	681	681	681	681	681	681
Land & Buildings Net of Deprec. Res.	29	34	37	37	36	58	59	58	58	58	58	58	58	58	58	58	58	58	58	58
Accruals, Prepayments & Other Assets	125	163	198	209	281	460	447	513	546	600	675	748	828	906	992	1064	1130	1210	1287	1369
TOTAL ASSETS	9620	11144	12638	14602	17382	20819	23314	28606	33233	38742	44997	51589	58742	65726	73126	80164	87288	94629	102458	110562
Due to IDA	43	92	163	240	289	342	358	454	553	647	721	779	799	772	791	770	744	771	834	832
Undisbursed Loans	2371	3007	3905	4741	5480	6279	7978	10148	12638	14914	17086	19269	21725	24080	26130	28083	29716	31250	32931	34621
Funded Debt[c]	3524	4222	4612	5441	6962	8925	9650	12407	14438	17395	20860	24617	28653	32965	37905	42595	47648	52923	58444	64230
Miscellaneous Liabilities	59	89	100	137	211	297	297	338	334	393	454	521	593	670	760	843	934	1029	1128	1234
Capital & - Special Reserves	291	292	292	292	292	292	292	293	293	293	293	293	293	293	293	293	293	293	293	293
Reserves - Retained Earnings[d]	1038	1135	1250	1364	1487	1644	1696	1885	1891	2014	2164	2359	2593	2860	3161	3493	3866	4276	4741	5265
- Paid-in Capital	2294	2307	2316	2387	2661	3040	3043	3081	3086	3086	3419	3752	4086	4086	4086	4086	4086	4086	4086	4086
- Total	3623	3734	3858	4043	4440	4976	5031	5259	5270	5393	5876	6404	6972	7239	7540	7873	8246	8656	9121	9645
TOTAL LIABILITIES & CAPITAL	9620	11144	12638	14602	17382	20819	23314	28606	33233	38742	44997	51589	58742	65726	73126	80164	87288	94629	102458	110562
Total Uncalled Capital	20648	20733	20843	21484	23946	27357	27388	27729	27774	27774	30771	33768	36774	36774	36774	36774	36774	36774	36774	36774
Income from - Securities	66	88	149	187	187	215	267	383	443	475	523	566	598	622	647	663	663	676	718	788
- Loans: Part I[e]	84	91	92	72	74	74	78	80	85	92	97	102	106	109	112	114	115	115	113	105
Part II	200	224	253	311	378	463	576	686	801	1030	1298	1617	1974	2348	2761	3221	3701	4176	4664	5153
Total	284	315	345	383	452	537	654	766	886	1122	1395	1719	2080	2457	2873	3335	3816	4291	4777	5258
Other Income	7	8	11	7	6	6	8	9	10	10	10	10	10	10	10	10	10	8	7	8
Less: Administrative Expenses	34	41	45	56	66	79	91	110	126	149	170	191	214	228	243	259	275	293	312	333
Interest on Borrowings	151	195	242	305	392	487	614	765	981	1225	1496	1795	2121	2471	2857	3285	3704	4129	4577	5046
Financial Expenses	2	3	4	4	4	6	8	8	9	10	12	15	19	23	28	32	37	43	47	51
Net Losses on Devaluation	23		-2	-2	-50	-81	54	-14	108											
NET INCOME	147	172	216	214	233	267	162	289	115	223	250	294	334	367	402	432	473	510	566	624
IBRD SOURCES AND APPLICATIONS																				
Net Income	147	172	216	214	233	267	162	289	115	223	250	294	334	367	402	432	473	510	566	624
Less: Transfer to IDA[d]	10	75	100	100	110	110	110	100	110	100	100	100	100	100	100	100	100	100	100	100
Net Income Retained	137	97	116	114	123	157	52	189	5	123	150	194	234	267	302	332	373	410	466	524
Receipts of Capital Subscriptions	29	30	39	45	69	63	70	61	24		246	246	247							
Repaid to IBRD on Loans - Part I[e]	68	87	109	67	72	75	89	110	110	118	119	125	126	121	111	110	107	105	104	103
- Part II	168	211	220	252	312	380	398	459	573	637	765	907	1130	1383	1655	1989	2369	2786	3238	3735
- Total	236	298	329	319	384	455	487	569	683	755	884	1032	1256	1504	1766	2099	2476	2891	3342	3838
Borrowing by IBRD	735	1224	735	1368	1744	1723	1853	3510	3800	4300	4800	5400	6200	6640	7472	7151	6962	8539	7895	8087
Less: Debt Retirement	514	526	436	548	608	768	863	1027	1274	1343	1335	1643	2164	2328	2531	2461	1910	3263	2375	2300
Net Borrowing	221	698	299	820	1136	955	990	2483	2526	2957	3465	3757	4036	4312	4941	4690	5052	5276	5520	5787
Exchange Adjustment on Funded Debt	-6		90	10	385	1009	-267	274	-495											
Exchange Adjustment on Capital					171	257														
Receipts from Sale of Loans[f]	65	52	195	27	29	25	27	48	25	25	25	25	25	25	25	25	25	25	25	25
Increase in Misc. Liabilities	6	30	11	37	74	86		41	-4	59	61	66	72	78	89	84	91	94	99	104
Payments to IDA over (-) or Under Transfer to IDA	-49	49	71	77	49	53	16	96	99	94	74	58	20	-27	19	-21	-26	27	63	-2
TOTAL SOURCES	639	1254	1150	1448	2420	3060	1375	3761	2863	4013	4905	5379	5891	6159	7141	7210	7992	8723	9515	10276
Disbursement on Laons	772	762	772	955	1202	1209	1608	2096	2789	3386	4090	4755	5392	5882	6605	7138	7925	8293	8638	9145
Exchange Adjustment on Loans	-7	2	96	8	484	1101	-266	195	-651											
Real Estate Investment	5	5	3			22	1													
Increase in Accrued & Prepaid Exp.	7	38	35	13	72	179	-13	65	9	54	75	73	79	78	86	72	67	79	78	81
TOTAL APPLICATIONS	777	807	906	976	1758	2511	1330	2355	2147	3440	4165	4828	5471	5961	6691	7210	7992	8373	8715	9226
Cash, Securities & Delayed Deliveries: Year End Balance	1401	1848	2092	2566	3229	3778	3824	5230	5967	6540	7280	7831	8251	8450	8900	8900	8900	9250	10050	11100
MEMORANDUM ITEMS																				
IBRD - Commitments[g]	847	1399	1580	1921	1966	2051	3218	4320	5200	5500	6100	6800	7700	8085[i]	8489	8914	9359	9827	10319	10835
- Net Transfer to Current Borrowers[h]	146	129	160	268	441	271	415	783	1229	1514	1843	2056	2123	1986	2022	1749	1663	1232	732	254
- Loans Disb. & Outstanding	5215	5630	5884	6591	7864	9694	10522	12196	13603	16209	19390	23088	27198	31551	36365	41378	46802[i]	52180	57451	62733
- Sub. Capital & Total Res.	24269	24497	24702	25526	28389	32336	32418	32988	33044	33167	36647	40172	43746	44013	44314	44647	45020	45430	45895	46419
- Usable Equity[j]	3144	3272	3426	3585	3948	4425	4547	4798	4849	4972	5368	5810	6291	6558	6859	7192	7565	7975	8440	8964
- Usable Equity as % of Disbursed Loans & Liquid Holdings	49.3	44.6	43.2	39.2	35.6	33.0	31.7	27.7	24.8	21.9	20.2	18.9	17.8	16.5	15.2	14.4	13.6	13.0	12.5	12.2
- Funded Debt/Callable Capital[k]	.24	.29	.32	.37	.43	.49	.52	.66	.76	.92	1.00	1.08	1.17	1.33	1.53	1.72	1.91	2.12	2.35	2.57
- Debt/Equity Ratio (excl. call capital)[l]	1.13	1.32	1.39	1.58	1.84	2.09	2.20	2.68	3.09	3.63	4.02	4.37	4.68	5.16	5.64	6.03	6.40	6.73	7.02	7.26
- Interest Coverage Ratio	2.12	1.88	1.88	1.70	1.48	1.38	1.35	1.36	1.23	1.18	1.17	1.16	1.16	1.15	1.14	1.13	1.13	1.12	1.12	1.12

a/ Projections assume:
- Annual transfers to IDA out of IBRD income are $100 million (including grants for agricultural research and onchocerciasis control) from FY77 on.
- Liquidity equal to at least 40% of the next three years' borrowing requirements.
- Borrowing costs of 8.5% in FY76, and 8.25% thereafter.
- A lending rate of 8.5%.
- Rates of return on security investments of 7.3% in FY76, and 7.6% thereafter.
- Commitments totalling $500 million in FY76 from the Intermediate Financing Facility.
- A $10.0 billion increase in subscribed capital over the period FY78-80, resulting in a $740 million increase in usable paid-in capital.
- The assumed rate of inflation after FY79 is 5% p.a. The rates for FY76 - 10.5%, FY77 - 8.2%, FY78 - 6.6%, FY79 - 5.5%.
- After FY80, IBRD commitments remaining constant in real terms.

b/ Amounts receivable from loans include undisbursed portions. Loans guaranteed by IDA Part I countries are included in the Part I category.

c/ IBRD funded debt includes delayed deliveries.

d/ Transfers to IDA out of IBRD net income have been charged to IBRD retained earnings, and added to IDA's resources in the year of authorization, i.e. the year following that in which the income was earned.

e/ Loans guaranteed by Part I countries and from IBRD to IFC are included in the Part I category.

f/ Sales of Part II loans are assumed to be $25 million p.a.

g/ IBRD commitments shown here are to countries, i.e. excluding loans to IFC.

h/ Net transfer to current borrowers indicates disbursements, net of repayments and loan charges, paid to both the Bank and third parties. Includes IBRD loans to Part II countries guaranteed by Part I members.

i/ Unless amended, the Article III, Section 3 limitation on loans disbursed and outstanding would be reached in FY84. Without an increase in capital subscriptions by that time, the Bank would have to cease new commitments no later than FY81 to avoid disbursements which would exceed the limit.

j/ Usable Equity equals paid-in capital and reserves less receivable from subscribed capital.

k/ Funded Debt plus Due to IDA divided by callable capital of Part I countries and capital-surplus oil-exporting countries.

l/ Funded Debt plus Due to IDA divided by Usable Equity.

m/ These figures do not take into account a possible IFC capital increase and a resulting greater volume of commitments which would reduce IBRD loans to IFC in FY77-83 but increase them after FY83.

ANNEX B

INTERNATIONAL FINANCE CORPORATION

Washington, D.C.
December 18, 1975

IFC CAPITAL INCREASE

IFC is seeking a capital increase at this time because its present resources will not support its planned level of operations beyond FY 1978. IFC needs to know very soon whether its members will support a capital increase, or in practice IFC would have to begin to restrict its commitments well in advance of FY 1978 in order to conserve resources. This would mean a decrease in IFC's operations in real terms, and a large decrease in the amount of its resources available for equity investments and for its developmental and promotional roles.

IFC has suggested a capital increase of $480 million to be paid in over five years in equal annual installments beginning in FY 1978. These new funds would enable IFC to increase its total annual commitments at a projected rate of 9% per annum in real terms which is similar to the rate of growth IFC has experienced in the past several years. IFC estimates that with additional borrowings and by mobilizing participations, it may be able to commit around $5 billion over the period FY 1976/85, if it obtains the increased capital.

With these new resources IFC will be able to expand its services to its members; in the development of capital markets, in resources mobilization, in its assistance to development banks, and in its least developed members, where IFC will increase its promotional role and its technical assistance to both the private and public sectors in developing projects.

A large capital increase also means that IFC will be able to assume an increased role in larger projects the cost of which has vastly increased, and where IFC's effectiveness as a catalyst depends on its ability to have a significant stake in the project. IFC has limited its exposure in any single company to 10% of its equity, or about $18 million. With a $480 million increase in capital, IFC would be able to incur commitments in the $60 - $70 million range.

IFC is proposing that all its members should be invited to subscribe to new shares of capital stock of IFC at the price of par payable in US dollars in five annual installments beginning FY 1978. The new subscriptions should be offered in such proportion that, if all were taken up, the quotas of members in IFC's capital would be substantially equal to those in the Bank. Members who are willing to subscribe to shares not taken up by other members would be invited to do so.

In addition, IFC has suggested that $53.832 million from IFC's General Reserve be capitalized in order to prevent dilution of members' interest in IFC's surplus since proportionate holdings in IFC's capital will change as a result of the Capital Increase. This would be done by distributing a stock dividend to IFC members in the same proportions in which they now hold IFC's capital stock (one share for every two shares now held).

Subject to satisfactory outcome of current conversations with major member countries, IFC expects to submit its formal recommendations to the Board of Directors in January/February 1976. If the Board of Directors approves, the Governors will be asked to vote on the Capital Increase in the course of 1976.

ANNEX C

AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND

Programmes and Capital Resource Situation of the African Development Bank and African Development Fund for the Period 1976-1978

Abidjan
15 November 1975

PROGRAMMES AND CAPITAL RESOURCE SITUATION OF THE AFRICAN DEVELOPMENT BANK AND AFRICAN DEVELOPMENT FUND FOR THE PERIOD 1976-1978

A. Operational Programmes for the African Development Bank and Fund for the Period 1976-1978

1. The projected operational programmes of the African Development Bank (ADB) and of its soft loan window, the African Development Fund (ADF) for the three-year period 1976-1978 are set out in Table 1 below.

Table 1 : Operational Programmes of the African Development Bank and Fund : 1976-1978 (in US $ million)*

	1976	1977	1978
ADB Ordinary Loans	120	145	175
ADF Concessional Loans	110	130	145
Total Loan Commitments	230	275	320

In other words, the African Development Bank Group aims at doubling its annual lending volume from an average of US $160 million recorded during the period 1974-75 to US 320 million in 1978 as well as increasing the share of the Fund's concessional lending in the total commitments of the Group from roughly 40 per cent to 45 per cent during the same period. These targets have been set with the following considerations in mind.

* The figures are converted from the Bank and Fund Units of Account which are equivalent to US $1.206 and US $1.111 respectively.

2. First, the annual growth rates of the lending volume were set bearing in mind the demonstrated increase in African Development Bank's capacity in project identification, preparation and appraisal in recent years. Thus, compared with a total lending volume of only US $30 million for the four-year period 1967-70, the Bank was able to submit projects totalling some US $240 million for the approval by the Boards of Directors of the African Development Bank and African Development Fund during the subsequent four-year period 1971-74. Indeed, this increased capability in project identification, preparation and appraisal is reflected in the Bank's pipeline of projects, which on 31 October 1975 comprised 170 projects (93 for the ADF and 77 for the ADB) representing a potential financing volume of US $620 million (US $304 million for the ADF and US $316 million for the ADB).

3. Second, the projected increase in the lending programmes of the Bank and the Fund is in line with the increased requirements of African countries for aid resources and takes account of the recognition by the international community of the need to increase the amount of concessional assistance to the developing nations in general and, more particularly, to those of them facing distinctive situations e.g. the least developed, the landlocked, the "most seriously affected" developing countries as well as those of them which are victims of unpredictable and natural calamities (drought, floods, etc.). And as is well known, Africa has more than its fair share of these "special category" least-favoured developing countries: sixteen of the twenty-five poorest "hard-core" least-developed countries of the world are African; thirteen of the eighteen landlocked developing countries are situated on the African continent; twenty of the thirty-two countries listed as "most seriously affected" (MSA) countries under UN General Assembly resolution 3202 (S-VI) are African countries, and the recent drought has had its most devastating effect on the countries of the Sahelian zone of Africa, as well as the East African countries of Ethiopia, Somalia, Kenya and Tanzania.

4. Third, the relatively high annual growth rates assumed in the projected lending programmes made provision for the current and prospective inflationary developments in the developed countries and therefore take into account the need to maintain the real value of the aid resources to African countries.

5. The projected lending programmes of the Bank and the Fund do not contain any pre-determined breakdown into sectoral or geographical areas of operation. Nevertheless, both the Bank and the Fund have so far established certain principles which guide the geographical and sectoral distributions of their commitments: whereas the Bank lays emphasis on the financing of infrastructural projects, mostly in the transport and public utilities sectors of its more well-to-do member States, resources of the Fund are primarily channelled to the more needy member States. The Fund gives priority to agriculture, health and education as well as transportation. Judging from the geographical and sectoral distribution of the current pipelines of the Bank and the Fund given in Tables 2 and 3 below, it can be said that the sectoral and geographical distributions of lending in the period ahead will not vary appreciably from the previously achieved pattern.

6. The following, therefore, gives a fair picture of the expected sectoral breakdown of ADB projected lending programme: As can be seen from Table 2, projects in the Transportation and Public Utilities sectors make up over two-thirds of the sectoral distribution of projects in the pipeline while Agriculture accounts for only 15 per cent of these projects. This corresponds broadly to the current lending pattern of the Bank: Transportation, Public Utilities and Agriculture accounted for 36 per cent, 33 per cent and 11 per cent respectively of the Bank's total loan commitments as at 31 October 1975.

TABLE 2

SUMMARY ADB PIPELINE OF PROJECTS AND STUDIES

AS AT 31 OCTOBER, 1975

(in million US$ and %)

SECTOR/REGION	CENTRAL AFRICA	EAST AFRICA	NORTH AFRICA	WEST AFRICA	MULTI-NATIONAL	TOTAL	PER-CENTAGE
AGRICULTURE	6.03 (1)	28.34 (7)	-	12.90 (3)	-	47.27 (11)	15
TRANSPORT	33.28 (5)	39.07 (9)	10.85 (2)	25.68 (6)	-	108.78 (22)	34
PUBLIC UTILITIES	27.13 (5)	10.85 (2)	36.18 (6)	26.53 (8)	9.88 (2)	110.59 (23)	35
INDUSTRY & DEVELOPMENT BANKS	-	13.86 (4)	18.21 (3)	13.26 (3)	-	45.34 (10)	15
STUDIES	0.36 (1)	0.66 (2)	-	1.76 (6)	1.12 (2)	3.90 (11)	1
TOTAL	66.69 (12)	92.80 (24)	65.24 (11)	80.15 (26)	11.01 (4)	315.89 (77)	100
% OF TOTAL	21	29	21	26	4	100	

( ) Number of projects

TABLE 3

SUMMARY ADF PIPELINE OF PROJECTS AS AT 31 OCTOBER, 1975 (in million US$ and %)

SECTOR	HEALTH		AGRICULTURE		TRANSPORT		PUBLIC UTILITIES		TOTAL BY REGION		
REGION	No.	Amount in million US $	No.	Amount in million US $	No.	Amount in million US$	No.	Amount in million US $	No.	Amount in million US $	% OF TOTAL
CENTRAL AFRICA	4	8.88	7	22.22	4	16.66	3	14.44	18	62.21	(20.43)
EAST AFRICA	6	17.77	8	33.33	15	45.55	2	3.33	31	99.99	(32.84)
NORTH AFRICA	3	7.77	-	-	-	-	-	-	3	7.77	(2.55)
WEST AFRICA	7	24.44	22	67.77	10	33.33	2	8.88	41	134.43	(44.15)
TOTAL	20	58.86	37	123.32	29	95.54	7	26.66	93	304.44	(100)
% OF TOTAL		(19.33)		(40.50)		(31.38)		(8.75)			

7. In the case of the Fund, agriculture which accounted for 35 per cent of ADF loan commitments at the close of October 1975, will continue to be a priority sector. The current ADF pipeline of projects contains some 37 agricultural projects accounting for roughly 41 per cent of the total value of expected financing by the Fund. Transportation accounts for 31 per cent and the health sector accounts for 19 per cent of the value of the projects in the Fund's pipeline.

8. With respect to its geographical breakdown, the ADB pipeline of projects presents a relatively balanced picture, with the four major sub-regions namely, East, Central, North and West Africa accounting for 29 per cent, 21 per cent, 21 per cent and 25 per cent of the projects respectively. The corresponding figures for the distribution of the actual total ADB commitments to the four sub-regions as at 31 October 1975, were 26 per cent for East, 12 per cent for Central, 24 per cent for North and 33 per cent for West Africa respectively.

9. In compliance with its Board of Governors' express wish that the African Development Fund should give priority to projects and programmes in countries hardest hit by the recent drought disaster, most of the Fund's operations as at 31 October 1975 have been directed to the West African (40 per cent) and Central African (27 per cent) sub-regions. Also the current pipeline of the Fund shows that projects having roughly two-thirds the total value of the potential future lending volume are situated in the West (44 per cent) and Central African (20 per cent) sub-regions.

B. ADB and ADF Capital Resource Situation

10. The African Development Bank, it will be recalled, was formally established in September 1964, with an initial authorized capital equivalent to US $312.8 million, half of which was called up.

11. Recognizing the need for strengthening the financial structure of the Bank, the Board of Governors of the ADB has, during the past three years, adopted a number of resolutions namely resolutions 11-73, 1-74 and 8-74 concerning the increase in the ordinary capital of the Bank. The increase, pursuant to resolution 11-73, brought the Bank's authorized capital to an equivalent of US $385.9 million. By resolution 8-74, the authorized capital of the Bank was further increased to US $482.4 million. By the same resolutions, the Board of Governors appealed to member states to participate to the best of their abilities in these increases. The responses were very positive: 28 member States, including some countries most seriously affected by the current economic crises took up voluntarily, additional subscriptions amounting to US $147.1 million out of a total increased capital amounting to US $169.5 million.

12. In addition to the efforts made with regard to the aforementioned voluntary increases in the subscription of members to the capital stock of the Bank, the Bank made contacts with the Governments of member and non-member countries with a view to raising bilateral long-term loans or receiving other long-term financial assistance for the ADB. Thus, with regard to industrialized non-member countries, the Bank has during the past two years received special financial assistance totalling US $13 million from Austria, Canada and Sweden.

13. While appealing to the other industrialized countries to give direct loans or special financial assistance to it, the Bank has also explored the possibility of playing the role of financial intermediary between African countries and those third world countries, whose current financial capacities permit a reasonable increase of transfer of their financial resources to Africa. In this connexion, the Bank is currently negotiating an agreement with the Government of Nigeria for the establishment of a US $80 million Trust Fund within the ADB. Also the Central Bank of Argentina has agreed to open a US $20 million line of credit to the Bank. Furthermore, ADB delegations have visited a number of Middle East countries to discuss the possibility of these countries giving financial assistance to the Bank. The discussions are well advanced in the case of a number of these countries. It is hoped that concrete results will be forthcoming in the course of the coming year.

14. In August 1975, the Bank issued and sold short-term bonds for an amount of US $13 million to Central Banks and other governmental institutions within Africa. This was followed by medium-term funds amounting to US $35 million borrowed by the Bank on the international market at the close of October 1975.

15. The projected resource availability for the Bank as at the end of December 1975, is estimated at US $330 million. The cumulative total commitments by the Bank as of the same date will add up to about US $280 million. In other words, the existing capital and other financial resources of the Bank will fall short of the requirements of the 1976-78 lending programme set forth above.

16. The above conclusion also applies to the current capital situation of the African Development Fund and its ability to support the Fund's projected lending programme. As at 31 October 1975, total original, and additional subscriptions to the Fund amounted to some US $110 million compared with total cumulative Fund commitments amounting to US $107 million. However, steps are being taken to replenish the resources of the Fund:

17. Following the successful "take off", in its operational activities, the Board of Governors of the African Development Fund adopted a resolution in July 1974, concerning the increase in the resources of the Fund and decided to invite the President of the Fund, in consultation with the Board of Directors, to take the necessary steps forthwith:

(a) to determine all possibilities of mobilizing the necessary resources within the context of an overall plan directed towards maintaining the operational activities of the Fund during the initial period and thereafter, and

(b) to that end, to proceed to organize consultations with State participants and interested third countries with a view to obtaining such resources.

18. Meanwhile, progress has been achieved with regard to the broadening of the membership of the Fund as well as increasing its resources during the initial period of operations (July 1973-December 1975). Thus, Argentina and Saudi Arabia have made it known that they have decided to join the Fund and twelve participants in the Fund, including the ADB recently made additional contributions totalling US $41 million to the original resources of the Fund.

19. Concerning the first ordinary replenishment, a number of consultative meetings on the Mobilization of Additional Resources for the African Development Fund have been held between the Bank, State participants in the Fund and interested third countries. These negotiations are still in progress. Nevertheless a consensus seems to have been reached that an amount of 350 million dollars is a reasonable target for the Fund to achieve during the 1976-78 replenishment period. To this end, participants in the negotiations have also expressed the desirability of the Fund increasing its membership.

20. From the foregoing, it is clear that the African Development Bank had during the last three years stepped up its efforts to explore the traditional and new avenues and possibilities for mobilizing additional financial resources within the framework of the provisions of its Statute. The initial results of these efforts, as was shown above, were encouraging. Nevertheless, the successful implementation of the 1976-78 lending programme of the Bank and Fund will depend on continued success in its resource mobilization efforts. And this success will ultimately depend, to a great extent, on the support the Bank gets from the international community generally and from its member STates in particular, in its role as a development financial intermediary between African countries and non-member countries willing to extend aid and channel investment resources to Africa.

ANNEX D

ASIAN DEVELOPMENT BANK

Lending Program and Capital Resources Situation of the Asian Development Bank

Manila
15 November 1975

TABLE OF CONTENTS

SUBJECT INDEX

LENDING PROGRAM AND CAPITAL RESOURCES SITUATION OF THE ASIAN DEVELOPMENT BANK

I. MEMBERSHIP

1. The Asian Development Bank was established in late 1966. Among the important considerations which led to its establishment were the requirements of additional external aid to Asian countries whose needs far exceeded the inflow of external resources, the requirements of smaller or less developed countries which needed special attention and the promotion of regional cooperation and economic solidarity among Asian countries.

2. The membership of the Bank which at the time of its establishment numbered 31 had risen by 1974 to 41, comprising 17 developed countries and 24 developing member countries including 6 in the Pacific area (Appendix 1). These developing countries have diverse geographical, political and economic features and a wide range of natural resources. They are at different stages of economic development with per capita income ranging from US$80 in Bangladesh to US$1,500 in Singapore. Nearly 60 per cent of the total population of the developing world (excluding "the Centrally Planned economies") live in the Bank's region. In 1972, the weighted average of per capita income in the region was $135, the lowest within the developing regions of the world. Further, the Bank's region accounts for nearly four-fifths of the population of countries which have been classified by the United Nations as the most seriously affected by recent developments in the world economy.

II. BANK'S OPERATIONS AND POLICIES UP TO 1975

3. The Bank's lending activities are divided into two major categories: ordinary operations and Special Funds operations. The ordinary operations are financed out of capital resources comprising mainly subscribed capital and borrowing, while Special Funds operations are financed from contributions by developed member countries and funds that may be set aside from the paid-in capital of the Bank - subject to a ten per cent ceiling set in the Bank's Charter. 1/ (The former are hereinafter referred to as "ordinary loans" and the latter, "Special Funds loans".)

1/ For details of the Charter provisions on Special Funds, see Appendix 2; the word "Charter" is used in this presentation to refer to the "Agreement Establishing the Asian Development Bank".

4. At the start of its lending operations in 1968, the lending rate for ordinary loans was 6-7/8 per cent. The grace and amortization periods of each loan depend upon the nature of the project. As a result of changes in interest rates in the world money market and the rising costs of the Bank's borrowings, the interest on ordinary loans had to be raised at various stages and now stands at 8.75 per cent (fixed in February 1975).1/ Further, a higher interest rate of 9.5 per cent was fixed for countries with per capita income exceeding $850 as at the end of 1972; Hong Kong and Singapore fall in this category. The Bank also levies a commitment charge of three-fourths of one per cent on the undisbursed portion of a loan on a graduated scale.2/

5. The interest rate on loans from Special Funds has increasingly conformed to the Charter provision that such loans should be on concessional terms. The interest rate on loans approved before 21 March 1974 ranged from 1 to 3 per cent and the maturity and grace periods also often varied depending upon the country situation and nature of the project. Since March 1974, the terms of Special Fund loans have been made uniform; a service charge of 1 per cent - but no interest - is levied. The maturity period is 40 years including a grace period of 10 years and repayment of principal at the rate of 2 per cent a year for ten years after the grace period and 4 per cent thereafter. Access to the Bank's Special Funds resources is based solely on country considerations. In 1974, it was decided that countries having a per capita income in excess of $300 in 1972 will not, in principle, be eligible for Special Funds loans although this may be relaxed in the case of certain developing member countries (DMCs) in the South Pacific where special problems exist. Actually, due to the shortage of Special Funds, these have been concentrated in the poorest countries in recent years. About 94 per cent of the Bank's concessional lending in 1974 and a still higher percentage in 1975 were provided to countries with per capita income below $130.

1/ The initial interest on ordinary loans of 6-7/8 per cent was raised to 7.5 per cent in May 1970 and 8.25 per cent in September 1974.

2/ The commitment charge is levied on 15 per cent of the loan amount <u>less</u> disbursements in the first year, 45 per cent <u>less</u> disbursements in the second year, 85 per cent <u>less</u> disbursements in the third year, and on the entire undisbursed amount from the fourth year onwards.

6. The Bank also renders technical assistance to its borrowing member countries. As of 30 September 1975, the Bank had approved 177 technical assistance projects amounting to $34.5 million for 21 countries. Purpose-wise, technical assistance operations fall under four broad categories: project preparation, project implementation, institution building (advisory) and undertaking of regional projects. Nearly two-thirds of total technical assistance has been utilized for project preparation and already loans amounting to $503 million have resulted from this assistance. The technical assistance is provided out of three main sources, i.e., the Bank's net income, Technical Assistance Special Fund (see para. 46) and UNDP resources. Cooperation with UNDP has become closer in recent years and in 1975 about half of the cost of technical assistance is expected to be funded by UNDP.

7. The Bank's loan operations have grown rapidly from $42 million in 1968 to $548 million in 1974. In 1975, a total loan commitment approximating $675 million is expected. By the end of 1975, the cumulative loan commitments of the Bank would amount to about $2,600 million for some 230 projects (Appendix 3).1/ Nearly 50 per cent of the total loans made between 1968 and 1975 would have been provided in the last two years. In accordance with its Charter, the Bank has consistently endeavoured to bring about a more even spread of its assistance and to increase its lending to smaller or less developed countries. At the end of October 1975, the Bank had extended its lending operations to 21 of its 23 borrowing member countries.2/

8. A sector-wise analysis of the loans made since the start of the Bank and up to the end of 1975, shows the largest share would have gone to public utilities (36.0 per cent) followed by agriculture and agro-industries (22.6 per cent), industry including development banks (21.6 per cent), transport and communications (18.8 per cent) and education (1.0 per cent) (see Appendix 4). However, emphasis,

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1/ Appendixes 3 and 4 show loan commitments for 1975 at $688 million based on the assessment as of 31 October 1975. But for the purpose of the presentation here, it is expected that the actual commitment would amount to $675 million in 1975.

2/ India has so far not approached the Bank for any loan. The other two developing member countries which have so far not received Bank loans are the Solomon Islands and Gilbert and Ellice Islands which joined the Bank in 1973 and 1974 respectively; operations in these countries are under active consideration.

inter-sectorally, has been changing. For instance, in the loans made in 1974, the share of agriculture and agro-industry rose to 24.5 per cent and of industry including development banks increased to 34.1 per cent while that of public utilities and transport and communications declined to 26.5 per cent and 14.9 per cent respectively.

9. The Bank's operations in 1974 and 1975, compared with previous years, illustrate its quick response to changing needs in the region and its efforts to improve the quality of its assistance (see Appendix 4). In recognition of the importance of agriculture (including food production) and in response to the effects of the changing international economic situation on its DMCs, the nature of projects assisted, and the sectoral allocation of lending by the Bank, underwent significant changes. For instance, lending to agriculture and agro-industries together increased nearly 80 per cent in 1974 compared with 1973 and doubled in 1975.

10. In agriculture, increasing attention has been given to integrated area development programs, in which irrigation, water management, credit, rural infrastructure, etc. are interdependent components, in order to maximize the benefit of investment in rural areas. In the context of the shortage of food in the region, the Bank has in the past few years paid special attention to fertilizer production in its member countries; loans have been provided to Bangladesh, Indonesia, Pakistan and Sri Lanka. In the first three countries, fertilizer production will be based on the exploitation of natural gas resources, while in Sri Lanka, the excess production of naptha from the existing refinery will be used as feedstock.

11. In public utilities, greater attention is being placed on the development of viable alternatives to the use of oil products for industrial and household purposes. For instance, the Bank is assisting generation of electric power through the economic exploitation of domestic energy sources such as hydropower, gas and coal. Assistance has also been provided for the transmission of gas to urban areas.

12. A sector-wise distribution of technical assistance shows that agriculture (other than agro-industry) accounted for 31.6 per cent of the total amount of technical assistance and 38.4 per cent of the number of technical assistance approvals up to 30 September 1975. Amount-wise the share of other sectors was as follows:

transport and communications, 28.3 per cent; public utilities, 27.7 per cent; industry including development banks, 6.0 per cent; agro-industry, 1.9 per cent; others, 4.5 per cent.

13. Of the total Bank lending of $2,600 million by the end of 1975, $1,907 million was financed out of ordinary resources and $693 million out of Special Funds resources. For the period as a whole the share of Special Funds loans was 27 per cent. Over the years, their share had been steadily increasing from 9 per cent of annual lending up to 1970 to 32 per cent in 1974, but will decline to about 30 per cent in 1975 because of the shortage of such funds.

14. When the first review of the Bank's overall resource needs was carried out in June 1971, it was proposed that the Bank's overall loan commitments should increase from $280 million in 1971 to $600 million in 1975, giving a total of $2,200 million in loan commitments during the five-year period with an implied annual growth of 21 per cent. The total loan commitments actually made during the period will, in fact, slightly exceed this target, reaching a level of $2,214 million (see Appendix 5).

15. Two qualifications must, however, be noted when comparing the amount of lending. First, while the original estimates were made in terms of 1971 dollars, the actual loan commitments have been in current dollars. In the past three years, the prices of machinery and capital goods have been rising rapidly to record levels. At the same time, the values of currencies have been changing. Translated into constant dollars of 1971, total Bank loans committed in 1971-1975 amount to $1,624 million, or only about three-fourths the original target of $2,200 million.

16. Second, there has been a considerable divergence between the ratio of ordinary to special operations proposed in 1971 for the 1971-1975 period, and the ratio actually achieved. Lending from its ordinary resources, in current dollars, substantially exceeded the original target of $1,250 million, and even in constant 1971 dollars the performance in ordinary operations appears satisfactory. However, the lending from Special Funds resources has been substantially below the original target, in terms of both current and constant dollars. The original objective was to raise concessional lending to $300 million in 1975. However, due to the resources constraint, concessional lending from Special Funds is now expected to be only about $200 million or 30 per cent of total lending in 1975. Both in absolute terms and in relation to the ordinary loans, the Special Funds loans have been less than anticipated or hoped for.

III. FUTURE OPERATIONS

A. Rationale of the Program

17. The future role of the Bank has to be viewed in relation to the needs of the region for external resources and the Bank's capacity to mobilize funds. During 1970-1973, the overall balance of payments position of the DMCs[1/] improved substantially as a result of increasing volumes and high prices of primary commodities and manufactures exported from the region. At the same time, the DMCs were able to achieve a high growth rate of 5.5 per cent and augment their aggregate foreign exchange reserves from \$4.2 billion in 1970 to \$9.2 billion in 1973.

18. The overall position was, however, reversed in 1974. The sharp increase in the prices of oil, food, fertilizers and manufactures imported by the region and a decline in the quantity and prices of major exports have led to a decline in the GNP growth. These factors have also led to a serious foreign exchange shortage, which has become a major constraint on growth in the region. The average GNP growth declined from some 7.6 per cent during 1973 to 5.1 per cent in 1974. The slowdown in growth has been accompanied by an unprecedented rate of inflation with the increase in consumer prices averaging 31 per cent in 1974 compared with about 13 per cent in industrial countries. While there has been some slowdown in the rate of increase of consumer prices during 1975, the rate is still higher than prior to 1974.

1/ Hereafter the reference in this paper to DMCs and the data provided are in respect of all developing member countries of the Bank other than India, which has not so far borrowed from the Bank.

19. The trade deficit of the region excluding Indonesia, a member of OPEC, registered a sharp increase from \$3 billion in 1973 to \$9 billion in 1974, even after the best efforts of the countries to contain this deficit through a cut-back in imports of non-essentials and economy in oil consumption. The 1974 figures for current deficit do not fully reflect the impact of adverse international developments on the economies of the DMCs. Due to delayed reaction to the economic slowdown in industrial countries, demand for and prices of products exported from the region were fairly firm until June 1974. But since then, both the prices and the quantum of exports have suffered a setback. Taking into account the recent trends in prices, the region's current deficit is estimated to increase to about \$11 billion in 1975.

20. Projections of current account deficits of the region during 1976-1980 are subject to a wide margin of uncertainty. As part of the review of its resource requirements during 1976-1980, the Bank made in early 1975 certain preliminary projections of the external resource requirements of its borrowing member countries during 1976-1980. These estimates were worked out separately for each country on the basis of the analysis of their pattern of exports and imports, likely trends in domestic production and investments, projected trends in the prices of both their principal exports and imports, and anticipated GNP and imports of the industrially advanced countries which currently account for over three-fourths of the exports of DMCs.

21. The total requirement of external resources was on this basis estimated to increase from \$5.4 billion in 1973 to \$10.5-12.0 billion in 1975 and to \$14.5-16.0 billion in 1980. Taking into consideration the past pattern of external capital inflow and the creditworthiness of the countries, estimates were also made of the sources and terms of such assistance. These are shown in Table 1.

22. Private capital inflow was projected to increase from \$1.5 billion in 1973 to \$3.5-4.0 billion in 1975 and \$4.0-4.5 billion in 1980. Most of private capital is expected to go to the countries that have in the past received such resources. These are mainly the countries in Southeast Asia, excluding the Indochina countries.

Table 1

Sources and Terms of Projected External Capital Inflow: 1975-1980

(in $ billion)

	1970-1972 Average Annual	1973 Actual	1975	1978	1980
Total External Inflow	4.0	5.4	10.5 - 12.0	13.0 - 14.5	14.5 - 16.0
Private Inflow	0.8	1.5	3.5 - 4.0	4.0 - 4.5	4.0 - 4.5
Official Inflow	3.2	3.9	7.0 - 8.0	9.0 - 10.0	10.5 - 11.5
of which					
(a) Intermediate and Market Terms	--	--	3.9 - 4.4	5.5 - 6.0	6.5 - 7.0
(b) Highly Concessional	--	--	3.1 - 3.6	3.5 - 4.0	4.0 - 4.5

23. The remaining requirements of external resources were expected to be met from official sources, both bilateral and multilateral. In dividing the official flows into different terms of assistance, it was assumed that the entire assistance required by the countries categorized as "most seriously affected" and "least developed" and Pacific Island countries (excluding Fiji) would be on highly concessional terms. The countries in the middle income ranges which would have both large and growing debt, would require assistance on terms less costly than market terms. These could be achieved through a blend of private credits on commercial terms and concessional assistance from official sources. Countries with relatively high income, projected surpluses on merchandise account, and high proportion of manufactures in their exports, were expected to secure a substantial part of their capital inflow on market terms.

24. The estimates of external resources given in Table 1 were made with 1975 serving as the base year. The more recent data for 1975 suggest that the current account deficit for this year may in fact be about $1.0 billion higher than that estimated in early 1975. This has been because of the fall in primary commodity prices and quantum of several exports below the levels expected earlier, accompanied in several cases by a higher increase in the prices of manufacturing imports than anticipated earlier. In particular

Indonesia which was expected to have a substantial surplus on current account is now anticipated to have a deficit because of the fall in the quantity of oil exports and an unanticipated large increase in imports. Based on recent trends, it would appear that the overall deficit during 1980 may well be higher by $1.5 to 2.0 billion than the level given in Table 1.

B. Scale of Lending Program

25. The needs of the borrowing member countries of the Bank for external resources in the period 1976 to 1980, as shown in Table 1, are very large. A substantial part of such resources would, as in the past, have to come through bilateral assistance, export credit and private investment, including, hopefully an increasing proportion from oil exporting countries. The multilateral institutions operating (partly or solely) in the region must also play a significant part, if they are to adequately discharge their intended functions.

1. Proposed Scale of Lending Operations 1976-1980

26. The Bank has established itself as an important financial institution for nearly all of its developing member countries. It is one of the two major sources of multilateral assistance in the region, the other being the IBRD/IDA. In the period 1971-1973, the ratio of this Bank's loans to those made by IBRD/IDA to the Bank's DMCs (excluding India) was 65 per cent. This ratio declined to 59 per cent in 1974 and 53 per cent in 1975, due to large increases in IBRD/IDA lending to the concerned DMCs. The investment requirements and external resource needs of the borrowing members, in the circumstances indicated already, will be expanding substantially and it is incumbent on the Bank to do all it can to increase the level of assistance.

27. In assessing its lending requirements for the next five years, the Bank's review of its resource needs carried out in early 1975 took the following criteria into account:

(i) Bank lending, from both ordinary and Special Funds resources, should maintain a real growth rate year by year. During 1971-1974, the real average annual rate of growth was 9.1 per cent. In 1975, with Bank lending at $675 million, the real growth would be 11.4 per cent.

(ii) The Bank should seek to maintain, and preferably improve, the level of its annual lending commitments in relation to overall official assistance to its DMCs.

(iii) The Bank should seek broadly to maintain, if not improve, its relative share of the multilateral assistance provided to its DMCs in the period.

(iv) The share of concessional lending in the Bank's total operations should be consistently increased beyond the levels so far achieved (please see paragraph 13). The Bank has an express obligation under its Charter to pay special attention to the needs of its less developed members, which are also the countries most in need of assistance on concessional terms.

28. Taking all these considerations into account, and considering also the individual needs of the Bank's borrowing countries and the assumed capacity of the Bank to mobilize both ordinary and Special Funds resources in the period, the annual level of Bank lending for the years 1976-1980 proposed in the early 1975 review is shown in Table 2.

Table 2

Proposed Level of Bank Loan Commitments: 1976-1980
(in $ million)

	1976	1977	1978	1979	1980	Total 1976-1980
Total Loan Commitments of which	825	950	1,075	1,200	1,325	5,375
(a) Ordinary Loans	525	600	675	750	825	3,375
(b) Special Funds Loans	300	350	400	450	500	2,000

2. Analysis of Proposed Commitment Program

29. The projections as shown in Table 2 were made with 1975 as a base year for which total loan commitments were taken at $700 million - $450 million as ordinary loans and $250 million as Special Funds loans. Total loan commitments during the five-year period would, on this basis, be $5,375 million, of which $3,375 million would be from ordinary capital resources and $2,000 million from Special Funds resources. While the annual growth rate would decline from 17.9 per cent in 1976 to 10.4 per cent in 1980, there would be an average annual growth rate, in current dollars, of 13.7 per cent during 1976-1980, compared with an average annual growth rate of 23.8 per cent in 1971-1975. However, in terms of constant 1974 dollars, the increase in 1976-1980 would average only 5.7 per cent - not much more than half the rate of 10.4 per cent achieved in terms of 1974 dollarsduring 1971-1975 - with real growth declining from 9.8 per cent in 1976 to only 2.7 per cent in 1980. This projected rate of real growth cannot be considered as other than a minimum target for the Bank.

30. The share of Special Funds loans in the total lending would, according to the early 1975 review and as shown in Table 2, rise from 36.4 per cent in 1976 to 37.7 per cent in 1980, averaging 37.2 per cent of total loans in 1976-1980, compared with 26.7 per cent in 1971-1975. However, the countries considered eligible for highly concessional assistance (please see paras. 32-36) account for 47 per cent of the population of DMCs. Therefore, in per capita terms they will still receive less assistance than countries which could afford to borrow on ordinary terms.

31. Based on past commitment and projected future commitments of loans on the one hand and the observed relationship between commitments and loan disbursements on the other, Table 3 shows the relative share of Bank loan disbursements (net of repayments) to the total projected requirements of official assistance required by DMCs during 1976-1980. On this basis, the share of Bank loans in the total will increase from 3.0 per cent in 1974 to about 7.4 per cent in 1980.

Table 3

Proposed Lending Program as Proportion of Official Assistance: 1975-1980[a/]

(amounts in $ Million)

	1974	1975	1976	1977	1978	1979	1980
1. Requirements of Official Assistance	5,860	7,500	8,100	8,800	9,500	10,200	11,000
a. Intermediate and market terms	--	4,200	4,700	5,200	5,700	6,200	6,700
b. Highly concessional	--	3,300	3,400	3,600	3,800	4,000	4,300
2. Disbursement of Bank Loans	174	340	397	479	595	706	817
a. Ordinary Loans	--	263	283	321	395	462	526
b. Special Funds Loans	--	78	114	157	200	244	291
3. (2) as per cent of (1)	3.0	4.5	4.9	5.4	6.3	6.9	7.
(2a) as per cent of (1a)	--	6.3	6.0	6.2	6.9	7.5	7.9
(2b) as per cent of (1b)	--	2.4	3.4	4.4	5.3	6.1	6.8

a/ Estimates of total requirements of official assistance for 1975, 1978 and 1980 represent the mid points of the range shown in Table 1. The estimates for the remaining years are interpolated.

3. Access to Special Funds

32. For the purpose of establishing criteria for access to its Special Funds resources, the Bank has relied in increasing measure on country economic considerations and now bases such access solely on these considerations. This policy was affirmed in 1974 in the following manner.

It was decided that countries that had per capita GNP in 1972 exceeding $300 will not, in principle, be eligible for Special Funds lending, although special consideration will be given to certain DMCs in the South Pacific in the application of this principle. Together with per capita GNP, a member's capacity to repay debt will be taken into account in deciding its relative priority in receiving concessional loans.

33. Applying the above criteria, the Bank's DMCs may be classified into three groups for purposes of lending during 1976-1980 (see Table 4). The first group comprises countries - arranged in the order of their per capita income - which will be given first priority in access to the Bank's Special Funds resources: Bangladesh, Afghanistan, Burma, Nepal, Sri Lanka, Laos, South Vietnam, Cambodia, Pakistan, Western Samoa, Tonga and Solomon Islands. This group includes the UN-classified least developed DMCs, and the DMCs in Indochina, and some of the Pacific island countries characterized by small and isolated economies with limited natural resources. In view of the likely constraint on the availability of concessional resources and the need to allocate these scarce resources equitably among the DMCs, those countries that wish to receive Bank financing over and above the amount of concessional resources which can reasonably be allocated to them may have to borrow additional funds from the Bank's ordinary capital resources dependant on the nature of the project, availability of alternative resources, ability to take on the servicing obligations arising out of such debt, etc.

34. The second group includes Indonesia, Korea, the Philippines and Thailand - countries which are only marginally eligible for Special Funds loans. In practice, no concessional lending to these marginally eligible countries is envisaged in the near future.

35. The third category includes countries having per capita incomes of above $300 which would be eligible for only ordinary loans. Even in this category, exceptions may be made for two Pacific island countries, namely, Papua New Guinea and Gilbert and Ellice Islands,[1/] because of some special considerations. The high per capita GNPs of these countries do not fully reflect the economic realities. There may, therefore, be a case for a blend of financing from the Bank's ordinary and Special Funds resources for these two countries.

1/ From 1 October 1975, the Ellice Islands became constitutionally separated from the Gilbert Islands. Effective from that date the Bank membership is held by the Gilbert Islands.

Table 4

Classification of DMCs[a] on the Basis of Per Capita GNP

	Per Capita GNP in US$ (1972)
I. DMCs with Per Capita GNP Not Exceeding $300	
A. Special Funds Eligible Countries	
Bangladesh	64
Afghanistan	83
Burma	89
Nepal	94
Sri Lanka	105
Laos	124
South Vietnam	129
Cambodia	131
Pakistan	132
Western Samoa	148
Tonga	186
Solomon Islands	209
B. Special Funds Marginally Eligible Countries	
Indonesia[b]	76
Thailand	217
Philippines	260
Republic of Korea	297
II. DMCs with Per Capita GNP above $300	
Papua New Guinea	312
Malaysia	426
Republic of China	488
Gilbert and Ellice Islands[c]	490
Fiji	505
Hong Kong	1,198
Singapore	1,373

a/ Excluding India.

b/ Despite its low per capita GNP, Indonesia is included in this category because of its favorable foreign reserves position.

c/ Please see footnote on page 13.

36. The quantum of lending to each DMC is largely determined by its resource (or foreign exchange) gap, expected availability of other sources of financing, the need to observe equity in the distribution of the Bank's available resources (inclusive of the deployment of Special Funds resources in eligible countries), and the country's capacity to prepare and implement projects (with the Bank's help as may be needed) suitable for Bank financing.

4. Sectoral Priorities

37. In selecting individual projects among various sectors for financing, the Bank, in addition to ensuring that the projects are of high development priority and economic viability, takes into account the following major factors:

First, the Bank will continue to re-order its lending priorities in response to the changing needs of the DMCs, as these are influenced by the international economic situation. In the light of the recent economic problems of the DMCs, in particular their balance of payments difficulties, and within the parameter of project viability on objective appraisal, emphasis will continue to be placed on assistance that will enable them to become less dependent on imports for such essential items as food, fertilizer, and fuel on the one hand, and that will promote their export capabilities through the development of indigenous resources (such as agricultural products, fisheries, livestock, forestry, and mineral exploitation) on the other. In addition, assistance will be given for agro-based industries and industries producing agricultural inputs or aiming at economically-rational import substitution or export promotion. Furthermore, particularly in less developed DMCs, emphasis will be placed on quick-yielding projects so that their impact on the balance of payments can be felt in a relatively short period.

Second, the Bank recognizes that it has to pay increasing attention to the impact of its lending on the improvement of the well-being of the majority of the people of its DMCs. It recognizes that overall economic growth is not necessarily synonymous with a general improvement in the standard of living of most of the people. Although the Bank's activities are designed to provide a general basis for improving the well-being of the people of its DMCs, more will be done in the future to secure a more equitable spread of benefits.

<u>Third</u>, and as an indication of the Bank's continuing search for more and better ways to assist its DMCs, the Bank will seek to diversify its activities further into new areas of improvement which would have considerable social impact and which would embrace a wide spectrum of society.

5. <u>Lending Policies</u>

38. In the coming years, as in the past, the Bank will continue to review its lending policies and practices, in order to better serve the needs of its DMCs. In order to broaden the scope of the Bank's assistance and to diversify its operations into those areas that hitherto may not have been appropriate for Bank financing, it may be necessary for the Bank to consider the adoption of new, or modification of present, policies. For instance, certain DMCs have raised the need for a limited degree of program lending and this has to be examined, <u>inter alia</u>, in relation to the Bank's resource position. Moreover, the Bank will seek to apply more effectively the policies already established in the Bank, such as financing a modest share of local expenditures and joint financing, as it gains more experience. In view of the continuous resource constraints of the Bank and the experience gained in the past, the Bank could play a more active role in undertaking joint financing and coordinating external aid in appropriate cases.

39. The Bank has been moving steadily towards a more systematic approach in the preparation of lending programs for the individual DMCs, and is moving towards multi-year programs rather than the single year programs used in the early years of its operations. This, when fully developed, will enable the Bank's lending operations to be more systematic and at the same time will provide a better overview of sectoral and project priorities among the DMCs.

40. Prudent lending policies and soundly-made loans have to be followed up by efficient loan administration. The Bank reorganized its Operations Department in 1974, inter alia, to achieve a better loan administration; this work has been intensified and results have begun to show. The status of each project financed by the Bank, with due attention to special problems encountered, is reported to the Board of Directors on a quarterly basis. The Bank has also instituted a system of post-evaluation of completed projects; this evaluation is done for selected projects either by the Economic Office of the Bank (which is normally not associated with the Bank's operational activities) or by outside expert bodies conversant with economic development; care has been taken to ensure that such reports are made objectively and autonomously and are placed, without any impairment, before the Board of Directors for discussion and review.

IV. CAPITAL RESOURCE SITUATION

A. Previous Action to Increase Resources

41. In order to meet its expanding operations, both under ordinary and Special Funds, the Bank has in the past taken steps to increase its ordinary capital resources and to mobilize Special Funds resources.

1. Increase in Subscribed Capital

42. When the Bank was started in 1966, it had a total subscribed capital of $965 million, which was further increased to $1,005 million by 1971.1/ Of the initial subscribed capital, half was paid-in and the other half was callable. The paid-in capital was to be paid in five equal installments, half in gold or convertible currencies (Article 6.2(a)) and half in currency of the subscribing member (Article 6.2(b)). With the substantial paid-in capital and borrowings in world capital markets which it could undertake with the backing of callable capital of its member countries having convertible currencies,2/ the Bank was able to make loans on conventional terms amounting to $533 million in the first five years of its operations.

43. By the middle of 1971, however, it became clear that the Bank needed further ordinary capital resources to maintain and expand the scale of its ordinary loans, i.e., conventional lending operations. In November 1971, the Board of Governors authorized an increase of $1,650 million1/ (150 per cent) in the Bank's authorized capital, designed to provide the Bank with sufficient funds to carry out these operations through 1975. Of this first capital replenishment, 80 per cent was payable in callable shares and 20 per cent in paid-in shares, the latter to be contributed in three equal annual installments. Of each such

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1/ In terms of U.S. dollars of the weight and fineness in effect on 31 January 1966.

2/ A covenant has been incorporated in most of the Bank's bond issues under which the Bank's outstanding borrowings are not to exceed the callable capital of members having convertible currencies.

installment, 40 per cent was to be paid in gold or convertible currency and 60 per cent in the currency of the subscribing member.

44. At the time the Board of Governors approved the first capital increase, it was also agreed that the Bank encash the demand promissory notes or similar obligations representing the national currency portion of subscriptions of the original paid-in capital of the non-regional members and Japan. The amount of these notes in 1966 dollars was $127.75 million. About two-thirds of these notes were encashed in two installments during 1972 and 1975 and the balance will be encashed in 1976.

45. In 1973 and 1975, special increases in the Bank's capital amounting to $297.5 million[1/] were approved by the Board of Governors on requests made by Korea (1973 and 1975), Indonesia (1975) and Malaysia (1975). The Federal Republic of Germany has informed the Bank of its intention to apply for a special increase in capital of $73.9 million in 1976. It is expected that Canada also would apply shortly for a special capital increase. Including all these actual and anticipated increases, the total subscribed capital would aggregate to approximately $3,050 million[1/], which would enable the Bank to continue its ordinary loan operations up to the early part of 1977.

2. Special Funds Mobilization

46. The Charter of the Bank recognizes that, to adequately meet the needs of several of its DMCs, the Bank would also have to undertake financing on concessional terms, by making loans with longer maturities, longer grace periods and lower interest rates than those established for its ordinary loans.[2/] Under its Charter, the Bank can engage in concessional financing, using resources of a Fund or Funds established for the purpose. The Charter authorizes the setting aside to such a Special Fund up to 10 per cent of the unimpaired paid-in capital paid by members in convertible currencies but otherwise prohibits the use of its ordinary capital resources for such concessional lending. The Charter also authorizes the Bank "to accept the administration of Special Funds which are designed to serve the purpose and

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1/ In terms of U.S. dollars of the weight and fineness in effect on 31 January 1966.

2/ Please refer to Appendix 2.

come within the functions of the Bank"; and the expectation has been that the "acceptance" of such Special Funds would be the main source of the Bank's concessional operations. On September 1968, the Board of Directors adopted Special Funds Rules and Regulations establishing three Special Funds, under the general title of the "Consolidated Special Funds of the Asian Development Bank" - one for technical assistance[1/] and two for concessional loans. The two Special Funds for the latter purpose were the following:

(a) an Agricultural Special Fund, the resources of which were for special operations relating to agricultural development, including forestry fisheries and agriculture-related industries (this Fund was later merged with the Multi-Purpose Special Fund); and

(b) a Multi-Purpose Special Fund, the resources of which were for financing any of the Bank's special operations.

Total contribution to these funds between 1968 to 1974 amounted to \$262.2 million. Country-wise contributions are shown in Appendix 6.

47. The contributions made to these Special Funds arose essentially from the perception by the individual donor of the Bank's role and were not part of a general framework of a resource-mobilization-program. Accordingly, there was no consistency in the amounts and timing of various contributions in relation to each other and in relation to the overall needs of the Bank in its role, particularly in the neediest countries in its membership. There was also considerable variation in the terms and conditions applicable to the various contributions. Also, these contributions, in total, were not adequate to meet the expanding needs of the smaller and less developed countries which could absorb only highly concessional funds.

1/ Total contribution to Technical Assistance Special Fund as of 30 September 1975 was \$16.8 million made by 19 countries - 14 developed and 5 developing countries.

48. Recognizing the need to mobilize substantially greater amounts of Special Funds resources, and to greatly improve the existing mechanism for mobilizing, administering and deploying such resources, the Board of Governors, after many months of study and discussions in the Bank and between the Bank and potential donors, approved in November 1973 the establishment of the Asian Development Fund (ADF) with an initial target of \$525 million 1/ expected from the Bank's 17 developed member countries. This amount was expected to meet the Bank's requirements for Special Funds loans to its neediest members in the three-year period January 1973 to December 1975. The actual commitments made totalled by the end of October 1975 \$416.1 2/ million by 13 countries. One country is in the process of legislating for participation while the remaining three countries have abstained from participation.

49. Total Special Funds resources under administration by the Bank for the purpose of concessional lending at present amount to \$720 million, at exchange rates adopted by the Bank for translation purposes in its books of accounts as of 30 June 1975. The total is held partly in the Multi-Purpose Special Fund and partly in the ADF, as follows:

	US \$ Million
Multi-Purpose Fund	
Contributed Resources	262.16
Set-Aside Resources (see para. 46)	57.43
	319.59
Asian Development Fund	400.37
	719.96

Of this amount, nearly \$492 million had been committed by way of loans by the end of 1974; leaving a balance of \$228 million for lending in 1975. As a consequence of the changes in the value of currencies constituting the Bank's Special Funds resources since the middle of the year, the actual amount available for commitments during 1975 is expected to be only about \$200 million.

1/ This was a reduction from a target of \$625 million which was the base from which the mobilization effort started.

2/ This figure is in terms of the exchange rates prevailing in November 1973. Country-wise contributions at exchange rates adopted by the Bank for translation purposes in its books of accounts as of 30 June 1975 are shown in Appendix 7. Please also see paragraph 51.

50. The Bank's operational program, established initially on the basis of expectations relating to the total amount of resources inflow under the initial ADF mobilization, as well as on the assumption that the entire inflow would occur before the end of 1975, envisaged $250 million in Special Funds loans in 1975. In operational terms, taking into account projects already approved, projects recently submitted (or under submission) to the Board of Directors and projects at very advanced stages of processing, the Bank could readily fulfill this program. As indicated above, however, the resources available in 1975 will not be sufficient to permit new loan commitments of this magnitude. Since the Bank cannot make Special Funds loan commitments in excess of available Special Funds resources, the Bank will have to restrict new loan commitments for 1975 to a maximum level of around $200 million and to hold other high priority projects back till further resources are received.

51. The only further resources expected under the initial ADF mobilization arrangements are the balance of the U.S. contribution ($50 million), and the total contribution of Italy ($17.9 million). While the timing of these contributions cannot be determined, it is hoped that they will be received early in 1976.

3. Relationship with OPEC Countries

52. The position of the Bank in relation to its seeking resources from OPEC countries needs to be mentioned here. The Bank has in its present membership only one member of the OPEC group, namely, Indonesia; Indonesia, in view of her own stage of development and need for funds for capital investment, is in no position to be a contributor to the Bank. Thus the ADB is the only one of the various international financial institutions to have no capital-surplus OPEC country in its membership. The question naturally arises as to what the Bank could, and should, do to attract resources from these countries. Certain factors that emerged during the time that the Bank was in the process of being established, i.e., before December 1966, have historically led to a position where Asian countries in the OPEC group are not members of the Bank; contacts with them at high levels have led the Bank to believe that the question of at least some of them joining the Bank is an issue which the concerned countries will take quite some time to consider. Therefore, for the present, the Bank is cultivating its relationship with these countries mainly in three aspects.

Firstly, it has borrowed, and will continue to borrow, in these OPEC countries; secondly, it has entered into various joint financing operations with financial institutions of the Asian OPEC countries and has more such joint projects under consideration; and thirdly, it is seeking to keep the Governments and the financial institutions of these countries in close touch with the Bank's activities and progress. The Bank fully recognizes the need to intensify its relationship with these countries and will make every effort in this direction.

B. Proposals for Increase in Capital and Special Resources

1. Ordinary Capital Resources

53. As mentioned earlier, with the current capitalization, it would be possible for the Bank to finance its lending operations up to early 1977. The President of the Bank has submitted to its Board of Directors on 10 November 1975 proposals for increase in the capital of the Bank, so that ordinary operations can be maintained beyond that period. Until the Board of Directors discusses the proposals and processes the matter with the Board of Governors at such time as it may deem appropriate, the outline of possible action given in this section is tentative and provisional only.

54. The President's proposals envisage an increase of 135 per cent in the authorized capital of the Bank to become effective in the middle of 1977. The subscribed capital as it is expected to be at that time (inclusive of the special increases mentioned in para. 45) would, with the new subscription sought in the President's proposals, rise to $8,651.1 million (or about $7,171.3 million in 1966 dollars). With this increase, the President expects that the Bank would be able to carry on its ordinary operations through 1981. The proposals of the President have been made on the following main assumptions:

(i) Ordinary loans are estimated to be stepped up from the level of $475 million for 1975 by $75 million annually reaching a level of $850 million in 1980 and $925 million in 1981.

(ii) Taking into account the larger step-up in actual disbursement than originally estimated for 1975, loan disbursements during 1976-1981 have been taken to be higher than the projections made in early 1975.

(iii) The projections are based on the current lending rate of 8-3/4 per cent (inclusive of the commission of 1 per cent). Any upward adjustment in the lending rate will depend upon the cost of new borrowing which will be a major source for the Bank's ordinary loans in the future. The rate of return on investment is estimated to average 7.75 per cent from 1976 to 1981.

(iv) Following the existing policy, the level of liquid resources to be held by the Bank in any year are taken to be equal to gross disbursement estimated for the next two years.

(v) Interest coverage ratio,1/ which is a measure of Bank's ability to meet its expenses arising from borrowing, would not fall below 1.25 per cent.

(vi) The Bank would need to, and would, follow a sound policy of building up reserves, inter alia, to maintain its credit standing in the capital markets of the world.

55. Based on these assumptions, it is estimated that the Bank's income position will remain satisfactory after 1978 only if cost-free funds become available to the Bank. A method of securing such funds, which has been proposed along with the proposals for a capital increase, would be for the Bank to encash the Art. 6.2(b) payments to the Bank in demand promissory notes or similar obligations (please see Paras. 41 to 43) in respect of the first general and subsequent special increases in capital by the non-regional member countries, Australia and Japan. A program for encashment of such notes in three equal installments

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1/ Net income (including commission) plus interest expenses on funded debt divided by interest expenses on funded debt.

in 1977-1979 would yield cost-free funds to the Bank amounting to $170.5 million.

56. An additional method of securing cost-free funds would be to arrange that a part of the newly subscribed capital be in the form of paid-in capital, a part of which would be paid in convertible currencies and a part in the currency of the member countries. The President has proposed to the Board of Directors that 15 per cent of the proposed increase in the subscribed capital may be paid-in, of which 40 per cent may be paid in gold or convertible currency and 60 per cent in member's currency.

57. These steps would, in the President's view, result in the maintenance of an adequate interest coverage ratio and of reserves at a reasonable level in the next five years after the proposed increase in 1977; it would also enable the Bank to usefully contribute to the development of those of its member countries that borrow ordinary resources from the Bank.

2. Replenishment of Asian Development Fund

58. The Bank's initial tentative proposal to potential donors concerning the replenishment of the ADF was that the Bank should seek contributions from developed member countries in a total amount of $1,000 million, to cover the requirements of its projected program of concessional loans in the three-year period 1976-1978. This program was based on the assumption that the loan commitments under Special Funds would increase from $250 million in 1975 to $300 million in 1976, $350 million in 1977 and $400 million in 1978, giving a total of $1,050 million during the period 1976-1978.

59. Potential donors discussed the Bank's proposal in three meetings with representatives of the Bank: in April 1975 in Manila; in August 1975 in Washington, D.C.; and in September 1975 in Brussels.

60. On the basis of these discussions, it became apparent that the target of $1,000 million was beyond reach. At the Washington meeting, which was a preparatory session for the meeting in Brussels, potential donors were requested to consider a replenishment target of $830 million to be allocated among all 17 developed member countries of the Bank as shown in Appendix 8.

61. At the Brussels meeting which was attended by the representatives of 15 developed member countries,[1] representatives of 11 countries were able to indicate the intention of their Governments, subject to any necessary legislative approval being obtained, to make the respective contributions. Representatives of three Governments were not in a position to indicate whether their Governments could participate in the replenishment, pending further internal consultations. The representative of one Government, while confirming his Government's intention to participate, could not give, at that time, any commitment on the amount of the contribution.

62. Recently, and pursuant to the discussions at Brussels in September, the Board of Directors approved a Resolution for submission to the Board of Governors together with a covering Report. The Governors are expected to vote on the Resolution on or before 3 December 1975. Under this Resolution, the participating Governments would be obligated to pay their contributions in three installments, at annual intervals beginning in 1976. Where for budgetary reasons certain Governments may have difficulty in meeting their deadline, provision has been included in the Resolution for postponement of the payment in such cases (though without prejudice to commitment to pay) by up to six months.

63. The Resolution provides for a multilateral replenishment of the Asian Development Fund in a total amount of $830 million. If fully realized, this amount, together with the resources expected under the initial mobilization, would enable the Bank to provide concessional loans over the three-year period of about $900 million with an annual commitment of $250 million in 1976, $300 million in 1977 and $350 million in 1978. This would represent an annual increase of $50 million from the reduced commitment of $200 million now expected for 1975, a level of increase that can be regarded only as the minimum level consistent with the Bank's role in the Bank's neediest and least developed borrowing countries.

1/ France and Sweden which did not participate in the initial ADF mobilization were not represented; Austria, which was also a non-participant originally, did participate.

64. Three factors relating to the Resolution submitted to the Governors should be noted:

(a) at the meeting of potential donors held in Brussels in September 1975, certain donors were not able to indicate whether they could participate in the replenishment as proposed, pending further internal consultations;

(b) the Resolution provides for any potential donor country to seek a change, before the Bank's Ninth Annual Meeting of its Board of Governors in April 1976, in the total contribution expected from it; and

(c) the Resolution provides that, where the legislative process of a country so necessitates, payment of installments of its contribution may be made subject to appropriate legislative approval.

The Bank earnestly hopes that the above factors will not lead to any significant revision downwards in the total quantum of contributions sought, and that the replenishment effort will succeed in yielding the expected $830 million within the three-year period, so that the Bank's program of concessional lending operations in its neediest countries in each of the years 1976 to 1978 can proceed substantially as proposed.

Appendix 1

Membership and Subscriptions to Capital Stock
September 30, 1975

Member	Subscriptions (US$'000) 1966 $	Current $
Regional		
Afghanistan	11,950	14,416
Australia	212,500	256,349
Bangladesh	37,500	45,238
Burma	20,000	24,127
Cambodia	8,750	10,556
China, Republic of	40,000	48,254
Fiji	2,500	3,016
Gilbert and Ellice Islands	150	181
Hong Kong	20,000	24,127
India	232,500	280,476
Indonesia	200,000	241,270
Japan	500,000	603,175
Korea, Republic of	185,000	223,175
Laos	1,050	1,267
Malaysia	100,000	120,635
Nepal	5,400	6,514
New Zealand	56,400	68,038
Pakistan	80,000	96,508
Papua New Guinea	3,450	4,162
Philippines	87,500	105,556
Singapore	12,500	15,079
Solomon Islands	250	302
South Vietnam	30,000	36,191
Sri Lanka	21,300	25,695
Thailand	50,000	60,318
Tonga	150	181
Western Samoa 1/	60	72
Total Regional	$1,918,910	$2,314,877

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Non-Regional

Austria	12,500	15,079
Belgium	12,500	15,079
Canada	62,500	75,397
Denmark	12,500	15,079
Finland1/	5,000	6,032
France	62,500	75,397
Germany, Federal Republic of	85,000	102,540
Italy	50,000	60,318
Netherlands	27,500	33,175
Norway	12,500	15,079
Sweden1/	5,000	6,032
Switzerland	12,500	15,079
United Kingdom	75,000	90,476
United States2/	300,000	361,905
Total Non-Regional	$735,000	$886,667
GRAND TOTAL	$2,653,910	$3,201,544

1/ As of 30 September 1975, these members have not yet subscribed to the additional shares of the increase in capital stock authorized by Resolution No. 46 of the Board of Governors. Such additional shares are equal to 150 per cent of each such member's existing subscribed shares.

2/ As of 30 September 1975, the United States has subscribed to 10,000 shares out of the 30,000 shares to which it is entitled to subscribe under Resolution No. 46 of the Board of Governors.

Agreement Establishing the Asian Development Bank

Article 19

SPECIAL FUNDS

1. The Bank may:

   (i) set aside, by a vote of two-thirds of the total number of Governors, representing at least three-fourths of the total voting power of the members, not more than ten (10) per cent each of the portion of the unimpaired paid-in capital of the Bank paid by members pursuant to paragraph 2 (a) of Article 6 and of the portion thereof paid pursuant to paragraph 2 (b) of Article 6, and establish therewith one or more Special Funds; and

   (ii) accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank.

2. Special Funds established by the Bank pursuant to paragraph 1 (i) of this Article may be used to guarantee or make loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those established by the Bank for its ordinary operations. Such Funds may also be used on such other terms and conditions, not inconsistent with the applicable provisions of this Agreement nor with the character of such Funds as revolving funds, as the Bank in establishing such Funds may direct.

3. Special Funds accepted by the Bank under paragraph 1 (ii) of this Article may be used in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the agreement relating to such Funds.

4. The Bank shall adopt such special rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, excepting those provisions expressly applicable only to ordinary operations of the Bank.

Appendix 3

LOAN APPROVALS BY COUNTRY AND SOURCES OF FUNDS: 1968 - 1975
(amounts in $ Million)

	1968 - 1973			1974			1975			1968 - 1975		
	Ordinary Capital Resources	Special Fund Resources	TOTAL	Ordinary Capital Resources	Special Fund Resources	TOTAL	Ordinary Capital Resources	Special Fund Resources	TOTAL	Ordinary Capital Resources	Special Fund Resouces	TOTAL
Afghanistan	-	20.1	20.1	-	14.0	14.0	-	-	-	-	34.1	34.1
Bangladesh	11.4	21.7	33.1	-	52.1	52.1	-	72.2	72.2	11.4	145.9	157.3
Burma	6.6	12.5	19.1	-	16.3	16.3	-	31.4	31.4	6.6	60.2	66.8
Cambodia	-	1.7	1.7	-	-	-	-	-	-	-	1.7	1.7
China, Rep. of	100.0	-	100.0	-	-	-	-	-	-	100.0	-	100.0
Fiji	6.7	-	6.7	-	-	-	-	-	-	6.7	-	6.7
Hong Kong	21.5	-	21.5	-	-	-	20.0	--	20.0	41.5	-	41.5
Indonesia	11.8	99.1	110.9	63.9	14.2	78.1	78.3	-	78.3	153.9	113.3	267.2
Korea, Rep. of	243.1	3.7	246.8	89.5	-	89.5	101.5	-	101.5	434.0	3.7	437.7
Laos	-	5.7	5.7	-	6.0	6.0	-	-	-	-	11.7	11.7
Malaysia	135.6	3.3	138.9	65.4	-	65.4	47.6	-	47.6	248.6	3.3	251.9
Nepal	2.0	35.7	37.7	-	3.0	3.0	-	16.8	16.8	2.0	55.5	57.5
Pakistan	106.0	32.1	138.1	66.2	34.0	100.2	58.0	34.0	92.0	230.2	100.0	330.2
Papua New Guinea	-	14.3	14.3	-	-	-	-	12.3	12.3	-	26.6	26.6
Philippines	174.4	9.5	183.9	52.3	5.8	58.1	106.0	-	106.0	332.6	15.3	347.9
Singapore	101.4	3.0	104.4	-	-	-	-	-	-	101.4	3.0	104.4
South Viet-Nam	3.9	20.3	24.2	-	20.4	20.4	-	-	-	3.9	40.7	44.6
Sri Lanka	13.1	25.2	38.3	1.0	1.5	2.5	-	30.0	30.0	14.1	56.7	70.8
Thailand	118.9	3.1	122.0	36.6	5.0	41.6	77.7	-	77.7	233.2	8.1	241.3
Tonga	-	1.3	1.3	-	-	-	-	-	-	-	1.3	1.3
Western Samoa	-	7.6	7.6	-	0.6	0.6	1.4	1.0	2.4	1.4	9.2	10.6
TOTAL	1,056.3	319.7	1 376.0	374.8	172.9	547.7	490.5	197.7	688.1	1,921.5	690.4	2,612.8

Sectoral Distribution of Loans: 1968 - 1975
(in US $ Million)

	1968 - 1973		1974		1975		1968 - 1975	
	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture	133.9	9.7	114.3	20.9	98.7	14.3	346.9	13.3
Agro-Industry	75.2	5.5	19.7	3.6	147.1	21.4	242.0	9.3
Industry (including Development Bank)	252.6	18.4	186.9	34.1	123.5	17.9	563.0	21.6
Public Utilities	572.3	41.6	145.4	26.5	222.7	32.4	940.4	36.0
Transport and Communications	328.9	23.9	81.6	14.9	81.6	11.9	492.0	18.8
Education	13.1	1.0	-	-	14.5	2.1	27.6	1.0
GRAND TOTAL	1,376.0	100.0	547.8	100.0	688.1	100.0	2,611.8	100.0

Loan Commitments: 1971-1975
(in $ million)

	1971	1972	1973	1974	1975	1971-75
I. As Projected in 1971	280	360	440	520	600	2,200
Ordinary	200	225	250	275	300	1,250
Special Funds	80	135	190	245	300	950
II. Actual Loan Commitments 1/						
A. In Current Dollars	254	316	421	548	675	2,214
Ordinary	203	222	303	375	475	1,578
Special Funds	51	94	118	173	200	636
B. In Constant Dollars of 1971	254	287	317	362	404	1,624
Ordinary	203	202	228	248	284	1,165
Special Funds	51	85	89	114	120	459

1/ 1975 figures are based on the revised operational program for the current year and are shown in round figures.

Members' Contribution to Multi-Purpose Special Fund
(as of October 1975)

		Local Currency	US$ Equivalent 1/
Australia	A$	8,705,357.14	11,784,444
Belgium	BFr	100,000,000	2,884,962
Canada	C$	27,027,000	26,244,902
Denmark	DKr	15,000,000	2,757,353
Germany	DM	66,800,000	28,735,261
Italy	Lit	1,028,961,000	1,631,394
Japan	¥	48,000,000,000	165,765,890
Netherlands	f	18,728,350	7,821,403
New Zealand	NZ$	822,370	1,074,920
United Kingdom	£	6,000,000	13,456,204
Total			$262,156,733

1/ At exchange rates adopted by the Bank for translation purposes in its books of account as of 30 June 1975.

Member's Contribution to Asian Development Fund
(as of October 1975)

		Local Currency	US$ Equivalent 1/
Australia	A$	18,151,344	24,571,478
Belgium	BFr	174,352,500	5,030,003
Canada	C$	9,989,000	9,699,942
Denmark	DKr	24,467,000	4,497,610
Finland	FMk	13,873,800	3,907,012
Germany	DM	83,096,700	35,745,590
Japan	¥	46,897,920,000	161,959,905
Netherlands	f	28,204,665	11,778,937
New Zealand	NZ$	4,058,774	5,305,226
Norway	NKr	22,120,000	4,500,509
Switzerland	SwF	20,000,000	7,874,016
United Kingdom	£	11,373,505	25,507,366
United States	US$		100,000,000
Total			$400,377,594

1/ At exchange rate adopted by the Bank for translation purposes in its books of account as of 30 June 1975.

Appendix 8

Replenishment of Resources of the Asian Development Fund Proposed Contributions During 1976-78

	Amount in National Currency		Equivalent in United States Dollars[1/]
Australia	A$	30,730,586	41,600,000
Austria	S	113,974,200	6,900,000
Belgium	BFr	253,036,250	7,300,000
Canada	C$	43,663,520	42,400,000
Denmark	DKr	35,904,000	6,600,000
Finland	FMk	20,595,800	5,800,000
France	FF	169,633,496	42,400,000
Germany	DM	123,439,977	53,100,000
Italy	Lit	19,426,330,000	30,800,000
Japan	¥	78,935,419,000	272,600,000
Netherlands	f	30,889,050	12,900,000
New Zealand	NZ$	7,038,478	9,200,000
Norway	NKr	29,981,500	6,100,000
Sweden	SKr	41,766,120	10,600,000
Switzerland	SwF	21,082,000	8,300,000
United Kingdom	Ł	18,905,778	42,400,000
United States	US$	231,000,000	231,000,000
			830,000,000

1/ At the exchange rate adopted by the Bank for translation purposes in its books of account for the quarter ended 30 September 1975.

ANNEX E

EUROPEAN INVESTMENT BANK

Research Department

European Investment Bank Activity in the Developing Countries: History and Outlook

/ This English translation from the French original should be regarded as provisional pending final review by the drafting institution. /

Luxembourg
18 November 1975

EUROPEAN INVESTMENT BANK ACTIVITY IN THE DEVELOPING COUNTRIES: HISTORY AND OUTLOOK

I. Institutional character of the EIB: field of activity

1. Main features

The European Investment Bank was set up under the Treaty of Rome, which established the European Economic Community, to contribute to the balanced development of the Common Market. For this purpose, it grants long-term loans and gives its guarantee for financing projects which favour the advancement of less developed regions, the modernisation or conversion of commercial undertakings, the creation of new activities called for by the progressive establishment of the Common Market, and projects which serve the interests of the Community as a whole.

The EIB operates on a non-profit-making basis, although its interest rates need to be set at levels allowing it to meet its commitments, cover operating costs, and build up all necessary reserves and provisions. The Bank itself is not therefore in a position to offer reductions on its rates, although these can attract subsidies from Member States or other competent authorities.

The members of the EIB are the Member States of the Community, and its Statute is laid down in a Protocol annexed to the Treaty of Rome, as modified by Protocol No 1 to the Act of Accession of the United Kingdom, Denmark and Ireland.

The administration of the EIB is geared to providing it with the degree of autonomy needed to carry out its functions. There is a Board of Governors, a Board of Directors and a Management Committee responsible for the day-to-day business of the Bank, for preparing the decisions of the Board of Directors and seeing that these decisions are implemented. An Audit Committee appointed by the Board of Governors verifies that the operations of the Bank have been conducted and its books kept in a proper manner.

It is laid down in the Statute of the EIB that the Bank shall grant its loans in the European territories of the Member States, although by way of derogation authorised unanimously by the Board of Governors, it may also part-finance investment projects to be implemented outside the European territories of the Member States. This provision was for instance applied when association agreements involving financial aid or financial protocols as such were concluded between the Community and various developing countries. In each such case, the Bank was authorised by its Board of Governors to extend its lending operations to the countries concerned up to a certain predetermined limit, set both for its own resources (Greece, AASMM, Turkey), and for special resources provided by the Member States (Turkey) and the European Development Fund (AASMM).

A further extension of these operations outside the Community is now in prospect, in support of countries in Africa, the Caribbean and the Pacific, under the terms of the Lomé Convention which is now in the course of being ratified, and in support of Portugal, as part of the assistance which the Community is preparing to convey to that country.

In most cases, loans from the Bank's own resources to the developing countries with which the Community has signed association or cooperation agreements attract interest rate subsidies drawn from the resources either of the Member States or of the European Development Fund, together with guarantees by the Member States. The latter may be blanket guarantees (Greece, Turkey and Portugal) or partial guarantees (AASMM, ACP). The role of the Bank is not confined to financing operations from its own resources. It assists with the granting and/or management of loans on special conditions using the resources of Member States or the European Development Fund. These are designed to furnish Community aid in a form more appropriate to the often difficult economic and financial situation of these countries, and to make the Bank's own operations more effective through the provision of additional resources on favourable terms. These special operations are not entered on the EIB balance sheet, but are accounted for under a "Special Section" set up in 1963 by the Board of Governors.

EIB activity in the developing countries is coordinated with that of Member States and the Commission, and whenever appropriate, there is cooperation with the international, regional or national development financing institutions such as the World Bank. The IBRD and the EIB have for instance jointly financed three major projects in Turkey, and five projects in the AASMM.

2. General activities

During the period 1958-1975 (up to 31 October), the Bank signed a total of 626 finance contracts for an aggregate amount of 5 470.4 million u.a. (1), providing part-finance for investments totalling around 26 000m u.a.

There has been a marked rise in total annual lending in recent years. From less than 100m u.a. during the first five years, this rose to slightly over the 100 million mark in 1964 and 1965 to reach around 200m u.a. in 1966-68. Over 300m u.a. were disbursed in 1969 and 1970, around 500m u.a. in 1971 and 1972, more than 800m u.a. in 1973, and close on 1 000m u.a. in 1974.

Financing operations of direct benefit to the Community amounted to 4 760m u.a. or 87% of the aggregate total, while of operations in associated countries, 4.9% (265.8m u.a.) were based on the Bank's own resources, and 8.1% (444.6m u.a.) on budgetary funds managed under the Special Section.

II. European Investment Bank activity in the developing countries.

1. 17 African states, Madagascar and Mauritius (the AASMM) and 13 overseas countries, territories and departments (OCTD) (2)

EIB operations in the AASMM are sanctioned by two Conventions signed at Yaoundé, the first covering the period 1964-1969 and the second, 1970-1975. In the case of the OCTD, provisions similar to those contained in the Conventions were adopted by decision of the Council of the European Communities. Projects

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(1) The rates used by the EIB for statistical purposes, at 30.9.75, for converting other currencies into units of account were as follows: 1 u.a. = DM 3.07061; Ffrs 5.24197; £ 0.564620; £Ir 0.564482; Lit 793.118; B/L frs 46.1746; Fl 3.15973; Dkr 7.17554; US $ 1.15451.

(2) List of countries in the AASMM and OCTD:

1. AASMM: Burundi, Cameroon, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius (only since 1 June 1973, when its association with the EEC came into effect), Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta and Zaire.

2. OCTD: - Netherlands Antilles and Surinam
- Comoro Islands, French Polynesia, New Caledonia and Dependencies, Saint Pierre and Miquelon, Southern and Antarctic Territories, Territory of the Afars and Issas, Wallis and Futuna Islands
- French Guiana and Reunion, Guadeloupe, Martinique.

eligible for EIB financing fall mostly under the heading of capital investments in the production and economic infrastructure sectors of the Associated States and, especially, investments serving to promote these countries' industrialisation and agricultural development (see Art. 19 of the Yaoundé II Convention). Like all projects financed with Community aid, they must offer solid economic benefits and help to "promote the economic and social development of the Associated States, by supplementing the efforts achieved by those States" (Art 17 ibid).

In pursuit of these objectives, under the provisions of the Yaoundé II Convention and the Decision of the Council of the European Communities, the EIB mounts supporting operations of three kinds:

(a) Ordinary loans from its own resources, which are for the most part reserved for projects showing a rate of return sufficient to ensure servicing of the debt.

The rate of interest on ordinary loans depends on the terms and conditions on which the EIB raises its borrowings on the financial markets. However, ordinary loans may qualify for interest rate subsidies, granted out of the resources of the European Development Fund (EDF). Such subsidies normally fall between 2% and 4%. The term of ordinary loans depends upon the normal depreciation period of the capital equipment for which finance is advanced. With industrial projects, this is usually about 10 to 12 years, while with infrastructure projects it may in principle run to as much as 20 years.

(b) Loans on special conditions from EDF resources, granted when the borrowing capacity of the State concerned, or the rate of return on the project, is such as to warrant or demand more favourable terms.

These special loans are granted by the Commission and managed by the EIB under the "Special Section". The conditions offered are highly favourable: terms of up to 40 years, grace periods of up to 10 years, and interest rates in practice of between 1% and 3%.

(c) European Community contributions to the formation of firms' risk capital, in particular by the acquisition of stakes in their capital.

Such contributions are drawn from the resources of the EDF in the name of, and with the risk borne by the Community with the EIB managing operations. They must take the form of temporary, minority holdings.

Scheduled loan aid

The two Yaoundé Conventions and the related EEC Council Decisions on the OCTD provided for a certain amount of loan aid, in addition to the major grant aid to be channelled from EDF resources (680m u.a. for the AASMM, and 814.5m u.a. for the OCTD). Scheduled loan aid was as follows:

Type of aid	Yaoundé I Convention and Decision (1964-1969) m u.a.		Yaoundé II Convention and Decision (1970-1975) m u.a.	
	AASMM	OCTD	AASMM	OCTD
EIB ordinary loans (maximum)	64	6	90	10
Loans on special conditions and contributions to the formation of risk capital (1) from EDF resources (2)	46	4	80.5	10
TOTAL	110	10	170.5	20

(1) There was no provision for contributions to the formation of risk capital in the Yaoundé I Convention.

(2) Decided by the EEC Commission and managed by the EIB.

EIB activity in the AASMM

At 31 October 1975, the aggregate total of loans and contributions to risk capital was 228.9m u.a. A country-by-country breakdown of operations (see Annex, Table 1) shows that twelve of the AASMM received loan aid out of EIB or EDF resources, while a sectoral breakdown (Table 2) reveals a heavy bias in favour of support for industrial activities in the broadest sense. Almost 63% of the total advanced, and 74% of loans from the EIB's own resources, provided support for the industrial development of the AASMM. Within industry, mining and quarrying attracted the largest sums, followed by the agro-industrial and food sector, and then manufacturing industry as such, headed by textiles.

The majority of the industrial projects that received an ordinary loan from the Bank were connected with import-substitution industries, although in terms of amounts, industries processing local resources for export - usually at a higher unit cost - took up 73% of the total lent for industrial projects located in the AASMM. Most of the projects concerned were promoted by semi-public companies, often involving a large government holding on the part of the Associated State in question.

2. Turkey

Between 1965 and 1969, under the first Financial Protocol annexed to the Association Agreement, Turkey received 36 loans from the EIB granted on favourable terms and drawn from the budgetary resources of the Member States for a total amount of 175m u.a.

A second Financial Protocol was signed on 30 November 1970 and came into effect on 1 January 1973. For the period up to May 1976, this provided for EIB operations in Turkey of two kinds:

(i) loans on favourable terms under mandate from the Member States and using funds provided by them, up to a total of 242m u.a. (1);

(ii) ordinary loans using the EIB's own resources, up to 25m u.a., to be offered on terms and conditions identical to those applying to ordinary EIB operations in Member Countries at the material time.

Under these financial protocols, projects are eligible for financing in the form of loans on favourable terms where they:

(a) "help to increase the productivity of the Turkish economy and, in particular, aim to provide Turkey with a better economic infrastructure, higher agricultural output, and modern, efficiently-run public or private undertakings in the industrial or service sectors";

(b) "are part of the Turkish Development Plan in force at the relevant date.

Special consideration shall be given to projects which could serve to improve the Turkish balance of payments".

Ordinary loans are granted for industrial projects in the private sector.

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(1) The original amount was 195m u.a. This was raised to 242m u.a. under the Supplementary Protocol signed on 30 June 1973 following enlargement of the Community; this Protocol is now in the course of being ratified.

Conditions governing the granting of loans

These were determined with due regard to the aims of the protocols and the characteristics of Turkey's economy, particularly its balance of payments situation.

Loans on favourable terms may be granted to finance either projects showing an indirect or long-term return (infrastructure) or projects showing a normal return (industry, tourism) to be implemented by the Turkish Government, local authorities or private or state economic enterprises.

Loans on favourable terms granted to the Turkish Government run for a period of up to 30 years, with a maximum grace period of 8 years, and a rate of interest of not less than 2.5% for projects showing an indirect or long-term return and 4.5% for projects showing a normal return.

Loans for financing infrastructure projects are either channelled by the Turkish Government to its various agencies or are on-lent to state economic enterprises.

In order to avoid discrimination as regards promoters when considering the terms and conditions generally applicable to loans in Turkey, the Bank decided to adopt a two-tier procedure, applying mainly to projects showing a normal return (industry and tourism). In the first place, the Bank grants the loans to the Turkish Government on favourable terms; the Government then on-lends the funds to the promoters (state economic or private enterprises), either directly, or, in most cases, through the intermediary of a Turkish financing institution. The terms and conditions applicable to the promoters are fixed in agreement with the Bank: the rate of interest is fixed with regard to Turkish regulations governing long-term bank loans; the term of the loan is decided according to the nature of the project. All loans to private industry are handled by TSKB (1) or more recently, by SYKB (2).

EIB loans on-lent by the Government or intermediary institutions to the final beneficiaries may carry a term lower than that granted by the Bank to the Turkish Government. In such cases, sums reimbursed in local currency by the final beneficiaries or intermediary institutions and not required immediately

(1) Turkish Industrial Development Bank.

(2) Industrial Investment and Credit Bank.

for servicing EIB loans are accumulated in a special account opened by the Government with the Central Bank. These sums may be re-utilised, with the EIB's agreement, to provide finance in Turkish pounds for other projects under the revolving fund procedure.

Ordinary loans from the Bank's own resources are granted solely to finance projects showing a normal return that are implemented by private undertakings. They are granted to the Government which passes the funds on to the final beneficiaries via TSKB or SYKB. The term of the loan, normally 8 to 12 years, with a 2 to 3-year grace period, is determined according to the nature of the project and must be approved by the EIB. The rate of interest payable by the Government is that applied by the EIB in its ordinary operations, whereas the rate charged to the final beneficiaries is that in force in Turkey for long-term loans.

The EIB adopts a more flexible procedure for advancing funds, drawn either from its own resources or from the budgetary resources of Member States, to small and medium-scale ventures in the industrial sector, by granting "global loans" to specialist institutions in Turkey, which make allocations from the proceeds to support small or medium-scale projects. Sub-loans are submitted for approval to the Bank, whose decision is based on a simplified appraisal.

From 1965 to the end of October 1975 the EIB granted 53 loans in Turkey for a total of 366.9m u.a. This accounted for around 11% of government aid to Turkey, contributed towards financing capital investment totalling 2 500m u.a. and led to the direct creation of 21 000 jobs. In terms of sectoral breakdown 62.5% of Bank lending went to infrastructure projects and 37.5% to projects carried out by productive enterprise, industry mainly (see Annex, Table 3).

3. Greece

The Association Agreement between the Community and Greece which came into effect at the end of 1962 makes provision in an annexed protocol for financial assistance from the Community in the form of EIB loans in support of investment projects in Greece.

Initially fixed at US \$ 50m, the ceiling on overall lending operations by the Bank was subsequently raised to \$ 125m. In its Internal Agreement, governing the application of the Financial Protocol, the Community stipulated that the EIB should operate under a credit mandate from the Member States, who would themselves stand guarantors for all commitments entered into as the result of loan contracts signed in pursuance of this mandate.

The EIB's loans to Greece are drawn from its own resources and offered on its normal terms and conditions, although provision was made for interest rate subsidies on loans for particular projects in priority sectors showing a long-term or indirect return. Such subsidies, financed by Member States at a rate of 3% per annum, may however only be offered in respect of at most two-thirds of the financial aid accorded.

EIB operations were suspended in October 1967, as a result of the freezing of relations between the Community and Greece, and reactivated at the end of 1974 at the request of the Community authorities, in respect of the uncommitted US \$ 56m balance of the finance specified in the original Protocol. This balance should, to all intents and purposes, have been committed by the end of 1975. Table 4 in the Annex gives a sectoral breakdown of loans granted.

III. Outlook for future EIB activity in developing countries

Future widening of EIB operations in support of developing countries will depend on four main factors:

(i) Existing agreements under negotiation or in the course of renewal between the EEC and various developing countries.

(ii) Possible developments in Community policy involving the extension of financial cooperation to other developing countries.

(iii) Reconciliation of the EIB's multiple functions, in particular by balancing those which it performs inside the Community under Article 130 of the Treaty of Rome, with those which have progressively devolved upon it outside the Community.

(iv) Raising of adequate funds.

1. The Lomé Convention signed with 46 African, Caribbean and Pacific countries

The Bank is already committed, under the terms of the Lomé Convention once it comes into effect, to granting loans from its own resources up to a maximum of 390m u.a. in the African, Caribbean and Pacific countries (the ACP) which have signed this Convention. In the period up to 1 March 1980, this makes provision for financial aid from the Community totalling 3 390m u.a. The loans from the Bank will in general attract an interest rate subsidy of three points, to be serviced from a provision of 100m u.a. out of the grant aid specified for the European Development Fund (EDF). Such subsidies will not however be made available for loans in support of investments in the petroleum sector, regardless of location, nor for mining projects, unless the latter are located in the least developed ACP countries, as listed in Article 48 of the Convention.

The Bank has also been empowered, in the name of, and with the risks borne by the Community, to undertake risk capital operations, for which a further 95m u.a. have been earmarked from EDF resources. Such operations will be designed to consolidate the equity position of commercial undertakings, either through the acquisition of direct holdings for subsequent transfer to nationals of, or companies domiciled in the ACP state in question, or through the advance to that state of funds to enable it to acquire such a holding. Alternatively, firms may be given support in the form of quasi-capital assistance. This can be furnished either as "subordinated" loans, over which repayment of all priority borrowings takes precedence, or as "conditional" loans, which become liable for repayment only when projects have demonstrably emerged from their initial phase with its attendant risks, or have achieved a certain level of profitability.

In view of the fact that provision has been made for a considerable volume of aid in the form of grants and loans on special conditions from the resources of the EDF, managed by the Commission of the European Communities, a certain amount of sectoral and geographical demarcation of responsibilities has been agreed between the Commission and the Bank.

Productive investment projects in the sectors of industry, mining and tourism will be submitted to the EIB, which will appraise these with a view to priority financing in the form of loans from its own resources and risk capital. Such an approach does not, however, exclude the Bank from making loans for viable infrastructure projects in countries where such operations might seem appropriate.

As a general rule, the granting of loans from EIB resources will be conditioned by the economic and financial situation of the ACP countries concerned, and by factors guaranteeing the servicing of loan aid. This could well mean that lending operations will be confined to a fairly limited number of countries, whose economic and financial situation is comparatively healthy.

Direct aid to commercial undertakings in the form of risk capital will be offered for industrial, mining and tourism projects, not only in the more affluent countries (supplementing a loan from the Bank's own resources), but also in those countries whose economic and financial circumstances do not allow of a loan from EIB resources as such. Risk capital in this form will be used to reinforce the equity base of promoters in need, or to support projects involving an element of risk that warrants finance of this kind.

2 Turkey

The situation at the end of this year is likely to show a balance for commitment before May 1976 of only 12m u.a., from the amount originally provided under the second Financial Protocol, plus a further 47m u.a. under the Supplementary Protocol signed as a result of enlargement of the Community and still in process of ratification.

Beyond May 1976, the scope for EIB operations is a matter for negotiation between the Community and Turkey, and it would be premature at this stage to suggest what any third Financial Protocol might contain, although it is to be supposed that the Turkish Government would request an increase in the overall volume of Community aid, mainly to take account of declining money values.

Again, it seems likely that the Member States of the Community would wish to see a larger proportion of such aid taking the form of loans by the EIB from its own resources than is specified under the existing protocol, while a further consideration would be the Turkish balance of payments at the time in question, and its projected future movements.

3. Greece

A new protocol, providing for EIB financing operations from the Bank's own resources, is currently under negotiation, and Greece has submitted its request for full Community membership.

Again, it is too early yet to discern what result these negotiations will produce, but it seems likely that the new protocol will, like the original, make provision for loans from the EIB's own resources, with at least a proportion of these attracting interest rate subsidies. The purpose of these loans will be to boost the economic development of Greece, with a sizeable share of the capital in question likely to be allocated to infrastructure projects, especially in the agricultural sector. Indeed, the wording of the Greek request for full membership of the Community in effect calls for Greek agricultural production to become increasingly complementary to that of the Community.

4. Portugal

On 7 October 1975, the Community agreed, as a measure of "exceptional emergency aid" to request the EIB to provide Portugal with credit facilities taking the form of loans for investment projects, for up to 150m u.a. Such loans would be for allocation in 1976-77 pending the activation of a standard financial protocol to cover subsequent operations.

The loans in question will be granted under the terms and conditions applying to ordinary EIB lending operations, and will attract an interest rate subsidy of 3%. A unique feature of the decision, however, is that the Member States have agreed to enter the subsidies in question (estimated at 30m u.a.) as an item in the Community budget, along with the blanket guarantee provided for the EIB's operations in Portugal.

These loans to Portugal are to be granted for "investment projects", without further qualification, leaving ample scope in regard to the choice of sectors qualifying for funds.

5. Maghreb and Malta

For over a year, association agreements involving financial aid have been under negotiation between the Community and the three Maghreb countries plus Malta. The outcome of these talks is not yet in sight, and any figures concerning financial aid to these countries can only be offered as a guide. In projecting its future activities outside the Community, however, the EIB must take account of the possible results of these negotiations, and of the chance that over the next five years it might be requested to consider lending as much as 180m u.a. from its own resources to these countries. In addition to loans of this kind, which would probably attract interest rate subsidies, the Bank could be called on to assist with the granting and management of further loans on special conditions.

EIB loans and loans on special conditions might well be made available for investment projects in all sectors of the economy.

The foregoing comments can only be taken as working hypotheses, however, until such time as agreements are actually concluded.

6. EIB lending operations outside the Community: general situation and prospects

There have been many developments in EEC policy regarding financial co-operation outside the Community since 1962. For about twelve years operations were limited to Greece, Turkey, the 17 Associated Countries in Africa, Madagascar and Mauritius. They are now being extended to embrace 27 other countries in Africa, the Caribbean and the Pacific (1), Portugal and, if current negotiations succeed, the three Maghreb countries and Malta. Moreover, further aid targets could be set in line with future formulations in Community policy with regard to other developing countries, in particular those surrounding the Mediterranean. Further widening of EIB support for operations outside the Community is therefore a distinct possibility, and although it is very difficult to predict the direction of this expansion, let alone attempt to quantify it, it does raise a further problem. This is the question of estimating the extent to which the EIB could widen lending operations using its own resources, in response to requests of this kind, without departing from its primary function within the Community.

Community authorities are also faced with the problem of resources, when it comes to the future funding of the "Special Section", since a key feature of EIB activities in the developing countries with which the Community has established various forms of financial cooperation is the deployment of budgetary resources. There are usually interest rate subsidies for EIB loans and/or advances of funds on special conditions from the resources of Member States of the Community, for the granting or management of which the EIB offers its services. Indeed, if Community aid is to be tailored to the often difficult economic and financial circumstances of the recipient countries, and if the Bank is to give effective support to the solution of their development problems, the provision of resources raised on the capital markets has to be linked with an adequate volume of financial assistance drawn on favourable terms from budgetary resources. It is not for the Bank to suggest the future pattern of operations of this kind.

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(1) with the probable addition, at a later date, of the now independent former Portuguese possessions in Africa.

With regard to loans from the Bank's resources, future scope for operations is circumscribed by (a) future trends in the resources that the EIB is able to tap, and (b) the proportion of these resources that it is able to channel into extra-Community financing operations, without neglecting its main role within the EEC.

Although there is no formulated policy for the EIB in this area, it seems reasonable to suppose that, if the Member States were willing, the proportion of Bank operations outside the Community to the annual total of all operations using its own resources might rise from below 7% in 1974 to perhaps one fifth.

IV. Resources of the European Investment Bank

The resources of the Bank consist of:

(1) Paid-up capital.
(2) Statutory and other reserves.
(3) The proceeds of loan issues on the capital market.
(4) Special resources.

In addition, the Bank has provided its guarantee for a number of loan operations, all of which to date have related to activities within EEC Member States.

With the exception of loans on special conditions, which are recorded outside the Bank's balance sheet, there is no way of distinguishing between those resources which will eventually cover loan and guarantee operations in the Member Countries, and those which are destined for loans in the developing countries.

1. Paid-up capital

At its inception, the Bank had 1 000 million u.a. capital, subscribed by the Member States, and 25% paid up. Since 1971, the capital has on three occasions been raised, by decision of the Board of Governors. In 1973, this was made necessary by the accession of Denmark, Ireland and the United Kingdom, while the other increases, in April 1971 and July 1975, were occasioned by the expansion of EIB activities: under Article 18 (5) of its Statute total loans and guarantees outstanding may not exceed 250% of the Bank's subscribed capital.

The following increases in the Bank's capital have thus taken place:

m u.à.

Date of increase in capital	Subscribed capital	of which: paid-up capital
1958	1 000	250
26 April 1971	1 500	300
1 January 1973	2 025	405
10 July 1975	3 543.75	556.88

2. Statutory and other reserves

The Bank must progressively build up a reserve fund to cover 10% of its subscribed capital. It also sets aside additional reserves. At 31 December 1974, the statutory reserve showed a total of 110m u.a., and the other reserves about 176m u.a.

m u.a.

Situation at	Statutory reserve	Other reserves
end 1960	4.5	9.5
end 1965	32.2	33.5
end 1970	57.3	72.0
end 1974	110.0	176.0

3. Capital market operations

Since 1961, when the EIB floated its first loan issue, funds raised on the capital markets have accounted for a steadily increasing proportion of the Bank's resources, and these are now the largest single source of funds at its disposal to carry out the tasks entrusted to it.

There has been a progressive rise in the annual total of loan issues, from around 21m u.a. in 1961 to 825m u.a. in 1974, while the cumulative total during this period was 3 389.5m u.a. Of the funds raised in 1974, some 92% were denominated in non-Community currencies (US dollars, Swiss francs, and for one operation EURCO), and this amounted to a significant contribution to the recycling of capital. During the first nine months of 1975, the Bank raised a total of 412m u.a. by means of 13 public and private loan issues, about 50% of which were denominated in the currencies of non-member countries.

The rate of interest which the EIB applies to its own loans is close to the average cost of its borrowings. Since 29 July 1975 it has stood at 9.5%, regardless of the term of the loan, the borrower or the country in which the project being financed is located.

4. Special resources

In addition to the foregoing, considerable sums are channelled through the "Special Section" as special resources, for granting as loans on favourable terms, under mandate from, and for the account of the Member States in support of Turkey. A similar mechanism, operating for the account of the European Economic Community itself, is used to support the AASMM-OCTD.

At the end of 1974, credit totalling around 323m u.a. had been made available from the resources of the Member States for Turkey, while loan operations using EEC resources in support of the AASMM-OCTD amounted to 99.5m u.a. Of these sums, about 104m u.a. and 37m u.a. respectively remained to be disbursed. Contributions to the formation of risk capital in the AASMM-OCTD at this time totalled about 2.5m u.a., of which perhaps 0.5m u.a. were still undisbursed.

Hence at the end of 1974, after repayments, the funds channelled through the Bank in this way had reached a total of around 284m u.a.

5. Outlook

It is clear that the Bank's paid-up capital, statutory and other reserves will not constitute its main source of funds for financing loans in coming years, and that the growth of EIB activities will necessitate the raising of capital by borrowing on a scale similar to that recorded in 1974 and 1975. There is as yet no way of anticipating events that might have a bearing on capital market trends or the exchange rates of the various currencies, or make it more difficult to raise the funds needed to ensure the normal pursuit of the Bank's business both within and outside the EEC.

At the same time, the EIB has always in the past been able to tailor its borrowing policy to changing circumstances on the capital markets, and there is no reason to suppose that this will not continue to be the case, or that the Bank will not be able to expand its activities outside the Community in years to come, at least on the sort of scale suggested in Section III of this report.

Annexes: 4

TABLE 1: FINANCING OPERATIONS IN THE AASMM - 1965 to 31.10.75 - GEOGRAPHICAL BREAKDOWN

(Yaoundé I and II Conventions)

Country	Ordinary loans from EIB resources		Loans on special conditions from EDF resources		Contributions to the formation of risk capital from EDF resources		Total	
	m u.a.	number	m u.a.	number	m u.a.	number	m u.a.	%
Ivory Coast	51.18	10	33.61	8	0.99	1	85.78	37.5
Cameroon	17.27	9	23.37	5	0.54	1	41.18	18.0
People's Republic of the Congo	9.00	1	3.06	2	-	-	12.06	5.3
Dahomey	-	-	3.28	1	-	-	3.28	1.4
Gabon	4.43	4	3.26	2	-	-	7.69	3.4
Upper Volta	0.45	1	5.04	1	-	-	5.49	2.4
Madagascar	-	-	1.86	1	-	-	1.86	0.8
Mauritius	1.75	1	-	-	-	-	1.75	0.8
Mauritania	11.0	1	2.75	1	-	-	13.75	6.0
Senegal	3.87	2	0.97	1	0.97	1	5.81	2.5
Chad	-	-	1.22	1	-	-	1.22	0.5
Zaire	34.20	3	14.80	2	-	-	49.00	21.4
TOTAL	133.15	32	93.22	25	2.50	3	228.87	100.0

This and the following tables do not include operations in support of the overseas countries, territories and departments: one ordinary loan for 2m u.a., plus 6 loans on special conditions using EDF resources for an aggregate amount of 7m u.a.

TABLE 2: FINANCING OPERATIONS IN THE AASMM - 1965 to 31.10.75 - SECTORAL BREAKDOWN

(Yaoundé I and II Conventions)

Sector	Ordinary loans from EIB resources		Loans on special conditions from EDF resources		Contributions to the formation of risk capital from EDF resources		Total	
	m u.a.	number	m u.a.	number	m u.a.	number	m u.a.	%
Energy	9.30	(3)	9.00	(1)	-	-	18.30	8.0
Mining and quarrying	52.60	(4)	-	-	-	-	52.60	22.8
Agro-industrial complexes and food industry	16.42	(8)	30.83	(7)	0.54	(1)	47.79	20.9
Railway repair and maintenance shops	-	-	1.40	(1)	-	-	1.40	0.6
Manufacturing industry	20.23	(10)	3.83	(3)	0.99	(1)	25.05	11.0
Industry: sub-total	98.55	(25)	45.06	(12)	1.53	(2)	145.14	63.4
Agriculture	-	-	9.32	(2)	-	-	9.32	4.1
Tourism	2.63	(2)	-	-	-	-	2.63	1.1
Infrastructure	31.97	(5)	38.84	(11)	0.97	(1)	71.78	31.4
GRAND TOTAL	133.15	(32)	93.22	(25)	2.50	(3)	228.87	100.0
%	57.9		41.0		1.1			

TABLE 3. **SECTORAL BREAKDOWN OF LOANS AND GLOBAL LOAN ALLOCATIONS IN TURKEY**

(as at 31.10.1975)

Sector	Number				Amount (m u.a.)				% of total	
	Loans		Global loan allocations		Total financing operations		of which: Global loan allocations			
Infrastructure	14		-		229.4		-		62.5	
Agricultural development	2		-		25.0		-		6.8	
Energy	7		-		136.9		-		37.3	
Transport	5		-		67.5		-		18.4	
- railways		3				38.9				10.6
- roads and bridges		1				20.0				5.5
- air transport		1				8.6				2.3
Industry and services	39		42		137.5		32.4		37.5	
Industry	38		39		135.5		31.7		36.9	
- mining and quarrying		-		1		0.8		0.8		0.2
- metal production and semi-processing		4		2		3.4		0.5		0.9
- construction materials		4		2		13.8		6.4		3.8
- woodworking		1		2		2.3		1.1		0.6
- glass and ceramics		2		1		4.3		1.1		1.2
- chemicals		9		4		35.6		1.5		9.7
- metalworking and mechanical engineering		-		9		4.4		4.4		1.2
- electrical engineering and electronics		1		4		3.1		2.3		0.8
- textiles		5		6		10.5		6.8		2.9
- foodstuffs		-		7		5.3		5.3		1.4
- paper pulp and paper		5		1		47.9		1.5		13.1
- rubber and plastics processing		1		-		0.5		-		0.1
- global loans		6		-		3.6 (1)		-		1.0
Services (Global loan : technical assistance and pre-investment studies)	1		3		2.0		0.7		0.6	
GRAND TOTAL	53		42		366.9		32.4		100.0	

(1) This sum represents the unallocated portion of global loans, i.e. the difference between the total amount granted as global loans in the industrial sector, and total allocations made.

Table 4: Sectoral breakdown of loans in Greece (1)

from 1965 to 31 October 1975

Sectors	Number	Amount in US $	% of total
Infrastructure works	9	83.3	74.0
Agricultural development	4	60.3	53.6
Energy	1	6.0	5.3
Roads	4	17.0	15.1
Industry	10	29.2	26.0
Metal production and semi-processing	3	12.0	10.7
Construction materials	2	3.0	2.7
Woodworking	1	0.6	0.5
Chemicals	1	2.0	1.8
Textiles	2	1.6	1.4
Global loan (2)	1	10.0	8.9
	19	112.5	100.0

(1) Loan contracts signed.

(2) To date only one allocation from this global loan has been made, to the textiles industry, for $ 820 000.

ANNEX F

INTER-AMERICAN DEVELOPMENT BANK

Programs and Resource Situation
of the
Inter-American Development Bank 1975 - 1978

Washington, D.C.
November 1975

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REPORT TO THE DEVELOPMENT COMMITTEE ON PROGRAMS AND RESOURCE SITUATION OF THE INTER-AMERICAN DEVELOPMENT BANK

PAST EXPERIENCE OF THE INTER-AMERICAN DEVELOPMENT BANK

The IDB has become a major factor in the economic and social development of its developing member countries. In its 14 years of operations it has helped the region move to a higher level of domestic resource mobilization, it has attracted increasing external support and encouraged innovation in development. Bank lending has been directed to institution building, by using its lending resources and technical assistance to create new institutions, or to reinforce or rehabilitate existing development oriented institutions. The Bank has invested a considerable amount of resources in the productive sectors as well as in infrastructure, but also it has been the first external lending institution to invest significantly in social infrastructure sectors. IDB's involvement in these sectors encompass a wide range of activities such as housing and urban development, environmental and public health, education, science and technology and rural development. In financing development projects the Bank has also played an important catalytic role in the mobilization of the internal resources of its member countries and has encouraged the interest and financial participation of other sources of external financing.

Bank Loans as of September 30, 1975

Since the Bank started operations in 1961, it has carried out an increasing volume of lending. During the period January 1961-September 1975, the IDB authorized 848 loans for a total amount of US$7,860.7 million, 44.8 per cent of which have been financed with Ordinary Capital, 47.4 per cent with the Fund for Special Operations and 7.8 per cent with trust funds given for administration by the Bank by the United States, Argentina, Canada, the United Kingdom, Sweden, Switzerland, Venezuela and the Holy See (Tables I and II). The distribution of Bank loans by sector as of the same date is shown in Table III. The Bank's financing has represented about 30 per cent of the estimated total project costs. Outstanding loans as of September 30, 1975 totaled $3,439.7 million. (Table IV)

Through the end of 1974, the Bank increased the total amount of its loans at an 11.5% annual rate of growth since 1961, at current prices. This rate is also high if it is expressed in real terms. If the amount of IDB loans is deflated by the U.S. index of wholesale prices, an average annual rate of increase of 7.1 per cent is indicated

During the period 1961-1974 the IDB has become the leading source of official development financing for Latin America. The $7.4 billion lent by the IDB from 1961 to the end of 1974 represents 39.8 per cent of the total development financing received by Latin America from IBRD, IDA, AID and IDB. During the period, IBRD loaned $6.5 billion, for 34.6%; IDA loaned $0.3 billion, for 1.5%; and AID loaned $4.6 billion, for 24.1 per cent.

Technical Cooperation

Technical cooperation constitutes an important tool in the identification, appraisal and implementation of the Bank's lending program. It has also contributed to strengthen the institutional capability of the project executing agencies, has helped train professionals in supporting development skills and has provided advice on the organization of the country's planning machinery and regional economic integration process. IDB's technical cooperation has been financed on a reimbursable, non-reimbursable or contingent recovery basis. When reimbursable, it has been extended as a preinvestment loan or as an integral part of a Bank loan. The technical cooperation extended by the Bank on a grant basis is primarily directed to benefit the less developed areas and its financing is allocated yearly from the net income of the Fund for Special Operations and of the Social Progress Trust Fund resources. Reimbursable technical cooperation activities amounted to $192.9 million during the period 1961-1974, which represents 2.6 per cent of IDB's lending portfolio. The non-reimbursable or contingent recovery that technical cooperation provided from January, 1961 to September, 1975 amounted to $86.5 million, as shown in Table V.

Resources of the Bank

The past loans and technical cooperation programs of the IDB, as described above, have been financed mainly through a succession of replenishments of the Bank's resources including direct contributions of the member countries and mobilization of resources in the international capital markets. These past replenishments are examined in detail below. Looking forward to program for the period 1975-1978, the IDB Board of Governors approved, in an extraordinary session on July 9, 1975, a further increase in the authorized capital of the Bank as well as an increase in the Fund for Special Operations. Timely availability of these resources requires adoption by member countries of appropriate measures approving the increase in resources on or before December 31, 1975. At the present time indications are that this process has been delayed in some member countries. Therefore, the financing of the Bank's programs for 1976 is in doubt.

TABLE I

AUTHORIZED LOANS, LESS CANCELLATIONS, BY YEARS AND SOURCE OF FUNDS

($ millions)

YEAR	Ordinary Capital 1/	Fund for Special Operations	Social Progress Trust Fund	Other Funds in Administration 1/	TOTAL
1961-1970	1,544.2	1,905.3	494.2	59.4	4,003.1
1971	203.2	330.5	-	15.5	549.2
1972	443.5	338.6	-	17.5	799.6
1973	452.2	416.1	-	4.4	872.7
1974	634.6	456.7	-	-	1,091.3
1975 2/	246.8	276.5	-	21.5	544.8
TOTAL	3,524.5	3,723.7	494.2	118.3	7,860.7

1/ U.S. dollar equivalents of non member currencies adjusted in year of approval for exchange rate fluctuations.

2/ Through September 30, 1975.

TABLE II

AUTHORIZED LOANS, LESS CANCELLATIONS, BY COUNTRIES AND SOURCE OF FUNDS AS OF SEPTEMBER 30, 1975

($ millions)

Country	Ordinary Capital 1/	Fund for Special Operations	Social Progress Trust Fund	Other Funds in Administration 1/	TOTAL
Argentina	504.5	290.0	43.5	0.8	838.8
Barbados	9.1	3.7	-	-	12.8
Bolivia	68.4	156.3	14.5	9.7	248.9
Brazil	1,115.8	613.5	61.5	23.0	1,813.8
Chile	229.0	177.0	34.4	9.1	449.5
Colombia	313.5	231.3	49.0	18.8	612.6
Costa Rica	65.9	95.5	11.7	3.6	176.7
Dominican Republic	6.7	183.6	8.4	7.5	206.2
Ecuador	70.4	187.0	27.4	30.0	314.8
El Salvador	7.0	127.7	22.0	5.2	161.9
Guatemala	10.8	108.1	14.3	-	133.2
Haiti	-	55.4	-	-	55.4
Honduras	0.5	114.4	7.6	-	122.5
Jamaica	7.4	43.0	-	-	50.4
Mexico	606.1	413.2	34.9	0.1	1,054.3
Nicaragua	16.9	113.2	13.0	-	143.1
Panama	1.5	128.7	12.9	-	143.1
Paraguay	6.3	171.2	7.8	5.7	191.0
Peru	80.5	206.8	45.1	0.9	333.3
Trinidad & Tobago	1.3	34.0	-	-	35.3
Uruguay	81.7	61.0	10.4	1.1	154.2
Venezuela	129.1	122.6	72.9	-	324.6
Regional	192.1	86.5	2.9	2.8	284.3
Total	3,524.5	3,723.7	494.2	118.3	7,860.7

1/ U.S. dollar equivalents of non member currencies adjusted in year of approval for exchange rate fluctuations.

TABLE III

AUTHORIZED LOANS, LESS CANCELLATIONS, BY SECTORS AS OF SEPTEMBER 30, 1975

($ millions)

Sectors	Amount 1/	%
Agriculture	1,788.1	22.8
Industry and Mining	1,118.1	14.2
Transportation and Communications	1,463.1	18.6
Power	1,634.5	20.8
Envrionmental and Public Health	790.6	10.1
Tourism	71.1	0.9
Urban Development and Housing	428.3	5.4
Education	305.5	3.9
Preinvestment and Technical Assistance	132.7	1.7
Export Financing	128.7	1.6
Total	7,860.7	100.0

1/ U.S. dollar equivalents of non member currencies adjusted in year of approval for exchange rate fluctuations.

TABLE IV

OUTSTANDING LOANS[1], BY COUNTRIES AND SOURCE OF FUNDS AS OF SEPTEMBER 30, 1975

($ millions)

Country	Ordinary Capital 2/	Fund for Special Operations	Social Progress Trust Fund	Other Funds 2/ in Administration	TOTAL
Argentina	241.0	110.2	26.7	.8	378.7
Barbados	-	.4	-	-	0.4
Bolivia	26.3	48.9	10.0	7.6	92.8
Brazil	459.7	329.0	43.9	15.2	847.8
Chile	54.3	108.0	20.8	8.8	191.9
Colombia	133.2	122.8	30.1	17.9	304.0
Costa Rica	4.5	30.5	8.1		43.1
Dominican Republic	-	46.3	5.6	4.9	56.8
Ecuador	18.5	62.1	19.4	7.7	107.7
El Salvador	2.2	44.7	16.5	4.5	67.9
Guatemala	3.3	44.1	10.4	-	57.8
Haiti	-	16.6	-	-	16.6
Honduras		48.8	4.9	-	53.7
Jamaica	3.9	19.6	-	-	23.5
Mexico	317.7	254.2	22.7	.1	594.7
Nicaragua	8.4	46.1	8.3	-	62.8
Panama	1.0	48.2	8.7	-	57.9
Paraguay	2.3	77.8	5.6	3.1	88.8
Peru	20.6	82.8	28.7	.7	132.8
Trinidad & Tobago	.1	9.4	-	-	9.5
Uruguay	19.7	17.7	7.9	.6	45.9
Venezuela	60.7	30.3	33.3	-	124.3
Regional	34.3	44.8	1.0	.2	80.3
TOTAL	1,411.7	1,643.3	312.6	72.1	3,439.7

1/ Net of participations

2/ U.S. dollar equivalents of non member currencies adjusted in year of approval for exchange rate fluctuations.

TABLE V

AUTHORIZED NON-REIMBURSABLE AND CONTINGENT RECOVERABLE TECHNICAL COOPERATION OPERATIONS JANUARY 1961-SEPTEMBER 1975 1/

($ thousands or equivalent)

COUNTRY	AMOUNT
Argentina	$ 242
Brasil	786
Mexico	655
Venezuela	333
Sub-total	2,016
Chile	565
Colombia	476
Peru	1,553
Sub-total	2,594
Barbados	871
Costa Rica	2,034
Jamaica	816
Panama	1,266
Trinidad&Tobago	946
Uruguay	378
Sub-total	6,311
Bolivia	2,954
Ecuador	2,823
El Salvador	2,398
Guatemala	2,603
Haiti	2,455
Honduras	6,315
Nicaragua	2,343
Paraguay	4,122
Dominican Republic	3,058
Sub-total	29,071
Regional	46,511
GRAND TOTAL	$ 86,503

1/ Net of cancelations through 12/31/74

RATIONALE FOR PROPOSED IDB PROGRAMS

Recent Development Trends in the Region

Latin America has been able to achieve considerable progress in recent years. Gross domestic product has increased at an annual rate of nearly 7% since 1968, as compared with 5.6% during the decade of 1960's. In spite of rapid population growth, per capita product improved by about 2.8% per year up to 1970 and 4% over the last four years.

These relatively satisfactory trends are subject to two substantial qualifications. First, because of the enormous differences in comparative income levels, the gap between living standards in Latin America and in the industrialized countries has continued to widen. Second, despite progress made, Latin America still includes a sizable group of countries whose level of development is far below the regional average.

Economic growth in the region has been characterized by a dynamic industrialization drive. Growth rate of manufacturing production was 8.2% per year during 1968-1973, which compares with 7.4% during 1966-1970, and 6.4% in 1961-1965; the share of industry in total gross domestic product has now reached 25%, up from 22% ten years ago. The increasing role played in this development by heavy industry - with growth rates of more than 10% per year - including steel and metal products, machinery, automobiles, electrical appliances and chemical products, points to the degree of sophistication achieved by Latin America's manufacturing.

On the other hand, Latin America's agricultural sector has maintained the sluggish pace it exhibited in the 1960's. In fact, agricultural production has been growing only slightly faster than overall population, resulting in virtual stagnation of per capita output. Per capita food output has dropped in the last seven years at an average rate of 0.3% yearly, and the region has been unable to supply its own needs for basic foodstuffs such as wheat and wheat flour, barley, rye and even corn. Moreover, social conditions in the rural areas continue to be backward.

In recent years Latin America has been affected by highly significant international economic developments. The fairly sharp fluctuations of economic activity in the industrial countries, together with the further deterioration in balance of payments positions and the acceleration of inflation in several of those countries, has had unfavorable repercussions on Latin America. Price rises for the region's primary product exports between the end of 1972 and mid-1974 were largely offset by the higher prices for imported manufactures, foodstuffs, fertilizers, raw materials and oil. Beginning in the third quarter of 1974, most primary exports recorded significant price declines while the prices for manufactures imported by Latin America have continued to climb. The inflow of long-term public capital to the region has barely increased in nominal values, forcing the Latin American nations to resort increasingly to private short and medium-term financing, on generally harder terms, in order to cover the growing balance of payments deficit. Only the net oil-exporting countries, especially Venezuela, have substantially expanded the flow of external funds received, which unquestionably serves to improve their future development prospects.

The significance of these trends for most Latin American countries is a critical balance of payments situation in which a decline in export earnings is compounded by an increase in the cost of imports. Thus, increasing needs for external resources can be anticipated for these countries.

One positive aspect in the development of Latin American exports over the past 15 years is the higher proportion of goods absorbed by trade within the region, chiefly as a result of progress made in its economic integration. As compared to total Latin American exports, the ratio of reciprocal trade rose from 8.7% in 1960 to 13% in 1970-73, comparable to the share of regional exports earmarked for the United States.

Latin America's development has been based upon an increased investment and savings effort. The ratio of total investment to gross domestic product increased from 19.8% in 1970 to 21.2% in 1973, representing an annual growth rate of 9.1% per year in real terms. During the same period, domestic savings grew at a rate of 9.3% per year, and the savings/investment ratio, which is the share of domestic investment financed by domestic savings, amounted to 88%.

Latin America's development in the social fields has been significant in many sectors. In the field of education, for instance, a major effort has been undertaken to reduce illiteracy, and the rise in enrollment at every level in practically all countries is striking. Also, water supplies and sanitation works have expanded at a faster rate than population growth, and life expectancy at birth has increased.

Latin American Development Needs in the Years Ahead

In spite of the progress achieved, Latin American development faces very great problems and needs that call for urgent solution. It has already been noted that maintenance of the region's general pace of development requires the continuing support of external finance sources at levels compatible with requirements. Within this context, the less developed countries of the region, precisely because of their economic weakness, must have access to an adequate flow of concessional external resources. Furthermore, it is obvious that such major sectors of regional economic and social development as agriculture, education, health, etc., are lagging very far behind. Balanced development would entail preferential attention to those sectors if more balanced development of the region is to be expected.

The new conditions of the world economy and their impact on Latin America, including the limitations on external financing availabilities, call for a careful review of priorities in the allocation of funds for regional development. Special emphasis should be placed on rural development and food production, the expansion and diversification of exports, development of natural resources, energy production, the necessary support for technological development and better education and health conditions.

Balance of Payments Prospects

In order to supplement their own resources to finance their economic and social development, all Latin American countries have relied to some degree on foreign capital during the last 20-30 years. In recent years net long-term capital receipts have totaled about $3 billion annually. An increasing share of this total has been accounted for by private capital; the absolute amounts of official flows have risen slowly, including the portion from multilateral institutions.

At this stage in their economic development, most Latin American countries must continue to rely on foreign capital. Furthermore, considering the low income levels and development needs in certain countries, official aid is expected to continue to play a significant role. These needs have been intensified to a considerable degree by the oil crisis, which has seriously affected most Latin American nations.

THE IDB LOAN PROGRAM FOR 1975-1978

The need of most Latin American countries for additional amounts of foreign capital in order to maintain adequate levels of economic and social development has been examined in the previous section. If the IDB is to continue its role as a leading source of development financing for Latin America, sustained growth of its activities in real terms would seem appropriate.

The Bank's loan target for 1975 totals the equivalent of $1.23 billion, of which $655 million corresponds to the ordinary capital resources and $575 million to the Fund for Special Operations. This target represents an 11% increase over 1974, in current values, though considering inflation, the increase in real terms is insignificant.

Aside from its regular program, the Bank has planned to utilize the equivalent of $160 million from the Venezuelan Trust Fund for loan operations in 1975.

As shown in the first section, from the beginning of operations to the end of 1974, IDB loans increased at about 7 per cent per year in real terms. A 7 per cent annual rate of increase in real terms would, therefore, appear a reasonable goal for the next few years.

Table VI shows the Bank's projected loan program for 1975-78. The amounts given for the years 1976-78 represent a 7 per cent real increase per year over the 1975 program with assumed annual inflation rates of 8 percent in 1976, 7 per cent in 1977 and 6 per cent in 1978. Table VI also indicates a continued balanced use of Ordinary Capital and Special Fund resources over the four year period.

A specific distribution of the proposed loan program by sector is not available at this time. However, as was our experience in 1974 and the first nine months of 1975, the distribution of loans by sector will likely reflect a trend determined by the world food and fuel crisis. Increased food production and the development of energy resources will be given priority consideration in the Bank's programs. In addition to these sectors, the Bank will continue to support efforts of the member countries in development of social infrastructure, such as education, public and environmental health, and urban development, other economic infrastructure projects and priority projects in the productive sectors of industry and tourism, as well as support for preinvestment programs.

At this time it would also be very difficult to make any estimations about the geographic distribution of the proposed program. However, since one of the Bank's fundamental objectives is to promote the balanced growth of its members, and taking account of the differences in the stage of development and economic potential existing between the various countries, in programming the utilization of soft resources, the Bank will assign first priority to the requirements of the relatively less developed countries. By the same token, the Bank, in the programming of its operations with ordinary capital resources, will assign a larger proportion thereof to the relatively more developed countries.

With respect to disbursements and net flow of resources to the region from this institution, it is not possible to make any precise projections for the period 1976-1978. However, Table VII shows the net flow of resources to Latin America and the Caribbean since 1972. 1/ As indicated in the table, the net flow increased by around 27% from 1972 to 1973 and 20% from 1973 to 1974. Given the rising levels of authorization during recent years in both loans and technical cooperation, it can be expected that future net flows from the IDB would continue to grow at a similar rate. It should be noted that the figures in table VII are given in terms of all currencies disbursed and collected by the Bank. It is estimated that overall about 12% of those amounts consists of Latin American currencies.

1/ Net flow is defined in this case as disbursements plus expenses paid on non-reimbursable technical cooperation minus repayments of principal.

TABLE VI

PROJECTED LOAN PROGRAM - 1975-1978

($ millions)

	1975	1976	1977	1978
Total Bank program	1,230	1,420	1,625	1,835
Freely usable currencies	1,017	1,175	1,345	1,525
Other currencies	213	245	280	310
Ordinary capital/inter-regional capital	655	755	865	980
Freely usable currencies	608	700	805	910
Other currencies	47	55	60	70
Fund for Special Operations	575	665	760	855
Freely usable currencies	409	475	540	615
Other currencies	166	190	220	240
Venezuelan Trust Fund	160	110	110	120

TABLE VII

INTER-AMERICAN DEVELOPMENT BANK

NET FLOW OF RESOURCES TO LATIN AMERICA AND

THE CARIBBEAN 1/

(US$ million or equivalent)

	1972	1973	1974	January - Sept. 1975
Loan Disbursements: 2/ 3/				
Ordinary Capital	177.8	258.9	336.1	221.7
Fund for Special Operations	278.7	311.5	323.6	233.1
Social Progress Trust Fund	-	-	-	-
Other Funds	14.1	11.3	13.3	8.2
TOTAL	470.6	581.7	673.0	463.0
Principal Repayments: 2/				
Ordinary Capital	(80.5)	(88.7)	(93.2)	(78.2)
Fund for Special Operations	(45.3)	(56.3)	(64.7)	(49.6)
Social Progress Trust Fund	(21.4)	(23.3)	(24.1)	(17.0)
Others Funds	(.2)	(.2)	(.3)	(.2)
TOTAL	(147.4)	(168.5)	(182.3)	(145.0)
Expenses paid for non-reimbursable Technical Cooperation:				
Fund for Special Operations	1.6	1.3	2.6	2.4
Social Progress Trust Fund	2.5	2.4	9.6	11.0
TOTAL	4.1	3.7	12.2	13.4
Net Flow: 4/				
Ordinary Capital	97.3	170.2	242.9	143.5
Fund for Special Operations	235.0	256.5	261.5	185.9
Social Progress Trust Fund	(18.9)	(20.9)	(14.5)	(6.0)
Other Funds	13.9	11.1	13.0	8.0
TOTAL	327.3	416.9	502.9	331.4
Income collections: 5/				
Ordinary Capital	(60.7)	(78.5)	(90.2)	(90.3)
Fund for Special Operations	(38.2)	(48.2)	(56.4)	(44.7)
Social Progress Trust Fund	(9.9)	(9.2)	(8.7)	(5.7)
Other Funds	(.8)	(1.0)	(1.2)	(.9)
TOTAL	(109.6)	(136.9)	(156.5)	(141.6)

1/ Includes the flow of dollars and Latin American member currencies.
2/ Includes adjustment in US$ equivalents of borrowed currencies through 12/31/74.
3/ Includes disbursement under reimbursable Technical Cooperation projects.
4/ Disbursements plus non-reimbursable Technical Cooperation expenses less repayments.
5/ Fees and interest on outstanding loans.

Source: IDB Finance Department

PRESENT AND PLANNED RESOURCE SITUATION OF THE IDB

Ordinary Capital

Previous Replenishments and Present Situation

The ordinary capital consists of paid-in capital and callable capital. It is used to make loans repayable in the currency lent, on normal banking terms comparable to those of similar financial institutions.

The callable portion of each member's subscription is subject to call if required to meet the Bank's obligations on borrowings or on loans guaranteed by it. Thus the callable capital serves as a guarantee of the obligations incurred by the Bank in borrowing funds in the capital markets. This governmental guarantee behind the Bank's bonds was established to enable the Bank to borrow at favorable near-governmental rates. While the Bank has legal authorization to guarantee loans of third parties, it has not found it appropriate to do so.

Initially the subscribed ordinary capital 1/ of the Bank consisted of (a) the equivalent of $381,580,000 paid-in by the member countries as follows: 20 per cent by September 30, 1960, 40 per cent by October 31, 1961, and the final 40 per cent by October 31, 1962, and (b) the callable capital, equivalent to $431,580,000. Each payment of the paid-in capital was made 50 per cent in gold and/or United States dollars and 50 per cent in the currency of the member in cash or in non-negotiable, non-interest-bearing demand notes. A resolution authorizing a $1 billion increase in the callable capital stock of the Bank was approved by the Board of Governors on January 28, 1964, which provided for subscription by the member countries in two equal installments not later than December 31, 1964, and 1965, respectively. Under a resolution approved June 20, 1968, the Governors authorized a further $1 billion increase in the callable capital stock, which provided for subscription by the member countries, again in two equal installments, not later than October 31, 1968, and in 1970, respectively.

The authorized capital was again increased in 1970 in the amount of US$2,000,000,000, composed of $400,000,000 (40,000 shares) of paid-in capital and $1,600,000,000 (160,000 shares) of callable capital. The subscriptions to the callable capital increase were to be made in two equal installments in 1971 and 1973. The subscriptions to the paid-in capital increase were to be made in three annual equal installments from 1971 through 1973, except that for members whose subscriptions were $10,000,000 or less, the subscription was approved to be made in five equal annual installments from 1971 through 1975. All instruments due by December 31, 1973 had been subscribed and paid at that date except that part of the United States capital subscription

1/ All of the amounts indicated in this and the next paragraph are expressed in terms of 1959 United States dollars.

installment due in 1973, amounting to $25,000,000 of paid-in capital and $168,380,000 of callable capital, which was subscribed on January 4, 1974. Subscription installments due in 1974 and 1975 amounted to $8,836,000 for each year. The subscriptions to the paid-in capital were made 50% in United States dollars and 50% in the currency of the member country.

Canada was admitted as a member of the Bank in 1972 with a subscription of $40,000,000 of paid-in capital (4,000 shares) and $202,680,000 of callable capital (20,268 shares) in terms of 1959 United States dollars, payable in Canadian dollars in three equal annual installments due in 1972, 1973 and 1974.

In accordance with the maintenance of value provisions of the Agreement Establishing the Bank, the member countries have been billed for the amounts required to maintain the value of their currencies held by the Bank pursuant to the devaluations of the United States dollar and other member currencies on May 8, 1972 and October 18, 1973. In this connection the capital of the Bank was adjusted by the devaluation percentages in order to reflect the capital in terms of current United States dollars. As of June 30, 1975, these adjustments amounted to a total of $852,151,000 of callable capital, including $350,174,000 relating to the subscription of the United States, and $168,147,000 of paid-in capital, including $110,898,000 in United States dollars, $8,254,000 in Canadian dollars and $48,995,000 in other member currencies.

Thus, resources available for ordinary capital lending were increased in 1972 and 1973, through this special adjustment process by a total of $518,321,000 being the sum of (1) the increase in the Bank's borrowing capacity produced by the adjustment to the callable capital subscription of the United States and (2) the billings to all members to maintain the value of the Bank's holdings in their respective currencies. Of this total increase in available resources $469,326,000 was in U.S. and Canadian dollars and $48,995,000 was in other member currencies. This amount was offset by an increase in the funded debt payable in currencies other than dollars.

As of December 31, 1974, the authorized capital of the Bank expressed in current United States dollars was $6,212,668,000, of which $1,055,550,000 was paid-in capital and $5,157,118,000 was callable capital. The subscribed ordinary capital of the Bank stood at $5,954,298,000 of which $972,378,000 consisted of paid-in and $4,981,920,000 of callable subscriptions.

The Agreement Establishing the Bank provides it with callable capital so that it will be in a position to obtain the major part of its resources for ordinary capital lending in the world's capital markets. From the very beginning the Bank has made every effort to create and expand a market for its bonds, which are now traded in the capital markets of most of the major financial centers in the world. The United States market has been a large source of borrowings - about one third. As of December 31, 1974, $421.4 million of the Bank's outstanding debt of $1,346.7 million is represented by long-term bond issues placed in that market. These bonds have been rated triple A by the major rating services and are primarily in the portfolios of large institutional investors thanks to the fact that most states in the United States have passed legislation making these securities legal investments for pension funds. insurance companies, banks and other fiduciary investors. At the same time, the Bank has made borrowings in 14 nonmember countries, i.e., Austria, Belgium, France, Finland, Germany, Israel, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom, and has sold short-term bond issues to the central banks of most of the Latin American member countries, Spain and Israel. In addition, in 1974 the Bank borrowed for the first time on a long-term basis from two Latin American countries, Venezuela and Trinidad and Tobago. As of December 31, 1974, $811 million represented borrowings by the Bank in nonmember countries and $114.3 million was owed in Latin America. The outstanding debt by source and by currency of payment as of December 31, 1974, is summarized in the following table:

TABLE VIII

OUTSTANDING FUNDED DEBT BY SOURCE
AS OF DECEMBER 31, 1974
(In millions of dollars)

Funded Debt Repayable In	Source: United States	Source: Latin American Member countries	Source: Nonmember countries	Total
U.S. dollars	$421.4	$ 91.0	$ 36.7	$ 549.1
Austrian schillings			21.8	21.8
Belgian francs			17.5	17.5
British pounds			7.0	7.0
French francs			43.4	43.4
German marks			292.0	292.0
Italian lire			63.9	63.9
Japanese yen			118.5	118.5
Netherlands guilders			26.0	26.0
Spanish pesetas			13.9	13.9
Swedish kronor			25.3	25.3
Swiss francs			145.0	145.0
Venezuelan bolivars		23.3		23.3
Total	$421.4	$ 114.3	$ 811.0	$1,346.7
	31%	9%	60%	100%

In 1974 the Bank borrowed the equivalent of $104.7 million in the world's capital markets, including $23.3 million in Venezuela, $10 million in Trinidad and Tobago, $40.2 million in a short-term bond issue placed in 16 of its Latin American member countries and Israel, $24.6 million in Japan, $6 million in Sweden and $600,000 in Finland.

From January 1, to September 30, 1975, the Bank has borrowed $225 million in the United States, $37 million in Italy and the equivalent of about $25 million in yen in Japan.

The Bank has sold participations in its ordinary capital loans, mainly to U.S. banks. As of December 31, 1974, participations sold amounted to $69.4 million.

The net income of the ordinary capital resources during 1974 was $55.1 million, raising its total reserves to $307.5 million. These reserves provide assurance to the holders of the Bank's obligations regarding their financial soundness. Repayments on member borrowings amounted to a total of $89.9 million in 1974, bringing cumulative total repayments at the end of the year to $565 million, most of which has, of course, been reloaned.

Proposed Replenishment of the Ordinary Capital for the Period 1975-78

As discussed in the previous chapter, the Bank projects lending programs relating to ordinary capital type resources at $3,255 million for the four years through 1978. Of this amount, $232 million is estimated to be in Latin American currencies which should be fully covered by the balance of available resources carried over from 1974 of $91 million, expected principal repayments of $60 million, $6 million from the final quota of the ongoing replenishment due June 30, 1975 and some $81 million from the proposed replenishment.

Loan programs of $3,023 million are projected for this four-year period in currencies freely usable by the Bank. Table IX shows how the resource needs produced by a program of this magnitude are expected to be covered:

TABLE IX

AVAILABILITY OF FREELY USABLE ORDINARY CAPITAL TYPE RESOURCES

	1975	1976	1977	1978
Balance at beginning of period	196	204	538	476
Loan program	(608)	(700)	(805)	(910)
Capital quotas already subscribed	6	-	-	-
Loan principal repayments and cancellations	104	113	134	145
Capital subscriptions from nonregional countries	-	331	21	21
Proposed replenishment				
United States	360	400	400	226 1/
Canada	59	66	65	6
Latin American countries	87	124	123	36
Balance at end of period	204	538	476	-

1/ Includes $186 million which reflects the declared intention of the United States of taking the necessary steps to request authorization from the United States Congress for an additional subscription of $450 million of callable capital for fiscal year 1979, commencing October 1, 1978.

The proposed replenishment has as an important element the subscription by regional countries to inter-regional capital. Accordingly, it is expected that the full capital subscriptions of Canada and Venezuela of $196 million and $289 million, respectively, as well as one half of the $1.2 billion capital subscription of the United States will be in this fund. In this way, the callable capital subscriptions of both Canada and Venezuela of $176 million and $260 million, respectively, would be available to support borrowing of the Bank for inclusion in this fund whereas those same subscriptions, if to the ordinary capital, could not be used to produce additional borrowing capacity because of the limitation noted on page 21. It is proposed that the United States subscribe to $600 million of ordinary callable capital and to an equal amount of inter-regional capital, of which $120 million would be paid-in and $480 million callable. Thus, subscriptions of regional members to the inter-regional capital would thus total some $1,085 million.

Total subscriptions have been calculated in two distinct parts. The first of these emanates from the proposed $1.2 billion subscription of the United States, which implies proportional subscriptions of $1,845 million by Latin American members and $146 million by Canada, including subscriptions to paid-in capital for 10% of the total to be paid 50% in U.S. dollars and 50% in the currency of the member, except that Canada and Venezuela may pay each installment entirely in their respective currencies. The second part of the subscription calculation relates to additional subscriptions of $682 million proportionally by all members, except the United States, which would bring total subscriptions to $3,873 million of which the ordinary capital portion would be $2,788 million. These additional subscriptions are all proposed to be to callable capital except for those of Venezuela ($73 million) and Canada ($50 million), which would include 10% of paid-in capital payable as previously indicated. Thus, the total replenishment can be summarized as shown below in Table X.

TABLE X

ORDINARY CAPITAL AND INTER-REGIONAL CAPITAL
SUMMARY OF PROPOSED REPLENISHMENT

(Expressed in millions of dollars)

Subscription by	Paid-in Capital: Freely usable currencies	Paid-in Capital: Other currencies	Callable capital	Total
Ordinary Capital				
Latin American members	81.5	81.4	2,025.3	2,188.2
United States	-	-	600.0	600.0
	81.5	81.4	2,625.3	2,788.2
Inter-Regional Capital				
Canada	19.6	-	176.2	195.8
United States	120.0	-	480.0	600.0
Venezuela	28.9	-	259.8	288.7
	168.5	-	916.0	1,084.5
Total	250.0	81.4	3,541.3	3,872.7

The additional paid-in capital should be paid in three equal, annual installments on June 30 of each of the years 1976, 1977 and 1978. The additional callable capital subscriptions should be subscribed in three equal installments, the first on or before a date in 1975 determined by the IDB Board of Executive Directors and the second and third on or before December 31, 1976 and December 31, 1977, respectively. The IDB Board Executive Directors may establish later dates in all cases.

For the purpose of minimizing the cash impact of the paid-in capital subscription on the member countries, the resolution specifies that the Bank may receive non-negotiable, non-interest-bearing promissory notes or similar securities, in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the paid-in capital stock, provided that the Board of Executive Directors, taking into account the purposes of the increase of capital and the disbursement requirements of the loans to which the funds are committed, shall establish a schedule pursuant to which such promissory notes or securities shall be paid to the Bank.

As a collateral part of the proposed replenishment an additional increase in the authorized callable capital of about \$1.3 billion, to take place not earlier than the due date for the final callable capital subscription indicated above, is contemplated. This part of the proposed replenishment is contingent on future approval by the IDB Board of Governors at a regular or special meeting.

Proposed Admission of Non-regional members

On December 17, 1974, a group of 12 nonregional countries comprising (listed in order of size of subscription): Japan, Federal Republic of Germany, Italy, Spain, United Kingdom, Switzerland, Belgium, Netherlands, Denmark, Austria, Yugoslavia and Israel, signed a Declaration in Madrid, Spain, affirming their intention to take all steps necessary to apply for membership in the Bank. The Bank agreed in the same Declaration to lay before its Board of Governors for approval the necessary measures including amendments to the Agreement Establishing the Bank, to permit the entry of the nonregional countries. On March 18, 1975, by decision of the Board of Executive Directors the President of the Bank sent the formal proposal of measures to facilitate the entry of nonregional members to both the Governors of the Bank and to the authorities of the 12 signatories to the Declaration of Madrid for appropriate action. Subsequently, at the XVI Annual Meeting in Santo Domingo, the Board of Governors adopted Resolution AG-10/75 in order to record the desirability that there be concluded as soon as possible the steps leading to the entry of nonregional countries in the Bank. Approval of these measures is presently pending ratification by the IDB member governments.

In order to permit the use of the callable capital subscribed by such non-regional countries to support borrowings in addition to the Bank's borrowings based on its present ordinary capital resources, the proposed amendments to the Agreement include provision for the creation of the inter-regional capital resources which would be completely separate from the ordinary capital resources. This results from the fact that there is a covenant on present ordinary capital borrowings limiting the ordinary capital funded debt to the callable ordinary capital subscribed by the United States. There are U.S. bonds outstanding with this limitation which may not be redeemed or called before 1985.

The initial authorized interregional capital stock would consist of 42,000 shares, each having a par value of $10,000 (in terms of 1959 dollars) and divided into 7,000 paid-in shares and 35,000 callable shares. The 12 non-regional country signatories to the Declaration of Madrid declared their intention to subscribe to 30,896 shares, which would reflect subscriptions in terms of current United States dollars of $61.5 million in paid-in shares and $311.2 million in callable shares.

The balance of above-mentioned authorized interregional capital stock would be available for subscription by other nonregional countries for a period of two years, after which it could be subscribed on a pro rata basis by the existing nonregional members.

The initial subscriptions of the nonregional members will be to interregional capital. The proposed amendments to the Agreement would also permit subscriptions to inter-regional capital by regional members and subscriptions to ordinary capital by nonregional members.

Subscriptions to the inter-regional capital stock would carry the same voting rights as subscriptions to ordinary capital stock, but the proposed measures provide that future subscriptions to capital stock, either ordinary or inter-regional, would not become effective if the result would reduce the voting power of (i) the regional developing countries below 53.5%; (ii) the United States below 34.5%; or (iii) Canada below 4% of the total voting power. This would permit the nonregional countries to have a voting power of up to 8%.

Fund for Special Operations

Past replenishments and Present Situation

The Fund for Special Operations (FSO) is used to make loans on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. Thus loans from the Fund may be made on terms which minimize the impact of the debt on the balance of payments of the country of the borrower, such as longer maturities and lower interest rates than for ordinary capital loans; until the end of 1972, loans also provided for repayment in local currencies.

The initial resources of the Fund for Special Operations, 1/ equivalent to $146.3 million, were contributed by the members in two equal installments by September 30, 1960, and October 31, 1961, respectively. Effective on January 28, 1964, the members increased their contribution to the Fund by the equivalent of $73.2 million. A further increase equivalent to $900 million was approved by the Governors on March 31, 1965, payable in three installments by June 30, 1965, December 31, 1965, and December 31, 1966. In 1967 the Board of Governors approved an increase of $1.2 billion in the Fund, also payable in three equal installments, the last of which was paid by December 31, 1969.

Contribution quotas were increased in 1970 in the amount of $1,500,000,000 payable in three installments of 10 per cent, 45 per cent and 45 per cent due in 1971, 1972 and 1973; subscriptions were made in member currencies in terms of the par value of the United States dollar in effect at the respective quota payment date. At December 31, 1973, the United States had paid $275,000,000 on its $1,000,000,000 subscription. It paid an additional $225,000,000 on January 4, 1974. The remaining contribution of $500,000,000 of the increase authorized in 1970 was still pending appropriation at the end of 1974; $225,000,000 was appropriated by the U.S. Congress in early 1975.

Canada's contribution to the Fund for Special Operations was the equivalent of $60,000,000 2/ payable in Canadian dollars in three equal annual installments in 1972, 1973, and 1974. In addition, Canada will contribute to the Fund the amount to be collected after May 3, 1972 on loans granted from the Canadian Trust Fund (CAN$74,000,000) which is administered by the Bank. At December 31, 1974, the equivalent of $1,266,000 had been collected from that source.

In accordance with the maintenance of value provisions of the Agreement Establishing the Bank, the members were billed for the amounts required to maintain the value of their currencies held by the Bank pursuant to the devaluations of the United States dollar and other member currencies on May 8, 1972 and October 18, 1973. The amounts billed were credited to the respective member's contribution quotas in the total amount of $504,623,000 and were composed of $240,350,000 in United States dollars, $12,577,000 in Canadian dollars, $127,827,000 in other member currencies and $123,860,000 in currencies to be determined on the basis of future loan collections. Thus, excluding the latter amount for which currency of payment has not been determined, resources available for lending were increased during 1972 and 1973 by $380,754,000.

The total resources of the Fund as of December 31, 1974, were $4,393,898,000. Cumulative reserves of the Fund totaled $133,580,000 at the end of 1974, and the net income for 1974, after providing for technical assistance, was $38,493,000.

1/ Figures in this paragraph are expressed in 1959 United States dollars.

2/ In 1959 United States dollars.

Proposed Replenishment of the Fund for Special Operations for the Period 1975-78

As indicated in the section on Proposed Program for 1976-78, the Bank anticipates a marked expansion of development projects presented by its member countries in the years ahead. While a substantial part of the total loan demand can be satisfied from resources of the ordinary capital and/or inter-regional capital, the demand for concessionary resources will be extremely great, especially in the case of the less developed countries, and the Bank has projected loan programs on an increasing scale through 1978, when annual loan volume is expected to exceed $850 million. Loans for the full four-year period 1975-1978 are expected to total more than $2.8 billion, including over $2.0 billion of currencies freely usable by the Bank.

The portions of loan programs in the currencies of Latin American members are expected to total over $800 million during the four years through 1978, representing an unprecedented rate of use of these currencies and comparing to the use of $440 million of these currencies during the previous four-year period through 1974. Despite the size of the program in Latin American currencies, no resource shortfalls in such currencies are foreseen, with adequate coverage expected to originate from the January 1, 1975 uncommitted balance of $480 million as supplemented by $350 million of loan principal repayments, $100 million of net loan participations to be purchased by the Social Progress Trust Fund, loan cancellations estimated at $30-$50 million and $277 million from the proposed replenishment.

Loan programs aggregating over $2 billion in currencies freely usable by the Bank will be met as shown in Table XI.

TABLE XI

Fund for Special Operations
Availability of Freely Usable Resources

	1975	1976	1977	1978
Balance at beginning of period	210	86	327	230
Loan program	(409)	(475)	(540)	(615)
Capital quotas already subscribed	225	275	-	-
Contributions subscribed by nonregional countries	-	124	124	124
Other items	60	60	63	67
Proposed replenishment				
United States	-	200	200	200
Canada	-	17	17	16
Latin American countries	-	40	39	39
Balance at end of period	86	327	230	61

A significant portion of the freely usable resources needs through 1978 can be met from sources other than the replenishment exercise. In addition to $210 million of resources carried forward from 1974, a total inflow of $1,122 million is expected including $500 million representing the final payment by the United States under the ongoing resource replenishment of which the US$175 million corresponding to 1975 is now paid, $372 million of contribution quotas of $124 million annually, during the years 1976-78 to be subscribed by nonregional countries expected to be admitted to Bank membership (see following sub-section) and $250 million from such diverse sources as loan principal repayments, loan cancellations, increase of convertible currencies from existing Fund resources and the effects of substitution of Latin American member currencies in loans authorized in freely usable currencies for purchases in their respective markets.

In light of these projections, an increase in the resources of the Fund for Special Operations equivalent to $1,045.3 million is required for the 1976-78 period, payable in three equal annual installments on or before December 31, of each of the years 1976, 1977 and 1978. The IDB Board of Executive Directors is empowered to postpone any or all of the respective contribution quota due dates. Of the increase, $600 million would be contributed by the United States, $50 million by Canada and $395.3 million by the Latin American members of the Bank. All members would pay such contributions 100% in their own currencies or in United States dollars. A higher quota for the Latin American members as compared with the last increase reflects the application of the principle of self-help by the borrowing member countries.

In accordance with this same principle, 100% of the contribution of Canada, Trinidad and Tobago, the United States and Venezuela, as well as 25% of the contributions of Argentina, Brazil and Mexico, would be freely convertible into the currencies of other countries eligible for procurement for the purposes of the Bank's operations. In addition, all currencies contributed by any member country could be used by the Bank for the acquisition of goods and services in the territory of the member by borrowers in that or other member countries. These measures would replace certain previous arrangements governing the use of currencies of the borrowing members of the Bank.

In accordance with the basic principle of the Fund for Special Operations, all developing member countries will be entitled to have access to these resources. Pursuant to the policy of preferential treatment for less developed countries and those of insufficient market, the unrestricted resources will be used for operations in the territories of these countries and also in those of countries at an intermediate stage of development. Other developing countries will have access to the other currencies contributed and, in the case of projects of a social nature, to the capital resources on favorable terms of amortization.

As in the case of the proposed increase of resources relating to the ordinary capital/inter-regional capital, the Bank may receive non-negotiable, non-interest-bearing promissory notes or similar securities, in the form contemplated in Article V, Section 4, of the Agreement Establishing the Bank, in lieu of the immediate payment of all or any part of a member's subscription to the proposed contribution quotas.

Proposed Admission of Non-Regional Members

As described in the section on Ordinary Capital, 12 nonregional countries have affirmed their intention to take all steps necessary to apply for membership in the Bank. Approval of measures leading to the entry of non-regional members into the Bank are presently pending ratification by the IDB member governments. As a condition of their proposed membership the 12 countries would be expected to contribute US$372 million to the Fund for Special Operations in quotas of US$124 million annually during the period 1976-78.

Social Progress Trust Fund

The Social Progress Trust Fund (SPTF) was created pursuant to an agreement entered into between the United States and the Bank, as Administrator, on June 19, 1961. The initial resources were $394 million. The agreement authorized the Bank to make loans for land settlement and improved land use, housing for low-income groups, community water supply and sanitation facilities, and supplementary financing of facilities for advanced education and training related to economic and social development. In addition, the Bank was authorized to provide technical assistance related to those fields and to the mobilization of domestic financial resources. The Bank accepted the administration of the Fund for these purposes, deeming it to be consistent with the provisions of the Agreement Establishing the Bank and with its efforts to foster greater social progress and balanced economic growth in its member countries. In February 1964 the United States contributed an additional $131 million to the Fund. Almost all these resources were committed by the end of 1964 for the indicated purposes. Because of the social nature of the projects financed, most of these loans were repayble in local currencies. In 1965 the Board of Governors reached the conclusion that no new resources should be sought for the SPTF and decided that in the future the Bank should include in the operations of the FSO additional financing for social development purposes, including those previously financed through the SPTF. No loans have been made from the SPTF loan repayments since 1965, but remaining resources have financed technical assistance activities. Available resources, including repayments, have also been utilized to purchase participations in FSO loans dedicated to the same purposes as SPTF loans. As of December 31, 1974, the SPTF had purchased $198.7 million in such participations.

Venezuelan Trust Fund

On February 27, 1975 the Bank signed an agreement with Venezuela to administer a $500 million trust fund ($400 million in dollars and 430 million in bolivars). This new fund will provide resources for the development of the region's productive and exporting capacity, with special emphasis on the better utilization of natural resources. It should also play an important role in stimulating Latin American integration. With the resources of the Fund, the Bank will finance projects providing for the most suitable utilization of natural resources in the relatively less developed member countries, those with limited markets, and those of intermediate development.

A limited portion of the resources of the trust fund may also be employed to expand the Bank's present program for financing exports of capital goods in any developing member country of the Bank, including manufactured and semi-manufactured goods, and exports directed to countries outside the region.

With the resources of the Fund, the Bank may make loans as well as equity capital investments. Loans extended from the Fund will be made for amortization periods of up to 25 years, with grace periods generally of up to five years, at an interest rate equal to that prevailing for the ordinary operations of the Bank. Decisions on matters affecting the Trust Fund will be taken by a majority vote of the member countries in accordance with the terms of Article VIII, Section 4(c)(iii) of the Agreement Establishing the Bank. It is expected that $160 million from the resources of this fund will be committed in loans in 1975, $110 million each in 1976 and 1977 and the remaining $120 million in 1978.

Other resources from non-member countries

Separate from the entry into the Bank of the non-regional countries and their related contributions to the Bank's resources, the Bank has entered into agreements with Germany, Norway Sweden, Switzerland, the United Kingdom and the Vatican to administer special funds which they have provided for development projects in Latin America. Loans from these funds are made at very concessional terms. The Bank also administers a loan for $1.3 million which the Inter-Governmental Committee for European Migration made for agricultural projects in Brazil. As of December 31, 1974, all of these arrangements totaled $52.8 million. The German Government has contributed $13.4 million for the rehabilitation of the Bolivian tin mines under a triangular loan arrangement administered by the Bank. A $5 million Swedish Development Fund for Latin America was placed at the Bank's disposal in 1966. By means of Agreements of 1966 and 1971 the United Kingdom has placed in administration with the Bank $18.5 million. On March 26, 1969, the Bank entered into an agreement with the Holy See to administer the $1 million Populorum Progressio Fund assigned to benefit low-income sectors in Latin America, initially in the field of agrarian reform. In 1970, Norway set up another Trust Fund for $2 million, and Switzerland in 1973 established the Swiss Development Fund for Latin America for $11.6 million to be delivered in three equal annual tranches.

Additionally, the Bank has entered into arrangements with the Netherlands under which it will help channel a total of $49.6 million for Latin American development provided through parallel or independent financing arrangements.

9

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(Development Committee)

CONFIDENTIAL

DC/75-28

December 1, 1975

CURRENT UNDER-UTILIZATION OF PRODUCTIVE CAPACITY IN INDUSTRIAL COUNTRIES IN RELATION TO THEIR AID EFFORT

During the September 1975 meeting of the Development Committee, a member proposed that the Committee give an impetus to the idea of taking advantage of current under-utilization of productive capacity in industrial countries so as to bring about a substantially increased transfer of resources to developing countries.1/ The Committee agreed in its communiqué of September 4, 1975, that the idea should receive attention as part of the work program for 1976. This paper discusses some of the underlying assumptions of the idea and examines various questions that would arise in implementing it, in order to provide a basis for consideration by the Committee at its forthcoming meeting.

I. Elements of the Idea

In brief, the elements of the idea as put forward are as follows:

a. There exists at the moment a world recessionary situation involving high levels of unemployment and substantial under-utilization of productive capacity in the industrial countries.

b. The circumstances are uniquely appropriate for simultaneously contributing to economic recovery in the industrial countries and raising development finance to a much higher plateau for the benefit of developing countries. Development finance could contribute to recovery by generating an exogenous demand for the products of the export sector of the industrial economies additional to what there would otherwise be.

c. To take advantage of the opportunity presented, idle industrial facilities should be surveyed to identify those that produce equipment needed

1/ See document DC/75-25, Record of Discussion, pages 12-13, and document DC/75-24, Future Work Program.

* * *

in developing countries. It would then be necessary to determine the appropriate financing arrangements to permit the production and export of the goods.

d. The most appropriate financing mechanism would be the regular operations of the existing international lending institutions, but consideration should also be given to liberalization of export credit facilities of the industrial countries. Special financing would be required to permit the lending agencies to expand their regular operations to the requisite degree, but it could be shown to contributing industrial countries that their contributions to the international agencies would have a positive impact on their employment and production problems.

e. The special export-demand creating effort would not be considered an anti-cyclical device, but simply a one-time exercise in raising the level of development finance over the next several years by making such finance a part of the industrial countries' recovery effort.

f. To obtain an approximation of the volume of special financing that could be channeled through the international institutions under the proposal, the World Bank and the regional banks should be asked to estimate how much they could disburse annually over the next three to five years if there were no constraint on the availability of funds.

II. Relationship of Assistance Expenditures to Aggregate Industrial Activity in Developed Countries

Although the suggested approach clearly focuses on the idea of selecting specific industries for concentrated attention, the judgment of industrial country governments on adopting it or not adopting it as a technique for stimulating recovery is likely to be made in more aggregative terms. Since the decision to pursue demand stimulation through development exports must compete for resources with decisions to try alternative stimulative means, governments will wish to feel that export demand stimulation has a significant potential for achieving results before committing themselves to that course. The aggregate relationships between total official flows and total demand in the economies of traditional aid-providers appear to offer little encouragement in terms of the significance of the demand stimulation approach, although in particular exporting sectors the relative importance of official flows could be quite significant.

The familiar DAC statistics on aid in relation to GNP can perhaps serve to illustrate the point adequately. The DAC-wide average for ODA as a percentage of GNP was 0.33 per cent in 1974. If other official flows are included, but bilateral technical assistance grants, which have a low procurement component, are excluded, this figure would decline slightly to 0.32 per cent (see Table 1). Thus, even a doubling of current levels of total official

Table 1: Net Official Flows (excluding technical assistance) from DAC Countries, 1974

	$ million	Per cent of GNP
Net ODA from DAC countries	11,304	0.33
plus		
Net other official flows from DAC countries	2,183	0.06
minus		
Technical assistance grants from DAC countries	2,494	0.07
equals		
Net official flows (excluding technical assistance) from DAC countries	10,993	0.32
* * *		
GNP of DAC countries, 1974	3,414,669	100.00

Source: DAC.

non-technical assistance flows would result in incremental demand of less than one-third of 1 per cent of GNP of DAC countries. With aggregate DAC-wide GNP in 1974 calculated at $3,414 billion, an injection of incremental demand of 0.5 per cent of GNP would require new official flows of $17.1 billion, compared to 1974 total official non-technical assistance flows of $11.0 billion, and would require for its effectiveness assumptions of no leakages and perfect targeting of excess capacity. Of course, the operation of a demand multiplier would reduce the size of the required increment, but would still be likely to leave it very large.

The question may also be analyzed, not in terms of total GNP, but of an increment in demand in relation to the shortfall of realized GNP below full employment or "normal" GNP. If such shortfalls were modest in relation to full employment GNP, an increment in demand through a realistically achievable increase in aid financing could have a significant impact. It is generally recognized, however, that current underperformance of donor country economies in GNP terms is very large. It would, therefore, on this basis as well, require very high percentage increases in official flows in order to cover more than a minor proportion of existing GNP gaps.

In the light of governmental performances to date on aid flows, it appears that the effective constraint in an aggregate sense to implementation of the concept is in the sheer size of the required injection of stimulative funds and the relative difficulty of demonstrating persuasively that even a large input of funds was causally linked to resulting GNP changes. In the latter connection, a recent study by the DAC Secretariat of the relationship between official development assistance (ODA) and donor economies notes that the effects of aid on aggregate donor country demand are difficult to identify and to calculate precisely, and offers the view that at current levels aid is such a small component of the economies of donors that adjustment of aid cannot materially help in the solution of their economic problems. Although the DAC analysis was oriented more toward the problem of donor tendencies to reduce aid in the face of recession and inflationary situations than toward increases in aid as a stimulus to recovery, it usefully illuminates the point that it is the <u>net</u> impact of an increment in aid demand that will affect production and employment. Such net impact will itself be determined, inter alia, by the means of financing, which may reduce private domestic demand or other public domestic demand, depending on the techniques employed. The gross increases in resource flows to international institutions for implementation of an export stimulation program may therefore have to be still larger than indicated above.[1/]

The export demand stimulation idea was not, of course, put forward on the assumption that it would be the principal mechanism of recovery in industrial countries. It can, therefore, be viewed in terms of the more modest thought that a period of under-utilization of capacity is an appropriate period for increasing the aid effort towards adequate levels. The stimulus to overall demand from increased aid expenditures could thus be seen as an important but not the only purpose of the proposal.

It should also be noted that such a stimulus to overall demand could, because of the economic structure of some of the industrial countries, be

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1/ It might be argued that governments might be more willing to bear the cost of additional aid if they perceived more clearly that stimulated production and employment in development-related export industries would reduce the costs of unemployment insurance and other benefits. A recent OECD study suggests, however, that the stimulative input required to achieve a given reduction in unemployment benefits would have to be several times larger than the reduction in benefits itself. (See OECD Observer No. 76, July-August, 1975, pp. 11-12.)

of significantly greater importance in supporting a widespread recovery than in other industrial countries. Table 2 provides some insight into the relationships in the DAC countries among total exports, total exports to developing countries, and GNP of DAC countries. In 1974, exports to developing countries accounted for an average 25.2 per cent of total exports by DAC countries. These exports to developing countries, in turn, represented an average 3.8 per cent of 1974 GNP of DAC countries. It is not possible to estimate readily what the breakdown of these percentages is as between exports of consumption goods and exports of development goods to developing countries. It can be assumed, however, that there would not be severe difficulties from a physical supply standpoint in accommodating within the available capacity of donor countries the exports made possible by the absorptive capacity of developing countries.

III. Relationship of Increased Assistance Expenditures to Cyclical Situation in Developed Countries

The foregoing brief discussion of the macroeconomic aspects of the idea of special measures to put under-utilized capacity in developed countries to work on producing development goods for export was in terms of the static relationships of certain national income and incremental demand aggregates. Although the idea was set forth with the stipulation that it should not be regarded as a counter-cyclical mechanism, it is necessary nonetheless to consider it against the background of a dynamic cyclical situation in the industrial countries. In doing so, one must be aware, of course, of the inherent problem that successful demonstration of the relation of development exports to aggregate demand in developed countries in a recovery situation could provide the basis for correlative actions to cool economies during inflationary periods. Notwithstanding that hazard, the idea may be examined in its cyclical setting.

A first point to be made is that because of the time-sensitivity of the idea, any decision regarding its implementation would have to be based on confidence that the decision could be translated almost immediately into procurement actions, and that the more typical long-lead-time pattern of pump-priming would not prevail. Also, depending on the magnitude of the stimulation provided by action pursuant to the concept once initiated, there would have to be confidence that it could be curtailed if a sharply different business cycle situation emerged faster than anticipated. It may be doubted, in that regard, that governments and monetary authorities would welcome a special program that would continue to have stimulative effects that, even though small, might conflict with a new direction in their other macroeconomic policies. If the widespread recession in developed countries has in fact "bottomed out," the impact of even a relatively promptly implemented program would be felt when the cyclical upswing is already in motion.

Second, and even more importantly, it has been peculiarly characteristic of the present world economic circumstances that deep concern regarding

Table 2: Comparative Indicators of DAC Countries' Exports to Developing Countries, 1974

	Total exports to developing countries as percentage of GNP	Exports to developing countries as percentage of total exports
Australia	3.9	27.7
Austria	3.5	16.3
Belgium	6.3	11.8
Canada	2.1	8.9
Denmark	3.1	12.5
Finland	2.7	10.2
France	4.2	25.0
Germany	4.5	19.6
Italy	5.3	26.0
Japan	5.8	46.9
Netherlands	5.6	11.8
New Zealand	..	..
Norway	4.4	16.1
Sweden	4.0	14.1
Switzerland	5.8	22.6
United Kingdom	5.2	25.5
United States	2.6	36.4
Total DAC countries	3.8	25.2

Source: DAC.

inflationary consequences of policy action has coexisted with concern about combatting recession. If reflationary policies in industrial countries stop short of reaching "full employment," this is usually because of the assessment by the authorities that beyond that point, additional demand would result in inflation. The relationship between the rate of inflation and the unemployment rate is complex and there is no easy quantitative guide to determine the precise point at which demand management should stop worrying about unemployment and be concerned with countering inflation. The only practical assumption one can make is that the authorities, being conscious of the trade-off between inflation and unemployment rate and possessing adequate techniques for augmenting domestic demand, would have done all that can be done to inject additional demand consistent with the control of inflation and that if resources still remain idle, the removal of demand deficiency is not only not a preferred answer but may be considered to be a relatively costly one.

Notwithstanding the limitations of the concept, however, it should not be ruled out that governmental authorities might find, within a given set of demand management policies, that stimulation of the export production sector could be preferable to stimulation of some other sector. Such a preference might be based on the presence or absence of a particular pattern of linkages between production of export goods and other producing sectors in the economy, or on a desire to substitute export production for production of domestic goods whose use would require production inputs from other economic sectors that were already overstrained. Taking this sectoral approach, implementation of the concept might yield additional exports of a developmental character and, at the same time, prove advantageous for overall demand management policy. The judgments involved in determining where to make such sectoral substitutions are highly specialized to the situations of individual countries, and for this reason would appear to be most suitably made as national policy decisions rather than in the context of a program operated by the international lending agencies.

IV. Questions Relating to Implementation of the Idea

A basic feature of the idea under consideration is that it should operate through the normal lending mechanisms of the World Bank and the regional banks, although liberalization of their export credit facilities by the industrial countries has been mentioned as well. This section discusses some of the implications of the multilateral institution approach, and also examines the alternative possibility that individual industrial country governments would mount their own programs.

The feasibility of the concept as a program for the multilateral institutions needs to be considered both from the standpoint of their operating policies and of their capital situations and structures. (It may safely be assumed that the problem of identifying appropriate industries where additional export orders would be welcomed by national authorities could be solved by allowing industrial country governments to place such industries or lines of goods on a centralized "offer list." Correspondingly, the problem of identifying needs for such goods by developing countries could be solved by allowing representatives of such countries--provided the countries were eligible for development assistance--to inspect the list of designations by industrial countries and prepare "want lists" for consideration by the lending agencies.) With respect to policy matters, the following aspects would need to be taken into account:

a. Procurement policy

With limited exceptions, multilateral lending is executed on the basis of untied procurement. Since the idea depends for its effectiveness on fairly precise targeting of demand on specific under-utilized industries in specific supplier countries, it would appear to be necessary to the success of the scheme for the multilateral agencies to devise mechanisms for directing procurement to particular national industries and in fact to prevent procurement orders from flowing to countries whose producers of the specified goods were relatively unaffected by recession. In other words, an internationally-sanctioned tying mechanism would appear necessary, a development which would be in conflict with current trends and accepted goals with respect to untying of aid.

b. Project approach

The predominant mode of operations of the multilateral lending agencies is the project approach, involving a pattern of procurement and disbursement over as many as 5-10 years, following a lengthy project preparation period. Even if there were a substantial list of projects awaiting financing, and apart from the extended timetable of project implementation, the offer list/want list approach would not be well adapted to meeting the full procurement requirements of individual projects. It would be necessary, therefore, to have the lending institutions engage in program or commodity import-type lending on a much broader scale than at present in order to achieve the desired rapidity of order placement and disbursement.

With respect to financial aspects relating to the sponsoring international institutions, these additional aspects need consideration:

c. Financing mechanism

The strategy of the idea is to offer industrial countries a rationale for making large immediate new inputs to multilateral banks, over and above the regular funding of these institutions, that would allow them to pursue an active recovery-promoting role. The World Bank is already in the position where, in the absence of a capital increase, its projected lending program cannot be increased because of the limit imposed on lending authority by the capital base. Means would therefore have to be found for the lending institutions to accept large volumes of funds that are not part of a regular capital increase, but rather provided by a limited group of industrial countries. Such selective special capital subscriptions increases would necessarily alter capital and voting relationships that had previously been agreed to taking many other factors into account.

Although some emphasis has been placed on the preference for regular operations of multilateral banks over creation of special mechanisms, a trust fund or other funds-in-administration arrangements might nevertheless make possible quick acceptance by the lending agencies of funds from any industrial country that expected to be a major beneficiary, in amounts commensurate with its own anticipated benefit. The details of such a trust fund could be elaborated with little difficulty if there were a basic decision to move forward with the general idea. Such an approach might obviate or mitigate any possible difficulties of the type noted in the preceding paragraphs in proceeding with tied procurement and financing on other than a project basis.

As an alternative financing device, the lending agencies might sharply increase their rate of commitment of presently available resources, thus hastening the date on which the next capital increase became necessary, on the understanding that the increase would be in an amount calculated at least to restore the institution to the position it would have been in if it had not engaged in this special additional financing. Under this alternative, the cost of financing the program would be spread among all subscribing members, and it would have to be clear in advance that the membership at large was prepared to bear the cost of a specialized program that might convey particular benefits to a possibly limited number of industrial members. Similarly, to the extent that loan funds were sought from additional borrowings in the financial markets of industrial countries not expecting major benefits from the program, it would have to be determined in advance that those market countries were willing to allow such borrowings to benefit possibly competing industrial countries.

It is presumed in the foregoing that if industrial countries decided to put new resources into the international institutions for an export stimulation program, they would find some means to shorten dramatically the present lengthy legislative lead time for capital increases (or, in the case of the alternative of accelerated use by the banks of existing available resources, would agree now to give binding commitments on capital subscriptions at a future date).

d. Additionality in relation to regular resource increases

It would appear essential that funding attributed to implementing an export stimulation program not simply substitute for planned resource increases of the lending agencies, otherwise the stated objective of moving multilateral finance to a higher plateau would not be achieved.

As a program executed by industrial countries individually rather than through multilateral institutions, many of the preceding issues cease to be of consequence, although at the same time the impulse to multilateral lending stressed in the original suggestion would not be achieved. In this case, industrial countries would design their own programs to the size, mechanics and industry comprehensiveness they desired. Notwithstanding that there is a common interest among industrial countries in recovery from widespread recession, such a bilateral approach would have to be operated very cautiously in order to avoid generating complaints of unfair competition in third markets undertaken under the banner of aiding recovery and development. Similarly, any use of cheap credit terms from national export finance agencies to move development goods could place in jeopardy the progress laboriously achieved among OECD countries in the recent past toward harmonization of export credit terms. A substantial commitment of national resources to recovery-motivated export stimulation could also pose some problems for aid-administering agencies, both in terms of the geographic pattern of the resulting lending and of the nature of the activities supported in developing country recipients.

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The foregoing analysis reaches no absolute conclusions on the various considerations that would be involved in the establishment of a special lending mechanism to stimulate demand for exports of development goods. It appears from the discussion, however, that there are certain limitations on the implementation of the general concept, among them the volume and speed of availability of resources that the industrial countries might be willing to provide. Likewise, although the technical problem of identifying and matching up availabilities of and needs for development-type goods appears amenable to solution, the operation of an export demand stimulation program by international lending institutions has some specific limitations relating to a number of basic operating principles of those institutions.

There is, however, sufficient validity, in very general terms, to the broad idea of the favorable relationship between aid flows and the levels of production and employment in industrial countries that such countries may wish to keep the current examination in mind when formulating their further economic recovery plans, with a view to possible implementation with respect to bilateral aid programs. The fact that the relationships involved are difficult to demonstrate conclusively and to quantify need not obscure their general tendency. Moreover, the principles involved may have more readily visible effects when applied to particular sectors of export production.

Thus, particularly if it is possible to point to even a few illustrative cases providing jobs and keeping factories going, officials responsible for presentations of aid budgets to legislatures may find high-lighting--necessarily still in general terms--the relationship between aid exports and the level of employment and economic activity to be a useful line of argument against pressures for reduction of aid which tend to arise during recessionary conditions, and possibly a useful line of argument in favor of an expansion of aid.

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