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Mr. Robert S. McNamara December 16 1968

Irving S. Friedman

Board Meetings

In connection with preparation for Board meetings you may find it useful to know that ordinarily I prepare myself on various loan or credit proposals to be able to answer questions which are considered by the Economic Committee. The most usual ones are:

(a) Why it is considered appropriate from an economic viewpoint to lend or give credits to a country.

(b) Why we consider the country creditworthy for Bank lending.

(c) Why we make the kind of "blend" of IDA credits and Bank loans to the country concerned.

(d) Why economic performance is considered to be sufficiently acceptable for proposed credits or loans and what changes, if any, in economic policies are deemed necessary or desirable.

(e) The essence of staff views on a country's development strategy.

(f) Why, from an economic viewpoint, we believe that a case has been made for local currency financing, and

(g) When we are planning to send the next economic mission to a country.

You may, of course, find it convenient to have such questions, if they arise, answered by the staff economist who is also answering questions on the details of the country's economic position, outlook, and policies.

Owen
cc. Pottker

December 11, 1968

Dear Chuck,

I have read with great interest the article which you plan to submit to FOREIGN AFFAIRS. Needless to say I am pleased by the very friendly attitude shown towards the World Bank.

I would like to make a few comments on your main theme, that as long as the United States maintains its bilateral program lending it is both feasible and in the U.S. interest to transfer its project loan funds to the World Bank. However, before giving any comments I would like to say at the outset that I feel that the U.S. AID program has really been much more meritorious than it is given credit and anything that I may say about the World Bank Group should not be read ascuriticism of the U.S. AID program.

I do believe that if the various bilateral donors were to make it possible for the World Bank Group to finance an expanded volume of projects, that good investment projects would be available in countries pursuing reasonable sound development policies and that the World Bank could cope with the problem of administering a much higher volume of lending. Secondly, at least for the Bank, I believe that in principle project and program lending are equally appropriate instruments of development finance. I take your point that the U.S. would retain the bilateral program aid in the conviction that it is a more effective instrument than project aid for pursuing economic and political goals simultaneously. However, it is to be recognized that the attempt to pursue these goals simultaneously may be at times most difficult. Thus political motives may well tend to weaken the insistence on changes in national economic policy which may be necessary for more successful development. Such changes are often politically painful to make and difficult to maintain. You do suggest that program aid could be conditioned on World Bank lending recommendations. This is done at present in many of our consultative and consortia groups. This does help to reconcile national objectives with basic development criteria, However, it does mean that one starts with the development criteria as of basic importance rather than political objectives other than assisting the development process in the recipient country.

May I suggest that you look again at some of the paragraphs setting forth the benefits of program loans to ensure that they do not promise too much. For example, paragraph 5 on page 14 dealing with the generation of local counterpart funds may exaggerate the extent to which such generation gives leverage to the donor country. In practice it may well be found that the ability of the borrower to generate funds independently through new money creation may greatly weaken the leverage effects of nominal controls over the local counterpart funds.

Another example is found in the second paragraph on page 16. It may well be that mistakes may flow from hasty judgments on program loans made under pressures to exhaust aid funds by the end of the fiscal year as in the case with project loans.

On page 17 the last paragraph beginning "Aid staffing" — the last sentence may be taken to imply that project lending is being criticized but not program lending. Actually both have been criticized. In the Bank context I would say that project loans are easier to defend than program loans because of the more precise calculations that can be made of the cost and benefits of any particular investment. From the viewpoint of the U.S. AID program this may be different. You, of course, are much better placed than I to judge the sensitivity of your colleagues in the Congress to different forms of lending.

Perhaps my most general comment on this question is that whatever the form of development financing, of decisive importance is how the aid is administered. It is by the most careful administration of aid funds that criticism can be avoided or when made, can be answered with conviction.

May I suggest that in the first complete paragraph on page 20 that you give further thought to how to make the point about the terms on which the World Bank does its lending. I believe that it is important for the Bank to maintain lending terms related to the cost of borrowing to the Bank. I do, of course, appreciate that this could result in onerous external financial burdens for many of our borrowers — it is for this reason that I attach so much importance to the passage of our IDA legislation. It is by combining or "blending" conventional Bank loans and concessional IDA credits that we are in effect able to liberalize the terms of lending to those countries whose balance of payments prospects require more concessional terms than the Bank can give.

May I make a few editorial suggestions — page 2, the paragraph beginning "Because" -- I would suggest striking out at least "nominally". The less developed countries do have an effective voice in the management of the Bank.

On page 18, third paragraph beginning "The Bank" — I would suggest words along the following lines: "The Bank might be able to bring about changes in economic policies which the U.S. — laboring under political constraints — cannot."

I do hope the above comments are of some use. If I can be of any further help please call on me. At this juncture in history I am sure that your article will make a valuable contribution to the future success of the Bank.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

The Honorable
Charles H. Percy
United States Senator
United States Senate
Washington D.C. 20510

WSG

I would like to make a few comments on your main theses

DRAFT: 12/10/68

Dear Chuck,

I have read with great interest the article which you plan to submit to FOREIGN AFFAIRS. Needless to say I am pleased by the very friendly attitude shown towards the World Bank.

First, I believe that if the various bilateral donors were to make it possible for the World Bank Group to finance an ~~extended~~ expanded volume of projects that good projects would be available in effective countries pursuing reasonably sound development policies and that the ~~problem of evaluation, as well as financing, could be successfully coped with.~~ World Bank could cope with the problem of administering [illegible]

As for continuing bilateral program lending for political [illegible] ~~I can appreciate that any transition from the present pattern of aid in which the total bilateral assistance is much larger than total multilateral assistance may have to be gradual and approached pragmatically. For myself I can see why any country would want to have a foreign aid program as one of its instruments of foreign policy, however, I do believe that the best long term foreign policy objectives are served by trying to have any aid based on very careful analysis designed to achieve the most effective use of such aid.~~ there is always the danger that political motives will tend to weaken the ~~assistance~~ insistence on changes in national economic policy which may be necessary for more successful development, particularly since often such changes are rather painful to make and to maintain. To the extent that, as suggested on page 15, program aid ~~be~~ were conditioned on World Bank lending recommendations, this danger could, however, be largely overcome, as indeed is the case in many of our present consultative and consortia groups.

I know that there has been much Congressional and public criticism of various project lending by U.S. AID. My impression is that a better job has been done than the AID people are given credit. However, in any case, program lending also tends to give rise to criticism. For me, the lesson to be drawn is that the utmost care has to be exercised in the administration of all forms of development financing -- that in principle project and program lending are equally appropriate instruments of development finance. Of decisive importance is how the aid is administered and that any variation relates to the extent to which the aid given is able to insist on good economic development by the recipient countries and the effective application of the aid funds. Program lending will, of course, not avoid criticism by itself unless it is well administered. Indeed, it is probably safe to say that the standards of administration of aid funds must be extraordinarily high since it represents the transfer of resources on less than commercial terms and is thereby bound to come under close public scrutiny.

In view of the above I think it might be advisable to look again at some of the paragraphs setting forth the benefits of program loans to ensure that they do not promise too much. For example, page 14, para 5, dealing with generation local counterpart funds -- in practice it may often be found that the ability of the borrower to generate funds independently through new money creation may greatly weaken the leverage effects which might otherwise be expected.

Another example would be the second paragraph on page 18 -- it may be that program lending could also sp   from hasty judgments made under pressure to exhaust aid funds.

The only other point I would like to make is on page 20, the first complete paragraph dealing with the Bank's conservative approach to development finance. I believe here that it is important to distinguish at this point between the Bank which must conduct its affairs in such a way as to maintain ease of access to capital markets in the major countries and the activities of the IDA. However, I am sure that this is not a difference in concept but merely one of words. The Bank ~~has already~~ is already contributing about one-half of our net income to IDA and it is conceivable that it might do more in the future without weakening its financial structure.

Dear Chuck,

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Sincerely,

Robert S. McNamara

The Honorable
Charles H. Percy
United States Senator
United States Senate
Washington D.C. 20510

10 Dec

Irving:

One technical point we did not discuss on phone relates to counterpart funds (page 14, para. 5). Paper says program loans generate counterpart funds, and lender's control over this local revenue is an important source of bargaining power. Experience has shown, however, that in ldc's that possess ~~with~~ an degree of financial sophistication this is weak leverage indeed. They know ~~they~~ that, ~~tho~~ if lender will not agree to use of counterpart desired by borrower, latter can sterilize the counterpart funds and resort to new money creation in its place, thereby ~~without~~ effectively freeing the funds from lender's control.

JF

Two other pts:

p. 18 - 2nd para —
actually fiscal year pressure argument applies at least with equal force to program lending

p. 20 - middle para.
In light of article on Swiss bankers' reaction to McNamara's policies, the suggestion for easing the Bank's commercial terms could have unfortunate repercussions at present time.

P.C. — Mett

Tell P.C. not Nett —

1/ Add Frank Owen to Mon morning meeting — follow-up — on Aid Contract team

(1) take out "at least nominally" —

(2) add ^ — after US "or any other donor country"

(3) unfortunate dependence

(4) Take out "some degree of"

(5) word "additional" not clear

pro (6) But "losses" often in terms of alternatives or opportunity costs

pro (7) uncommon for US now — "major" how many cases?

[By and large I agree]

(8) causal relation not clear?

(9) If program loan given for political reasons and effects may well be harmful —

[make sure Frank about Perry thesis?]

2

since eagerness to gain political advantage will be damaged by insistence on important macro eco. policy change — unless changes would have been made anyway —

(10) I recommend much of my objection — but does weaken "political effects" —

(11) Do we have such a policy (aside from credit [illegible] — [illegible] senators insist we do)

(12) Sorry to hear Senator Percy believes tying aid is likely to continue to be instrument of bal. of pay. management

(13) Might help if author informed what is being done now that he considers program aid — Korea?

Percy hasn't got all the way to recognize Percy [illegible] not [illegible] aid

I agree that bilateral aid projects not good for political objectives — Also believe all lending of all types has political aspects — but short-term non-develop. foreign pol. objectives vs long term foreign policy objectives served by sound develop. finance —

DRAFT: 12/10/68

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I can appreciate that any transition from the present pattern of aid in which the total bilateral assistance is much larger than total multilateral assistance may have to be gradual and approached pragmatically. For myself I can see why any country would want to have a foreign aid program as one of its instruments of foreign policy, however, I do believe that the best long term foreign policy objectives are served by trying to have any aid based on very careful analysis designed to achieve the most effective use of such aid. There is always the danger that political motives will tend to weaken the assistance on changes in national economic policy necessary for more successful development, particularly since often such changes are rather painful to make and to maintain. To the extent that, as suggested on page 15, program aid be conditioned on World Bank lending recommendations. This danger could, however, be largely overcome, as indeed is the case in many of our present consultative and consortia groups.

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12/5

To Mr. Friedman

I [illegible] may have your comments on the form of draft reply to Percy by Tuesday [illegible] 10.

[illegible]

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

Dec. 10 1968

Mr. McNamara:

as requested.

ISF

Irving S. Friedman

CHARLES H. PERCY
ILLINOIS

DEC 6 REC'D

United States Senate
WASHINGTON, D.C.

DEC 6 1968
replied 12/11

December 4, 1968

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

Dear Bob:

Enclosed is a draft I have done for an article on the U.S. foreign aid program, which I plan to submit shortly to Foreign Affairs. Your own candid opinion of my central idea would be much appreciated. I also would welcome your comment or correction on any specific points made in the article.

All best wishes and

Warm personal regards,

Charles H. Percy/sbf
United States Senator

A NEW ROLE FOR THE WORLD BANK
IN U.S. FOREIGN AID STRATEGY

Congress recently has made the deepest cuts in U.S. foreign aid levels in the history of the program. These cuts are symptomatic of the general dissatisfaction with the aid program and its indifferent results as well as an attempt to re-evaluate our priorities in light of pressing domestic needs. However, even the drastic reductions in the aid program have done little to alter the program's basic character. We are simply doing less of the same. If our aid program is to reflect a new vision of America's role, it must be different not so much in size but in character from its predecessors.

In my opinion, if U.S. foreign aid is to play a constructive international role that is acceptable both to the American taxpayer and to the developing nations of the world, the United States must begin to place greater reliance in the multilateral assistance agencies and particularly the World Bank.

One of the central arguments for multilateral aid rests in the nonpolitical nature of international institutions. The record has clearly shown that bilateral aid programs, however efficiently managed, are vulnerable to political pressure -- or the equally damaging suspicion of political pressure.

Many thoughtful Americans have argued that what is needed to escape the political liabilities of bilateral aid is a shift to multilateral aid vested in an international agency such as the World Bank. The point is made that an international agency can insist on the application of objective economic criteria in the disbursement of loans and, equally important, enter into an institutional relationship with the recipient of the aid. Clearly, over the years, the World Bank, as the prime example of the multilateral approach to economic aid, has built an enviable reputation for professional competence and dedication to development which removes from its recommendations the stigma of nationalist self-interest which "inescapably" surrounds bilateral aid.

Because the less developed countries are represented both on the staff and [at least nominally] in the management, it provides a far more acceptable framework within which to carry out development.[1] Economic medicine which may be politically fatal to a recipient government if taken under the pressure

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1 Escott Reid, looking ahead to the mid-seventies, predicts that the Bank president will be a non-American and that his immediate advisors would include among others an Indian or a Pakistani, a French-speaking African and a Latin American. The Future of the World Bank, (Washington, D.C.: International Bank for Reconstruction and Development, 1965), p. 58.

from the U.S. may be palatable when it comes from the Bank. Furthermore, since the Bank is a permanent institution, long range aid planning is possible, being subject neither to political starts and stops, nor overzealous Congressional oversight, nor fiscal year-end pressures for overhasty loan-making. Thus, to the extent that the U.S. desires economic development in the "third world" as a primary national objective, there is a good case for channeling aid through that agency which has the best chance of making aid most effective toward that end. This general line of thinking is the most compelling argument for providing aid through the World Bank.

There is, however, an equally compelling counter argument resting on the premise that economic development is only one goal of a bilateral development program -- and perhaps not even the most important. Professor Morgenthau has put this case succinctly, concluding that:

> "As military policy is too important a matter to be left ultimately to the generals, so is foreign aid too important a matter to be left in the end to the economists. The expertise of the economist must analyze certain facts, determine certain means, and perform certain functions of manipulation of foreign aid. Yet the formulation and overall execution of foreign aid policy is a political function. It is the province of the political expert.[3]

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[3] Hans Morgenthau, "A Political Theory of Foreign Aid", The American Political Science Review, Vol. LVI, No. 2 (1962), p. 309.

In examining the merits of the several approaches, it is useful to discuss project and so-called program lending separately, starting with project lending. Project lending is that variety of economic aid where the funds are lent for a specific "project" such as a dam or a steel mill. Program lending, on the other hand, usually takes the form of commodity assistance often granted for non-economic goals.

Project Lending

Most observers, including probably Professor Morgenthau, would agree that the World Bank's projects have been well designed, well monitored and economically successful. Not all would agree, however, that such an outcome demonstrates the preferability of multilateral project aid. Nonetheless, even granting the foreign policy goals Professor Morgenthau has in mind, a strong case can be made that bilateral project lending is a clumsy and often counterproductive means of pursuing such goals.

Let us consider the case of a proposed project in country X. The political leadership there badly wants the project. However, let us assume that informally they have approached the World Bank; that the Bank had declined to finance the project, basing such a refusal on sound economic arguments. (Unless such informal soundings are favorable, there probably will not be a formal request to the Bank.) Let us assume that the U.S. has certain foreign policy goals in country X which it seeks to advance through the instrumentality of foreign aid. The country, having been turned down by the Bank, applies to AID for project financing. After consultations with the Ambassador, AID agrees to look into the feasibility of the project. Ideally, the project is found to be reasonably sound, even if below Bank standards. Implicit or explicit political understandings are reached, the project is built, it works out reasonably well, the economy is benefited and all are satisfied. Fortunately there are numerous AID projects of this nature.

At least equally likely, however, is something like the following: The feasibility study suggests that the project has only a marginal chance of being successful. Because the U.S. is trying to achieve a political end with the project and has already shown a "forthcoming" attitude by doing a feasibility study, AID is already a little bit pregnant, to use the words of one AID official. Hence, unless the study demonstrated that the project was hopelessly ill-advised, pressures to do the project mount. While it may be stalled a bit by a few more feasibility sutdies, in the end agreement is usually reached. This process either has taken several years and the delays and bickering may have cost much of the political gain expected or, alternatively, if sufficient political urgency surrounded moving the project, it is apt to lack the strict conditions which may be necessary to its economic success.

But let us assume that the project agreement is finally signed, ground broken and the project is started. The aid is now in the pipeline. Instead of holding a stronger hand, the U.S. has now lost much of its political leverage. Of course, it is always possible to terminate a project in process, but history does not furnish many such examples. The project now represents the opposite of what has come to be known as aid "on a short leash" and the U.S. is now to a considerable extent the recipient's hostage. Once started, if construction is stopped, what was to be a monument to American good will stands as a reminder that America is not to be trusted. There is also the possibility that the Russians will come riding over the hill in the nick of time, rescue the project and become the hero of the story. Something like this happened with the Aswan dam and the Bokaro steel mill, although in neither case had construction actually been started.

But let us assume that none of these strains occurred and the project is completed. Because it was marginal to start with and feasibility studies seem to err on the side of optimism, the project may turn out to be a white elephant. If so, it scarcely reflects great credit on the U.S. and indeed may carry some negative political benefits if it is a sufficiently conspicuous failure. However, the U.S. now has its prestige on the line to make the project work. The project may or may not be salvageable. If it is, fine; if not, much of the political value of doing the project in the first place is dissipated.

Is the country better or worse off for having gotten the marginal project built? If the original cost to the country was not high, nor the continuing cost of maintaining the project excessive, the country may indeed be better off. However, many projects have a high local currency cost, both original and continuing. Particularly since the U.S. has tried to cut down drastically on local cost financing, it is likely that marginal projects cause [some degree of] misallocation of local resources.

There is, however, another side to the story, one which may be considered a variation of Professor Hirschman's formulation of the hiding hand[3] (although in the present context, the difficulties may have been minimized for political convenience rather than being truly hidden from all). There are, no doubt, in many projects which AID, often a lender of last resort, has undertaken which the Bank would have turned down, but which have later become successful projects by virtue of the vested interests created in their successful implementation. Thus, marginal projects which can be made successful -- given enough effort -- have been made so, to the net gain of the recipient and the U.S. Others, however, have proved to be chronic losers and the country is the poorer for having them. To bring some of the above discussion to a less abstract level, there follow a few examples of the several categories of projects touched on above.

Happily there are many examples of good Agency for International Development projects, the tubewells for irrigation projects in

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3 Albert O. Hirschman, Development Projects Observed, (Washington, D.C.: The Brookings Institution, 1967), pp. 9-34. Professor Hirschman's thesis is that if all the difficulties which would plague a project were foreseen, it probably would not be undertaken, but once the project is started, the commitment to its success stimulates solutions to the problems encountered.

Pakistan coming to mind as among the best. Under this program, which began in 1958, water has been provided for an area of over two and a half million acres. If the Bank had adequate funding and could offer favorable terms to these sorts of projects, presumably such sound projects could find additional financing. The cost to the U.S. would then be the loss of its direct identification with these good projects and the opportunity for political dialogue which their development involved. However, this cost must be weighed against the gains of non-involvement in poor projects.

Analytically more interesting than the obviously good projects are the marginal projects, a good example of such a project being the Eregli steel mill in Turkey. The Turks badly wanted a new mill and the U.S. acceded to her NATO ally's wishes on condition that the plant be in the private sector. The economics of the project were based upon some heroically optimistic forecasts. While from an engineering standpoint the mill is superb, so far it has not been a profitable operation. Finding local currency to keep it operating has taxed both Turkish and AID ingenuity. In trying to breathe life into this project AID has just completed a loan for an expansion which it hopes will finally put the project on a money-making basis. If Eregli ever does become profitable, it will have been rescued by a version of the hiding hand. Another instance of the hiding hand making a success out of apparent failure is an AID loan for a brickyard in an African country which produced bricks just as planned only to find that there was no market for them. To create such a market, there has been talk of an AID-financed housing project to use the bricks produced by the yard.

Other projects have not been so simple to salvage, however. The U.S. has made loan after loan in Afghanistan's Helmand Valley attempting to make good on its investment with yet no end in sight. The U.S. probably would have pulled out of the Valley project and its effort to develop water resources and to improve economic planning long ago except that its prestige is now so much at stake in its heavy identification with the Valley that it continues the effort to make the investment a success. Unfortunately, as the hiding hand attempts to work its salvation, it usually draws heavily on local as well as foreign resources. Nonetheless, the marginal projects which ultimately are made to work are probably net gains to the country.

The marginal projects which never really work out, however, have a heavy cost in misallocation of scarce resources; sometines in political terms as well. Both Eregli and the Helmand Valley have become hostages which the U.S. is still valiantly trying to rescue. Such projects have the added drawback of furnishing obvious scapegoats for Congressional

AID foes. Not only do the funds go down the rat hole, but to make matters worse, a rat appears and stares at Congressional visitors.

Program Lending

In many important respects, project lending differs significantly from program lending (a more general form of commodity assistance under which the recipient may import a wide variety of necessary commodities). For example, when the U.S. uses leverage with program aid to bring about such internal economic changes, it is impossible to avoid charges of intervention. Project aid, on the other hand, is usually tightly focused on a specific project thereby avoiding the possibility of interference with the overall economy. For this reason, it has often been found advantageous in using such leverage to point to World Bank recommendations as the conditions to be satisfied for release of the aid.

However, with political as well as economic ends to pursue, the U.S. must often relent on economic conditions. Thus, bilateral program aid may not be as effective in bringing about economic reform as World Bank aid, since the Bank can exert all its leverage on economic policy. Thus, many would argue that were the Bank a program loan monopolist, it could extract stiffer conditions favorable to economic growth. Such an outcome nevertheless would be in the U.S. interest only when the principal U.S. goal in a given country is the maximum possible economic growth. Indeed, in countries where such economic development is the primary goal, there is a strong case for such a turnover of program and project lending to the World Bank. Something approaching such a turnover in its effects are the Indian and Pakistani Consortia, but since economic growth is seldom the sole goal of U.S. policy, there are few cases where such a complete turnover to the Bank is desirable. As long as the U.S. retains its bilateral program lending, however, it does appear entirely feasible and in the U.S. interest to transfer its project loan funds to the World Bank. In instances where the U.S. is pursuing non-economic goals, program aid is a far more effective instrument; moreover, one with less adverse side effects, than is project lending. This is so for a number of reasons.

1. Lack of foreign exchange is becoming an increasingly critical bottleneck in the growth process, yet generalized commodity financing is relatively scarce, hence in high demand. On the other hand, because of the popularity of project loans with other donors and with development banks, good projects nearly always can find financing. As alternate financing sources increase (more regional banks, for example), the political

leverage in doing projects decreases. The only projects left with high leverage potential are "bad" ones that other donors won't touch. (In this connection, it will be interesting to watch the progress of the nuclear power plant the Russians appear ready to finance in Pakistan after the U.S. declined to finance it for technical reasons.)

2. Because there are no elaborate engineering surveys or feasibility sutdies required, loan design can be a relatively quick process based upon macro-economic and balance of payments analysis, an analysis which is normally undertaken periodically wherever the donor has a substantial ongoing aid program.

3. Program funds are disbursed quickly, in AID experience often being fully expended in one to two years. Thus, the impact is rapid enough to influence even political leaders with extremely high time preference. Project loans typically disburse only five percent of the funds in the first year and take somewhere around six years to be fully expended. Further, program aid can be stopped quickly without leaving a half-completed dam as a hostage or as a ~~witness~~ monument to a failure in international diplomacy. Since the domestic ramifications

of a termination of program aid are more immediate and hence more threatening to political leaders, ~~their~~ our political leverage is that much greater. ~~than that of projects.~~

4. Even when political considerations are central, some of the program loan leverage is usually exerted on macro-economic policies. Since such policies are critical to growth, the economic side effects of a political <u>program</u> loan are more apt to be beneficial than are those of a political <u>project</u> loan which may actually distort local resource allocation. Additionally, since foreign exchange is typically a key constraint, significant amounts of commodity assistance -- whether for political reasons or not -- are apt to be associated with high rates of growth (witness Taiwan, Korea, Jordan, Pakistan, Turkey). This is more apt to be true now that a decade of extensive project lending has helped build capacity which may stand idle for lack of maintenance imports.

5. Program loans generate local counterpart funds whose use usually is controlled by the lender and recipient jointly, thus enhancing the donor's influence on resource allocation. These counterpart funds are also an important source of local revenue; the fact that such revenues are critically important to political leaders enhances the bargaining power of program over project loans whether for political or economic ends or both.

Because program loans are in great demand; because they can be started and stopped quickly; because when stopped there is no embarrassing "body" to dispose of; because economic effects -- be they the primary goal or by-products -- are generally beneficial; because available projects to finance tend to be left-overs; for all these reasons, U.S. program aid is an extremely effective bilateral foreign aid instrument. By expanding its use of this instrument, the U.S. could easily offset the disadvantages of transferring project aid to the World Bank. Further, in those countries where economic development is the key U.S. policy goal, it is a relatively simple matter to condition program aid on World Bank recommendations, thus garnering for the bilateral program most of the advantages claimed for multilateral aid in promoting genuine development.

All things considered, what might be the costs and benefits of a transfer of U.S. project loan funds to the Bank? In summary, they appear to be the following:

Benefits from the Recipient's Point of View

-- Only economically sound projects are financed.

-- Misallocations of funds on nonproductive projects are minimized.

-- Client state relationship is replaced by an "institutional" relationship.

-- Countries now ineligible for aid due to Congressional limitations (including number of country limitations) would be eligible for loans from the Bank's expanded funds.

Costs from the Recipient's Point of View

-- Risky, but possibly successful projects may never be undertaken.

-- Country more nearly confronts a project loan monopolist, reducing ability to play one donor against another (particularly were other countries to follow the U.S. lead).

-- Normal Bank terms are harder than AID's, although the gap is closing as AID terms steadily harden. Any transfer of funds should be on terms at least as soft or softer than present AID loan terms. The future of the International Development Association will be important here. IDA, relying entirely on its parent body, the World Bank, for personnel and administrative support has increasingly sought to provide long-term "soft" loans to less developed member countries.

-- Countries with strong expertise in project development may suffer since the Bank may not want to concentrate too much aid in one country even given sound projects. (This drawback may be overcome as the growing number of regional banks seek out good projects.)

-- Pressure of U.S. fiscal year end and the threat of loss of uncommitted funds (and attendant embarrassment at not using all the funds in the "bare bones" budget) sometimes works to the recipient's advantage. Transfer to the Bank would remove this pressure.

Benefits from the U.S. Point of View

-- Doing no projects bilaterally (and presumably adding to the Bank's project loan funds) provides a rationale to avoid projects which later could prove to be an embarrassment or a hostage.

-- Avoided would be the recriminations and frictions arising from the inevitably laborious process of negotiations over terms, conditions, and Congressional strictures surrounding project aid.

-- AID staffing could be reduced, AID structure and administration simplified. The simpler program should be more understandable and hopefully gain more support in Congress and with the public.

-- Such a move would represent a start toward acknowledging the long term nature of the development problem and permit project planning on a more rational basis.

-- The transfer would avoid the mistakes that may flow from hasty judgments made under the pressures to exhaust aid funds by June 30.

-- The Bank may be able to extract economic conditions which the U.S. -- laboring under political constraints -- cannot. Further, the Bank can more easily avoid financing inefficient projects. Particularly where the U.S. objective is efficient economic development, this factor is especially important.

-- The Bank would inherit the task of allocating scarce resources among competing claimants, a task becoming politically costly to the U.S. as AID funds shrink.

Costs from the U.S. Point of View

-- The gains which accrue from being the financier of successful showcase projects disappear.

-- Since virtually all U.S. bilateral aid is tied to U.S. procurement, mitigating the adverse balance of payments effect of such a shift would require imaginative efforts. While this is one of the most difficult practical problems of such a shift, safeguards have been worked out in connection with the IDA replenishment and presumably could be for a shift of project funds.

-- A major shift of U.S. project funds to the Bank unmatched by other donors could jeopardize its multilateral character from which flows much of its strength. The danger point in this regard, however, is probably well above our present share. Moreover, a forceful U.S. initiative might induce others to follow.

-- The U.S. would forfeit some flexibility in aiding selectively particular countries. In part, this objection could be met by earmarking transferred funds for use in broadly defined geographic regions, e.g., Latin America. Where such techniques are either not suitable or not acceptable, or where non-economic goals are paramount, we would still retain bilateral program aid, a more effective instrument than project aid for pursuing economic and political goals simultaneously.

On balance, the costs to the less developed countries of such a turnover may well outweigh the benefits, at least from their political leadership's point of view. For the U.S. the benefits appear to outweigh the costs, given the fact that an alternative foreign policy instrument is available in the form of program aid.

Would such a proposal be apt to result in more total aid going to the less developed countries? Probably not, although it might increase the value of the flow. Given the Bank's rigorous project selection criteria, it seems likely that such a shift of project lending to the Bank -- in eliminating marginal or non-economic political projects would result in a lower number of total projects, the ones dropping out being those marginal or non-economic political projects the bilateral programs periodically finance.

It should be emphasized that if the World Bank is to play an increasingly important role in providing project loan funds to less developed countries, the Bank must reconsider its insistence on making loans only on hard commercial terms. The steady and alarming growth of debt-services costs among less developed countries argues strongly for a relaxation of the Bank's conservative approach to development finance. This relaxation could be accomplished by easing the Bank's commercial terms (now averaging 6%) or by substantially increasing its contribution to its IDA affiliate.

As for the United States' overall aid policy, there is no doubt that even if the total aid flow were not changed greatly by a transfer of U.S. project loan funds to the Bank, some such shift nonetheless is becoming increasingly vital. If we are to retain an effective and appropriate aid program, that program must be simplified to the maximum extent, functions that are better done elsewhere transferred there, the program compressed without losing its essence. The program has been cut drastically because many Americans believe that our foreign aid goals were too ambitious, that we attempted to do more than could reasonably be done, that we became too involved in host country affairs. The result is the lowest aid budget in twenty years. In attempting to redress the balance, we are overreacting; as we recognize that we cannot do everything, we are in danger of doing too little. As we attempt to limit our involvement overseas, let us understand that there are other ways to do it than by simply reducing our total aid flow as we have been doing steadily for the past several years. We must serve notice to the world that while limiting our overseas commitments we are not turning our backs on the process of modernization which motivates most of the world's population. The time has come to give the World Bank a much larger role in the U.S. foreign aid strategy. The most logical way to do this would be to give responsibility for project lending to the World Bank.

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

DEC 11 1968

OFFICE MEMORANDUM

TO: FILES

DATE: November 26 1968 (rec'd Nov. 29)

FROM: Irving S. Friedman

SUBJECT: Program Lending

In conversation with Mr. Emmett Rice this afternoon he said that the NAC had met. It had been agreed to support the Bank paper on Program Lending, including the recommendations.

There was still some debate going on on how warmly this support would be covered, but in any case, it would be quite favorable.

(From other sources I ascertained that AID and the Budget Bureau had been strong advocates with the Treasury and others going along.)

ISF

Mr. McNamara - to see, please.
RBS 11/29

cc: Mr. McNamara
Sir Denis Rickett

President has seen

Mr. Robert S. McNamara October 25 1968

Irving S. Friedman

Letter to the Pope

With respect to your draft letter to the Pope:

1. I doubt the wisdom of sending this letter to the Pope, particularly at this time. At present, despite some criticism, you and the Bank have in effect a green light to go ahead and implement your views on population. In any case we will have trouble doing work in those countries which are unwilling to see such activities in their country. A letter to the Pope is not likely to open doors to countries which are presently closed. Instead it runs the risk of causing certain countries -- now rather quiet -- of perhaps being put in a position of having to openly oppose our activities.

2. I do not advise against direct contact between you and the Pope, but think this would be better done by an audience with the Pope. I do not know, of course, whether such an audience could be arranged, but my guess is that it could be. If the Pope were opposed to an audience, how would he receive any letter?

3. If a letter is sent I would tone down those sections which seem to try to convey the impression that you and the Pope are really in agreement on certain principles. Instead I would confine the letter to explaining why you have felt the need to speak out and to making clear that you speak from the viewpoint of economic and social development and not as a moral or religious leader.

4. Mr. Shoaib asked me to convey to you before he left his views that he did not think it was appropriate for you to address a letter to a religious leader and that the letter seemed to give the impression of agreement between you when actually this agreement did not exist.

FORM No. 89
(2.66)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

ROUTING SLIP	Date Oct. 22

OFFICE OF THE PRESIDENT

Name	Room No.
Mr. Friedman	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		Send On

Remarks

From M. Shoaib

PHONES [OFFICE : 80780
RES. : 42805

Mohamed Hanif

9/H, MOTIJHEEL COMMERCIAL AREA,
DACCA, EAST PAKISTAN.

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

OFFICE OF THE PRESIDENT

October 14, 1968

MEMORANDUM FOR MEMBERS OF THE PRESIDENT'S COUNCIL

I am considering a letter to the Pope, a draft of which is attached. May I have, by October 26, your answers to the following questions:

1. Should such a letter be sent?

2. If such a letter is to be sent, should the draft be changed, and if so, how?

[signature]
Robert S. McNamara

Attachment

Mr Friedman

You very kindly agreed to incorporate my views also in your comments. Thanks.

[illegible]
Oct 21

DRAFT

Your Holiness:

It is now six months since I took over the responsibility of guiding the IBRD and its group of institutions in the urgent and indispensable task of worldwide development. During this time I have attempted to assess the dimensions of the task and the desperate need for greater efforts on the part of all the world's peoples if the risk of falling standards, rising discontent and ultimate violence is to be avoided.

May I say that in this survey I have been much encouraged by the increasing realization of Your Holiness's own deep dedication to the works of Development ? The Encyclical Populorum Progressio has done an immense service in widening and deepening peoples' understanding of the need for development. I have myself gratefully used the phrase: "Development is the new name for peace." I have also been greatly encouraged by the Ecumenical Meeting on Development at Beirut, to which I gladly sent representatives of the Bank, and by the excellent document, produced at that encounter. All this encourages my belief that the Christian community will be in the forefront of those who help to turn development from a grinding need to a hopeful fact over the next decades. It is, indeed, for this reason that I am writing this letter to Your Holiness in the hope that it may mark the beginning of a fruitful collaboration in a field that is central to the cause of peace.

I have also a particular reason for asking Your Holiness's help. In the course of my intensive study of what the World Bank should do in the greatly increased effort we plan for the next decade, it has been borne in on me the more and more forcefully that we cannot leave the problem of the present massive increases in world population out of our calculations. As the Encyclical Humanae Vitae has shown, Your Holiness is fully aware of the gravity of this explosion, which, if it goes unchecked, threatens, less than three decades from now, to double the human species every twenty years and to add a hundred million new inhabitants to Latin America every four years. No human institution, least of all that most basic and precious institution, the human family, can survive such swamping growth and unless the rate of expansion is checked, even the basic ability to feed large numbers of the human species may be in doubt in the next century. It is these stark and tragic facts that have led me to conclude that the World Bank must give active support to policies of demographic control.

Your Holiness has recognized the need for such policies, both in Populorum Progressio and in Humanae Vitae. You have called for a strengthening of responsible parenthood and a purposeful building up of the well being of the family - which is both the foundation and the central preoccupation of the social order. I wish therefore to assure you that in using our economic resources to support policies of population control, we at the World Bank are thoroughly committed to a number of principles - first, that in all population programs the parents' dignity and freedom of choice are absolutely respected by governments, next, that building up and strengthening the moral, legal and economic status of the family is accepted as an essential part of family planning, next, that governments are encouraged to concentrate on policies of birth control, including among others, the rhythm method, which neither destroy life - as in abortion - nor inflict irreversible sterilization. I realize that on this issue of methods, certain means may be held to be illegitimate for Catholics. We should do nothing to override the decision of those who follow their religious conscience in this matter. But I would hope that there could be frank and confident cooperation in the actual aspects of responsible parenthood, above all, the creation of stable homes. These seem to me to offer a problem, a task and a responsibility which will demand the joint efforts of all men of good will.

Here we confront directly the desperate conditions of illegitimacy, misery, illiteracy and malnutrition in which so many millions of children now grow up. Such conditions can be countered only by the most positive policies for building up families, encouraging stable marriages, inculcating love and respect between partners, lessening the egotism of male superiority, urging responsibility in parenthood and helping to provide the food, the homes, the schools and the jobs without which broken homes, worklessness, despair and violence will continue to be the environment of millions of defenseless and often deserted children.

So my plea is twofold. On the one hand, may we hope to work with Church agencies whose influence is particularly great in Latin America, in order to build up the psychological, economic and social pre-conditions needed to strengthen family dignity? On the other, may we ask the Church, together with all Christian communities, to help us stir the conscience of the rich nations and secure the flow of capital from developed to developing countries without which there can be little hope for the vast programs of growth and development needed to contain population growth and stabilize family life in the next decades ?

The call given in Populorum Progressio challenges all Christians to take up development as a primary religious task. We in the international agencies recognize how much informed and conscientious Christians can do to stir up a sense of responsibility among their fellow citizens. We are grateful for all that has been done. We hope we may cooperate in what is yet to be.

THE PAKISTAN OBSERVER

DACCA FRIDAY SEPTEMBER 27 1968

Bank Credit And The Small Borrowers

MONETARY inflation, it has been suggested, can be checked by limiting the supply of money. The remarkable performance rendered by the State Bank of Pakistan, during the last year or so, has earned commendatory comments of all the discerning observers. Steady pursuit of monetary stability undoubtedly held the upward creep of the domestic price level, reasonably successfully. Credit is due to the present State Bank administration, which despite the trying circumstances steadfastly adhered to its objective, perhaps for the first time, in the extensive and chequered career of the institution, which always lived in, but did not think economics. The following figures will speak for themselves :—

December	Money supply	General Price Index
1966	1088.74	133.28
1967	1059.66	127.03

Although the ratio between Bank deposits and Bank credit has been determined at 20% the relative improvement from the difficult position of December 1965 to December 1967 is equally significant.

	Total Bank Deposits	Total Bank credit.	Per cent
December '65—crores	742.24	673.88	90.8%
'66— "	930.19	809.17	87%
'67— "	1001.87	881.08	87.9%

It is now clear that monetary policy has been selected as the instrument for correcting the current economic malaise. In the overall interest of the economy the policy calls for sacrifice. There can be no dispute with the demands of the policy so long as sacrifices are shared all round and obtained equitably, i.e. so long as the policy serves as an instrument both of justice and economic growth, and does not fail under the crossfire of special interests who although in favour of sacrifice in general, consider it grossly unfair that they should be expected to suffer at all.

STATE BANK'S ROLE

The State Bank of Pakistan is the only body with power to operate by conscious decision on the economy as a whole. If some of its own hypotheses get faulty because of unreliable statistics the outcome can be equally faulty.

(A) Those who have climbed the ladder two rungs at a time tend to saw it off after them. Only recently statistics were jumbled in a manner which is difficult to understand. It is pointed out that Government sponsored institutions like The Industrial Development Bank of Pakistan and The Agricultural Development Bank of Pakistan were all classified as scheduled Banks, i.e. included in the private sector. Was it to get the advances to those institutions classfied under

— Mahmud Ali

That is to say those who contributed merely 20% approximately in Bank deposits obtained approximately 55% of Bank credit

It is therefore submitted that

a) institutions like Industrial Development Bank, Agricultural Development Banks, be not classified as scheduled banks, which was the position a few years back.

b) Figures of Deposits and credits by the scheduled banks to the institutions sponsored either by the Central Government or the Provincial Government be classified separately.

c) Thereafter, in the case of scheduled Bank advances to the private sector, the credit deposit ratio be observed basically on classification basis. Banks be directed to maintain their liquidity ratio within the respective broad classifications.

DEPOSITS AND ADVANCES

In fact there is nothing radical or novel about the last suggestion. In Pakistan, having inherited our banking system from a small country, U.K., perhaps as big as an average U.S. State, our banking structure originally based on a foundation good enough for a District Bank, in course of time and as a result of enforced expansion, too much too soon has developed into unwieldy proportions and has acquired unsound practices. Can we not at least strive to distribute the load on bank credit scientifically and equitably?

The bank deposit ratio in Pakistan does not compare favourably with the figures of money supply. Is it because we misdirected our deposits and reduced the velocity of money by misapplication of our investments? **Since advances generate deposits, it is simple economics, that funds be invested there where generation of deposits is the fastest.** The generation of deposits is faster on lower levels and this is where most of the deposits need be invested for faster circulation of funds. This is exactly what did not and does not take place in Pakistan. Qualitative control of bank advances does not exist. Regardless of considerations of basic financial discipline called for, at least at the time of renewal of limits, the bulk of bank advances get applied to sectors where they get simply frozen, contributing very little either to expansion of bank deposits, to expansion of actual produc-

but forcing the monetary authorities too to revise the bank rates upwards. The present scarcity of funds, it is widely believed, is not due to any economic policy determining the priorities for bank advances or the outcome of any financial strategy devised by the academic economic expertise which exist in Pakistan but breathes outside Pakistan and therefore knows as much or as little of either or both on the lines of dear money policies applied occasionally in the free economies of the Western world. The inverted pyramid of bank-credit on a narrower and narrowing base of liquidity is simply aftermath of misapplication of bank advances for so many years. Is there any truth in the widespread allegation that the scarcity of bank credit is due to large scale misapplication of bank credit by some important functionaries of certain banks? Is it a fact that bank advances are debited to suspense or even to some legitimate borrowers at the official rate of 8% or so, but actually these funds are diverted to selected money market brokers, who lend these funds usually at 24% per annum, against BADLA/ and clean Hundis to certain wellknown borrowers. The difference between 8% and 24% minus brokerage going largely to important functionaries of the said banks? Do they realise the full import of economic inequities and the rationale to economic suppression that has been evolved by them in the name of "Credit Budgeting"? The people are wondering while they are busy collecting imaginary parallels elsewhere. In actual practice bank credit is getting contracted and a difficult situation is developing for small borrowers and small bussinessmen who are getting squeezed out of economic activity. A chain reaction may set in, the extent of which would be perceptible only with the passage of time.

THE THREAT

It may be seen shortly that a large number of businessmen at the lower level may succumb to the monetary pressure and fold up, thereby destroying not only the base of the economy but ultimately arresting its overall activity.

Against the background of

a) Gross National Product rising by 8.3% compared to 6% in the preceding year,

b) Industrial production, estimatedly rising by 10%,

c) Money supply rising by 37.47 crores,

d) Imports increasing, from 364.77 crores in July 66|March 67 to 385.23,

e) Exports increasing from 200.79 crores in July 66|March 67 to 206|94 in July 67|March 68.

the predicament of the small

Bank of Pakistan and The Agricultural Development Bank of Pakistan were all classified as scheduled Banks, i.e. included in the private sector. Was it to get the advances to those institutions classified under advances to the private sector which these institutions definitely do not represent, being Government sponsored institutions functioning as instruments of official policies? As such figures of Bank credit to the private sector do not present a correct state of affairs. Hence any hypotheses built upon such statistics is bound to be erroneous in consequence.

(B) Furthermore, Government sponsored corporations like WPIDC, EPIDC Investment Corporation of Pakistan, Trading Corporation all consume chunks of Bank credit earmarked for the private sector. All these advances accumulate into sizeable figures and thus swell the figures of advances to the private sector which is another example of planned inflation of particular figures. Prominent among Government sponsored corporations, utilising Bank credit nominally earmarked for the private sector, being—

1. Industrial Development Bank of Pakistan.
2. Agricultural Development Bank of Pakistan.
3. Pakistan Industrial Credit and Investment Corporation.
4. Investment Corporation of Pakistan.
5. Pakistan International Airlines Corpn.
6. National Shipping Corpn.
7. Trading Corporation of Pakistan.
8. Jute Trading Company.
9. WPIDC.
10. EPIDC.
11. WAPDA.
12. EPWAPDA, etc., etc.

and so many other corporations coming into existence and consuming Bank credit like a prairie fire against a total Bank credit of 919.51 crores to the private sector as on 31-12-67. It is thus clear that the alleged credit expansion to the private sector can be largely accounted for by increased supply of funds to the Government sponsored institutions bracketed under the private sector and Banks investments in private securities, largely in conjunction with Investment Corporation of Pakistan. In fact if Bank advance figures to the private sectors are accurately classified *it will be found that bank credit to the private sector has actually contracted,* although the rise in Bank Deposits is overwhelmingly due to the expansion of deposits in

lines Corpn.

Sept. 1967.

(C) Classification	Total Bank credit. 611,48,68 crores.	Total Bank Deposit. 816,32,19 crores.
100,00000	1368579	342677
90.00000	75721	9055
80,00000	59040	41818
70,00000	114652	7400
60,00000	94735	116757
50 00000	100166	54788
40.00000	252315	114268
30,00000	231885	224450
20,00000	348094	294347
10,00000	517232	177067
	3162419	1474309
Percentages	55%	80%

siderations of basic financial discipline called for, at least at the time of renewal of limits, the bulk of bank advances get applied to sectors where they get simply frozen, contributing very little either to expansion of bank deposits, to expansion of actual production, or to enterprise efficiency. With funds getting lesser into circulation, scarcity of funds develops into an acute form, not only boosting the private money market rates,

37.47 crores,

d) Imports increasing, from 364.77 crores in July 66|March 67 to 385.23,

e) Exports increasing from 200.79 crores in July 66|March 67 to 206|94 in July 67|March 68.

the predicament of the small borrowers may be realised from the additional fact that most if the imports or domestic industrial production whether intended for consumers or for

Continued on page 9

(Continued from page 7)

small industries are based upon "BONUS" and loaded with huge excise duties and taxes' therefore, in many cases, now cost three times as much as they did only till recently. That is to say it now requires three times more funds for the same amount of goods, in an economic situation where the supply of bank funds is actually contracting in overall figures for the private sector and getting increasingly misdirected against the small borrowers. If it is not possible to split the banking system in Pakistan on district basis, if it is not possible even to ration bank credit equitably, at least bank credit should be related to bank deposits on the basis of classifications, even broad classifications, to begin with. Is it not fully justified by the objective economic arithemetic of the situation?

Clear dissagreement exists between the economic policy the Government announces and the measures some of the most responsible opinion in the country believe ought to be adopted. This is not a happy situation. Nobody claims that he has the answer to the difficulties of the situation, or even to the problem of right priorities and equity, but their is general agreement that the question of priorities and equity should be faced and that it not being faced. The financial administration of the country is pretending that it is facing upto everything, but it is merely compromising ineffectually with them all.

Mr. Robert S. McNamara October 7 1968

Irving S. Friedman

Grant Element in World Bank Lending

On the basis of Bank lending rate of 6½%, grace period five years, maturity 22 years, the following are calculations of grant element in Bank loans on different assumptions of discount rate:

a) Discount rate of 8% -- 12.7%

b) " " "10% -- 29.6%

c) " " 12% -- 46.6%

Mr. Robert S. McNamara

October 7 1968

Irving S. Friedman

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On the basis of Bank lending rate of 6½%, grace period five years, maturity 22 years, the following are calculations of grant element in Bank loans on different assumptions of discount rate:

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara **DATE:** October 1 1968

FROM: Irving S. Friedman and Sir Denis Rickett

SUBJECT: IDA Unilateral Contributions

155

DRWR

When you see the Chancellor of the Exchequer tomorrow you might wish to raise with him the question of possible unilateral contributions to IDA.

2. You could say that, as he no doubt knows, we have had a proposal from the Canadian Government on this subject and that we understand that the British Government is interested in it also. We are pursuing the matter in confidential talks with the Part I countries but we are anxious that nothing should be said about this publicly, at least until the end of this month. Otherwise there would be a risk of taking the pressure off Congress to act on the U.S. ratification.

3. Our discussions with Mr. Geoffrey Wilson over the past few days have been disappointing in two respects:

(a) The British seem to be thinking of a relatively small sum, namely, their proportion (12.9%) of replenishment at the original level of $250 million for one year only. This would give a British contribution of $30 million.

(b) They feel that their move ought to be followed by other countries, particularly the Five Common Market countries other than France, in addition to the Scandinavian countries. They attach particular importance to action by Germany.

4. On this latter point, we suggest that you might say that we shall, of course, try to get the unilateral contributions from as large a number of countries as possible and we certainly intend to take the matter up with the Germans, as well as the Italians and the Dutch. We are afraid, however, that if each country makes its actions conditional on action by others, the operation may never get off the ground. We believe that there is a much better chance of success if those countries who are more interested in IDA will give a lead which other countries may then be persuaded to follow.

5. Mr. Jenkins may well say that the United Kingdom, in its present balance of payments difficulties, is in no position to give a lead to others and sees no reason why it should in particular give a lead to Germany which is in such an immensely strong balance of payments position.

6. The answer to this might be that what we propose is likely to be on balance advantageous to the United Kingdom balance of payments in the coming year. Not so advantageous, it is true, as full replenishment in accordance with the Second Replenishment Agreement but, nevertheless, more advantageous than if no action were taken at all. A table is in preparation illustrating the likely drawings on the U.K. under the proposal and the favorable effects on its balance of payments. The latter are possible because the availability of the new Bank transfer to IDA plus other special contributions like the Swiss loan, together with past IDA earnings, give a pool of money unrelated to the proposed second replenishment which may, with the approval of the

Executive Directors, be used to meet disbursements under any interim credits. (It is assumed that a total of about $360 million of interim credits would be possible, including the $1[illegible]0 million which has already been earmarked. It is also assumed that out of the $250 million of import credits originally planned for India, $150 million would be granted, or $12.5 million a month for twelve months.)

7. The same point has a bearing on the [illegible] the U.K. contribution. If they followed the Canadian exam[illegible] authority to commit the whole of their contribution [illegible] replenishment at the level proposed ($155 million). [illegible] that they would be required to pay over to us the wh[illegible] that sum in notes at this stage. We should, however, have authority to enter into credit commitments against it. Payments in non-interest bearing notes could be made to us at the same rate as previously contemplated, namely on November 8, 1968, 1969 and 1970, while the encashment of the first installment, which is what affects the balance of payments, could for the most part, if not all, be delayed until late 1969.

8. We would like to discuss these matters with Sir Douglas Allen, the Permanent Secretary of the Treasury. The main points which we would like you to put into Mr. Jenkins' mind are:

(a) The advantage to the U.K. of keeping funds flowing through the IDA pipeline.

(b) The fact that cash disbursements are likely to be delayed until later.

9. The U.K. is, as you know, particularly interested in IDA funds for India. On this you could say that you would be prepared to give a high priority to further industrial import credits to India. (Would you be prepared to mention, as a purely illustrative figure, that if the U.K. allowed us to commit against its three year contribution, you would expect the Board to agree that $150 million -- as suggested above -- should go to India?)

Mr. Robert S. McNamara October 1 1968

Irving S. Friedman and Sir Denis Rickett

IDA Unilateral Contributions

When you see the Chancellor of the Exchequer tomorrow you might wish to raise with him the question of possible unilateral contributions to IDA.

2. You could say that, as he no doubt knows, we have had a proposal from the Canadian Government on this subject and that we understand that the British Government is interested in it also. We are pursuing the matter in confidential talks with the Part I countries but we are anxious that nothing should be said about this publicly, at least until the end of this month. Otherwise there would be a risk of taking the pressure off Congress to act on the U.S. ratification.

3. Our discussions with Mr. Geoffrey Wilson over the past few days have been disappointing in two respects:

(a) The British seem to be thinking of a relatively small sum, namely, their proportion (12.9%) of replenishment at the original level of $250 million for one year only. This would give a British contribution of $30 million.

(b) They feel that their move ought to be followed by other countries, particularly the Five Common Market countries other than France, in addition to the Scandinavian countries. They attach particular importance to action by Germany.

4. On this latter point, we suggest that you might say that we shall, of course, try to get the unilateral contributions from as large a number of countries as possible and we certainly intend to take the matter up with the Germans, as well as the Italians and the Dutch. We are afraid, however, that if each country makes its actions conditional on action by others, the operation may never get off the ground. We believe that there is a much better chance of success if those countries who are more interested in IDA will give a lead which other countries may then be persuaded to follow.

5. Mr. Jenkins may well say that the United Kingdom, in its present balance of payments difficulties, is in no position to give a lead to others and sees no reason why it should in particular give a lead to Germany which is in such an immensely strong balance of payments position.

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Executive Directors, be used to meet disbursements under any interim credits. (It is assumed that a total of about \$360 million of interim credits would be possible, including the \$130 million which has already been earmarked. It is also assumed that out of the \$250 million of import credits originally planned for India, \$150 million would be granted, or \$12.5 million a month for twelve months.)

7. The same point has a bearing on the size of the U.K. contribution. If they followed the Canadian example and gave us authority to commit the whole of their contribution to the Second Replenishment at the level proposed (\$155 million), this does not mean that they would be required to pay over to us the whole of that sum in notes at this stage. We should, however, have authority to enter into credit commitments against it. Payments in non-interest bearing notes could be made to us at the same rate as previously contemplated, namely on November 8, 1968, 1969 and 1970, while the encashment of the first installment, which is what affects the balance of payments, could for the most part, if not all, be delayed until late 1969.

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Mr. Robert S. McNamara October 1 1968

Irving S. Friedman

Mr. Gabriel Ferras and the B.I.S.

Mr. Gabriel Ferras, the General Manager of the Bank for International Settlements in Basle, Switzerland, is French by birth, and had a successful career in the Bank of France. He was called to the BIS in 1963, from his position of Director of the European Department in the IMF, after serving as my Deputy for about five years.

As Managing Director, he is the chief executive officer of the BIS - working with a management including an American as economic adviser and a German as head of the Banking Department (Dr. Milton Gilbert and a Dr. Hans Mandel, both attending this meeting with Mr. Ferras). The management serves under a Board of Directors presided by the Governor of the Netherlands Bank and including the Governors of the central banks of Belgium, England, France, Germany, Sweden and Switzerland. meeting regularly on the second Monday of every month.

The Bank for International Settlements was originally established in 1929 to handle the receipt and transfer of German reparations, with the participation of European and other central banks (the Federal Reserve Bank of New York refrained from joining it and the Bank of Japan joined at its founding, but withdrew at the end of the Second World War). Although the original purpose came to an early end, in 1931, the Bank developed into a banking intermediary and service agency for European and other central banks. In the thirties it handled special accounts related to currency stabilization credits, and after hibernating during the World War II (under the trusteeship of the Swiss National Bank) and an unsuccessful attempt at Bretton Woods to terminate it, it regained a role in world finance with its appointment as "agent" of the European Payments Union in 1950. Since then, its rise has been continuing - in 1960 the Federal Reserve began to be represented regularly at the monthly board meetings by the Vice President of the Foreign Department of the New York Bank. These meetings have since provided the most important channel of communication and consultation among banks.

In addition to handling balances and investments on behalf of its members and other "accepted" central banks (in gold and the currencies of its members), the major function is that of intermediary - assisting and participating in international monetary operations. Thus, the BIS is part in the "swap" network between the Federal Reserve and the European and other central banks, providing direct credits and also arranging for the exchange of "available" currencies for the "currency needed" in support of the dollar in the key exchange markets of Europe. The BIS has provided a place for various central banks' arrangements of support to sterling and for the funding of short-term credits into a long-term arrangement this year. It is also a convenient meeting place between the central banks of the West and the East, facilitating the re-entry of the latter into the money markets of Western Europe and the flow of East-West trade.

You will recall that we discussed by telephone with Ferras in connection with the Bank of Canada purchase of our two-year notes, the possibility that the BIS could conceivably help World Bank financing by investing some of its own funds in two-year bonds, and under proper arrangement, in "making a market" for such securities, absorbing offerings from central banks in need of liquidity and finding placements in accounts of other central banks with rising liquidity.

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Form No. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: September 27 1968

FROM: Irving S. Friedman

SUBJECT: Mr. Geoffrey Wilson - IDA/UK Interim Contributions

Mr. Geoffrey Wilson, accompanied by Mr. Lynch, called on me to discuss the interim replenishment of IDA. He knew that Sir Denis was out of town.

1. At the outset of the meeting Mr. Wilson asked me to outline where we were with respect to interim contributions to IDA. I summarized what had happened so far and was fairly candid in indicating the kind of thinking we were doing within the staff and the possible alternatives we saw. I also indicated why it was important for IDA to get, if at all possible, the commitment authority covering the U.K.'s entire three-year contribution to IDA and explained the distinction between the needed commitment authority, the contributions which could be on the previously envisaged schedule and the actual encashment of notes. Because of his experience in the Bank, Mr. Wilson clearly was not surprised to find how much cash resources we had available from the previous replenishment of IDA.

2. Mr. Wilson then outlined the U.K. position. The U.K. was thinking in terms of an interim contribution on the assumption that there would be a second replenishment but that it was being delayed for a number of months. He emphasized that there had been no consideration of what the U.K. might do if the assumption had to be made that there would probably not be a second replenishment. He indicated that in the two days he had been in Washington he had gotten a more pessimistic impression about the second replenishment than he had assumed was reasonable back in London. I told him that we were proceeding on the assumption that there would be a second replenishment but did have serious concern which I explained to him.

3. Assuming that the problem was one of how to get some additional financing for six months or so, the U.K. was thinking in terms of making an interim contribution of the equivalent of its share of the previous level of replenishment, namely \$250 million or about \$30 million. He indicated that it was believed that providing its share of \$400 million or about \$52 million might weaken the changes of getting the second replenishment.

4. The U.K. felt that their move ought to be matched by similar moves by other countries, particularly the five common market countries, excluding France. They attached particular importance to similar action by Germany. Those in the U.K. who favored bilateral aid were arguing that, if the "group" of interim contributors were smaller, then the multiplier effect of the U.K. contribution would be proportionately smaller, the U.K. balance of payments would no longer benefit by the IDA activities, and less would go to the Commonwealth countries thus weakening the principal arguments used in favor of IDA -v- bilateral aid. In elaborating his views as to who might be in the "group" that made interim contributions he seemed to exclude from the Part I countries only Australia, South Africa and France. I expressed concern with the delays and other effects of a "group" approach.

5. In reply to query he indicated that there had been no consideration of the possibility that the U.K. would be willing to provide commitment authority beyond the equivalent of the first year contribution. He did not feel optimistic about the willingness to give commitment authority for the entire U.K. share of the $1.2 billion. However, he indicated that the U.K. position would be greatly influenced by what other countries were prepared to do. We agreed to leave this point open until we had more knowledge of the intentions of others.

6. The U.K. assumed that whatever amounts were collected the agreed shares for Pakistan and India would be maintained. He emphasized their concern for India.

7. Mr. Wilson asked whether we were considering limiting procurements under the credits made possible by the unilateral interim contributions to those countries making such contributions. I replied that we had assumed that international competitive bidding would be maintained as always. We were operating on the assumption that there would be a second replenishment and that therefore from a somewhat longer-run point of view, rather than month-to-month, the balance of payments impact from the second replenishment credits would be the same as originally envisaged despite the interim arrangements. He seemed to accept this point.

8. Mr. Wilson indicated that he had visited Canada and that the Canadians had been very cautious in giving him any details as to their proposals.

9. At the conclusion of the meeting I commented to him that I understood he was seeing Mr. McNamara on Saturday. He said that he was seeing him but did not intend to discuss IDA interim contributions with him as he understood that this was being handled by Sir Denis and myself. However, this does not, of course, preclude you from raising the matter with him, if you wish.

cc: Sir Denis Rickett

Mr. Robert S. McNamara September 27 1968

Irving S. Friedman

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cc: Sir Denis Rickett

HOLD FOR RELEASE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H STREET, N.W. WASHINGTON D.C. 20433 TELEPHONE: EXecutive 3-6360

For Release
AM Newspapers
Thursday, September 26, 1968

Subject: Bank/IDA Annual Report, 1968

Progress in fostering economic development in Africa is recorded in the 1968 Annual Report of the World Bank and its affiliate, the International Development Association (IDA). The Report notes in particular an increase in the number of well-prepared agricultural and transportation projects becoming ready in African countries for Bank or IDA financing.

During their fiscal year ended June 30, 1968, the Bank and IDA extended \$139.6 million for economic development in Africa. Of this amount, \$59.5 million was provided for road projects in seven countries -- Ethiopia, Ivory Coast, Kenya, Malawi, Somalia, Tanzania and Uganda.

Lending to agriculture during 1967/68 included IDA credits for tea production in Kenya and Uganda and for a comprehensive land development scheme in Malawi. A queue of sound agricultural projects waiting to be financed, the Report says (page 13), has been building up.

The total amount of finance provided by the Bank and IDA to all regions of the developing world during the past fiscal year totaled \$953.5 million, compared with \$1,130.3 million in 1966/67. The 1966/67 total excludes a line of credit of \$100 million extended by the Bank to its other affiliate, the International Finance Corporation (IFC), in October 1966.

The decline in the volume of financing in 1967/68 was due to the approaching exhaustion of the resources of IDA, which lends on concessionary terms and is mainly dependent on contributions from developed member countries for its funds.

After extensive discussions a proposal for a general replenishment of IDA's resources was submitted by the Executive Directors of IDA to member governments for approval in March 1968. The target date for the replenishment to become effective, originally fixed at June 30, was subsequently extended to the end of September (pages 25-26). With the meager resources left at its disposal, IDA was able to make commitments to provide only $106.6 million during the past year, compared with $353.5 million in 1966/67.

The Bank's President, Mr. Robert McNamara, has been engaged in recent months in formulating a Five-Year Program for the Bank's operations. Preliminary work on this Program indicates that, without any departure from its existing sound policies, the Bank's lending could and should be increased (pages 6-7).

The Bank is making intensive efforts to increase its contribution to agricultural development (pages 11-13). Particular attention is being focussed on the scope for raising agricultural output by the use of the new high-yielding varieties of food grains in conjunction with fertilizer and other necessary inputs, and by improvements to equipment, pasture, breeding stock, tubewells and other capital facilities.

In a special section on agricultural development (pages 42-46), the Report says that the successes recently achieved in Asia with large-scale plantings of the new high-yielding varieties have considerably brightened the outlook for developing countries' agriculture. The pessimistic projections of a food crisis are beginning to be challenged by a school of opinion which believes that an "agricultural revolution" may be forthcoming.

The need for a considerable increase in food production, the Report states, must be viewed against the background of the "population explosion" (pages 46-47). Population control is a necessary complement to policies designed to raise food production and to improve the standards of living in developing countries.

As yet, few if any family planning programs in the developing countries have initiated a measurable decline in birth rates. An intensification of emphasis on family planning is necessary, and several countries have in fact been working on the development of more effective programs.

Despite the improvement in agriculture, the relationship of food supplies to population remains a matter of grave concern. Current efforts in both these fields need to be broadened and intensified, the Bank says, if the possibility of serious food shortages is to be removed, and the way opened for faster economic development.

The Bank's efforts to promote agricultural development have required considerable emphasis on technical assistance. This has been necessary to help borrowers identify and prepare projects and to ensure that funds, once provided, are used effectively. Additional ways to assist farmers are being constantly sought.

In both the agricultural and transport sectors, help with project identification and preparation is being provided to African countries by the Bank's two Permanent Missions in Africa stationed in Abidjan and Nairobi. The Bank's Agricultural Development Service, based in Nairobi, is helping to meet the shortage of managers for agricultural projects by making experts available to governments for this purpose.

The Report states (page 11) that considerable emphasis is being placed by the Bank in its transport operations in Africa on staff training and other aspects of institution building. Many highway projects financed by the Bank and IDA have included provision for improving government administration and organization through the assistance of qualified advisers and the training of engineers and other technical personnel, both on the job and abroad.

At the same time, the Bank is directing attention to the need of developing countries to conserve existing investment in roads through the strengthening of maintenance activities. Experience has indicated that countries tend to neglect maintenance in favor of expenditure on new road construction, and that timely investment in road maintenance can consequently yield large economic returns.

The Bank or IDA provided finance during the past year for education projects in Gabon, the Malagasy Republic and the Sudan. It is intended to increase assistance to this important sector still further over the next few years (pages 13-15). The Bank has also decided to become more active in tourism, for which many developing countries possess the attractions of antiquity, climate and geography (pages 15-16).

Endeavors to foster coordination among donors of development assistance have remained an important part of the Bank's work (pages 18-20). The Bank has now taken the lead in creating 13 coordinating groups, the most recent being the East African Consultative Group for Kenya, Tanzania, Uganda and the East African Community.

The first meeting of the Group for East Africa in April was preceded by informal meetings to discuss in detail problems of the agricultural, education and transport sectors of the three countries. A sector approach has also been adopted by the Consultative Group for Tunisia, for which a special working party was convened to discuss problems in Tunisian agriculture before a meeting of the Group in May. In both cases, detailed studies were made by the Bank's staff of the problems of the sectors concerned.

The Bank participated during the year in two further meetings of the Ghana Aid Group held under the auspices of the International Monetary Fund to review Ghana's efforts to rehabilitate her economy and to consider her aid requirements. The Bank's present role in the activities of this Group is to help prepare the ground for development assistance to Ghana once the urgent economic problems faced by the Government have been brought under control.

Further meetings have been held with representatives of the African Development Bank, the Economic Commission for Africa and the United Nations Development Programme (UNDP) to consider ways of cooperating in planning pre-investment studies for power, transport and telecommunications projects affecting more than one African country.

The Bank has also participated in the Advisory Committee for the Senegal River Basin under the chairmanship of the UNDP. The objective of the Committee is to bring about a better coordination of studies being carried out in the region by various UN agencies and to orient the studies toward investment possibilities.

* * *

The Bank records that during 1967 the overall flow of <u>development assistance</u> from the developed to developing nations continued to fall short of accepted targets, as a result of either balance of payments deficits or budgetary problems in some of the major aid-providing countries.

A new aid target was adopted at the second session of the United Nations Conference on Trade and Development (UNCTAD) in New Delhi in early 1968. This would require each economically advanced country to provide annually to developing countries net financial resources of 1% of Gross National Product.

If this resolution is realized, the Report notes, the amount of development assistance would be considerably increased. The granting of trade preferences, as agreed in principle at UNCTAD, would also be of substantial help to the development process.

Commenting on the external debt servicing problems of a number of developing countries (pages 35-38), the Report concludes that, from the point of view of both creditors and debtors, the prospects emphasize the importance of softening the terms of development assistance, as well as of taking measures to improve the developing countries' economic performance, particularly in regard to exports.

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Subject: Bank/IDA Annual Report, 1968

There has been an improvement during the past year in the economic outlook of a number of developing countries in Asia, states the 1968 Annual Report of the World Bank and its affiliate, the International Development Association (IDA).

In a special section on agricultural development (pages 42-46), the Report says that the successes recently achieved in Asia with large-scale plantings of the new high-yielding varieties of food grains have considerably brightened the prospects for developing countries' agriculture.

Reports from India, Pakistan and the Philippines show a rapid expansion in acreage planted to the new varieties of wheat and rice during the past year. Good progress in introducing the new seeds is also reported in Afghanistan, Ceylon, Indonesia, Malaysia and Turkey.

The Bank points out that the impact of the new high-yielding varieties on overall wheat and rice output has so far been modest, and it is difficult to separate the effects on production of favorable weather and higher prices. Nonetheless, the record food grain crop in India and the record wheat crop in Pakistan can be attributed at least in part to the introduction of the new varieties.

More importantly, the breakthrough in rice and wheat, and the promising developments in maize, millets and sorghums, are already changing government attitudes toward agricultural development. Decision makers are beginning to believe that resources provided to agriculture can have a high pay-off and agriculture is being given high priority in overall development.

The Bank emphasizes that substantial investment in irrigation, flood control and drainage facilities will be necessary to realize the potentialities of the new varieties fully. Steps to increase fertilizer production and to improve processing, storage and marketing facilities are other urgent requirements.

The full benefits of the high-yielding varieties, the Report says, cannot be reaped without considerable change in the farmer's customary practices. One principal lesson to be learnt from the postwar record of agriculture, however, is that, given adequate incentives, the farmer will respond.

The Bank is acutely aware of the impact which the new cereal varieties are capable of having on agricultural output when used in conjunction with fertilizer, water and other necessary inputs. In Asia, for example, the Bank has over the past few years financed irrigation projects in Malaysia and Thailand, and has provided agricultural credit for the supply of small irrigation equipment in Pakistan and the Philippines, which will facilitate the cultivation of the new high-yielding varieties of rice.

In India, the Bank Group through its affiliate, the International Finance Corporation (IFC), is assisting the construction of a large new fertilizer plant. In the same general market area, it is in the final stages of appraising a project for the bulk production of certified quality seeds of the new high-yielding varieties of rice, wheat and other crops.

In support of the Bank's aim of raising agricultural productivity through improved inputs, IFC has continued during the past year to investigate the possibilities of expanding fertilizer output within the developing countries themselves. Several fertilizer projects were under consideration at the end of the Bank Group's past fiscal year on June 30, 1968.

Despite the shortage of funds available to IDA, \$172.5 million was extended by the Bank and IDA for agricultural projects during the 1967/68 fiscal year, compared with \$87 million in 1966/67 (pages 11-13). Bank loans were made for an irrigation and land development project in Iran, a land settlement project in Malaysia and an irrigation scheme in Thailand; IDA finance was extended for irrigation in Ceylon and for agricultural credit in Pakistan.

The need for a considerable increase in food production, the Report states, must be viewed against the background of the "population explosion" (pages 46-47). Population control is a necessary complement to policies designed to raise food production and to improve the standards of living in developing countries.

As yet, few if any family planning programs in the developing countries have initiated a measurable decline in birth rates. An intensification of emphasis on family planning is necessary, and several countries have in fact been working on the development of more effective programs.

Despite the improvement in agriculture, the Bank says, the relationship of food supplies to population remains a matter of grave concern. Current efforts in both these fields need to be broadened and intensified if the possibility of serious food shortages is to be removed, and the way opened for faster economic development.

The Bank records that during 1967 the overall flow of development assistance from the developed to developing nations continued to fall short of accepted targets, as a result of either balance of payments deficits or budgetary problems in some of the major aid-providing countries.

A new aid target was adopted at the second session of the United Nations Conference on Trade and Development (UNCTAD) in New Delhi in early 1968. This would require each economically advanced country to provide annually to developing countries net financial resources of 1% of Gross National Product.

If this resolution is realized, the Report notes, the amount of development assistance would be considerably increased. The granting of trade preferences, as agreed in principle at UNCTAD, would also be of substantial help to the development process.

Commenting on the external debt servicing problems of a number of developing countries (pages 35-38), the Report concludes that, from the point of view of both creditors and debtors, the prospects emphasize the importance of softening the terms of development assistance, as well as of taking measures to improve the developing countries' economic performance, particularly in regard to exports.

* * *

The amount of finance provided for economic development by the Bank and IDA during the past fiscal year totaled \$953.5 million, compared with \$1,130.3 million in 1966/67. The 1966/67 total excludes a line of credit of \$100 million extended by the Bank to its other affiliate, the International Finance Corporation, in October 1966.

The decline in the volume of financing was due to the approaching exhaustion of the resources of IDA, which lends on concessionary terms and is mainly dependent on contributions from developed member countries for its funds.

After extensive discussions a proposal for a general replenishment of IDA's resources was submitted by the Executive Directors of IDA to member governments for approval in March 1968. The target date for the replenishment to become effective, originally fixed at June 30 was subsequently extended to the end of September (pages 25-26). With the meager resources left at its disposal, IDA was able to make commitments to provide only \$106.6 million during the past year, compared with \$353.5 million in 1966/67.

The Bank's President, Mr. Robert McNamara, has been engaged in recent months in formulating a Five-Year Program for the Bank's operations. Preliminary work on this Program indicates that, without any departure from its existing sound policies, the Bank's lending could and should be increased (pages 6-7).

The loans and credits extended by the Bank and IDA in 1967/68 were again widely spread throughout all regions of the developing world (page six). Finance provided to developing countries in Africa totaled \$139.6 million, Asia and the Middle East \$305.5 million, Europe \$123.0 million, and the Western Hemisphere \$385.5 million.

A further $515.8 million was provided during the past year for power development and transport projects. Improvements in these two basic services have been a primary requisite for faster economic growth throughout the developing world and considerable progress has been made with this work (pages 8-11).

The Bank and IDA have now lent over $160 million for education projects in 19 countries. It is intended to increase assistance to this important sector still further over the next few years (pages 13-15). The Bank has also decided to become more active in tourism, for which many developing countries possess the attractions of antiquity, climate and geography (pages 15-16).

The provision of technical assistance to member countries has continued to be an integral part of the Bank's operations. This aspect of its work in fact, has become more pronounced in recent years, partly reflecting the drive to help agriculture and the organization of substantial technical assistance programs for Indonesia and Pakistan (pages 16-18).

Endeavors to foster coordination among donors of development assistance have remained an important element of the Bank's work (pages 18-20). Meetings were organized during the year of the Aid Consortia for India and Pakistan, the Consultative Group for Korea, and of the group of countries interested in aid to Ceylon. The Bank participated in meetings of the Inter-Governmental Group for Indonesia sponsored by the Dutch Government.

As Chairman of the India Consortium the Bank undertook to explore the possibility of easing the situation created by the fact that in past years India had incurred large amounts of debt on terms that were inappropriate to the country's economic position. A rescheduling of India's debts to members of the Consortium was arranged.

The Pakistan Consortium provided the framework within which the successful negotiations for the financing of the huge Tarbela project in the Indus Basin were carried forward. The Report contains a review of the progress of the Indus Basin Development Program (pages 20-22).

As already announced (on August 14), net income of the Bank in 1967/68 amounted to $169.1 million, before providing for a loss of $23.2 million arising from currency devaluations, compared with $170 million in 1966/67. The Executive Directors have recommended to the Board of Governors, for action at its forthcoming Annual Meeting in Washington beginning September 30, that $75 million of the past year's net income should be transferred to IDA as a grant (pages 24-25).

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: September 26 1968

FROM: Irving S. Friedman and Sir Denis Rickett

SUBJECT: IDA - Unilateral Contributions

You asked us to make suggestions about how unilateral contributions to IDA might be secured from certain countries to meet the problem raised by the delay on the part of the U.S. Congress in agreeing to the Second Replenishment.

2. We attach a memorandum which has been prepared as a result of discussions which we have had with the General Counsel and the Treasurer and their Departments. The memorandum sets out in some detail the considerations by which the negotiations should be guided and the legal steps which would be necessary to bring the arrangements into effect.

3. In essence, however, we believe that the problem is relatively simple. Its main features are as follows:

(i) There are already indications that certain countries will be willing to make unilateral contributions in advance of the Second Replenishment. The only condition so far mentioned is the obvious one that such contributions should be regarded as discharging their liability pro tanto under the Second Replenishment as and when it becomes effective.

(ii) Our immediate need is for additional commitment authority. Credits entered into under this authority will, of course, lead to disbursements and, in the case of credits to India, to relatively rapid disbursements. The existing cash resources of IDA, however, amount to over $400 million. These cash resources are there to meet slow disbursing IDA credits and will be mostly unused for years to come. If we can use these to finance disbursements arising from unilateral contributions, the calculations in the Annex to the memorandum show that there will be no need to call upon the cash committed under those contributions until November 1969.

4. There is, however, a possible obstacle to the use of our available funds; namely, the attitude of the United States to the use of these funds already contributed to IDA to finance disbursements arising from advance contributions to the Second Replenishment. We hope that the United States will not raise any difficulty about the use of these funds but we shall feel bound to consult them since drawings on existing resources will not be subject to the balance of payments safeguards which, at their insistence, were written into the Second Replenishment Agreement. They may point to the increased short-run impact on the U.S. balance of payments if existing IDA resources are used to finance disbursements arising from credit commitments entered into as a result of advance contributions made by certain countries to the Second Replenishment. However, we feel that there is a good chance of convincing the U.S. not to raise objections.

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CONFIDENTIAL

USacchetti/aa:emcc
DRAFT
Sept. 25, 1968

IDA Interim Arrangements

I. Introduction and General Considerations

The delay which has already occurred in the approval of the IDA bill by the U.S. Congress and the lack of any indication that early approval is likely have prompted the Governments of Canada, the United Kingdom and other countries to consider interim arrangements which would permit IDA to continue operating on a relatively substantial scale. The following paragraphs examine the possibility of working out such arrangements.

2. The most urgent problem that these arrangements would have to solve is the present inadequacy, in relation to needs, of the commitment authority of the Association. On the basis of arrangements in effect on September 24, 1968 IDA commitment authority is only \$__ million. Other essential aspects of the interim arrangements that should be considered are: 16 a 91 including transfer

the timing and the form of the payment to IDA of the committed amounts; and the disbursement of the monies so provided. Although these two aspects raise a number of problems their solution is facilitated by the availability of funds deriving from the First Replenishment and from other sources [1] and because of the discretion which the management can exercise as to the timing, volume and type of credits granted (slow-disbursement or quick-disbursement type), in using the authority which would be received under the interim arrangements.

3. Two basic, and in some ways conflicting, considerations would guide the framing of these arrangements. On the one hand they ought to have a

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1/ See Annex

distinct "interim" nature in the sense that their coming into being and their implementation should not only assume, but also not prejudice, the enactment of the Second Replenishment. This has a bearing on the number and importance of the participating countries, the amounts involved, and the procedural and publicity aspects. On the other hand, the possibility ought to be borne in mind that the Second Replenishment might never be enacted, and for this reason the arrangements should be framed in such a way as to be able to live a life of their own.

4. Against this background we have to consider in particular what amendments, if any, need to be introduced in the operating features of the Second Replenishment Resolution and more particularly of the Procedural Memorandum, and how easy it would be to secure agreement to them.

II. <u>The Main Features of the Steps Suggested</u>

5. The interim arrangements would have to be worked out rapidly, with a minimum of formalities and publicity, a minimum of technicalities in the written texts, and with a relatively small number of Part I countries. Subject to these conditions the aim would be to obtain the largest possible commitment authority, and also to make it possible for other Part I countries to accede to these arrangements later, if the Second Replenishment were delayed for a considerable period.

6. The main features of the proposal are outlined below:

<u>Countries</u>. We have already had a firm offer from Canada as well as an approach from the United Kingdom; and other likely contributors are Denmark, Norway and Sweden. The possibility should be further explored of the participation of the Netherlands, even though this seems at present doubtful. From a practical point of view it would seem necessary to seek the advice, however informal, at an early stage of the U.S. Government as to whether, because of these arrangements or any attendant publicity about their possibility,

there would be a risk that the U.S. Congress would delay indefinitely the approval of, reject or reduce the amount of, the IDA bill. Further soundings could also be taken of some other major contributors such as Germany, Japan and Italy both as to what they might be prepared to do and their reactions to unilateral action taken by others.

7. Timing. Should the discussions with Canada, the United Kingdom and the Scandinavians develop favorably the aim would be to reach an understanding with as many countries as possible at least on the substance of the arrangements by the end of the week of the Annual Meeting. No action by one country would be held up for others, if at all possible.

8. Amounts. As indicated earlier what matters most in the immediate future is the amount of the commitment authority to be received by IDA under the arrangements. The timing of the payment of the notes and the encashment of them would be less important.

9. The aim would be to obtain from the five countries commitment authority for the full amount of their three year contributions (including supplementary contributions) which add up to $285.36 million. There are indications, however, to the effect that the United Kingdom may wish to give commitment authority only for ~~50 per cent~~ a relatively small part of its three year contribution. In such a case the commitment authority received by IDA certainly would be less than $20~~7.6~~0 million. The Swedish Government might feel that they have already played their part by making a Special Supplementary contribution which is not conditional on the Second Replenishment becoming effective.

10. Normally IDA would expect payments of notes in three annual instalments in amounts equal to a third of the total, and the timing could be the same as that provided for in the Second Replenishment, (except for Norway's

supplementary contribution), namely in November of 1968, 1969 and 1970. IDA would, however, be prepared to accept payments at a faster rate either by shortening the time period or by making the first and second payments higher than the equal annual instalment.

11. Normally the amount of the drawings (encashment of notes) would be determined on a pro rata basis by taking the proportion of each country in the total constituted by their contributions plus whatever other funds (subscriptions, Bank's transfers, First Replenishment funds, etc.) ~~are~~ may be available to meet the commitments entered into under this new authority.

III. Relations with the Second Replenishment

12. The unilateral contributions would be made with the intent of supplying IDA with commitment authority and funds if needed, for disbursement in advance of the effectiveness of the Second Replenishment. If the Second Replenishment never becomes effective these contributions would not be returned to the contributing members but would continue to be used by IDA. However, if the Second Replenishment does become effective, it would be contemplated that these contributions would be treated as part of the contributions required under the Second Replenishment and the contributing countries will almost certainly require a clear assurance to this affect. The arrangements for the unilateral contributions would, therefore, have to be consistent with those for the Second Replenishment. Because of the carefully elaborated arrangements as to the way in which Second Replenishment contributions may be drawn on by IDA, fitting these unilateral contributions into the Second Replenishment involves some difficult problems.

13. The basic resolution providing for the Second Replenishment requires IDA to use the contributions in the manner set forth in an attached Procedural Memorandum. This basic resolution empowers the Executive Directors to modify the Procedural Memorandum, but such modifications cannot result in the acceleration of the draw down of a member's contribution without that member's consent. The Procedural Memorandum provides for the drawing of funds to meet "disbursement requirements on Second Replenishment Credits and to maintain an appropriate working balance". Second Replenishment Credits are defined as those entered into after the Second Replenishment becomes effective

and those credits deemed by IDA to have been made from the Swiss loan and from Bank transfers authorized after June 30, 1968. To the extent that the unilateral contributions are drawn on to cover disbursements under credits entered into prior to the effectiveness of the Second Replenishment they will not be available to meet disbursement requirements on Second Replenishment Credits, and they cannot, therefore, be used in the manner set forth in the Procedural Memorandum.

14. There are two ways to solve this problem, each requiring a modification of the Procedural Memorandum. Because both of these approaches would result in accelerated drawings on the members which did not make unilateral contributions, the consent of these members would have to be obtained.1/

15. First, the Procedural Memorandum could be modified by expanding the definition of Second Replenishment Credits to include credits deemed by IDA to be made from resources provided in anticipation of the Second Replenishment. Disbursements on these new credits until payment of the regular Second Replenishment contributions would be covered by pro rata drawings on the unilateral contributions, and this procedure would be set out in the IDA resolutions accepting these contributions. Subsequent disbursements on these new credits would be covered by drawings made on all members under the procedures set out in the Procedural Memorandum. The change in the definition of Second Replenishment Credits would mean that under paragraph II(b) of the Procedural Memorandum the United States contribution could be

Sufficient were to be

1/ If ~~new~~ funds, such as Bank transfers, ~~are~~ available to IDA to meet disbursements made on credits entered into on the basis of the unilateral contributions and these unilateral contributions ~~are~~, therefore, not drawn on, no change would be necessary in the Procedural Memorandum. were drawn upon, up to the amount of its pro rata share of any drawing, to finance United States procurement under these credits. The change in this definition might also raise some questions about the Carry-Over provision which are discussed below.

16. A second possibility would be to amend paragraph I of the Procedural Memorandum to permit Second Replenishment contributions to be drawn on to cover disbursements on credits entered into prior to the effectiveness of the Second Replenishment. Since these new credits would not be included within the definition of Second Replenishment Credits, the United States contribution could not be drawn on under paragraph II(b) of the Procedural Memorandum to finance United States procurement under these credits.

17. Under these alternatives, no further changes would be needed in the Procedural Memorandum unless countries making unilateral contributions wanted some relief from pro rata drawings after the Second Replenishment became effective to the extent that their contributions had been drawn on before that date. This could be done by amending paragraph II of the Procedural Memorandum to provide either (i) that contributions of such countries be drawn upon pro rata to that part of their contribution which was undisbursed at the time the Second Replenishment becomes effective or (ii) that such contributions not be drawn upon at all until contributions which had not been accelerated had been drawn upon in the same proportion.

18. We would not make a final choice between these alternatives now but could explore in discussions with the countries concerned which course is likely to be more generally acceptable.

Carry-Over 19. Depending on the amount and nature of the credits granted under the commitment authority deriving from the unilateral contributions, the disbursements against them could require funds faster than could be provided by drawings on these contributions. Funds for such disbursements will be available from initial subscriptions and first replenishment contributions which have been assigned to slow disbursing credits. However, these resources are drawn on pro rata to each country's contribution, and this in the case of the United States would mean that its initial subscription and first replenishment contribution would be drawn upon for 40% of each drawing regardless of the source of the procurement to be financed. The United States raised this problem in the Second Replenishment negotiations and as a result the Carry-Over provision in paragraph IV of the Procedural Memorandum, as explained in paragraph 13 of the covering report, limits the funds which can be used to finance disbursements on Second Replenishment Credits to those derived from transfers of Bank profits authorized before July 1, 1968 and not utilized, IDA profits and the 10% portion of subscriptions. The covering report provides that this limitation is to apply during the period between the effective date of the Second Replenishment and the date when the first instalment is paid. However, ~~paragraph IV of the Procedural Memorandum~~ provides for the use of these funds if it proves necessary at any time to meet disbursements on Second Replenishment Credits. If paragraph IV is read as a limitation on the use of other funds as a carry-over and if the definition of Second Replenishment Credits is amended to include those made before the effectiveness of the Second Replenishment, it may not be possible to "borrow" 90% funds and first replenishment contributions to cover disbursements on the new credits. ~~In any case, arrangements which would accelerate the use of 90% funds and first replenishment~~ contributions might be considered contrary to the spirit of the Second Replenishment negotiations. This, therefore, is a question which should be discussed at an early stage with the

U. S. Administration.

ANNEX

IDA Cash flows under interim financing

which is illustrative & provisional

The purpose of this note is to review the possible sources of cash for disbursement under the credits which may be extended on the basis of the proposed unilateral interim contributions. The calculations illustrate cash flows under two alternative levels of interim contributions, as follows:

Level A

(Unilateral interim contributions of $350 million)

It is assumed that IDA receives new commitment authority through interim contributions of about $350 million (which together with about $130 million of presently unused commitment authority and about $310 million proposed to be switched from IDA to Bank lending, would cover the $790 million IDA lending program for fiscal 1968/69). Total IDA credit commitments in 1968/69 might thus reach $480 million ($350 million plus $130 million). Of this amount $250 million would be in quick-disbursing credits to India.

Disbursements can be projected roughly as follows, assuming that the quick-disbursing credits to India will disburse at $12.5 million per month beginning as of May 1, 1968.

Table A1
Estimated Disbursements*
($ million)

	Through Oct. 1969	Nov. 1969 to Oct. 1970	From Nov. 1970	Total
1. On quick-disbursing credits	225	25	-	250
2. On regular credits	25	45	160	230
3. Total disbursements	250	70	160	480

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* This table does not take account of cash availabilities and credit to be extended after the effective date of the second replenishment.

Possible sources of cash may be compared with disbursement needs as follows:

Table A2
Cash Availabilities Compared to Needs*
($ million)

	Through Oct. 1969	Through Oct. 1970	Total
Cash availabilities (cumulative)			
a) IBRD transfer, etc.1/	100	115	130
b) Unused carryover2/	150	50	-
Sub-total	250	165	130
c) Proposed interim contributions3/	115	235	350
Total	365	400	480
Cash needs (cumulative)4/	250	320	480

1/ IBRD transfer recommended for Oct. 1968 and special supplementary contributions. Does not include allowance for any IBRD transfer in 1969 or 1970.

2/ This is that part of the carryover of the 90% portion of original subscriptions to IDA and of the contributions to the first replenishment, (both of which are subject to the rule of pro rata drawings) which are not expected to be needed for disbursement under existing credits.

3/ Interim contributions are here assumed to be paid in three equal installments in November of 1968, 1969 and 1970.

4/ From Table A1.

* This table does not take account of cash availabilities and credit to be extended after the effective date of the second replenishment.

From the preceding table it appears that it may not be necessary to encash the interim contributions (of $350 million) before November 1969, if the carryover is used; and the converse is nearly true. After that date the interim contributions would probably have to be encashed, but it might not be necessary to use carryover. The prospective discussions with donors should help clarify which are the more acceptable means of financing.

Level B

(Unilateral interim contributions of $200 million)

It is here assumed that IDA receives new commitment authority of about $200 million, which is an estimate of what may become available at an early stage in the discussions on interim financing. Total IDA commitments in 1968/69 would thus reach $330 million ($200 million plus $130 million). Of this amount $125 million would be in quick-disbursing credits to India.

Table B1
Estimated Disbursements*
($ million)

Disbursements	Through Oct. 1969	Nov. 1969 to Oct. 1970	From Nov. 1970	Total
1. On quick-disbursing credits	125	-	-	125
2. On regular credits	25	40	140	205
3. Total disbursements	150	40	140	330

Table B2
Cash Availabilities Compared to Needs*
($ million)

Cash availabilities (cumulative)	Through Oct. 1969	Through Oct. 1970	Total
a) IBRD transfer, etc.1/	100	115	130
b) Unused carryover2/	150	50	-
Sub-total	250	165	130
c) Proposed interim contributions3/	65	135	200
Total	315	300	330
Cash needs (cumulative)4/	150	190	330

1/, 2/, 3/ See notes 1/, 2/ and 3/ to Table A2.
4/ From Table B1

* This table does not take account of cash availabilities and credits to be extended after the effective date of the second replenishment.

From the preceding table it appears that it may not be necessary to encash the interim contributions (of $200 million) before November 1969, if the carryover is used; and the converse is also true. In the ensuing year, carryover would nearly suffice, but some of the interim contributions would probably have to be encashed.

J. Hulley
September 25, 1968

HOLD FOR RELEASE

INTERNATIONAL FINANCE CORPORATION

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

IFC News Release
For Use in Morning Newspapers of
Monday, September 23, 1968

SUBJECT: IFC Annual Report 1968

THE INTERNATIONAL FINANCE CORPORATION MAKES COMMITMENTS OF $51 MILLION IN FISCAL 1968, RAISING CUMULATIVE INVESTMENTS TO $272 MILLION.

New commitments of $50.7 million during Fiscal 1968 raised total investments of the International Finance Corporation in private enterprises in its member countries to $271.8 million.

The IFC made 14 development investments in 11 countries during the fiscal year ended June 30, 1968, including the biggest single commitment in its 12-year history, a $20 million investment in a $60 million Mauritanian copper mine.

First commitments were made by IFC in three countries in Fiscal 1968 -- Korea, Mauritania and Nicaragua. This spread IFC investments to 39 countries. Over half of the funds committed by the Corporation during the year went to Africa. The year's major investments circled the globe: two were in Africa, two in Asia and three in Latin America. Six of the year's smaller commitments (under $500,000) were in Latin America and one was in Africa.* This continued the geographic diversification of the previous year, when more than half of IFC's commitments went to Asia and the Middle East.

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* Attached summaries give brief descriptions of principal investments during Fiscal 1968 and list all commitments during the year. Detailed data on major investments is found in the section of the Annual Report, beginning on Page 17, "The Year's Principal Investments". Appendix C summarizes all IFC investments since 1956.

(more)

The Corporation's investments during the fiscal year involved steel, steel forging, copper mining, cement, sugar, textiles, home furniture, tourism and industrial financing.

IFC activity in Fiscal 1968 was described in the Corporation's Annual Report prepared for transmittal by Mr. Robert S. McNamara, President of the International Finance Corporation, to the Board of Governors at the Annual Meetings of the World Bank Group, beginning on September 30, 1968, in Washington, D.C. IFC is the affiliate of the World Bank that invests, without government guarantee, in private businesses in less developed member nations.

Despite tight money and sharp world competition for investment capital during the past year, a greatly increased amount of the Corporation's committed funds were restored to it for re-use in new developmental investments through participation by private investors in IFC investments. In 42 transactions during Fiscal 1968 other investors associated themselves with new IFC commitments by participating financially in these ventures in the amount of $8.7 million and by making purchases totaling $2.8 million from IFC's portfolio of previous commitments. In addition, other investors bought $7.1 million of securities covered by IFC underwriting commitments. Sales of IFC commitments during the year thus totaled $18.6 million, compared to $7.3 million the previous fiscal year.

This, together with repayments amounting to $3.9 million and other means by which IFC recovers its funds, freed some $24 million of committed funds for use in new investments.*

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* More detail is available in the section of the Annual Report, beginning on Page 7, "Rising Association of Private Funds".

IFC's Annual Report for Fiscal 1968 noted that the Corporation is responding to the growing size and complexity of development projects, and the need for more advanced technology in competitive industrial operations, by offering itself as the focal point of increasingly large and diverse investment groups. Three investment groups in which IFC participated in Fiscal 1968 were examples:

-- In addition to IFC's one-third commitment to the financing of the Mauritanian copper mining project, Somima, funds were provided by British mining interests, French business, financial and government organizations, the Government of Mauritania, and the European Investment Bank. Handelsfinanz A.G., of the Banca Commerciale Italiana Group, and Kuwait Foreign Trading Contracting and Investment Company participated in IFC's commitment at the time the investment agreement was signed. The Somima venture is unusual in that it will utilize a newly developed process called TORCO -- proven by trial operations in Zambia and in a pilot plant in Milan, Italy -- to process the refractory copper oxide part of the ore deposit.

-- Fabritex, a new textile mill project in Nicaragua, had similarly diverse sponsorship, consisting of public and private, industrial and financial, and national, international and intergovernmental investors. In this project IFC for the first time joined the Central American Bank for Economic Integration (CABEI) in a financing group. In this investment, also for the first time, a Latin American firm -- Fabricato of Colombia -- was the industrial sponsor in an IFC project in Central America. Bamerical International Financial Corporation, investment affiliate of Bank of America, Bank of London and Montreal Limited, and Philadelphia International Investment Corporation participated in IFC's investment.

(more)

-- In the investment group financing the Korea Development Finance Corporation, IFC joined with the World Bank, the U.S. Agency for International Development, the Korean Government and nearly all of Korea's major industrial enterprises, commercial banks and insurance companies to help set up Korea's first private institution for long term industrial investment. IFC brought into the venture nine private foreign banks including four U.S., three European and two Japanese banks.

Other highlights of IFC's Fiscal 1968 Report included:

. A rise in the average size of principal commitments (those over $500,000) to $7.1 million, from $5.4 million the previous fiscal year.

. An increase in the average annual return, over their present life, on all investments held in portfolio to 7.61 per cent as of June 30, 1968 compared with 7.41 per cent at the end of the previous fiscal year. IFC's portfolio of investments effective as of June 30, 1968 stood at $157.8 million, compared to $107.9 million a year earlier. The portfolio was 34 per cent in equity and 66 per cent in loans.

. Net income of $6.2 million, which was credited to reserve against losses.*

. The largest IFC underwriting commitment to date, guaranteeing the sale of half of a $14 million issue of new shares by Compania Fundidora de Fierro y Acero de Monterrey, S.A., Mexico.

. Participation in the financing, in Malaysia, of an integrated steel plant with production scaled to the needs of a relatively small market, making use of local basic materials including charcoal made from over-age rubber trees.

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* A description of IFC's portfolio, and the Corporation's financial record, including profit and loss on investments, is found in the Annual Report beginning on Page 13. Further detail is provided in Appendices A and B.

(more)

. Addition of Indonesia, Mauritania and Viet-Nam to IFC membership, bringing it to 86 nations and raising paid-in share capital to $101,368,000 as of June 30, 1968. (Since that date Singapore, Uruguay and Yugoslavia have joined, bringing membership to 89 nations and share capital to $102,291,000.)

The Annual Report points out that since the Corporation's establishment, 81 investors have invested in IFC transactions on 203 occasions, 21 such investments coming from the Middle East, 66 from Europe, 92 from North America, 4 from Latin America, 11 from the Caribbean, 7 from international investment institutions and 2 from Hong Kong.

Besides financial association of other investors in IFC's commitments in Fiscal 1968, five industrial companies became principal technical sponsors, as well as financial backers on their own account. They in turn were associated with eight other industrial and financial sponsors.

In addition to participants and sponsors, the Report states, more than 25 public and private financial institutions provided a further important source of funds to projects assisted by IFC in Fiscal 1968, making their own separate commitments of approximately $68 million in these projects.

IFC Investments in Brief—Fiscal 1968

During Fiscal 1968, the Corporation made seven principal commitments. These were:

Ethiopia:
A loan, equity and underwriting commitment of $9 million in H.V.A.-Metahara, Share Company, a new concern establishing a $22.5 million sugar plantation and mill in Ethiopia to meet domestic needs.

Korea:
An equity commitment of $702,043 in the Korea Development Finance Corporation, in conjunction with a $5 million equivalent loan from the World Bank and commitments of almost $17 million by domestic and foreign, private and public investors, to establish Korea's first private industrial investment institution and help sustain the nation's rapid economic growth.

Malaysia:
A loan and equity commitment of $3.5 million in Malayawata Steel, Berhad, a new $26.9 million integrated steel plant, to be the first major iron and steel producing unit in Malaysia and the nation's largest single industrial enterprise.

Mauritania:
A $20 million loan and share capital commitment—the Corporation's largest to date—in Société Minière de Mauritanie (Somima), a $60 million project to develop Mauritania's Akjoujt copper deposits.

Mexico:
An underwriting commitment of $7 million of a $14 million share offering to stockholders of Companía Fundidora de Fierro y Acero de Monterrey, S.A. (Fundidora), and, as a shareholder, a subscription to $318,886 in shares as part of financing for the continued long-term expansion program of Mexico's largest investor-owned steel producing company.

Nicaragua:
A loan and equity commitment of $2.1 million—IFC's first commitment in Nicaragua, its biggest in Central America and its first in conjunction with the Central American Common Market's financial institution, the Banco Centroamericano de Integración Económica—as part of the financing of Textiles Fabricato de Nicaragua, S.A. (Fabritex), a new $9.2 million textile mill in Managua.

Venezuela:
A loan of $7.5 million, with a stock option to C.A. Venezolana de Desarrollo (Sociedad Financiera), known as Cavendes. This was IFC's second commitment to this development bank. The first was an equity investment of $1.3 million in 1963. The loan was made to cover foreign exchange costs of projects financed by the Venezuelan company.

Commitments Fiscal 1968

	Loan	Equity	Total
Brazil			
Acos Villares, S.A. (Steel)	$ —	$ 55,454	$ 55,454
Colombia			
Compania Colombiana de Tejidos, S.A. (Textiles)	—	22,618	22,618
Forjas de Colombia, S.A. (Steel forging)	—	169,292	169,292
Morfeo-Productos para el Hogar, S.A. (Home furniture)	—	5,950	5,950
Ethiopia			
H.V.A.-Metahara, S.C. (Sugar)			
Standby Commitment	—	2,000,000	2,000,000
Investment	5,520,000	1,516,025	7,036,025
Kenya			
Kenya Hotel Properties, Ltd. (Tourism development)	280,000	—	280,000
Korea			
Korea Development Finance Corporation (Industrial financing)	—	702,043	702,043
Malaysia			
Malayawata Steel, Berhad (Steel)	2,451,000	1,011,722	3,462,722
Mauritania			
Société Minière de Mauritanie (Copper mining and treatment)	18,800,000	1,206,515	20,006,515
Mexico			
Compania Fundidora de Fierro y Acero de Monterrey, S.A. (Steel)			
Underwriting Commitment	—	7,020,000	7,020,000
Investment	—	318,886	318,886
Nicaragua			
Textiles Fabricato de Nicaragua, S.A. (Textiles)	1,000,000	1,071,428	2,071,428
Peru			
Cemento Andino, S.A. (Cement)	61,500	—	61,500
Venezuela			
C.A. Venezolana de Desarrollo (Sociedad Financiera) (Industrial financing)	7,500,000	—	7,500,000
TOTALS	$35,612,500	$15,099,933	$50,712,433

September 23 1968

Dear Senator Symington,

Mr. McNamara has asked me to send a note to you on the question which he discussed with you, namely possible World Bank transfers to IDA from its accumulated reserves. I will try to summarize the salient points:

1. The Reserves of the World Bank as of June 30, 1968 totalled approximately $1,160,000,000, excluding the allocation of $94 million made in August 1968 from net income for fiscal 1968. (For handy reference I am appending Memorandum Relating to Financial Statements of the Bank including the Balance Sheet as of June 30, 1968.) Of this amount, however, as of June 30, 1968, about $291 million consisted of the Special Reserve. The Special Reserves are the amounts of commissions set aside pursuant to the Articles of Agreement (Article IV, Section 6), which are to be held in liquid form and to be used only for the purpose of meeting liabilities of the Bank on its borrowings and guarantees. Thus, unless one assumes an amendment to the Articles of Agreement, the Special Reserve cannot be regarded as available for other uses, e.g., Bank transfers to IDA. Moreover, it would seem prudent for the Bank to have such a Special Reserve. Such a Reserve makes it that much more unlikely that the countries which are members of the Bank and hawe provided the subscribed capital will be called upon to make available portions of the uncalled capital to meet Bank liabilities. Commissions are no longer charged on Bank loans and therefore, all new net income is allocated to the IDA or to the Supplemental Reserve against losses on loans and guarantees and from currency devaluations. This Supplemental Reserve amounted to something less than $870 million, as of June 30, 1968.

2. Annual transfers have been made to the IDA since 1964 with the permission of the Board of Governors of the Bank. These transfers to IDA from net income have been regarded as alternatives to the distribution of dividends. $75 million of net income earned in fiscal 1968 is expected to be transferred shortly by action of the Bank's Board of Governors.

3. In considering possible transfers from the Bank's Supplemental Reserve to the IDA, it is useful to bear in mind that the World Bank has essentially three sources of money to conduct its business, aside from the repayment of its loans: (a) subscribed capital; (b) borrowings; and (c) net income from its operations.

(a) The subscribed capital of the Bank amounts to about $22.9 billion. However, only ten per cent or about $2.3 billion has been called; the remainder is only to be called by the Bank when required to meet obligations of the Bank created by borrowing or guaranteeing loans. Of the amount of capital which has been called, all of the useable funds — about $1.8 billion — have been employed in lending operations. Currencies and notes amounting to nearly $500 million of the called capital subscriptions are not presently used because they are in restricted local currencies. It is expected that about $100 million will be released for the Bank's use in the next five years. Therefore, capital subscriptions are no longer a significant source of money for additional Bank operations.

(b) As for the borrowings of the Bank, the Bank has successfully increased its efforts to borrow from private capital markets in Europe as well as the United States. However, because of the uncertainties in capital markets everywhere and the need to get permission from the members concerned, the Bank must maintain a substantial margin of liquidity. Transfers from the Supplemental Reserve to IDA would result in a corresponding reduction in the Bank's cash and securities which, in turn, would further increase the Bank's need to borrow when the Bank already has need for substantial borrowings for the Bank's purposes. As for net income, it is already established policy to transfer a substantial portion of the Bank's net annual income to IDA and I expect this policy to be continued in the future.

4. Moreover, the retained earnings now in the Supplemental Reserve are fully employed for business purposes by the World Bank. The undisbursed commitments on the loans extended by the World Bank amounted to about $2,371,000,000 or nearly three times the volume of retained earnings as of June 30, 1968. Legally, we cannot transfer to IDA such Supplemental Reserves unless they were first found to be in excess of the Bank's requirements. It would be most difficult to take this view in light of the undisbursed commitment figures. Moreover, the funded debt of the Bank amounts to about $3.3 billion or nearly three times total reserves.

5. Large private corporations and banks frequently follow the policy of retaining about 50 per cent of net income. In this way they are better able to cope with changes in capital market conditions without impairing the efficiency of their operations. For quite similar reasons the Bank needs a substantial reserve of retained earnings. It is impossible to say how much of the AAA standing of the World Bank's bonds is related to this practice, but it is likely that any reduction in supplemental reserves to make contributions to IDA would impair the credit standing which is essential for the Bank's success.

I do hope the above notes are useful to you.

Yours sincerely,

Irving S. Friedman
The Economic Adviser to the President

The Honorable
Stuart Symington
United States Senate
Washington, D.C.

FORM No. 57

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

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: August 6 1968

FROM: Irving S. Friedman

SUBJECT: Possible Switches from IDA to Bank Financing during 1969

Messrs. Chadenet, Cope and myself examined the proposed IDA credits in the 1969 program with a view to deciding which of these credits might be switched to Bank financing. This is only a preliminary finding as both Messrs. Chadenet and Cope may have further views, but I wished to submit a progress report before I left tonight.

We used the figures in the Five-Year Program. The figures for India-Pakistan have since been revised upwards, but I believe the orders of magnitude are not likely to change significantly. We assumed that IDA financing would materialize eventually, say by the summer of 1970 and that it would be possible in the future, when thought desirable, to change the "blend" of Bank/IDA financing to offset possible actions taken during 1969.

We went on the basis of four fundamental criteria:

1. Creditworthiness -- we assumed that there should be no switches for those countries in which the entire five-year program was to be IDA financed.

2. The switching was more acceptable where possible offsetting changes in blending in the future were evident from examination of the five-year program.

3. In most cases the switching to the Bank was influenced by the projects involved. For example, there are no cases of switches in educational credits and relatively few in agriculture.

4. Bank loans could have ten-year grace periods and thirty year maturity.

Attached hereto is a table indicating the possible switches by country, amounts, and type of project involved. It comes to a total of about $285 million possible switching from Bank to IDA. In the case of India and Pakistan we made rather arbitrary assumptions. In the case of India this meant that all project financing indicated in the Five-Year Plan as against industrial import financing, would be switched to the Bank.

If this amount of switching were adequate it could be defended on fairly rational economic and technical grounds. If it were felt not to be enough it would be possible to go over the list of programs and financing again.

The attached table is not intended to reflect a change in the Bank's view of the creditworthiness of the country involved, but rather a means of overcoming the emergency problem which may arise with the further delay in the IDA replenishment.

The attached list does not include the backlog of $169 million of IDA credit approved in fiscal 1968. These would also require financing. Perhaps these credits may be first charges on Bank transfer for 1968 and fiscal 1969, particularly if a higher percentage of Bank transfer in fiscal 1969 is made in light of the 1967 $10 million transfer, and the 1969 transfer is put on a pay as-you-go basis, as you have suggested.

cc: Messrs. Knapp
Chadenet
Cope

Possible IDA Switches to Bank

in 1969 Program

COUNTRY	IDA total in original 5-yr. Plan	Possible switch to Bank (Savings for IDA)
INDIA	$200	$100 (all projects)
PAKISTAN	63	34 (transportation & communicatio
GHANA	13	5 (electric power)
KENYA	15	15 (transportation)
TANZANIA	24	17 (transportation)
UGANDA	16	7 (electric power)
CEYLON	12	8 (transportation)
KOREA	30	24 (transportation & agriculture)
NEW GUINEA	6	6 (agriculture)
TURKEY	20	20 (electric power, transportatio Agric (?)
MOROCCO	10	10 (agriculture)
SUDAN	20	10 (agriculture)
SYRIA	10	10 (agriculture)
TUNISIA	15	15 (water supply)
PARAGUAY	7	4 (agriculture)

Mr. Robert S. McNamara September 19 1968

Irving S. Friedman

Increased Bank Lending and Creditworthiness Criteria

We are proceeding, as you know, with doing much more serious work on re-examining our creditworthiness concepts and their application to actual and potential borrowers from the Bank. However, in the meantime, questions are inevitably asked as to how the Bank reconciles its concern with the rising external indebtedness of many countries and its plea for more concessional funds, e.g., IDA replenishment, with a marked increase in Bank lending. I thought it might be useful to summarize my present thinking on this problem.

1. Any Bank lending is made in the full expectation that it will be repaid. We will continue to be careful, both in the selection of countries and the purposes for which loans are made. We are also aware that borrowing countries appreciate the need to play their part in maintaining the financial strength and reputation of the Bank in their own interest as well as the Bank as an institution.

2. In connection with its 5-year program the Bank is carefully examining the decisive factors which enter into the creditworthiness of each country. In assessing the impact of any lending program on a country's creditworthiness, it is important to look not only at the increase in debt servicing requirements, but also the impact on the long-term balance of payments position of the country. This involves both the factors which increase its foreign exchange expenditures and those factors which increase foreign exchange earnings and/or increase foreign exchange earnings. The countries we have identified as able to absorb a large increase in Bank loans are countries where we can see the ability to repay emerging in the years to come. It is our intention to keep this matter under the closest review as the creditworthiness of a country is significant, not only for its ability to borrow from the Bank, but also its ability to borrow from other sources and attract private capital in both equity and loan forms.

3. History indicates clearly that the creditworthiness of countries can greatly improve as a result of change in government policies. Marked changes in basic long-term factors, such as population growth, agricultural output capacity and export earning ability are possible as well as changes in short-run policies like exchange rate adjustments and adoption of non-inflationary monetary and fiscal policies. The Bank will use its best endeavors to bring this about in its member countries. The Bank, therefore, attaches great importance to its activities designed to increase the economic efficiency of its borrowing countries, both through the activities of the Bank and in trying to help bring about better economic policies in the borrowing countries. This frequently involves close cooperation with the Monetary Fund. Already certain countries have greatly improved their creditworthiness.

4. Creditworthiness is also greatly affected by what happens in the developed countries. Of particular importance is the maintenance of high levels of income and employment with resulting vigorous demand for imports, the relative degree of freedom of access of the exports of developing countries to these markets and any special international arrangements designed to affect the prices and quantities of the exports of developing countries, particularly in the primary product field.

5. The Bank does not feel that it is wise to set ceilings on what member countries might conceivably borrow from the Bank for high priority productive purposes, if they are pursuing sound development policies. Foreign borrowing is a desirable accompaniment of the development process. It is important, of course, that the borrowing be on appropriate terms and conditions. Bank borrowing is much more costly than grants or IDA, but much less expensive than other forms such as short-term inappropriate suppliers credits. In part Bank lending will be a substitute for more concessional public capital previously available but also in part for more expensive forms of financing.

6. The World Bank lending is expected to become both more important in absolute terms and as a fraction of total net inflows of loan capital into the LDCs. However, for many years servicing to the World Bank is likely to be only a small fraction of the debt servicing obligations of any member country. The Bank is not concerned about the capacity of countries to repay debts to it, but it is concerned about the servicing capacity of borrowers in relation to all creditors, both public and private, and also the ability to pay dividends, profits, etc., since this affects substantially the availability of external resources needed for their development programs. The whole problem of servicing external debt is, of course, greatly affected by the volume of outflows of capital from public and private sources. If gross capital flows, whether public or private, are increased, debt servicing is not really a problem. It is for this reason that the Bank welcomes the bilateral aid efforts of individuals countries and measures taken to encourage the outflow of private capital. In its own activities it tries to help and encourage the outflow of private capital through such activities as joint financing and the establishment of the Centre for Settlement of Investment Disputes.

7. The answer to the creditworthiness problem of certain countries is not to be found in the cessation of borrowing by them or the cessation of borrowing from the Bank. Indeed, self-imposed limitations by the Bank on its lending would accelerate the oncoming of external debt crises in a number of countries. All borrowing should be carefully considered and screened. The assumption of more external debt is a most serious matter. Countries, in the assumption of new debt, e.g., Brazil, Argentina and Ghana, are showing much more responsibility. However, the developing countries are in a state of economic development wherein foreign capital well used is highly remunerative in increasing the productive resources and output of the country. It is in this increased productive capacity and efficiency that hope lies for repayment of debt as well as general economic improvement. Countries can repay debt and provide higher living standards for their people and improve their productive capacities simultaneously. Countries which are mismanaged can do none of these things. The object is to help the countries achieve satisfactory management of their economies without impairing their sense of independence and self-responsibility.

8. In addition to the anticipated increase in Bank loans which emerges from the 5-year program analyses and will emerge from our future analyses, there are the emergency cases of countries which may well receive more Bank loans than expected because of the delay in IDA replenishment. In these cases it is expected that availability of IDA funds in the future would offset the increase in debt servicing resulting from Bank borrowing in the current year. This is a question of blending "over time" instead of blending simultaneously. There are very few countries indeed, if any, that are not capable of some increase in their external debt at this time. However, it remains critically important that more concessional funds be available in the future if the debt problem is to be managed smoothly and efficiently without undue harm to the development process and impairment of creditworthiness.

9. The above comments are not to be taken to reflect what might be regarded as an "optimistic" view of the external debt problem. Virtually every developing country has an existing or potential external debt problem. Indeed, unless there are major changes in the economic policies of a considerable number of countries, we are likely to be running into a period of repeated external debt crises and frequent need for re-scheduling exercises. However, even if these difficulties materialize they may well not affect servicing to the Bank. Moreover, of more fundamental importance is that there are inevitable elements of risk in development finance and our job is to reduce these risks to a tolerable level, while at the same time helping to make possible satisfactory progress in the developing countries.

Mr. Ugo Sacchetti September 18 1968

Irving S. Friedman

IDA Interim Arrangements

As I indicated over the telephone I think it would help accelerate our work on some interim arrangements for IDA if you would try to prepare, in the next day or two, a statement for possible line of action for our consideration. This would parallel the work done by Mr. Nurick and when finished both could be considered simultaneously. I think that time does not permit us to wait for Mr. Nurick's memo and then have you prepare something afterwards.

As you requested I will try to summarize my suggestions to facilitate the preparation of your memorandum.

1. Draw a sharp distinction among three major elements: the need for commitment authority, the payment of notes to the IDA, and the encashment of such notes.

2. Draw as sharp a distinction as possible between the so-called interim arrangements and the second replenishment. This is essentially on the theory that until the second replenishment is agreed we do not know if there will be a second replenishment. However, the compelling motivation for me is to avoid as much as possible the need to reopen the intricate provisions of the agreement on the second replenishment, particularly the procedural memorandum.

3. Request the Canadians and others to give us commitment authority, if possible up to the entire amount they were prepared to make available under the second replenishment. (The countries I have in mind would be Canada, U.K., Sweden, with possibly other Nordic countries and possibly the Netherlands, giving a total of about $300 million of commitment authority.) To facilitate their doing this it would be made clear that the actual contributions of notes could be in three annual installments but, of course, we would be prepared to take them sooner if the country so preferred. These countries would be informed that we would expect the IDA to be replenished during the course of 1969 but could not be certain of this.

4. In providing this interim commitment authority the countries would inform the IDA that it was their intention to regard any contributions made under such commitments as their contribution to the second replenishment if and when it materialized. They would not ask for a formal agreement of other Part I donors or Executive Directors to this point of view, but would put member countries on notice of this attitude. The President of IDA would indicate that he welcomed their actions as a very constructive step in meeting a critical situation and that he would favor these contributions being regarded as part of the second replenishment if and when it materialized. He saw no need at this time to take up the question of what it would mean for the second replenishment procedures since much would depend on when the replenishment took place and whether it had been found necessary to make disbursements under second replenishment credits, to what extent and what funds had been used. He would also indicate his intention to make use of the Bank contribution to IDA before calling on any other funds.

5. The proposal would first be discussed with the most friendly countries. If they found it possible, approaches would then be made to others. This would be done on a one-by-one informal basis with an aim to keeping it secret as possible and also to avoid the problems that would arise if other countries began to link their actions to these interim arrangements to one another as they have for the first and second replenishments. Therefore, every effort would be made to try to get each country to do what it could do by itself, at the same time trying to get as many countries as feasible to take this kind of action. In this way the arrangements as to the amount of commitment authority, the timing of notes, etc., could all be different.

6. A draft proposal should be ready for discussion with the Canadians and British next week. The latter are particularly important since they are the second largest contributors to IDA after the U.S. The effort with the Canadians would be directed to asking them not to insist on firm assurances that the contribution would be part of a second replenishment. Different degrees of understanding could be reached, varying from views expressed by the President to informal expressions by governments, but the least degree of formal assurances sufficient for the Canadians would be the aim. The Canadians would also be urged not to tie their actions to others. The thrust with the U.K. would be to try to get them to give us the full amount of their IDA contribution, emphasizing that this is commitment authority and the actual payment of notes could be made as originally envisaged. It could also be pointed out to the U.K. that the balance of payments effects would not be registered until there were actual disbursements involving the encashment of such notes, by which time there was a reasonable expectation that the IDA replenishment would have taken place and measures taken to restore the relative positions of countries within IDA in respect to their encashment of notes.

7. Informal talks at a fairly early stage with all Part I countries to inform them that some countries were considering giving this lending authority in advance of the second replenishment; that the management welcomed this step; that the President took the view that these actions could be merged with the second replenishment when and if it took place; that these voluntary actions did not require any renegotiation of the IDA second replenishment agreement, at least at this time, and that these actions on one hand would not lead to commitments by IDA which could not be financed, but on the other hand did not diminish in any way the need for IDA funds.

8. In discussions with the U.S. every effort would be made to avoid asking them to make commitments different from those already undertaken. My approach to the problem might well involve using past U.S. contributions more rapidly than originally contemplated, but I don't think this is a major problem unless we magnify it ourselves. It might also mean the more rapid use of second replenishment funds if we have actually disbursed considerable sums under the interim credits that need to be restored but we would still be guided in doing so by the procedural memorandum on the second replenishment if it takes place. I think we can take a very matter of fact attitude toward the whole problem and put it in a context of a warm response to positive actions taken by certain countries to keep the IDA operations effective without at the same time committing non-committed countries -- particularly the U.S.

9. I think we all agree that this must be done in such a way as to avoid any public reports that we had found a solution to the IDA problem without U.S. participation or that we were putting pressure on the U.S. to contribute by making commitments involving U.S. funds not already agreed to by the Congress. My suggestions would avoid this.

cc: Sir Denis Rickett
Mr. Broches
Mr. Cavanaugh
Mr. Hulley

FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

Bank Press Release No. 68/51
September 18, 1968

Subject: $64.5 million loan to Guinea

The development of high-grade bauxite near Boke in northwest Guinea, one of the richest deposits in the world, will go forward as a result of agreements which have been signed in Washington by the World Bank, the Government of Guinea, the U.S. Agency for International Development and Halco (Mining) Inc., a corporation owned by seven of the world's leading aluminum producers.

The Boke project will make an important contribution to the economic development of Guinea. It will create employment, generate foreign exchange earnings, increase the Government's tax revenues, and advance the technological skills and administrative experience of Guinean nationals.

The Boke project consists of two interrelated elements: the construction of an 85-mile railway from the mine site at Sangaredi in the Boke area to the coast which will be used principally for the transport of bauxite, together with the construction of the port and township of Kamsar; and the construction of mining installations and a township at Sangaredi, together with related facilities.

The World Bank loan amounting to $64.5 million -- one of the largest it has ever made to an African country -- will finance the foreign exchange costs of the railway, the port and township of Kamsar. The railway and port will be able to handle up to about 8 million tons of bauxite annually. The loan will also refund a $1.7 million Bank loan made in March 1966 for an engineering study of the railway and port. The local currency costs of the railway, port and township will be covered by a loan, equivalent to about $21 million in Guinea francs from the U.S. Agency for International Development which will use local counterpart funds derived from sales of agricultural products under the PL 480 program.

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The bauxite mine will be constructed and operated by Compagnie des Bauxites de Guinee (CBG), owned jointly by the Guinea Government (49%) and Halco (Mining) Inc. (51%). Halco is in turn owned by Alcan Aluminium Limited, Aluminum Company of America, Harvey Aluminum (Incorporated), Compagnie Pechiney, Ugine Kuhlmann, Vereinigte Aluminium-Werke AG and Montecatini Edison S.p.A. CBG's investment is expected to be equivalent to about $100 million. It will cover the cost of the mine and township at Sangaredi, certain handling, processing and storage facilities and part of the township at Kamsar, and ore-carrying trains. CBG will operate its own bauxite trains on the Government-owned railway. The aluminum companies have entered into contracts with CBG for the purchase of bauxite, initially 4.7 million tons a year, and 5.1 million tons a year from the 6th year of operation. CBG expects to sell some 1.5 million additional tons in the future.

The Bank loan was made to the Republic of Guinea for a period of 24 years, including a five-year grace period, with interest at 6-1/2%. Special arrangements have been made for servicing the Bank loan. CBG will make payments to a Trustee bank in the United States in the currencies required to service the loan, and the amount of these payments will be credited against the taxes payable by CBG to Guinea. In the event CBG or Halco does not make the payments, the Trustee can call upon the aluminum companies that are the owners of Halco to make the required payments in proportion to their stockholding in Halco.

The Government will receive 65% of the net taxable profits of CBG and it is in effect from these revenues that the World Bank loan will be serviced. The net increase in income to the Government after debt service is expected to be substantial. The country's foreign exchange earnings will be even higher because of the use of foreign exchange generated by bauxite sales to pay local wages and salaries and other costs.

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Construction of the railway, port and Kamsar township is the responsibility of a Government agency, Office d'Amenagement de Boke (OFAB), which will be assisted by engineering consultants. Halco will designate personnel to assist OFAB in running the railway and port and to train Guinean employees. OFAB will recover from CBG all operation and maintenance costs incurred in providing the railroad, township and loading jetty and wharf for the transport and loading of bauxite. Cost of operating and maintaining the harbor facilities will be recovered from port users.

Detailed design work for the railway, port and township has been completed, and prequalification procedures for screening prospective contractors are well advanced. Procurement for all contracts financed in whole or in part out of the proceeds of the Bank loan will be subject to international competitive bidding. To insure maximum economy, OFAB and CBG will where possible combine contracts for identical or similar facilities and will employ the same consulting engineers.

To ensure proper coordination and completion of the construction of the whole project, the Government and Halco have agreed to set up a Construction Coordination Committee. This Committee will recommend the approval of contracts, certify applications for withdrawals of loan funds, coordinate the work of the consulting engineers, ensure progress of the works and maintain direct liaison with the Bank. The costs of the Committee and of the consulting engineers will be met by OFAB and CBG.

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

For Release
September 16, 1968

FOR THE PRESS

The 1968 Annual Meetings of the Boards of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation (IFC) and the International Development Association (IDA) will be held at the Sheraton Park Hotel in Washington, D.C. from September 30 through October 4, 1968.

The Honorable U. B. Wanninayake, Minister of Finance of Ceylon, is Chairman of the Boards of Governors and will preside at the meetings.

The Boards of Governors will assemble in Sheraton Hall for the opening ceremonies at 10:00 a.m. on September 30. On that morning they will be addressed by the Chairman, by Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, and by Mr. Robert S. McNamara, President of the Bank, IFC and IDA.

On Tuesday, October 1, at 9:30 a.m., the Governors will begin their annual discussion of the organizations' activities in Joint Session. The Governors of the Fund will continue their discussion on Wednesday, October 2, and will hold their regular biennial election of Executive Directors. The Governors of the Bank, IFC and IDA will continue their discussion on Thursday, October 3 and will elect their Executive Directors. On Thursday afternoon, the Joint Boards will reconvene for the conclusion of the annual discussions after which there will be a meeting of the Joint Procedures Committee.

The Boards of Governors will convene for the closing session at 9:30 a.m. Friday, October 4. The Governors will consider the reports of the Joint Procedures Committee, and will hear comments by Mr. Schweitzer and Mr. McNamara and the concluding remarks of the Chairman.

Biography of Chairman attached.

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The Honorable Ukku Banda Wanninayake
Minister of Finance, Ceylon
Chairman for 1968 of the Boards of Governors of
the International Monetary Fund and the World Bank
and its Affiliates

Mr. Wanninayake was born November 23, 1908 in Balalla, Kurunegala District, Ceylon. He was educated at St. Thomas' College, Mount Lavinia, Ceylon, and was Principal of Maliyadeva College, Kurunegala from 1930 to 1949.

His political career began in 1943 when he was elected to the State Council. In 1949 he was elected Senator and was Parliamentary Secretary to the Minister of Finance from 1954 to 1956. In 1960 he was elected to Parliament and upon his re-election in 1965 he was appointed Minister of Finance of Ceylon.

He has been Governor for Ceylon in the International Monetary Fund and the World Bank and its affiliates since 1965.

He was a delegate to the International Co-operative Conference held in Denmark in 1953, and led the Ceylon Delegation to the Commonwealth Finance Ministers' Conferences in 1965, 1966 and 1967.

Mr. Wanninayake is married and has five sons and three daughters.

FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

WORLD BANK

1818 H STREET, N.W., WASHINGTON D.C. 20433 TELEPHONE: EXECUTIVE 3-6360

Bank Press Release No. 68/48
September 11, 1968

Subject: $8 million loans to Malaysia for telecommunications and water supply

The World Bank has approved two loans totaling $8 million to Malaysia; one to improve its domestic and international telecommunications system and the other to increase by about one-third the water supply in Kuala Lumpur, the main center of population, commerce and industry in the Malay Peninsula.

The loans will be made to the Government of Malaysia. Both will be for a term of 20 years and bear interest at the annual rate of 6-1/2%. Including these loans, the Bank will have lent a total of $202.5 million to Malaysia. Earlier loans assisted in financing the expansion of electric power, irrigation and industry and a land settlement scheme.

$4.4 Million Loan for Telecommunications

This loan will help the Malaysian Government in its program to improve and expand Malaysia's public telecommunication services between 1968 and 1970 under the First Malaysia Plan (1966-70). Telecommunications in Malaysia are operated by the Telecommunications Department (TDM) of the Ministry of Works, Posts and Telecommunications. TDM will carry out the works under the program whose total cost during the 1968-70 period is estimated at $49.0 million equivalent. The foreign exchange component is estimated at $25.0 million. Apart from the Bank's loan, the Malaysian Government has obtained $13.3 million equivalent from members of the Malaysian Consultative Group, among them Australia, Canada, Germany, Italy, Japan, and the United Kingdom, and from Sweden. For the completion of the project, further bilateral loans of about $3.2 million are expected to be obtained in 1969 and 1970. The remainder of the foreign exchange cost will be provided from TDM's own operations.

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Although communication systems have been steadily expanded and modernized in recent years, the growth of demand for telecommunication services in Malaysia has been more rapid than the growth of facilities and of available services. In particular, the number of waiting applications for telephones has more than doubled during the period 1962 to 1967, although the growth rate in a number of telephones throughout Malaysia averaged 9.2% per year over the same period. The backlog of unsatisfied demand is now almost the equivalent of two years installation at the 1967 rate. Annual demand for new direct exchange lines was estimated at about 11% of the total installed telephones and the proposed installations are planned to meet this essential demand.

There is also heavy traffic on long-distance systems. Recent improvements such as the introduction of subscriber trunk dialing on high quality circuits have led to a high growth of demand. The result has been congestion of the trunk system, which requires urgent extension. In addition, services need to be further improved and extended to certain interior areas of the country, especially in Sabah and Sarawak.

The Bank's $4.4 million loan will contribute to the Malaysian Government's plans for the expansion of the telecommunications system between 1968 and 1970. The proceeds of the loan will principally cover equipment for local and long-distance networks and telex equipment.

Five financial institutions have agreed to participate in the loan to the extent of $310,000, representing its first three maturities. The participants will be Girard Trust Bank, Philadelphia; Bank of America, New York; The First Pennsylvania Banking and Trust Company, Philadelphia; The Bank of Tokyo Trust Company, New York; The United California Bank, Los Angeles.

$3.6 Million Loan for Kuala Lumpur Water Supply

Kuala Lumpur is the capital of Selangor State as well as the Federal Capital of Malaysia. The water supply system of Kuala Lumpur is owned, operated and maintained by the Selangor State Government. The Government of Malaysia will therefore relend the proceeds of the loan to the Selangor State Government and the project will be carried out and operated by the Water Supply Division of the State's Public Works Department.

The area to be served by the water supply project has considerable economic significance to the country. The project now being undertaken will increase the existing water supply by 14 million imperial gallons a day. The total cost of the project is estimated at $7.7 million equivalent. The Bank's $3.6 million loan will cover the foreign exchange component.

The project comprises the first stage of a long-range program to use the Langat River as a major source of water supply for the Kuala Lumpur area. It includes intake works on the river, raw water pumping station, and pumps and a raw water pumping main to a new treatment plant where the water will be filtered and chlorinated. Provision is also made for transmission mains from the treatment plant to the Kuala Lumpur area, terminal storage reservoirs, and additional distribution mains needed to strengthen the existing distribution system and to extend the areas of supply.

The Bank of America, New York, has agreed to participate in the loan to the extent of $60,000, representing the first maturity of the loan.

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FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

Bank Press Release No. 68/49
September 11, 1968

Subject: $11.6 million loan to Chile for Second Highway Maintenance Project

The World Bank has approved a loan equivalent to $11.6 million for a second highway maintenance project in Chile. This loan will assist in the financing of the Chilean Government's four-year highway maintenance program, including the acquisition of maintenance, workshop and other equipment, and of consulting and advisory services. With the foregoing assistance, total loans and credits to Chile from the World Bank and the International Development Association (IDA), an affiliate of the World Bank, will now amount to $232.4 million.

The new loan is part of a comprehensive effort by the Bank to help the transportation sector of Chile. The Bank Group had initially assisted in financing the development of the country's transportation system in 1961, when a Bank loan of $6 million for a highway maintenance program and an IDA credit of $19 million for highway construction were made. In 1965, the Bank made a technical assistance grant of $210,000 to Chile for the preparation of a coordinated highway program and highway feasibility studies. The Bank is presently acting as executing agency for a United Nations Development Programme technical assistance grant of $911,000 for studies to improve the organization and operations of the Chilean State Railways.

A small but important part of the new Bank loan will be for advisory services to the Ministry of Public Works and Transport on transport coordination and investment planning. For this purpose, the Ministry will engage an expert to provide advice and recommendations on establishing an effective transportation planning office and on improving policies and planning for all forms of transport. The expert will also define the scope of a transport survey, with particular emphasis on

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those areas where additional detailed studies are required, including the preparation of a five-year investment plan for Chile's transport sector.

The other consulting services to be financed under the new loan will be for continued supervision of road construction and for preparation of a new highway construction program.

The harmonious development of the transport sector is of particular importance in Chile because of the country's geography and the costly infrastructure required to serve distant areas. Chile extends about 2,600 miles from north to south, along the western seaboard of Latin America. Its greatest width from east to west, on the other hand, is only about 180 miles. Economic activity is largely concentrated in the fertile central and southern regions, but there are important extractive industries, consisting of rich nitrate fields and copper deposits, in the north. Road transport plays a major role in Chile's transportation system, together with coastal shipping and railways. Air traffic and pipeline transport, although of less importance, have been growing rapidly in recent years. The northern and southern extremes of the country are linked by the 2,000-mile Longitudinal Highway, which forms part of the Pan-American Highway. In addition, Chile has 34,425 miles of transversal roads.

An important factor in the economics of road transport is the reduction of vehicle operating costs resulting from wear and tear. This can be significantly helped by adequate highway maintenance, which is the responsibility of the Highway Department of Chile's Ministry of Public Works and Transport. The capital expenditures of the Department's new four-year maintenance program will amount to about $17 million equivalent; the World Bank loan will cover most of the foreign exchange requirements connected therewith. The Chilean Government will meet the rest of the capital expenditures, as well as about $130 million equivalent of recurrent local expenditures required for the execution of the program.

The loan will be made to the Republic of Chile. It will bear interest at 6-1/2% and will be for a term of 20 years, including a five-year period of grace. Disbursement is expected to be completed by mid-1972. United California Bank, Los Angeles, and The First Pennsylvania Banking & Trust Company, Philadelphia, have agreed to participate in the loan for a total amount of $150,000.

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FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

WORLD BANK

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXecutive 3-6360

Bank Press Release No. 68/47
September 6, 1968

Subject: $5 million loan for mechanized farming in the Sudan

A systematic plan for the development of mechanized farming on rain-fed land will be initiated by the Sudan with the assistance of a World Bank loan equivalent to $5 million. At this stage, about 140 farms encompassing some 145,000 acres will be established in a virtually uninhabited and uncultivated section of the Sudan's central plains. Farmers will grow sorghum, the country's staple food, sesame for export, and cotton for local textile mills. At full development participating farmers should be able to earn an annual income of more than $3,000. The project will provide valuable data and experience for planning subsequent phases of the mechanized farming program.

The Bank loan to the Republic of the Sudan was approved by the Bank's Executive Directors on July 30, 1968. It is for a term of 25 years, including a five-year grace period, and bears interest of 6-1/4%.

The economy of the Sudan depends heavily on agriculture which accounts for more than half its gross domestic product and almost all export earnings. The central plains have been the center of modern developments in irrigation and in rain-fed mechanized agriculture. About 3 million acres are irrigated and, since 1953 when the Government first encouraged private entrepreneurs to develop mechanized farms, the acreage under mechanized farming has grown to more than one million.

The present pattern of mechanized farming, however, tends to be exploitative. The system of issuing leases often does not offer enough security of tenure to encourage on-farm investments. There is danger that the present system may degenerate into shifting cultivation spreading outwards from an increasing area of worn-out land surrounding each settlement.

/more

The Government plans to more than double the area under mechanized cultivation over the next decade and is planning to develop new areas in a systematic way. For the first time it will have a coordinated program for providing crop land under 25-year leases, roads, water supplies, credit and technical services essential to efficient permanent mechanized farms. It has established a semi-autonomous agency, the Mechanized Farming Corporation, to carry out the new schemes. The first of these is the Sim Sim area comprising about 623,000 acres which has favorable soils and rainfall. The Bank loan will finance the foreign exchange costs of the first four-year phase of the Sim Sim scheme.

The 140 farms to be established during the four-year period will be about 1,000 acres each. Preparatory work will be undertaken over a somewhat larger area to allow uninterrupted development of adjoining lands. Adequate machinery and better husbandry will create soil conditions which will help to maintain fertility and in the long run make the use of fertilizer economic. The yields from the new farms will be higher and will fluctuate less from year to year than those on existing mechanized farms. The project, and especially the demonstration farm which is included, can have considerable influence on agricultural practices in existing mechanized crop project schemes as well as on future ones.

The total cost of the project is estimated at the equivalent of $8 million. The Corporation will undertake land clearing, recovering the cost through a development fee. Land rents will cover the cost of a small advisory service specializing in mechanization which will supplement the Ministry of Agriculture's extension service. About a third of the loan will be used for a farm credit scheme for the purchase of machinery. The Bank's Agricultural Development Service in Nairobi will supply a land planning officer and possibly an agriculturalist. Equipment and machinery purchased by the Corporation for its own use and for sale to farmers will be procured on the basis of international competitive bidding.

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THE PEARSON COMMISSION

FOR IMMEDIATE RELEASE

Friday, September 6, 1968

Mr. Lester B. Pearson today announced the appointment of Edward K. Hamilton as Executive Secretary and Staff Director of the newly established Commission on International Development. The Commission, chaired by Mr. Pearson, will review efforts since World War II to promote economic development around the world, and recommend objectives and techniques for the future.

Mr. Hamilton has been a Senior Member of the National Security Council Staff at the White House in Washington. He will assume his new duties on September 16.

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Mr. Robert S. McNamara September 6 1968

Irving S. Friedman

Comments on Speech for Governors' Meeting

1. The first few pages dealing with the current state of development efforts, I feel, tend to over-emphasize the problems arising from our lack of knowledge and understanding of the development process. In my view, the most critical difficulty in achieving a greater momentum in development efforts at present is the failure of governments, both in developed and developing countries to give a high enough priority to economic and social development in the developing countries. This is what I would emphasize. In this sense I feel that the success of the Pearson Commission would lie more in its success in mobilizing governmental support in developed countries than in the completeness of its fact-finding and analytical investigations.

2. In the description of what the World Bank can do, I very much agree with the emphasis that the World Bank should greatly expand its activities. I am convinced that over the years the World Bank could not only lend the amounts stated in the paper, but even more, without lowering our standing in financial markets or lowering the quality of our work. However, I feel that we should also make it clear that we want a bigger Bank in order to achieve, in practice, the transformation of the Bank into the leading world development finance agency. The proposed increase in lending activity would permit the Bank to make a greater impact on development. It also reflects the acceptance of the view that development process in member countries is the focal point of all Bank activities. This includes gearing both the level of lending activities in a country and the particular investments chosen to the practical potentials of the country, the exercise of more initiative by the Bank; the willingness to participate in the evaluation of development programs and strategies and to accept responsibility for defending good development programs and policies, etc. Much of this approach is to be found in the draft speech, but the emphasis is still on loans and projects. The suggested change in emphasis could be accomplished by having some paragraphs, towards the end of page 4, indicating the basic approach of the Bank, followed by the discussion on the magnitudes of anticipated loans and borrowings by the Bank.

3. I would suggest condensing the last pages which spell out what we hope to do in the fields of agriculture and population growth in a manner which would emphasize your policy attitude. There is the possibility that a summary of the agricultural and population problems of the kind contained in the speech would be regarded as incomplete or superficial by many of the Governors who are grappling with these problems every day. On the other hand, they would be most interested to know what you think the Bank ought to do in these fields. The treatment of the subject of education in the speech is a good model for the treatment of Bank policy in the fields of agriculture and population. On population you may also want to make clear that we are not supporting population control in order to diminish the amount of development assistance flowing to the developing countries -- there is a fear in many developing countries that this is what motivates the support of many donor governments for population control. Quite to the contrary, we argue for and expect a substantial increase in development assistance.

4. I also feel that in discussing the availability of funds for development, it will be appropriate to give more recognition to the problems of the developed countries. In a number of places it rather sounds as if their economic or financial problems in providing resources are insignificant; for example, the paragraph at the bottom of page 5

5. In connection with the Pearson Commission (page 3, last paragraph) it is suggested that "the wealth gap between the developed and the less developed countries has increased, is increasing and ought to be diminished." I have always felt a little uncomfortable about "diminishing the income gap" (incidentally, it is "income gap" rather than "wealth gap" which is usually talked about) as a relevant objective of development policy. This concept is no doubt useful as a convenient way of dramatizing the present day affluence of the North and the abject poverty of the South, but the fact of a widening gap does not by itself suggest that development effort has faltered. Given the considerably lower levels of income from which the poor countries start, a widening of the gap between them and the rich countries is only to be expected. A country with a per capita income of $100 would have to grow at the rate of 26 per cent a year for a decade before it can even begin to narrow the gap with a country starting with a $1500 per capita income level and growing at a moderate 5 per cent rate.

6. Finally, I agree that the general emphasis in the speech should be on the future activities of the Bank. However, if it is considered desirable to expand the speech, it may be appropriate to deal at greater length with the global role of the Bank in development, e.g., efforts to devise a common strategy on aid and development through consortia and consultative groups; efforts to create closer links with other international agencies like FAO and regional development banks, emphasis on technical assistance, etc. In any case I assume that something will be said about the consequences of delay in IDA replenishment and our sense of urgency in proceeding with the Commodity Study.

Mr. Robert S. McNamara August 14, 1968

L.J.C. Evans

<u>"The Agricultural Revolution"</u>

1. Mr. Chadenet has asked me to send you briefing material on the "agricultural revolution". I attach a copy of our draft on "agricultural development - recent experience and prospects" which will appear in Part Two of the 1968 Annual Report.

2. I also attach:

a) copy of a paper by Lester Brown, (Administrator, International Agricultural Development Service, USDA) which appeared recently in "Foreign Affairs";

b) a relevant extract from Volume I of the Asian Development Bank's "Asian Agricultural Survey";

c) copy of a recent paper by Prof. T.W. Schultz of Chicago University.

3. Please let me know whether you would like additional material or whether you would like something specially prepared.

Encs:

cc: Messrs. Chadenet
Friedman

LJCEvans:lkt
IBRD

September 5, 1968

Mr. McNamara -

Attached hereto are the rough notes to which I referred. Please read them as rough notes.

I will be sending comments on the draft speech at the latest by tomorrow afternoon, as promised.

Irving S. Friedman

(Brief tribute to Woods)

8/23/68 DRAFT

This is my first public speech as President of the World Bank, and I speak to you with some diffidence as a newcomer with only half a year's experience in this post -- but perhaps the half year in my whole life in which I have felt myself most challenged by the prospect before me.

I have always regarded the World Bank as something more than a Bank, as a Development Agency, and when I came here six months ago I was not entirely a stranger to the problems of World Development. As American Secretary of Defense I had observed, and spoken publicly about, the relation between world poverty and unstable relations among nations; as a citizen of the world I had begun to sense the truth in Pope Paul's dictum that "Development is Peace." Yet I was uneasily aware that as the peoples of the world looked at the sixties -- the United Nations' Development Decade -- they felt a deep sense of frustration and failure. The rich countries felt that they had given billions of dollars without achieving much in the way of development; the poor countries felt that too little of the enormous increases in the wealth of the developed world had been diverted to help them rise out of the pit of poverty in which they had been engulfed since time immemorial.

How far is this mood of frustration and failure justified by the events of the past decade? I have sought to find out the truth about this, but I confess, though there have been many voices only too anxious to answer my question, each with a panoply of statistics to prove its point, the exact state of the battle is unclear.

There have been victories: many billions in aid have been forthcoming from the developed world, and as a result economic growth of the poorer countries has been stimulated.

Let us make no mistake; Aid does work, it is not money wasted, it is a sound investment. Even the ultimate goal of the Development decade, an annual rise in national incomes in the poorer countries of 5% was achieved: the average growth has been 4.8%.

And yet .... you know and I know that these cheerful statistics are the cosmetics which conceal a far less cheerful picture in many countries. The oil rich nations of the Middle East prospered economically. But for one billion people who live in Africa and South Asia the increase in national income is, at most, 3-1/2%, and even that is concentrated in the industrial areas while the peasant remains stuck in his immemorial poverty, living on the bare margin of subsistence.

? Casting its shadow over all this scene is the mushrooming cloud of the population explosion. If we take this into account, the growth figures appear even less acceptable.

The growth of per capita income in Latin America is less than two per cent, in East Asia only about two per cent, in Africa only one per cent, and in South Asia only about half a per cent. At these rates, a doubling of per capita income in East Asia would take nearly 35 years, in Latin America more than 40 years, in Africa almost 70 years and in South Asia nearly a century and a half. Even in the most progressive of these areas, the amount of improvement would be imperceptible to the average citizen from year to year.

Such a situation cries out for a greater and more urgent effort by the richer countries to assist economic growth in these poorer countries. It is clear they are financially capable of such action. During the Development Decade so far, they have added to their annual incomes a sum of about $xxxx billion, an addition itself far greater than the total annual incomes of the underdeveloped countries of Asia, Africa and Latin America.

But I found, and I need hardly tell you this, that while the requirement for assistance was never higher, the will to provide it was never lower in many, though not all, of the countries which provide the bulk of economic aid.

And the disenchantment of the rich with the future of development aid was fed by the performance deficiencies of many of the developing nations. Blatant mismanagement of economies; diversion of scarce resources to wars of nationalism; perpetuation of discrimination systems of social behavior and income distribution have been common in these countries.

This then was the picture of the development world which I found in my first weeks at the World Bank. A confused but menacing picture, in which it was difficult to see what had gone wrong in the past (though something clearly had), or what was the right path ahead for us.

In these circumstances I turned to a suggestion which had been put forward by my predecessor Mr. George Woods -- one of the many bits of wise advice from which we all, and I especially, have benefited. This was that we should establish a commission of men well versed in world affairs, and used to influencing them, who would survey the past aid effort, seeking out the lessons it can teach for the future; and then to examine as carefully as is possible that future to see what needs to be done by rich and poor, developed and underdeveloped alike to ensure the economic well-being of the great majority of mankind.

As you know, Mr. Lester B. Pearson, formerly Prime Minister of Canada, has agreed to accept my invitation to chair such a survey. The Pearson Commission will be marking out guidelines not just for a decade but for a generation of development that will carry us to the end of this century. But here are we living in 1968 with much that we can and must do today and tomorrow. It is already perfectly clear that during the first four-fifths of the Development Decade the wealth gap between the developed and the less developed countries has increased, is increasing and ought to be diminished. But it is equally clear that the political will to foster development has weakened, is weakening further, and needs desperately to be strengthened.

(donors' viewpoint)

ghost!

What can the Bank do in this situation? I have been determined on one thing: that the Bank could and would act; it would not share in the general paralysis which was afflicting aid efforts in so many parts of the world. I do not believe that the Bank can go it alone, can do the job of development that needs to be done around the world by itself; but I do believe that it can provide leadership in the effort, and can show that it is not resources which are lacking -- for the richer countries amongst them have resources in plenty -- but what is lacking is the will to employ those resources on the development of the poorer nations.

need not claim this!

We in the Bank, therefore, set out to survey the next five years and see what the Bank Group could invest if there were no constraint of funds, and the only limits on our activities were development needs and absorption capacity on countries pursuing acceptable economic policies.

Based on this survey, we have concluded that a very considerable increase in Bank group activities was desirable and possible.

It is toward this objective that I shall attempt to guide the Bank's activities in the next few years. In doing so I shall need the ~~advice and consent~~ support of you, gentlemen, our Governors, expressed through the Board of Executive Directors. Therefore I ~~think it prudent and fitting that I should~~ would like now present to you an outline of my thinking.

Let me begin by giving you some orders of magnitude: I believe that world wide the Bank Group should during the next five years lend at least ~~twice as~~ much as during the past five years. This means that between now and 1973 the Bank Group would lend as much as the total it has lent since it began operations 22 years ago.

This is a change of such a degree that I feel that it is necessary to emphasize that it is not a change of kind. We believe that we can carry out these operations within the high standards ~~of careful evaluation and sound financing~~ that my predecessors have made synonymous with the name of the World Bank.

be guided by development programs, strategies and implementing priorities carefully appraised and mutually agreed — Then

Our loans will be for projects as soundly based and appraised as ever in the Bank's history. We will look ~~However, more and more, in looking~~ for projects to support ~~we shall look for those~~ which contribute most fundamentally to the development of the total national economy, seeking to break strangleholds on development, ~~rather than simply to assure profitable investments. And our help will be directed to those poor nations which need it most.~~

not necessary or!

This, I believe, to be sound development financing, but it is not riskproof; nor do I believe that the utter avoidance of risks is the path of prudence or wisdom. I recently visited Indonesia where, for good reason, the Bank has never made a loan of any sort in the past. What I found was the fifth largest nation in the world striving in the wake of the most terrible disasters, both economic and political, to set themselves straight on the path to development. Without external help they face certain disaster; by giving help (as we have done through IDA) we are running some risks. I do not believe you would wish it otherwise.

~~The parable of the talents is a parable about financial power, and it illuminates the great truth that all power is given us to be used, not to be wrapped in a napkin against risk.~~

But if we are to lend at double or more the level of the past, can we raise the money? I will not speak now about the soft loan money which is raised by Government contributions, but about the money we raise by bond issues in the capital ~~money~~ markets of the world. I am confident that the money can be raised ~~is there, because~~ even though we are living in a period of capital scarcity and balance of payments difficulties in some major countries. I have confidence -- as I said before -- in the immense capacity of the economies ~~of the developed world; no country need fear bankrupting itself because it plays its full part in development.~~

capital scarcity

There are, of course, certain constraints through balance of payment difficulties, but I am fully aware that the balance of payments difficulty is a domestic problem of the rich economies -- the money lent in aid does not stay in the developing countries, it returns quickly in payment for the goods purchased x still the old Bank as long as change is measured by change in "loans" (composition, distribution and sectors). change in objectives and purposes of lending !!

in the richer countries. It is our job in the World Bank to look at the world ~~money~~ capital markets as a whole, and see where there are surpluses, where there are reserves that can be tapped. Following this line we have looked in such unconventional places as the Middle East, and successfully raised funds there, as well as in the more conventional markets of the world -- in particular Germany and America.

As a result in the first 90 days of this fiscal year the World Bank has raised more funds by borrowing than in the whole of last year, or of any single year in its history.

* still the "old Bank"

I have been stressing that in ~~doubling~~ increasing the Bank Group's lending activities we are not departing from the Bank's high standards of investment policy. But I would not want you to think that our policy was simply "more of the same."

Our five year prospect calls for considerable changes in the allocation of our resources, both to areas and to sectors, to suit the considerably changed circumstances of today and tomorrow. [current thinking flexible and adaptable]

First as to area: in the past the Bank group has tended to concentrate its effort on the Asian subcontinent. Much has been achieved -- the harnessing of the Indus rivers for power and irrigation for instance -- and much remains to be achieved. I believe World Bank lending to Asia should rise by 40% over the next five years. But it is not to Asia alone that our new effort will be directed. It is to Latin America and Africa as well, where in the past our activities have been less concentrated, and to some countries in great need of our help such as Indonesia and Egypt where our past activities have been negligible.

Indonesia!

* proportionately rise less than others

In Lain America, I foresee a doubling of our investment rate in the next five years. But it is in Africa, just coming to the threshold of major investment for development, where the greatest expansion of our activities should take place. There we shall increase our rate of investment, over the next five years, threefold.

* Asia < average increase
LA = average increase

Af and ME > average

 X "old Bank = project emphasis —

There are further changes foreseen as a result of our shift to a greater emphasis on Africa and Latin America. The states of these two continents are smaller than the giants of Asia. There will be many more but smaller projects, demanding much more staff work per million dollars lent than in the past.

more apt as/ point of reference

The work of the Bank will also be increased because in many of the countries in which we will now be investing, there is no well established Development Plan or Planning organization. We shall try, in conjunction with other donors, to help these countries to adopt wise and appropriate policies for development -- in some cases by establishing resident missions as we have done in Indonesia -- but always remembering that it is their country, their economy, their culture and their aspirations which we seek to assist.

In particularly we will exert special efforts to right one upside-down apsect of Bank operations: the fact that our poorest members, despite their greater need, have had the least assistance from the Bank. About a dozen have had no loans at all. [~~This is largely because of their inability to prepare projects for consideration.~~] In these cases we will provide special assistance to improve economic performance and to identify and prepare projects acceptable for Bank financing.

X

X ?

With the doubling of Bank lending and with the increase in the complexity of Bank operations, I have foreseen the need for an increase in the total professional staff of the Bank, as well as some streamlining of our procedures. The Bank is now engaged in a worldwide recruiting drive to find people with the high standards of expertise and dedication that have always been the attributes of its staff. ~~I am anxious that this should really be an International Bank, in fact as well as in name, and I intend to ensure that the proportion of Americans and British does not rise any higher than it is today.~~

?

later?

X very "aid" in language — Bank not only related to "need" —

Not only should our lending double in volume and shift geographically, but we can foresee, as well, dramatic changes among sectors of investment. The greatest changes by ~~far will~~ are likely to occur in the sectors of education and agriculture.

The Educational field is a relatively new one for the Bank on which my predecessor George Woods, with his wise sense of priorities, began to place increased emphasis. In recent years the Bank has been seeking, uneasily but with a growing sense of urgency, to find its optimum role in this field.

We are aware of the immense numbers of functional illiterates in the developing world: 30% in Latin America, 60% in Asia, 80% in tropical Africa. We know too that education is relevant to all dimensions of development, it makes a more effective worker, a more creative manager, a better farmer, a more efficient adminsitrator.

The need is clear, but it has been less clear how the Bank's resources can be brought to bear on this labarynthine problem. Now, after some years of collaboration with Unesco, we believe we see a way ahead for increasing Bank investment in education -- investment which we hope will call forth further investment by the government of the developing country itself.

Our aims here remain the same -- to provide assistance where it will contribute most to economic development. This we believe will mean investment in educational planning where the whole process of educational improvement must begin; it will mean assistance, particularly in teacher training at <u>all</u> levels, from primary to university. It will mean expansion of our support for a variety of other educational activities, including the training of managers, entrepreneurs and of course of agriculturalists.

It is important to emphasize that education, normally one of the largest employers in any country, is one of the few industries which has not undergone a technological revolution. I feel very strongly that we must help to move it out of the handicraft stage. With the terrible and growing shortage of teachers all over the developing world we must seek ways to make good teachers more productive. This will involve investment in text books, in audio-visual materials, and above all in the use of modern communications techniques (radio, film and television) for teaching purposes.

To carry out this program we propose over the next five years to increase our lending for Educational Development threefold.

But the sector of greatest expansion in our five year program is Agriculture, which has for so long been the stepchild of development. Here again there has never been any doubt about its importance. Two thirds of the people of the developing world live on the soil, yet these countries have to spend annually $2 billion of their scarce resources to purchase food from the industrialized nations. The need has stared us in the face for decades past.

But how to help? In the past, investment in agricultural improvement produced, in general, a low yield; the traditional seeds and plants did better with irrigation and fertilizer but not much better. Now, as you know, as the result of the research of the past decade, a breakthrough has taken place in the production of new strains of wheat and rice and other plants which can improve yields by 3 to 5 times. What is more, these new strains are particularly sensitive to the input of water and fertilizer; with correct management they will give the peasant an unprecedented crop, badly managed they will produce little more than the traditional plants.

Here is an opportunity where irrigation, fertilizer and peasant education can produce miracles in the sight of the beholder. The farmer himself in one short season can see the beneficial results of scientific agriculture which has seemed so often in the past to be a will o'the wisp tempting him to innovation without benefit.

Our task now is to enable the peasant to make the most of his advantage, and the Bank intends to do so at once and in good measure. Irrigation schemes, fertilizer plants, agricultural reserach and extension, pesticide production, storage facilities -- with all of these we will now press ahead in the immediate future. Indeed in the coming year we plan to process five times as many Agricultural loans as in the last, and our Agricultural dollar volume over the year will be quadrupled.

There is an element of risk in all this, of course. The seeds were issued before all the tests had been completed (to have completed them first would have meant a delay of X years); the resistance of the crops to local diseases or pests cannot yet be assured; the splendid harvests in India and Pakistan this year cannot all be attributed to the new seeds. But I have no doubt, though setbacks may lie ahead, that there has been an Agricultural revolution as significant as the Industrial revolution. It is one that gives us a breathing spell in the race between man and his resources.

This leads me to yet another area where the Bank needs to take new initiatives -- the control of population growth. This is a thorny subject which it would be very much more convenient to leave alone. But I cannot, because the World Bank is concerned above all with economic development, and the rapid growth of population is one of the greatest barriers to the economic growth and social well-being of our member states.

This is the aspect of the population problem with which I shall deal, because it is this aspect which most closely concerns the World Bank, and makes it impossible for the majority of our members to brush the subject aside, however strong our personal, cultural or religious inclinations to do so may be.

I do not need before this audience to deal with the terrifying statistics of population growth as a whole which show that although world population totaled only one-quarter billion in the first century AD and required 1750 years to add another quarter billion; it added 1 billion in the next hundred years; a second billion in the following thirty years; and is now expected to double to a total of 6 billion or more by the end of the century. By that date it will be increasing at the rate of one billion each six years. Nor do I need to deal with the personal tragedies and health dangers of unwanted births, that were suddenly illuminated for me by an item in a newspaper last month which recorded that in one European country illegal abortions outnumbered live births in its two largest cities.

I wish to deal only, as a development planner, with the hard facts of population impact on economic growth. I have studied carefully the results of some researches made in the Bank, and I hope that these figures, derived from them, will convey to you both the urgency and the importance of the economic aspects of the population problem. A representative sample of developing countries shows that the proportion of their investment that must be devoted to maintaining per capita income at its present low levels is on the average about 65%, whereas for the developed countries this proportion is less than 25%. Put in another way, for every $100 that are invested in the first group of countries, only $35 contribute to raising per capita incomes, whereas in the second group over $75, or more than twice as much, contributes to the growth of per capita incomes. These figures go a long way to explain why the gap between rich and poor countries is constantly widening. A substantial reduction in the rate of growth of population in the developing countries will, more than anything else, contribute to reducing the gap between rich and poor.

Let me be more specific as to how population control can be expected to raise living standards. As an example, let us see what a halving of the birth rate over a period of 25 years would mean for a typical developing country. Studies have shown that at the end of a generation this would result in a standard of living that was 40% higher than if the birth rate had not declined.

It is important to note that the increases in the standards of living from reduced fertility are independent of the population density that prevails, and are solely the result of different population growth rates. This is something that needs emphasizing in view of the fact that many policy makers in the developing countries attach only minor importance to reducing population growth. They often judge the desirability of a population policy in terms of the absolute size of the population in relation to natural resources -- or in relation to the size of neighboring states.

What are the chances of these serious population problems being dealt with by natural causes? To answer that it is necessary to understand why the population explosion has taken place; there has been no rise in the birth rate, only a precipitate drop in the death rate due mainly to modern medical advances. It is this death control which has created the present emergency, and I do not believe that anyone would wish to reintroduce pestilence -- or any other of the four horsemen of the apocalypse -- as a solution to the population problem.

We are therefore faced with the question of what action we at the Bank, as a Development Agency, should take to lift this burden of dependency from the backs of many of our members. I propose the following three courses:

First: to make clear to our members the extent to which rapid population growth slows down their potential development; and that, in consequence, the optimum employment of the world's development funds requires attention to this problem.

Second: we will loan to those of our members who require them to carry out family planning programs.

Third: we will join with others in programs of research to determine the most effective methods of family planning and of national administration of population control programs.

With these three proposals for immediate action I hope we may contribute to the success of the U.N. which is already working in this field, and to the well-being of our members.

Gentlemen, I have spoken long enough. Let me sum up by saying simply that

I do regard the war on world poverty as fundamental to world peace and security; that the World Bank is determined to play an increasingly active part in that campaign by channelling the abundant resources of the world's economy into those dry places where it is most needed to give life and growth to those struggling for survival.

Mr. McNamara's Speech for Governors' Conference

1. Main theme is to answer major unspoken questions of Governors -- will the new President carry on or drastically alter the course of the World Bank? What major changes will he make?

(Woods had a strong image as champion of development with rather specific content, greatly different from Black. What does McNamara stand for?)

2. Main elements of Woods's approach:

(a) accept responsibility of world leadership for Bank and Bank President in field of development finance -- therefore spoke out on total needs of LDCs ability to use more capital effectively and areas in which developing countries could improve own performance; new fields of enquiry undertaken such as supplementary finance and commodity price stabilization; emphasized importance of non-financial developments particularly international trade for LDCs, need to relate development assistance to economic performance, need for acceptance of greater responsibilities by richer developed countries, particularly in providing more funds from budgets; suggest Grand Assize; willingness to accept leadership by Bank in consortia and consultative groups; widen Bank knowledge of economic development problem of countries to include all members and be helpful to all one way or another (e.g., economic analyses and technical assistance), not only countries which were recipients or likely recipients in near future of Bank/IDA funds; create closer links with other international agencies concerned, e.g., FAO, WHO, UNESCO, regional banks, builder of private capital (ex: international investment disputes); concern with rising external indebtedness problems; concern with how to arouse greater willingness to help by developed countries; concern with world food and population problems; cautiously expressed concern with armaments. (Best expressions of philosophy frequently in speeches or articles. Beginnings made in practice in most of these areas, but difficulties in translating much of philosophy into Bank action.)

(b) with respect to World Bank Group activities in narrower sense emphasis on relating lending and technical assistance activities to economic conditions, outlook and performance; increase greatly level of credits extended by IDA; re-establish presence of World Bank in capital markets of world both by tapping new sources and obtaining larger access to traditional capital markets for World Bank; increase scope of IFC; improve international character of staff; develop closer working relations with countries and international organizations. During last two years most of efforts went into IDA replenishment; expansion of areas of lending activities, e.g., agriculture, education and tourism; improvement of geographical distribution of loans and credits; more to help food production, e.g., fertilizers; more joint efforts with other lenders or donors (joint financing).

3. McNamara's approach:

(a) build on previous actions taken by Woods in accepting greater leadership responsibilities for World Bank Group; broadening the scope of its activities; raising the levels of its lending activities; increasing emphasis on economic analyses; willingness to provide technical assistance, etc.

(b) belief that new situation in world indicates also necessary to go much further in some respects than envisaged a few years ago both in lending and borrowing activities of World Bank (new implications in foreign aid field with decline in foreign assistance coupled with increased need and capacity to use external capital effectively); also need to alter Bank's method of operation; need much clearer orientation of World Bank Group to accepting as focal point doing all feasible to help meet development needs and promote development process of members (means emphasis on understanding over-all economic potential of country; what its development strategy should be; what economic policies have best chance to achieve objectives; how to obtain adoption and continuation of such policies; how to ensure that good programs do not fail because of inadequate external support; how to judge among sectors and make best investment decisions; what advice to give on overeall economy and outlook and investment opportunities to other creditors or donors; how to coordinate efforts of donor countries for more LDCs, etc.; also needs recognition that level of Bank Group loans and credits will expand greatly -- for World Bank means much greater emphasis on achieving assured access to capital markets in much larger amounts, tapping new sources, doing all possible to raise funds on best possible terms; more IDA funds needed urgently; open-mindedness on suggestions as to how to increase available resources of World Bank Group; awareness of problems of donors and lenders to World Bank; close watch on World Bank interest rate policy; careful choice of countries, sectors and projects in making loans and credits based on economic needs coupled with efforts of recipient countries, judged in such fashion as to be understandable and defensible to international community of both developed and less developed countries represented in World Bank Group.

(c) means major innovations in methods of doing work in World Bank Group -- more intimate as well as broader continuing relations with countries, more diverse activities, deeper interest in economic problems, many more loans and credits, entry into other areas of lending, etc.; need to adapt mechanisms and procedures -- now under careful review -- want to transform Bank into the major development finance institution much more important and active than before in every respect, while preserving outstanding reputation of Bank gained when its operations were relatively few and simple.

4. Therefore, McNamara expects to see:

(i) much higher levels of Bank/IDA lending

(ii) great change in geographical distribution

(iii) wider scope of lending by entering into new areas, e.g., tourism and expanding relatively new ones, particularly agricultural and education

(iv) concentrating on helping countries work out an effective development strategy to achieve greater development through a more efficient use of their own resources as well as of capital supplied from abroad

(v) using Bank/IDA finance and influence in a planned way to help countries make the right development strategy decisions rather than operating through a series of ad hoc project loans

(vi) includes greater concern with overwhelming problems of population explosion in many countries -- not as substitute for more development help, but to ensure development success and to help overcome feelings of hopelessness -- also concern with non-productive expenditures (e.g., military); obtain more qualified staff from more countries; more direct contacts with members including where appropriate, regional offices to expedite work and to improve quality of economic advice to members

(vii) greater and more systematic efforts in borrowing activities -- expect World Bank remain for many years a presence in all capital markets -- including ones not used thus far -- become major continuing activity of World Bank; need parallel effort in achieving highest possible IDA replenishment

(viii) greater role of World Bank in encouraging private capital; expansion of coordination activities; improve knowledge of development process and help spread knowledge about development problems; help to find new practical solutions to major development finance problems (substitute practical realistic action for rhetoric); closer cooperation with other international bodies -- also with private institutions active in promoting same objectives - (e.g., foundations, churches, trade associations, professional societies, etc.); more to help other institutions be more effective if feasible

(ix) promote closest working relations with members -- need their continuing day-to-day understanding and support -- must expect Bank to lead -- EDs and staff prepared to give this leadership

(x) cooperate with Grand Assize, while helping to ensure its independent character

(xi) in brief, see long-run perspectives of problems and Bank's role and plans immediate policies and decisions realistically in this perspective (replace development rhetoric with development action -- combination of knowledge, imagination and determination exercised through people organized to make decisions efficiently and to ensure their implementation).

Irving S. Friedman

FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

Bank Press Release No. 68/45
September 4, 1968

Subject: $5.3 million loan to Ecuador for fisheries project

Ecuador will be able to exploit more fully its abundant off-shore fish resources with the acquisition of modern tuna fishing vessels and the training of key crew members for which the World Bank is making a loan equivalent to $5.3 million. The project will enable the fishing industry to more than double its catch of tuna and increase export earnings by an estimated $3 million annually, which represents nearly 45% of the foreign exchange now earned by Ecuador's entire fishing industry. It will also support an activity which is becoming important in the country's effort to diversify its economy.

Ecuadorian fish production has increased rapidly since the early 1950s largely because of United States demand for shrimp, lobster and tuna which are plentiful off the coast of Ecuador. Most of Ecuador's tuna fleet, consisting of about 60 vessels ranging widely in size, uses the so-called pole and line method, which is less efficient than seine fishing. Furthermore, the vessels have no refrigeration plant aboard which further limits their range.

The Bank loan will help to finance the design, construction and equipping of 12 tuna purse seiners with an over-all length of 90 feet, a carrying capacity of 150 short tons, equipped with freezing systems. Since purse seining is relatively new to Ecuador the training of key crew members is essential to the success of the project. Funds from the loan will be provided for this purpose so that by the time the vessels are built they can be manned by Ecuadorian crews.

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The Bank loan also includes funds for feasibility studies of harbor facilities required for further increases in fish production, both for export and domestic markets. The studies will be made of two areas: the Santa Elena peninsula and bay where landings are now made on beaches, and the port of Manta which is the base for the tuna fleet. Facilities at Manta can handle the new tuna vessels but further expansion will require extensions to berthing and servicing facilities.

The Food and Agriculture Organization of the United Nations assisted Ecuadorian authorities in the identification of the project and participated with the Bank in its preparation under the Bank/FAO Cooperative Program.

The Executive Directors began consideration of this loan before the new interest rate of 6-1/2% went into effect on August 1, 1968 and agreed that, if and when approved, it should carry interest at the rate of 6-1/4% per annum. The loan was made to the Republic of Ecuador for a term of 20 years, including 6 years of grace.

The Government will relend the portion of the loan allocated to the vessels to its wholly-owned development finance corporation, Corporacion Financiera Nacional (CFN) on the same terms. CFN will in turn lend these funds to private fishing companies and individuals for a term of 14 years, including two years of grace. Procurement of the vessels will be on the basis of international competitive bidding.

The National Fisheries Institute, under the Ministry of Industries and Commerce, will operate the training program for key crew members and provide technical advice to CFN. The harbor studies will be carried out by the National Planning Board with the assistance of consultants.

The total cost of the project is estimated at the equivalent of $6.6 million, including working capital. The Bank loan will cover most of the foreign exchange component estimated at the equivalent of $5.9 million. The remainder of the foreign exchange required will be provided by the individual fishing enterprises which will also meet the local currency costs relating to their sub-projects. The balance of the local currency expenditures for the harbor studies and training programs will be covered by the Government.

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FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

September 4, 1968 Subject: Philippines Transport Survey

At the request of the Government, a comprehensive transport survey will be undertaken in the Philippines to formulate a systematic plan for transport development.

The United Nations Development Programme (UNDP) has allocated $788,000 for the survey, for which the World Bank is the Participating and Executing Agency. The Government's contribution will be equivalent to $255,700, including $59,700 as contribution to UNDP toward local operating costs. The French consulting firm of Metra International, with Sauti of Italy as its subcontractor, will undertake the survey. It is expected that the consultants will begin their field work in the Philippines in September, and that the survey will be completed within 14 months thereafter.

The Philippines has a land area of 115,000 square miles, spread over more than 7,000 islands; only about 400 are inhabited, containing a total population of about 34.6 million. The transportation network comprises roads, railroads, international and domestic air routes and numerous inter-island shipping routes, serving over 350 ports.

Although the Government is giving great emphasis to improving transportation, the growth in traffic volume, particularly in the last four years, has rendered the existing transport facilities increasingly inadequate. This is particularly true of roads, where maintenance and improvement have not kept pace with rising transport requirements. Inadequate transport facilities are at present a serious bottleneck to the development of the Philippine economy.

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The survey will provide a coordinated transport program for ten years from 1970 to 1980. This includes the determination of investment priorities, the identification and preparation of feasibility studies for high priority highway and port projects, and recommendations to strengthen the organizations involved in the planning, regulation and implementation of transport services. The survey also makes provision for the training abroad of local personnel in the field of transport planning.

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FOR IMMEDIATE RELEASE

INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

IDA Press Release No. 68/21
September 3, 1968

Subject: Indonesia receives first IDA credit

Announcing the first step in the World Bank's program for assisting in rehabilitation and development in Indonesia, the Bank's President Robert S. McNamara said:

"When I visited Indonesia last June I promised that we would start to help the country as soon as we could, and that our first efforts would be to help them grow more rice. Today, the International Development Association (IDA) has approved its first credit ever to Indonesia, $5 million for the rehabilitation of irrigation systems.

"This should help to increase domestic production of rice, and thus reduce the heaviest drain on Indonesia's scarce foreign exchange reserves."

Indonesia's three largest and most important irrigation systems will be the first to be rehabilitated. They are located on the island of Java. Although Java comprises only 7% of the total land area -- 3,000 islands stretching 3,100 miles along the equator -- almost 70% of the people live there. It is intensively cultivated but does not produce enough crops, particularly rice, the staple diet, to feed the population. The Government has to import large quantities of rice to avert actual hunger in the cities. This situation has developed as a result of the rapid population increase and because of long-neglected maintenance and inefficient operation of the irrigation systems. Two-thirds of Java's total irrigated area of 7 million acres need to be rehabilitated. IDA funds will also be used to complete a new irrigation system under construction on Sumatra at the site

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of a government resettlement scheme for landless or unemployed Javanese. The total area involved in the four systems is about 490,000 acres.

As a direct result of the project, rice production should increase by almost 40,000 tons annually or about 15% of the present level in the project area, reducing the need for rice imports by $6.6 million a year. Furthermore, once the areas concerned have adequate irrigation and drainage, it will be economical to use fertilizers, pesticides and improved seeds which will increase yields even further.

The IDA credit of $5 million will be for a term of 50 years, including a 10-year grace period. It will be free of interest, but a service charge of 3/4 of 1% will be made to meet IDA's administrative costs.

The project is expected to take five years to complete at a total cost equivalent to $8.8 million. The Government of Indonesia is financing the equivalent of $3.5 million of the local currency costs and farmers are contributing voluntary labor valued at about $300,000.

In view of the great urgency for speedy execution, the project has been approved for financing although an engineering study and the preparation of detailed plans still remain to be carried out. The Government is engaging consultants for this purpose and the IDA credit includes funds for their services. In the meantime the necessary equipment and machinery can be ordered and put to work on the most urgent and obvious tasks without delay.

The consultants, working with the Directorate General of Water Resources and Indonesia's engineering staff responsible for irrigation, will make an engineering survey and inventory of the systems included in the project. They will then prepare a detailed plan for the rehabilitation of the systems and subsequent operation and maintenance, and assist in its execution. They will set up, and supervise initially, maintenance schedules and accounting and control systems for equipment, materials, spare parts and supplies, and provide in-service training to supervisory staff. In early 1969 they will begin to prepare projects for the rehabilitation of other high priority irrigation areas.

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FOR IMMEDIATE RELEASE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W., WASHINGTON D. C. 20433 TELEPHONE: EXECUTIVE 3-6360

Subject: World Bank Bond Issue Planned

Bank Press Release No. 68/46
September 3, 1968

Robert S. McNamara, President of the International Bank for Reconstruction and Development, announced today that the Bank proposes to offer during the week beginning September 16, 1968, $250,000,000 principal amount of Twenty-Six Year Bonds.

The Bonds will be publicly offered in the United States through a nationwide group of underwriters headed by The First Boston Corporation and Morgan Stanley & Co. The Bank also proposes to place directly an additional $25 million of the Bonds with governmental institutions outside the United States.

This $250 million to be offered in the United States, when taken together with the $25 million to be offered outside the United States, would be the largest bond issue ever offered by the Bank.

Mr. McNamara has stated that he "felt confident that the Bank can very substantially increase its program of borrowing and thereby expand the flow of investment funds to the developing countries".

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