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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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R70-234

FROM: The Secretary

December 15, 1970

File

Pearson Commission Recommendations

Following the procedure indicated in the President's Memorandum dated October 10, 1969 (SecM69-472), there is attached hereto an analytical memorandum dealing jointly with Recommendations Nos. 17 and 18. This completes the memoranda on all 33 items listed in the attachment to the above-mentioned President's Memorandum of October 10, 1969.

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Department Heads, Bank and IFC

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

OFFICE OF THE PRESIDENT

Confidential

December 15, 1970

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendations Concerning the Financing of Local Currency Expenditures and Program Lending

"Pearson" Recommendations

(1) "We recommend that aid-givers remove regulations which limit or prevent contributions to the local costs of projects".

(2) "Aid-givers should adapt the forms of aid to the needs and level of development of the receiving country and recognize the great value, in many cases, of more program aid".

BACKGROUND

1. Both these recommendations of the Commission are contained in Chapter 9 of the Report, which considers ways in which aid might be made more effective. The Commission recognized the advantages of project aid, and the reasons - including the wording of the Articles of Agreement of the Bank and IDA - which might cause donors to favor it. It was concerned, however, that the effectiveness of official development assistance is often reduced by too exclusive an emphasis on financing the foreign exchange costs of projects. In particular, the Commission took the view that

(1) where only foreign exchange costs were financed, this led to "an uneconomic bias towards capital intensive projects with a large foreign exchange component": hence the first of the recommendations considered here; and

(2) the advantages of program aid, which the Commission describes in summary form, were insufficiently recognized, with the result that "current aid funds would be more effectively used if a larger share were supplied in the more flexible form of program aid": hence the second of the recommendations considered here.

2. In connection with program aid, the Commission specifically endorsed the view that multilateral financial assistance should have a large non-project option. It went on to point out that "in the consortia headed by the World Bank, member countries are enjoined to provide program aid"; and drew the inference from this that it is anomalous that the Bank Group should not itself supply it more freely.

3. These recommendations are I think clearly related. They may be regarded as different and in certain cases alternative methods of achieving the same objectives, namely to provide to recipient countries external assistance over and above what they could expect to receive by way of the direct foreign exchange costs of particular approved projects, and to improve the effectiveness of a given amount of such assistance. Thus the case for program lending depends in part, though only in part, on the extent to which it may not be readily possible to finance local expenditures in connection with project aid. It is for these reasons that both of the recommendations are here treated together in a single memorandum.

ANALYSIS

A. Provisions of the Articles

4. With respect to the financing of local expenditures, Article IV, Section 3(c) of the Bank's Articles of Agreement provides that

> "The Bank, if the project gives rise indirectly to an increased need for foreign exchange by the member in whose territories the project is located, may in exceptional circumstances provide the borrower as part of the loan with an appropriate amount of gold or foreign exchange not in excess of the borrower's local expenditure in connection with the purposes of the loan".

Article V, Section 2(e) of IDA's Articles of Agreement permits local expenditure financing in "special cases".

5. With respect to the purposes for which Bank loans or IDA credits may be extended, Article III, Section 4(vii) of the Bank's Articles of Agreement provides that

> "loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development".

Article V, Section 1(b) of IDA's Articles of Agreement contains a similar provision.

6. The interpretation of the provisions relating to the purpose of loans or credits was recently considered in a memorandum prepared by the General Counsel, and circulated for the information of the Executive Directors on March 20, 1970 (Sec M70-120).

B. Recent Consideration of These Issues

7. In relation to local expenditure financing, the policies to be pursued by the Bank and IDA were the subject of a review by the Executive Directors in June 1964, on the basis of a staff paper entitled "Foreign Exchange Loans for Local Expenditure" (FPC. 64-4 dated May 1, 1964), and again in September 1968, on the basis of a staff paper entitled "Foreign Exchange Loans for Local Currency Expenditures" which I transmitted under a covering memorandum dated July 30, 1968. From the discussion on the latter occasion, it was apparent that the Executive Directors were in general though not unanimous agreement that in certain defined circumstances the Bank and IDA must be prepared to finance local currency expenditures if they are to carry out effectively their basic functions as development finance agencies. At the same time, however, some Executive Directors raised doubts concerning the extent to which local cost financing could be undertaken consistently with the wording of the relevant Articles of Agreement. At the request of the Directors, the General Counsel circulated a memorandum on November 19, 1968 (Sec M68-436) which considers the question how far and in what form local expenditure financing is authorised under the provisions of the Articles of the Bank and IDA.

8. The present policies of the Bank and IDA reflect the general position taken by the Executive Directors in 1964 and 1968 and are consistent with the views expressed by the General Counsel.[1] As the Executive

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1/ These policies have been summarized in one of the operational memoranda issued as a guide to the staff in the conduct of Bank and IDA business, as follows:

In principle, the Bank is prepared to consider loans for projects involving local expenditure if the following conditions are met:

(a) The borrowing country has a suitable development program and is making an adequate development effort.

and

(b) This development program requires funds in excess of the savings that can be raised locally and the capital, public and private, that can be obtained from other external sources.

and

(c) These funds cannot reasonably be provided to the country in adequate amounts by financing foreign exchange expenditure on development projects (i.e. there are insufficient investment opportunities of this kind).

or

(d) Although there are sufficient investment opportunities of this kind, the Bank could have a greater beneficial influence on the country's development if it directed its financing toward other projects of key importance requiring some local expenditure financing.

(Operational Memorandum No. 2.03, dated June 9, 1969)

Directors are aware, in recommending any loan or credit which incorporates local expenditure financing, I take care to present the facts of the case and to describe the exceptional circumstances which in my judgment justify the action proposed.

9. With reference to program lending by the Bank and IDA, I submitted to the Executive Directors in November 1968, together with a covering memorandum, a staff paper entitled "Program Lending" (R68-206). In the course of the discussion which followed, widely varying views were expressed concerning both the case for program lending in general and the extent to which it might be proper or desirable for the Bank and IDA to engage in it. The Executive Directors reached broad agreement that "program lending could be appropriate for the Bank and IDA in special circumstances where this form of lending would best accomplish the objectives of the Bank Group". However, it was further concluded by the Executive Directors that it was not possible at that stage to lay down specific criteria for the determination of special circumstances, and that "this determination should be made in connection with particular lending proposals".

10. Our present policies and procedures reflect the views expressed and the decisions taken two years ago, together with the opinions set out in the memorandum prepared by the General Counsel (Sec M70-120) to which I have referred above.

11. Although the main themes of these two recommendations of the Pearson Commission have been considered extensively by the Executive Directors in 1968, the Commission's recommendations now provide us with a useful opportunity to review again the lending policies of the Bank Group, and to consider whether any change might be desirable. In the course of my Closing Statement at this year's Annual Meeting in Copenhagen, I noted the importance attached by many Governors to greater flexibility in the lending policies of the World Bank Group, and stated that "the time has clearly come for a full re-examination of both program lending and local expenditure financing".

12. Since these are complex and in some respects controversial matters, which raise very basic questions concerning the role of the Bank Group, there seems to be a good case for a detailed and deliberate review, in which full account is taken of the experience with different modes of lending which has been acquired by the Bank and by other lenders. A summary review of this experience is set out in Annex I attached to this memorandum.

13. Before turning to the general issues which arise in connection with lending policies and techniques, I think it may be helpful if I consider some questions of terminology and interpretation, which have sometimes given rise to difficulties or misunderstandings in the past.

C. The Characteristics of Project and Program Lending

14. The Pearson Commission's analysis makes a general distinction between project aid and program aid. This is a familiar and useful dichotomy, and I do not propose to depart from it. But since the terms are broad ones, and the boundary line between the two types of lending is unclear and sometimes disputed, it may be useful if I state my own understanding of the issues which the Commission has raised.

15. It is generally recognized that a spectrum of lending possibilities exists, with what may be termed the purest forms of project lending or program lending at the two extremes. On the one hand, there is the case of a loan which is specifically made in order to finance the foreign exchange content of the capital expenditures associated with a particular physical undertaking, such as a new road or a power station, the case for which, and the design and execution of which, have been fully reviewed and appraised. This is the pure project loan. At the other extreme, a lender may make foreign exchange available to a recipient country in general support of its development program, with little or no attempt to specify the purpose which the loan is to serve. This is the pure program loan. But it is possible and indeed frequent for intermediate cases to arise, by which project loans acquire some of the characteristics or effects of program loans, and vice versa. For our purpose I think it is useful to look at some of these intermediate categories, and to consider the relation in which each of them may stand to the recommendation of the Pearson Commission.

16. First, to an increasing extent, the individual project forms part of a sector investment program which is appraised as a whole, with Bank financing attached to particular items or groups of items for which it is most appropriate. This is typically the case in telecommunications, water supply and railways, and to a lesser extent in education and power. Highway lending in a number of countries is also being based on a review of investment priorities for the sector as a whole, usually done as part of a comprehensive sector survey, with a number of individual roads of high priority financed under a single project. Agriculture is the sector which, because of its size, is most difficult to embrace in single projects; this is done to some extent, however, in agricultural credit projects, and will become increasingly possible as more Bank/FAO agricultural sector reviews are carried out. Thus in the current practice of the Bank Group, project and sector lending are increasingly becoming coterminous.

17. Although the focus of lending policies has thus shifted from the individual project to a broader setting, it is my view that what may be described as sector lending at any rate in the forms which it has been given or is likely to be given within the Bank Group, should be regarded as falling under the broad heading of what the Pearson Commission refers to as project aid. The essential characteristic in virtue of which this

may be said is that the disbursements are linked to approved capital expenditures carried out in designated fields within the recipient country; funds are not made available in general support of the country's development program.

18. However, even though sector lending of this kind is best thought of for our purposes as a form of project aid, the extent to which the Bank Group is able and willing to engage in it may have a bearing on the case for program lending by the Bank and IDA. The more flexible and varied are the forms for which we are able to provide project assistance, the fewer may be the special circumstances in which we should consider lending for purposes other than that of financing projects.

19. Second, project aid, including even the financing of highly specific individual projects, can have what might be termed a "program aspect" in so far as it incorporates the provision of foreign exchange to finance expenditures in local currency. In such cases, disbursement of the foreign currency is conditional on the execution of approved projects, yet it is common practice for the recipient country not to be tied in respect of the use to which the foreign currency is put. Thus the effect of the loan is not simply to further a particular project but also to furnish the recipient country with free foreign exchange, in much the same way that might have resulted from an extra infusion of aid that was unrelated to project financing.

20. In many cases of so-called program lending, the situation is the reverse of that which I have just described: the foreign exchange is made available for the purchase only of certain specified imports, while no restriction is placed on the use of the counterpart funds that arise from the sale of the foreign exchange which the loan provides. In so far as the uses of the foreign exchange are thus prescribed, so-called program lending may acquire something of a "project aspect"; and if the use of the counterpart funds is tied to local expenditures arising from projects that have been fully appraised, the loan may acquire what can be thought of as the prime characteristic of project aid.

21. Nevertheless, the broad distinction which the Pearson Commission has made remains I think a useful one in relation to the policies of the Bank Group. It has not in fact been our normal practice, in making what may be termed "import loans" or "program loans", to place restrictions on the use of counterpart funds. It is true that in a number of circumstances, as can be seen from Annex I attached to this memorandum, the permissible use of the foreign exchange provided have been specified in some detail, so that in a broad sense this form of financing could be said to have a project aspect. Yet in general the funds thus provided have not been made available specifically and exclusively for financing particular agreed forms of capital expenditure by particular agencies, and hence fall into the broad category of program rather than project aid. I interpret the Pearson Commission as

holding that the Bank ought to be readier than it is at present to provide assistance of this kind.

D. General Analysis and Review

(1) The Context

22. The questions of lending policy that confront us have to be looked at in the context of a number of considerations, which I think it may be helpful to state at this point. There are four considerations in particular which I hope we might all agree should be taken into account.

23. First, the prime object of our policies must be to ensure that the developing countries which borrow from us should benefit to the greatest possible extent from the loans and credits that we are able to extend to them. Forms or techniques of lending are merely the instruments for this purpose; they are not ends in themselves. Thus we should not engage in what may be termed program lending merely for its own sake, or in order to disarm possible critics; but we should be ready to adapt our methods, without undue concern for the terms or nomenclature which may be given to them, in whatever way may seem best suited to the needs of our borrowing countries. Similarly, to use the words of the Pearson Commission, we "should not adhere to project aid as a matter of orthodoxy". The fact that in many situations the distinction between project and program lending may become blurred, as I have noted above, is an additional though subsidiary reason for not becoming too preoccupied with labels.

24. Second, the choice of policies must be seen in relation to a continuing increase in lending commitments by the Bank Group. As the Executive Directors are aware, commitments by the Bank and IDA taken together reached in the fiscal year 1968 a total of about $1.0 billion. The corresponding figure projected for the fiscal year 1973 is approximately $3.0 billion, an increase of some 200 percent. Loans and credits from the Bank Group have been increasing not only in absolute terms, but also in relation to the total amount of official development assistance - i.e., in relation to the amounts provided by the bilateral donors.

25. Third, there can be no question but that the greater part of the lending undertaken by the Bank Group will continue to take the form of financing of foreign exchange costs of specific approved projects or sets of projects. It is neither necessary nor desirable for us to change this state of affairs, or to depart in this respect from our established policies and procedures.

26. Fourth, the choice of how we can best carry out our role cannot be made without regard to the policies pursued by the other main providers of aid, and particularly the leading bilateral donors. This does not and

should not imply that our function is to be merely an auxiliary or residual lender, reacting to the decisions taken by other agencies. On the contrary, the Bank Group has and will continue to have its own independent set of policies and criteria. But in order to maximize the likely effectiveness of our aid over any given period we have to take account of what is being done by the other principal sources of external finance.

27. With these preliminary observations, I turn to what seems to me the main substance of the issues which the Pearson Commission has raised.

(2) The case for a broad approach to lending

28. I have already remarked that these two recommendations of the Pearson Commission cited at the outset of this paper are closely linked. In particular, the clear implication of both is that lenders should not limit external assistance to covering only the foreign exchange component of capital expenditures on projects. I believe this view would receive unanimous endorsement from the Executive Directors. If concessional external finance is restricted in this way, a clear bias is introduced against projects with a high content of local expenditure, irrespective of what may be the true priorities in the country and situation that are concerned. In particular, important sectors such as education and agriculture may be unduly neglected. Further, such a restriction may, in certain cases, lead developing countries to buy abroad when the cost to the economy of local procurement would be lower. Thus the choice of projects is no longer made in accordance with an appropriate system of priorities, and in the execution of projects there may be unnecessary waste and increase in cost.

29. A restriction of this kind is in fact a harmful and undesirable form of aid-tying. Though its results may often be less serious than those of the form of tying that is more commonly discussed, by which the proceeds of overseas grants or loans are restricted to the purchase of goods or services from the donor country, both forms share the essential characteristic that recipient countries may lose but cannot benefit from their imposition.

30. The case against tying loans to the foreign exchange component of projects can also be viewed from another standpoint. As the Executive Directors are aware, the Bank Group, when determining the basis of its prospective lending program in a particular country, normally starts out from an appraisal of the total external assistance that is likely to be needed in order to ensure a satisfactory rate of development, taking account of export prospects, the extent to which the funds required for development can and should be financed from domestic sources, and the borrowing capacity of the country. There is no reason to suppose that these estimates of external financing needs will bear any close or predictable relationship to the amounts that would be forthcoming from project assistance that was restricted to the foreign exchange component. For all bilateral and multilateral donors to concentrate on this particular form of aid would therefore be incompatible with the aim of securing an efficient and equitable allocation of official development assistance among recipient countries.

31. For these reasons, the case against this narrow form of project assistance, and in favor of a broader and more flexible approach to lending, is a very strong one; and it applies to the Bank Group in common with other sources of financial assistance. Indeed, in view of our special concern and involvement with project lending, it is particularly important for us to ensure that we are able to engage in local expenditure financing whenever it seems appropriate and to the full extent that the individual circumstances may warrant. As the Executive Directors are aware, and as the evidence set out in the first Annex to this memorandum makes clear, the Bank Group has been willing and able in the past to undertake the financing of local expenditures in a variety of cases: here as elsewhere, our policies have been flexible and have been adjusted to changing conditions. What has now to be considered is whether and how far we would benefit from a degree of flexibility with respect to local cost financing which exceeds that which can be attained under our present policies and procedures.

32. On the whole, I incline to the view that for the present at least no basic change is called for. In this connection, however, the interdependence of these two issues of lending policy raised by the Pearson Commission, to which I have referred above, may have to be borne in mind. I have remarked that the strength of the argument for non-project lending by the Bank and IDA depends in part on how broadly we are prepared to interpret the notion of project assistance. The reverse may also be true. Thus it might be held that the need for ensuring a higher degree of flexibility with respect to local cost financing will be affected by the extent of our willingness to recognize special circumstances in which we would be prepared to make loans or credits available in non-project form. I therefore turn now to consider, with special reference to the Bank and IDA, the question of whether and to what extent non-project or program lending may be a useful form of development assistance.

(3) The possible uses of program lending

33. It may be helpful here to separate the general argument for non-project lending, which applies to all lending agencies considered together as a collective, from the particular case of the Bank Group. What is valid for the whole may not be equally applicable to each individual member of it. Thus even granted that a significant proportion of total foreign assistance ought normally to be made available in the form of program lending, it would not necessarily follow that the Bank and IDA should engage in such lending to the same extent as other donors, or even that they should engage in it at all. Accordingly it is convenient to look first at the wider picture, and only then to consider the question of what policies may be appropriate for the Bank Group.

34. If we consider the total volume of official development assistance, as distinct from what is provided by particular lenders, it would I think be generally agreed that the forms in which this assistance is made available

should not be confined to the financing of projects. The reasons for this are set out in the second of the Annexes attached to this memorandum, and it is convenient to refer to them briefly at this point.

35. One way of viewing the matter is in relation to the estimates that are made within the Bank, and which I referred to above, of the prospective external financing needs of individual developing countries. Although such estimates are necessarily rough, so that any particular figure arrived at represents no more than an order of magnitude, it would I think be generally agreed that this form of analysis constitutes a useful and indeed indispensable approach to the task of designing an external assistance program. I have already made the point that there may be a wide discrepancy between the amount of aid that we believe a country can put to effective use and the amount that would become available to it in the form of the foreign exchange component of capital expenditure on specific projects. There is no doubt that such discrepancies could be narrowed, or even in favorable circumstances eliminated, by suitable provision for financing local currency expenditures. But as is clear from Annex II attached to this memorandum, pages 46 to 47, the extent of the contribution that can be made by local cost financing will vary with circumstances, so that for some countries there might still remain a serious gap both in time and in amount. Thus there may be cases in which the need for freely available foreign exchange cannot be met by external assistance that is linked to projects.

36. Although it is perhaps risky to generalize about such cases, I think that it is possible to specify certain broad groups or categories into which they are likely to fall. One such group comprises countries which are faced with a major and urgent task of reconstruction or rehabilitation of their economic system. In such situations there is typically an immediate need for free foreign exchange, which can be used to finance the imports that are required in order to increase or even maintain the existing rates of production, and also in order to build up essential inventories to an adequate level. In these cases it is almost inevitable that there should be limited scope for project assistance: expansion of infrastructure and production capacity has a lesser priority than full utilization of existing capacity; moreover, a stock of projects that have been properly appraised and are ready for implementation does not exist or is at best extremely inadequate. In so far as the initial emergency needs are met, the case for expeditious program lending becomes less strong; and in so far as an inventory of suitable projects is built up, it may become increasingly possible and appropriate for the balance of external assistance to shift from non-project to project form. But for a substantial period there is likely to be a clear case for providing free foreign exchange independently of the financing of projects, since the need cannot be fully met by a readiness to engage in local expenditure financing.

37. The case for non-project lending of this kind was clearly recognized by the Bank in its early years, during the period of reconstruction which followed the Second World War. As was noted in our Fifth Annual Report, covering the year 1949-50, the reconstruction loans that were made at this time to France, Denmark, and the Netherlands "were designed to meet emergency needs of these countries for foreign funds to finance a large variety of imports essential to the continued running of their industries". Certain more recent instances of non-project lending, both by the Bank Group and by other lenders, would appear to fall under this heading.

38. It is, however, generally accepted that a case for program lending may exist in situations other than that of reconstruction or rehabilitation; and the analysis set out in Annex II lends support to such a view. It is true that for any given country at a particular time the extent to which this case applies, and the amount of non-project assistance which it would be desirable to provide, will inevitably be matters of opinion. We are dealing here not with an exact science, but with difficult and complex issues of practical judgment. At the same time, it is possible to outline the circumstances which may give rise to a need for external assistance in non-project form.

39. A necessary though not a sufficient condition for this need to arise is that the country concerned should be critically dependent on an adequate supply of free foreign exchange, in order to maintain a satisfactory rate of growth or even to avoid an actual decline in production, while at the same time it is faced with a chronic difficulty in obtaining such a supply. A situation of this kind may arise where one or more of the following conditions is present:

(a) Because of underutilization of existing capacity, particularly in the industrial sector, a country may have greater need for a flow of imports to support existing production than of imports to finance investments that would expand capacity.

(b) For reasons that lie beyond the country's control, receipts from traditional lines of exports are stagnant or falling and have to be replaced over a period by other products.

(c) Development has reached a stage where the country is able to produce internally a high proportion of the capital goods, materials and services necessary for new investment, while an increasing volume of other imports is needed in order to sustain economic growth.

(d) The country concerned is faced with substantial and inescapable claims on freely available foreign exchange, such as arise from debt service payments.

Past experience has shown that it is by no means uncommon for these conditions to be simultaneously realized.

40. The existence of such a situation does not in itself establish a case for program lending. As I have noted above, it is possible for lenders to make available free foreign exchange through project assistance, provided that they are willing to finance local currency expenditures. Yet even with a broad interpretation of project lending, and given a general readiness to make provision for local expenditure financing, this form of lending may not suffice to meet the needs of every situation. Thus it may become necessary for lenders to provide assistance in non-project form in order to ensure that an adequate transfer of resources is effected. Moreover, apart from the question of the amount of assistance, there is also the matter of timing. In the case of project as compared with non-project assistance, the time-pattern of disbursements is both less predictable and more extended. Hence where special needs for disbursements have arisen, it may not be appropriate to allow the extent to which these needs are met to depend on what can be spent on a particular set of projects in a particular time-period.

41. This aspect of timeliness and assurance of assistance has also a bearing on the degree to which external lending can help to bring about improvements in general economic policies. Recent cases have demonstrated that in a situation where a critical shortage of foreign exchange has arisen as a result of factors which are not merely accidental and temporary, countries have often found themselves obliged to resort to forms of restriction and intervention with respect to foreign trade and payments which, while possibly justified as an emergency measure, may have harmful effects on growth and efficiency over the longer period. There have been a number of such cases where the assurance of external assistance, in timely and freely available form, has enabled countries to embark on policy measures which, though they were greatly needed in the interests of economic development, could not have been introduced in the absence of such support. This aspect of the matter has been noted by the Chairman of the Development Assistance Committee in his most recent Report, where he points out that

> "Non-project assistance has helped countries such as India, Pakistan, Korea, Turkey and others to introduce more liberal import regimes which have greatly added to efficient resource use by reducing cumbersome administrative controls and increasing reliance on market forces as a means of improving resource allocation."

42. In view of these circumstances, it is not surprising that a need has sometimes become apparent for non-project assistance, a need which could

not have been fully met even with generous provision for local expenditure financing. As the Executive Directors are aware, the Bank staff has on a number of occasions, both in economic reports and at meetings of consortia and consultative groups, taken the view in the case of particular countries that a greater emphasis on this form of lending was very much needed.

43. None of this in any way undermines or conflicts with the case for project assistance, which is familiar and in my view a very strong one. The argument is only that there appear to be situations in which to insist that external assistance should be made available through this medium alone would make it difficult or impossible to achieve important development objectives.

44. Before leaving this general question of the case for program lending, I would like to refer briefly to a number of arguments that have been advanced both for and against such lending, and which in my view can be given too much weight.

45. One such argument is that program lending is increasingly more appropriate for recipient countries as their stage of development becomes more advanced. Although as I have noted above there is something in this point, I do not think that it is right to assume that any simple and automatic relationship does or should exist. Many other factors have to be taken into account; and the situation in which a country has built up a viable capital goods sector, so that its dependence on imported equipment is reduced, is precisely one in which a readiness to engage in local expenditure financing may be an equally effective and appropriate course of action for lenders.

46. Another possibly questionable argument for program aid is that it enables the lender to exert a greater degree of influence and control over the general economic policies, as distinct from the conduct of projects, within the recipient country. There are some who would reject this argument on the ground that it is no business of external lenders to try to exercise leverage with respect to a borrowing country's general economic policies. But even to those it may be apparent that program lending may <u>enable</u> countries to introduce desired changes which could not be made without it. This point is admirably illustrated by the statement which I quoted above by the Chairman of the Development Assistance Committee.

47. On the opposide side of the coin, non-project lending is sometimes regarded with suspicion because of a fear that it will diminish the degree of influence exerted by the lender, enable borrowing countries to introduce or to persist with policies which are unsatisfactory, and result in wasteful use of the funds provided by the loan. In addition, it may be felt that countries which are in receipt of program aid may as a consequence put a lesser priority on project preparation. But the objection thus raised is

not to the principle of such lending but to a deficiency in the way that this principle is carried into effect - a deficiency which lenders in general, and the Bank Group in particular, are in my judgment both ready and able to guard against. Non-project lending need not and should not be a "soft option". Lenders should only be ready to engage in this form of lending, even in the situations to which I have referred above, when it is clear that the country concerned is capable of effective economic management, including the design and execution of a satisfactory development program and the taking of all necessary steps to prepare and execute projects properly. Thus there must be a reasonable assurance that the funds provided will be put to productive use, without adverse effect on the capacity to make use of project assistance.

48. Finally, I would like to refer to an argument that is sometimes brought against the use of program lending, which is that it is not appropriate to use long-term development financing to deal with problems which are or should be of a short-term character, and for which temporary financial assistance is available from the International Monetary Fund. There can be no quarrel with the general principle that different agencies should recognize and respect each other's functions, and that overseas development assistance should serve the purposes that it is intended to serve. It is however a matter of opinion whether the situations in which program aid has been provided either could or should have been dealt with by the provision of short-term financing alone; and the analysis set out in the Annexes strongly suggests that this was not in general the case. There may be, and in my view there actually have been and will continue to be, circumstances where both forms of assistance are required. In any case the simple distinction between short-term and long-term problems may often be a very debatable and uncertain guide to action in the complex situations with which we actually have to deal. Rather than trying to apply a simple mechanical formula, the Fund and the Bank will I hope continue to follow their present procedure of working together to devise for each individual case the set of measures and of modes of assistance which seems appropriate to the circumstances.

49. I turn now to the question of whether, granted that program lending is called for in some circumstances, the Bank and IDA should be ready to join in providing it. In considering this, we should recognize that the Bank has a well-established role and a strong comparative advantage in the provision of project finance, and that it should therefore emphasize this form of lending in the absence of clearly preferable alternatives.

50. At the same time, the most useful and appropriate role for the Bank Group in any given situation cannot in my view be determined entirely independently, but will necessarily depend on the policies that are followed by other sources of official development assistance. In general, it may be said that if a clear case has in our view been established for program lending, if a reasonable estimate of the amount of such lending has been arrived

at, and if it is clear that other lending agencies cannot be persuaded to supply something like this amount, then a prima facie case exists for non-project lending on the part of the Bank or IDA.

51. The view is sometimes expressed that if the Bank Group were to show a greater readiness to undertake non-project lending, this would have an unfavorable effect on the readiness of the Part I countries to contribute to the financing of IDA, or on our reputation and hence our ability to borrow in the capital markets of the world. In my view this should not prove serious if we make judicious use of this form of lending. Almost all the Part I countries themselves engage in program lending, and several of them have expressed their concern that the Bank is not readier to do so. As to international capital markets, it is clear to my mind, from the response to other innovations in our policies, that their confidence in the Bank rests not on a narrow view of what forms of lending are proper for us to engage in, but on the extent to which our policies are seen to be directed towards sound long-run development, on which the creditworthiness of the developing countries primarily depends.

52. Finally, I would like to refer to the relationship between the forms of our lending and the nature and extent of our influence on the economic policies of the countries which we lend to. This again has been a matter of controversy. On the one side, it has sometimes been suggested that by a readiness to engage in program lending the Bank would acquire a greater degree of influence, which would enable us to make a more effective contribution to the development process. On the other side, it has been argued that we ought not to be drawn into passing judgment on the general economic policies of the developing countries, and that one of the dangers arising from non-project lending is that we may be tempted or even compelled to do this.

53. Here again, I find it difficult to sympathize fully with either of these divergent points of view. Whatever may be the forms of Bank Group lending, and even if we were to concentrate exclusively on the financing of specific projects, we are bound to analyze and appraise the general economic policies of the governments that we lend to. Such a broad review of policies has long been recognized as essential even in our own individual interest, in order to ensure a better and more informed choice of projects for which we can lend. It is also a corollary of our present role and functions in relation to the other lending agencies with which we are associated in consortia and consultative groups; and I believe that it is welcomed by the great majority of the countries to which our economic missions are sent. We cannot escape the responsibility of forming judgments concerning economic performance, and where necessary of offering advice.

54. At the same time, I agree with the view expressed by one Executive Director in the course of our discussion of these matters two years ago, when he said that the Bank ought not to assume in any country the role of a

"super-ministry". Our influence should always be exercised, as it now is, through the medium of a continuous dialogue rather than through formal machinery; and we should not regard a particular act of non-project lending as an instrument for extending it - nor on the other hand, as I have emphasized above, should we in any way reduce the extent of our concern with good project performance as a consequence of extending loans or credits in non-project form. With or without such lending, the nature, scope and purpose of the influence that we bring to bear on general economic policy should be substantially the same. No doubt the path is a narrow one between ineffectuality on the one side and unacceptable interference on the other; but we have no choice but to seek this path and to try to keep to it.

CONCLUSIONS AND RECOMMENDATIONS

55. The Pearson Commission has rightly emphasized that the forms in which foreign aid is provided should reflect the needs and circumstances of the recipient countries; that aid should not be confined to the direct foreign exchange costs of projects; that lenders should be ready in appropriate cases to finance part of the local costs of projects; and that program lending may in some situations have a valuable role.

56. With respect to the policies and procedures of the Bank and IDA, I conclude that:

(1) No change is required in our Articles to enable us to provide loans and credits in the forms and proportions that would make the most effective contribution to the economic development of our member countries.

(2) The Bank has a well-established role and a strong comparative advantage in the provision of project finance, and should therefore emphasize this form of lending in the absence of clearly preferable alternatives.

(3) In practice the bulk of the assistance provided by the Bank and IDA can take the form of financing the foreign exchange component of investment projects without invoking the special circumstances required to justify the financing of local expenditures or program lending.

(4) As regards local expenditure financing, the present guidelines seem adequate, and no further decision by the Executive Directors seems necessary at this time.

(5) With respect to program lending, I believe it has been generally accepted by the Executive Directors that the Bank Group should engage in such lending in special cir-

cumstances where this appears necessary to increase the effectiveness of our lending and to ensure an adequate and timely transfer of resources in support of the development programs of member countries. I should now like to request the Executive Directors to agree in principle, subject to specific demonstration on each occasion when I recommend a program loan or credit for approval, that special circumstances may arise when:

(a) A borrowing country presents a development program, with supporting economic and financial policies, which is judged to provide a satisfactory basis for external assistance in a given amount.

(b) The needed transfer of resources from external lenders in support of the development program cannot be achieved effectively and expeditiously by the financing of investment projects, including justifiable local currency expenditures in connection therewith.

(c) Other external lenders are not prepared to fill this gap by non-project lending.

57. If this last recommendation is accepted the effects on the composition of lending by the Bank and IDA are not easy to estimate with precision. I would, however, envisage that on average in each of the fiscal years 1972 and 1973 we might find it appropriate to extend program loans or credits to perhaps four or five countries, and that this form of assistance might amount to some 7 to 10 per cent of our total lending commitments.

Robert S. McNamara

Confidential

December 15, 1970

ANNEX I

EXPERIENCE WITH DEVELOPMENT LENDING

1. Over the past twenty years the annual flow of official resources to developing countries has risen from less than two to more than seven billion dollars. The number of governments and institutions from which these resources come has also increased greatly. Almost every one of the sixteen member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) has established one or more official agencies to administer its development assistance. Multilateral development institutions have also increased greatly in number and importance.1/

2 As the amount of assistance and the number of sources has grown, the character of the flow has become increasingly complex. Development assistance is now provided for a variety of purposes. Old techniques have been adapted in the light of experience and new techniques devised to meet the varied needs of the growing number of recipients. These techniques and the extent of their use are discussed in the following paragraphs.

Characteristics of Lending Techniques

3. Lending techniques can be classified into two main categories: program and project assistance.2/ These differ with respect to their objectives, the ways in which resources are transferred, and the bases for disbursement and control. Although the details of lending practices have come to vary considerably, the principal differences to be discussed apply equally to bilateral and multilateral lending agencies.

4. From an economic standpoint, the principal differences between project and program lending lie in:

(i) whether the emphasis is placed on the need to increase investment or the need to increase imports;

(ii) whether the focus is on individual projects or on the requirements of the economy as a whole; and

(iii) the forms in which resources are transferred.

Lending techniques also differ in their indirect objectives and the basis for disbursing the loan.

1/ The UN agencies and the World Bank were almost alone in this category in the early 1950's. By the end of the 1960's, there were eight development institutions included in DAC reports in addition to the UN family and the World Bank Group.

2/ Neither financial techniques nor terms of assistance are considered here, nor is technical assistance.

5. These differences are illustrated schematically in the accompanying table, which shows the principal characteristics of four common techniques of development lending, ranging from the normal project loan extended by the Bank (case A) to the program loan typically made in the framework of a consortium or consultative group (case D). Two intermediate techniques are described: (B) loans to finance groups of relatively small investments, which may either be in the private sector (by lending to an intermediate financial institution) or in the public sector (by supplying equipment or other inputs to a government agency), and (C) project or sector lending with a significant component used to finance local costs.

6. Assuming a given level of domestic savings, under effective development policies a loan of $10 million will support an increase in investment of $10 million in each case. From an economic point of view, therefore, the major differences among the four techniques lie in the types of imports that can be purchased with the loan and their rate of procurement. In cases A and B these are restricted to capital goods and other inputs needed to carry out the investment. In case C the financing of local costs provides an additional amount of free foreign exchange to cover part of the imports needed to carry out the development program. In case D, the resource transfer consists of whatever commodities are needed to support the increase in production and investment, with no necessary component of investment goods. Its timing is related to the need for these imported goods.

7. Program Loans. The direct objectives of program assistance (case D) to a country are formulated in the context of its development plans and policies.[1/] Ordinarily, the first objective of program assistance is to provide imports needed to increase production or to extend productive capacity. Other closely related objectives are to enable the recipient to utilize domestic resources more fully and to improve the allocation of resources within the economy. Support for measures of monetary stabilization and trade liberalization also come under this heading.

1/ The functions of program assistance were described by the Chairman of the DAC as follows:

> "Experience has, however, shown that the proper implementation of specific projects does not replace the need for an overall development strategy, which has to be based on the total of resources available regardless of whether they originate abroad or in the less-developed country itself. Furthermore, projects create a continuing demand for raw materials and spare parts which often must be imported. If one only assists in the initial construction of plant, it may not operate at full capacity because one of these other import requirements is the bottle-neck. Finally, development may be hampered by a lack of local resources in the hands of the government, and the sale of aid-financed imports in the country may provide funds for local developmental requirements." OECD, Development Assistance Efforts and Policies, 1967 Review (OECD, Paris, 1967), p. 126.

Characteristics of Techniques of Development Lending

Principal Characteristics	(A) Project Loan	(B) Sector Loan	(C) Project or Sector Loan with Local Cost Finance	(D) Program (commodity) Loan
1. Direct Objective	Execute single investment	Execute group of investments	Same as A or B	Supply imports needed to increase production or extend existing capacity
2. Other Objectives	(1) Improve project conception and design (2) Sector reforms	(1) Develop intermediate financial institutions (2) Sectoral reforms	(1) Same as A or B (2) Provide local currency to borrower (3) Supply free foreign exchange to economy	(1) Improve resource mobilization and allocation policies (2) Strengthen policy and planning institutions (3) Provide local currency to borrower
3. Form of Resource Transfer	Goods required to execute investment	Same as A	(1) Goods required to execute investment (2) Unspecified commodities purchased with free foreign exchange	Specified by type or use of commodities
4. Basis for Disbursement and Control	Expenditure on investment or import of required goods and services	Same as A	Same as A or B	(1) Import of specified commodities (2) Specified development expenditures (optional) (3) Periodic review of country performance

8. In the great majority of program loans, resources are transferred in the form of imports of specified commodities. Limitations on the kind of imports depend on the particular purpose to be served. When the primary objective is to increase production, the imports may be raw materials, components, or spare parts for industry or inputs to agriculture, such as fertilizer or pesticides. When the objective is to restore or extend capacity which has deteriorated or been damaged, the imports may be equipment and supplies for rebuilding ports, highways, and railroads as well as a variety of commodities needed to replenish inventories.

9. Imports are usually specified in fairly broad categories. Since the basis for disbursement of program assistance by the lender is the import of the specified commodities, this permits flexible and rapid use of the loan to meet needs which arise over broad areas of the economy. Often goods are procured and distributed through private channels in order to increase the efficiency of allocation by using the mechanism of the market. In most cases, the goods are sold within the recipient country and the local currency proceeds accrue to its government. These resources in domestic currency are sometimes earmarked to finance programs of development or reconstruction or the portions of those programs which are related to the objectives of the loan.[1] This has not been the practice with Bank or IDA loans, however.

10. Specification of goods and services to be imported helps to ensure their proper use, since the nature of the goods largely determines their end use. However, measures may also be taken to confirm that imports have been used for agreed purposes. Lenders may also make arrangements to review the progress of the borrower towards the objectives of the loan, often in the context of a coordinating group. In these cases, they examine the general situation and prospects of the borrower's economy as well as more specific questions related to the objectives of the loan.

11. Project Assistance. The direct objective of project assistance in case A is the financing of some part of a single tangible investment. An additional objective is to establish or improve the institutions required to administer or manage the project, for example, an electric power company

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1/ These arrangements had their origin in the European Recovery Program. The basis of the Program was a four-year plan for achieving consumption, production and export targets drawn up by the recipients and approved by them and the donors. From it were derived estimates of requirements for food, fertilizer, fuel, industrial raw materials and equipment. Requirements which could not be met from domestic production were furnished largely by the United States and mostly through private commercial channels. The proceeds of sales of the imported goods were used to finance investment in some countries. In the ERP and related programs for the development of overseas territories, emphasis was very largely on overall objectives.

or a port authority. Attention is also given to the policies and procedures of these institutions on such matters as setting tariffs or rates, accounting, maintenance and repair and so on. These and other sector reforms are appraised in detail by the lender, and in the case of the Bank form an important part of the project loan procedure.

12. In case A, the principal form of project lending, assistance is limited in amount to the cost of imported goods and services required to execute the investment. Resources are transferred to the borrower as work on the investment progresses in the form of those goods and services, which in the case of the Bank/IDA loans may include a variety of commodities (fuel, cement, etc.) in addition to capital goods.

13. Over time as projects have come to be more broadly defined, sector loans which are conceptually part way between program and project assistance have evolved. Under this technique (case B in the Table) assistance is given to execute several investment projects within a given sector of the economy. For example, agricultural improvement may be supported by lending to finance the foreign exchange cost of imported agricultural machinery along with the foreign exchange required to buy fertilizer and pesticides. Sector loans may be implemented by lending to intermediaries such as agricultural or industrial development banks in the borrowing country. In this way, international lenders can indirectly provide assistance to a larger number of smaller investors, and at the same time foster the development of these intermediaries.

14. Many developing countries find it difficult or impossible to raise the local resources required to complete and, in some instances, to operate the projects for which the foreign exchange component is provided. Where this happens, lenders at times undertake to provide resources for some part of the local costs of constructing the projects, and in certain cases, for recurrent costs as well; this is case C in the accompanying table. They do so by providing an amount of foreign exchange equivalent to these local costs. Because this foreign exchange is freely at the disposal of the borrowing country, financing local expenditure for projects may, in some measure, serve some of the purposes of program loans.

15. The several methods of disbursement and control are designed to satisfy the lender that the loan is being used for the purposes specified. In cases A and C, disbursement is based on the rate of completion of single projects. The resource transfer often takes place over a period as long as six years from the time the loan commitment is made; a typical pattern being annual disbursements of 15%, 20%, 20%, 20%, 15% and 10% of the value of the loan. Case B is similar except that the basis for disbursement is the rate of investment in a lending program or group of projects which may be financed through an intermediary. In case D, disbursement is related to the importation of specified commodities or sometimes to the execution of development programs.

16. More generally, each case differs in the conditions that the lender can most readily attach: the conditions directly related to the objective of the loan. Clearly, as understanding of and experience with the development process has grown, the techniques and objectives of lending have accordingly broadened. Thus it has been possible for lenders to focus not only on the design and execution of projects but also on the broader conditions necessary to make the use of resources more efficient. Since the justification for program lending depends heavily on the effectiveness of the country's overall development program, there is usually a provision for a periodic review of the borrower's performance in the framework of an aid consortium or other consultative arrangement.

17. Bilateral Assistance. Official records of the flows of financial resources to developing countries reveal the amounts of assistance in various forms. As can be seen from the figures shown below, somewhat less than one half of official bilateral flows in recent years was in non-project form. It has been estimated that about $1.7 billion of the $3.7 billion

Official Bilateral Commitments by Purpose
Annual Average, 1967/1969

(US$ billions)

	Amount	Percent
Capital Projects	2.5	30.5
Technical Assistance	1.7	20.7
Non-project Assistance	3.7	45.1
Other	0.3	3.7
TOTAL	8.2	100.0

in non-project assistance, i.e., some 20 per cent of total commitments, was in the form of program assistance of the kind described above as case D. The remainder was largely composed of food aid (approximately $1.4 billion), of loans for general balance of payments or budgetary support (on the order of $0.4 billion) or of loans to consolidate or refinance debt (on the order of $0.2 billion). To a considerable extent, program assistance as it is defined here and the other forms of non-project assistance are substitutes in that the proceeds are in some measure available to finance commodity imports. Details of the objectives and arrangements for various forms of assistance by country of origin are given in Attachment 3 to this Annex.

18. Multilateral Assistance. Multilateral lending institutions have not been a major source of program assistance. The experience of the World Bank Group is described in Attachment 1 to this Annex. In its early years

it made program loans: first for reconstruction, and later to support "general development plans" or for the purchase of imports required for development. IDA credits have been given to finance "industrial imports" in India and Pakistan. These credits, which are the only assistance given by the Bank Group in this form since 1962, totalled a little less than $0.7 billion.

19. As shown in Attachment 2, the Bank Group has provided appreciable amounts for the financing of local expenditures on projects. Some other multilateral development institutions, as described in Attachment 3, act similarly in this respect, although they provide assistance almost exclusively in project form.

20. Program lending by most countries is very largely concentrated in countries for which there are international arrangements for coordinating assistance. Aid coordinating arrangements have been formed for some 19 countries.1/ The Bank sponsors fourteen coordinating arrangements for sixteen countries and the East African Community. One important function of these groups is to ensure that assistance from different sources in various forms is combined so as to meet the needs of the recipients. The Consortia for India and Pakistan are sponsored by the Bank and the one for Turkey by the OECD. In these and other cases, the balance between project and non-project assistance has been a subject of considerable importance. Program assistance has gone to a large number of countries, including not only India, Pakistan, Turkey, Colombia, Ghana, Indonesia, for which details are shown in Attachment 4, but also Ceylon, Chile, Korea, Morocco, Tunisia, Nigeria and others.

21. Among the sources of program assistance, the United States is unique by reason of the large amount of its total program lending and the substantial amounts lent to individual countries. The other countries which provide large amounts of non-project assistance are the United Kingdom, Germany, Japan, Italy, Australia, Canada, and the Netherlands. France too provides appreciable amounts, largely in the form of general support for countries with which France has particularly close relationships. But France also provides non-project assistance elsewhere, notably in the consortia for India and Pakistan. The policies of these bilateral lenders are summarized in Attachment 3 to this Annex.

1/ In addition, there are arrangements for reviewing the economic situation of member countries of CIAP.

ANNEX I: ATTACHMENT 1

Program Lending - The Bank Group's Practice[1/]

1. The majority of Bank loans and IDA credits have been made for specific investment projects in the sense that each loan or credit operation was made to assist in the financing of some clearly defined amount of capital expenditure for a project or sector being executed by some government, government agency or enterprise which was either the borrower or the beneficiary of the loan or credit.

2. There have also been a small number of operations (approximately 26) which do not fall within this pattern. In five cases this was because they were made to finance "general development plans" rather than specific projects. But the majority of the exceptions were loans made to provide governments with foreign exchange to enable them to import some agreed amount and kind of imports. In these cases the foreign exchange was sold to agencies and enterprises who wished to purchase the kind of imports for which the loan was made. These agencies and enterprises thus became the users and owners of the equipment financed by the Bank but they were not borrowers, either directly or indirectly, of the loan or credit since they derived no additional capital from it, although they benefited from the loan through getting access to imported goods. Details of these operations are set out in the table at the end of this Attachment.

Loans for "General Development Plans"

3. Two loans, each of $10 million, were made to Italy in 1951 and 1953. The purpose of the loans was described as being to assist "in promoting the economic and social development of Southern Italy by supplying part of the foreign exchange requirements resulting directly and indirectly from the carrying out of the initial stages of the Plan and by making available for the Supplementary Projects the lira equivalent of the Loan." The loans were disbursed proportionately with expenditure on the Plan. An attempt was made to allocate the lira equivalent of the loan to specific projects in the Plan.

4. A loan to Iran of $75 million in 1957 was described as being "to provide temporary financing required by the Plan Organization to carry out, during the early years of the Plan, programs and projects which would otherwise be delayed in whole or in part solely because the necessary funds therefore would not be available to the Plan Organization until later in the seven year period provided for the carrying out of the Plan." The reason why such funds would not be available was that the oil revenues, which were to finance the Plan, would be fairly small during the first years but would increase rapidly during the later years of the Plan. This loan was for a term of six

1/ This is a revised version of Annex B to the paper entitled "Program Lending" (R68-206), dated November 5, 1968.

years; it constituted in effect a medium-term advance against expected revenues.

5. A loan of $30 million was made to Belgium simultaneously with a loan of $40 million to the former Belgian Congo in 1951. The purpose of both loans was described as being to assist the two governments to meet "the foreign exchange needs resulting directly and indirectly from the carrying out of" a general program of investment in the Congo. The proceeds of the Congo loan were applied to financing a three-year tranche of the Otraco Project which constituted a substantial and integrated part of the Congo's Ten-Year Development Plan. The Belgian franc counterpart of the Belgian loan was also applied to financing the cost of this Project.

Loans to Norway

6. Two loans, each of $25 million, were made to Norway in 1954 and 1955. Both these loans provided foreign exchange for the purchase of ships. However, the shipping companies were in a strong financial position and did not need capital. The foreign exchange was sold to the shipping companies and the government used the counterpart for investment. The President's Report on the 1954 loan said, "The general purpose of the loan would be to assist Norway in maintaining productive investment in 1954. Specifically, it would provide foreign exchange to enable Norway to pay for ships ordered in foreign shipyards." The report on the 1955 loan referred to Norway's need to import capital and said, "Since, however, the need for capital, though long-term is an immediate one, it could not be appropriately met by a loan for a particular project which would have to be disbursed over a relatively long period. The proposed operation is designed to meet the requirements of this particular situation." It also said that, "as a matter of administrative convenience disbursement would be made against payments for ships." In essence, in these two loans the "project" was simply "maintaining productive investment".

Loans for the Purchase of Imports

7. The first three loans made by the Bank (in 1947), the so-called "reconstruction loans" to France ($250 million), the Netherlands ($195 million) and Denmark ($40 million), were for the purchase of imports.

8. There were five loans made to Australia between 1950 and 1956 totaling some $308.5 million. They were made to enable Australia to import equipment from the dollar area at a time when the sterling area was very short of dollars. Apart from the first, each loan included, as Schedule 2, a "Description of the Programs" which described in general terms the various

sectors of development for which the imported equipment would be used. For some of the loans there was a report which described in some detail the investment which was being carried out in each sector. However, all the counterpart funds accrued to the Commonwealth Government so that the additional import of capital did not accrue to any of the ultimate users of the Bank-financed equipment. In some cases the ultimate users of the Bank-financed equipment were known; in others they were not known. No specific projects were appraised in detail; there was only a general economic appraisal of the various "programs".

9. In August 1961, a "Private Sector Coal Production Project" loan of $35 million was made to India. The proceeds of this loan were to be "applied exclusively to the provision of foreign exchange required for the cost of goods needed to carry out" the project. The project was described as a program for the maintenance and expansion of coal production by the private sector in India. Although there was a Screening Committee to examine the various enterprises which were to use the equipment purchased under the loan and these enterprises were to be approved by the Bank, the enterprises did not obtain any direct financial benefit from the loan; they only obtained access to foreign exchange.

10. The first "industrial imports project" IDA credit to India was made in 1964. There have been a total of six such credits to India (totaling $605 million) and two similar IDA credits to Pakistan in 1966, each of $25 million, one for industrial imports and one for commercial road vehicles.

11. The situation which underlay the Bank Group lending of this kind in India was that the Indian economy had reached a stage in which it could produce domestically a significant proportion of the capital equipment it required for investment projects but it had to spend substantial amounts of foreign exchange for the import of components, spare parts and raw materials for its industrial sector. This meant that the direct foreign exchange requirements of projects tended to be low so that if credits were limited to foreign exchange requirements a large number of loans would be needed to make available to India any considerable amount of capital. Hence, the choice was either to make a number of project credits financing substantial amounts of local expenditure so as to provide foreign exchange which could be used for imports or to finance the needed imports directly. The latter course was chosen, partly because it would make possible the injection of external capital at a more rapid rate but largely because we felt that by providing money directly for the imports we could ensure that the foreign exchange would be used for the benefit of key industries (very largely in the field of capital goods production) in which production had been held back by shortages of imported materials, components and spares.

12. The form of all the industrial import credits, both to India and Pakistan, followed the pattern of previous program loans of this type in that the foreign exchange was sold by the government to the enterprises purchasing the imported equipment and materials and the counterpart funds accrued to the government. The first credit to India was confined to three principal industrial sectors in which there were about 80 firms potentially eligible to use the credit. Almost all of these had been visited, at least briefly, by an appraisal mission and a report was prepared which dealt in some detail with the economic situation of the various industrial sectors. For all but the most recent credit, the number of eligible enterprises also increased very substantially. The sectors to benefit from the Sixth Industrial Imports Credit were chosen from among the considerably larger number of sectors financed in its predecessor. For all these credits, appraisal relied more on a general economic examination of the sectors rather than on an attempt to examine each individual enterprise which was to use the imports.

13. The two program credits made to Pakistan, one for commercial vehicles and one for industrial imports, originated from considerations similar to those which led to the industrial imports credits to India. As in India, industrial capacity in Pakistan was not being fully utilized because of shortage of foreign exchange. The commercial vehicles credit was intended to ease the shortage of foreign exchange since it was expected to be disbursed rapidly but there was also a strong sector element in that the credit was intended to relieve a bottleneck in the road transport system. The industrial imports credit was, of course, aimed at increasing industrial production by enabling industry to utilize more of its capacity but it was also justified by reference to furthering the policy of import liberalization in Pakistan.

14. In most of the program loans and credits mentioned above, formal international competitive bidding procedures were not required. As the commodities financed were purchased by autonomous enterprises using their own funds, normal commercial incentives were considered sufficient to ensure economic use of the money. It was also pointed out, for example:

> "Insistence on specific procurement procedures and control of procurement does not appear to be practical. To the extent practicable, the government requires that the recipient of a free foreign exchange license produce evidence of procurement from the most optimal source of supply. Capital equipment to be imported would consist mainly of individual items of machinery and equipment to be brought in by manufacturers of capital goods to balance existing facilities or by construction firms; to some extent, this already limits the source of supply. Components for

the manufacture of capital goods must frequently be procured in specific countries, often from foreign collaborators. However, the foreign collaborators come from so many different countries that a wide distribution of the credit seems assured. The sources of imported spare parts are also limited although not to the same extent as those of components. Assurance that the lowest cost source will be used in the case of spare parts for construction equipment -- the most important class of spare parts -- is provided by so-called rate contracts between the government (the largest user of construction equipment) and the dealers; these contracts fix the upper price limits of spare parts."

Appraisal Report - First Industrial Imports Credit (TO-414a, dated May 28, 1964), paragraph 109(d), page 31.

In the Indian Coal Production loan, however, it was agreed that major equipment needed to carry out mining projects for the opening of new mines would be acquired "on the basis of international competitive bidding and having regard to sound engineering, mining and financial considerations and practices." (Letter of Indian Government to the Bank, August 9, 1961.)

IBRD AND IDA PROGRAM LOANS AND CREDITS THROUGH OCTOBER 1970

Recipient/Purpose	Loan or Credit Number	Year of Agreement	Original Principal Amount/1 (US$ mn.)	Interest Rate (%)	Maturities
Australia					
Equipment for Development	29	1950	100.0	4 1/4	1955-75
Equipment for Development	66	1952	50.0	4 3/4	1957-72
Equipment for Development	96	1954	54.0	4 3/4	1957-69
Equipment for Development	111	1955	54.5	4 5/8	1958-70
Equipment for Development	156	1956	50.0	4 3/4	1959-72
Belgium					
Equipment for Development - Congo	47	1951	40.0	4 1/2	1957-76
Equipment for Development	48	1951	30.0	4 1/2	1957-76
Denmark					
Reconstruction	3	1947	40.0	4 1/4	1953-72
France					
Reconstruction-Credit National	1	1947	250.0	4 1/4	1952-77
India					
Coal Mining	292	1961	35.0/2	5 3/4	1966-77
Industrial Imports Project	52	1964	90.0	3/4	1974-2014
Second Industrial Imports Project	78	1965	100.0	3/4	1976-2015
Third Industrial Imports Project	92	1966	150.0	3/4	1977-2016
Fourth Industrial Imports Project	97	1966	65.0	3/4	1977-2017
Fifth Industrial Imports Project	138	1969	125.0	3/4	1979-2019
Sixth Industrial Imports Project	182	1970	75.0	3/4	1980-2020
Iran					
Equipment for Development	160	1957	75.0	5	1959-62
Italy					
Equipment for Development	50	1951	10.0	4 1/2	1956-76
Equipment for Development	88	1953	10.0	5	1958-78
Luxembourg					
Steel and Railway	4	1947	12.0/3	4 1/4	1949-72
Netherlands					
Reconstruction	2	1947	191.0	4 1/4	1954-72
Reconstruction	27	1948	4.0	4 1/4	1953-54
Norway					
Equipment for Development	97	1954	25.0	4 3/4	1957-74
Equipment for Development	115	1955	25.0	4 3/4	1960-75
Pakistan					
Commercial Road Vehicles Project	81	1966	25.0	3/4	1976-2015
Industrial Imports Project	98	1966	25.0	3/4	1977-2016

/1 All loans and credits are fully disbursed except for Credit No. 182, on which $8.5 million has been disbursed to date.
/2 Of which $6.2 was cancelled, terminated or refunded.
/3 Of which $0.2 was cancelled, terminated or refunded.

ANNEX I: ATTACHMENT 2

Financing of Local Expenditure by the Bank and IDA

1. The accompanying table shows, for Bank loans and IDA credits separately, the estimated amounts and proportions of disbursements for foreign expenditure and local expenditure. For a small part of these disbursements the attribution between foreign and local expenditures cannot be made and this is shown under the heading of "undetermined". The absolute amounts are set out in the upper part of the table, and the proportionate amounts, in percentage terms, in the lower.

2. The figures relate not to actual disbursements in each of the years shown, but to the cumulative total of disbursements in relation to the loans or credits that were signed in each of the years referred to, up to June 30, 1970. Thus the first column of the table relates to loans and credits signed in FY 1962, the second column to those signed in FY 1963, and so on. Thus the total amounts of disbursements fall off in the later years, as the figures increasingly relate to projects on which disbursements had not been fully made by June 30, 1970.

3. With respect to IDA credits, the respective figures for foreign and for local expenditures are affected in four of these years (namely 1964, 1966, 1967 and 1969) by the inclusion of disbursements in respect of program credits extended to India and Pakistan. Since no part of these credits is disbursed for local expenditure, the proportionate amounts of disbursements for local expenditure in these years would be appreciably higher if they were excluded.

ANNEX I
Attachment 2

CUMULATIVE DISBURSEMENTS TO JUNE 30, 1970 OF BANK LOANS/1 AND IDA CREDITS FOR FOREIGN AND LOCAL EXPENDITURES, BY YEAR OF SIGNING, FISCAL YEARS 1962-1970

		Signed in Fiscal Year									
		1962	1963	1964	1965	1966	1967	1968	1969	1970	Total 1962-70
		Amounts in US$ Millions									
Bank Loans/2											
Disbursements for:	Foreign Expenditures	544.1	360.5	535.2	548.6	540.9	318.7	361.8	159.5	16.7	3,386.0
	Local Expenditures	134.3	46.1	53.3	99.7	115.6	18.9	53.1	30.5	2.9	554.4
	Undetermined	9.4	9.6	11.7	12.1	13.6	14.1	17.8	15.9	4.5	108.7
TOTAL (June 30, 1970)		687.8	416.2	600.2	660.4	670.1	351.7	432.7	205.9	24.1	4,049.1
IDA Credits/3											
Disbursements for:	Foreign Expenditures	115.9	205.8	164.2	222.7	233.7	286.1	47.0	142.1	11.8	1,429.4
	Local Expenditures	93.4	39.8	18.9	46.0	4.4	21.7	3.3	3.2	.4	231.1
	Undetermined	13.8	7.6	14.0	10.6	9.4	7.1	4.0	14.6	-	81.1
TOTAL (June 30, 1970)		223.1	253.2	197.2	279.3	247.5	314.9	54.3	159.9	12.2	1,741.6
		Percentages									
Bank Loans/2											
Disbursements for:	Foreign Expenditures	79.1	86.6	89.2	83.1	80.7	90.6	83.6	77.5	69.3	83.6
	Local Expenditures	19.5	11.1	8.9	15.1	17.3	5.4	12.3	14.8	12.0	13.7
	Undetermined	1.4	2.3	1.9	1.8	2.0	4.0	4.1	7.7	18.7	2.7
TOTAL (June 30, 1970)		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
IDA Credits/3											
Disbursements for:	Foreign Expenditures	52.0	81.3	83.3	79.7	94.4	90.9	86.6	88.9	96.7	82.1
	Local Expenditures	41.8	15.7	9.6	16.5	1.8	6.9	6.1	2.0	3.3	13.3
	Undetermined	6.2	3.0	7.1	3.8	3.8	2.2	7.3	9.1	-	4.6
TOTAL (June 30, 1970)		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/1 Figures refer to cumulative disbursements (up to June 30, 1970) on loans signed in each fiscal year; they do not refer to disbursements made in each fiscal year. The figures for Bank loans reflect a lower level of undetermined expenditures than is revealed in other tabulations of Bank disbursements. In part this is because undetermined category can be reduced quite substantially when all that is required is a classification into "foreign" and "local" (rather than into country of supply), and in part because a special effort has been made to reduce that category for this table by using the most recently available estimates of foreign and local expenditures for each project.

/2 Includes disbursements on loans to all countries which have borrowed from the Bank since FY 1962 except Australia, Austria, Denmark, Italy, Japan, Norway, and South Africa. Disbursements under the loan to IFC have also been excluded.

/3 Four credits totalling $101.0 million, signed between May 12, 1961 and June 30, 1961 have been included in FY 1962.

ANNEX I: ATTACHMENT 3

Non-Project Assistance from Member Countries of the DAC and Multilateral Institutions

A. Member Countries of the DAC

The OECD describes the objectives and arrangements of individual lenders for non-project assistance in its most recent (1970) Resources for the Developing World. The following excerpts are drawn from that volume. In Table 1 accompanying this attachment, some figures are given of the amount of non-project assistance provided by each of the DAC countries in recent years, expressed in terms of the annual average of commitments over the three years from 1967 through 1969.

Australia

"Since 1966-67, Australia has begun supplying program aid to Indonesia through the mechanism of the Indonesian Bonus Export Scheme - disbursements reaching $5.3 million in 1967-1968 and $6.6 in 1968-1969 (excluding $4 million food aid)."

Austria

"... development loans are extended at present to India and Turkey under consortium arrangements in the form of program assistance for the financing of current imports of capital goods."

Canada

"Under its development assistance programs Canada offers those goods and services which the Canadian economy can supply efficiently and which are needed by recipients. Apart from food aid, which is the object of a special appropriation, the main items supplied include non-ferrous metals, railway equipment, power generation installations and feasibility studies and equipment for a fairly wide range of infrastructural projects. .. Non-project assistance is not tied to specific commodities, and an effort is made to provide recipients with a wide variety of goods."

Denmark

"Loans are extended in the form of program assistance to finance current import requirements in investment goods of recipients. They are generally tied to procurements in Denmark."

France

"... long-term government loans ... at low interest rates ... (to countries incurring balance-of-payments difficulties) are intended to finance imports of light plant and equipment, consumer goods and raw materials for implementing economic development plans. India, Indonesia, Pakistan, Morocco and Tunisia have benefited...."

Germany

"The decision to initiate a comprehensive development loan program was taken in 1960. Since then, the program has expanded rapidly and accounted in 1968 for almost half of total German gross disbursements. The German Government has stated its definite preference for direct project-tied loans, but to an increasing extent loans are also extended to local development banks and for current essential civil import requirements, e.g., maintenance support, commodity aid. The latter reflects the growing need of some recipients for assistance to maintain full utilization of existing productive capacity and for balance of payments support."

Italy

"Program aid has gained in importance in recent years, in particular the financing of current imports of developing countries, e.g., loans to Turkey under the OECD consortium."

Japan

"Although the Japanese Government prefers, in principle, to finance clearly-defined projects, substantial funds are also being extended in the form of non-project assistance especially to India, Pakistan, Indonesia and Ceylon. Non-project assistance is provided by the Export-Import Bank and the Overseas Economic Co-operation Fund to finance imports of raw materials, components and spare parts. The types of commodities eligible for non-project assistance are agreed jointly by the Japanese Government and the government of the recipient country on the basis of requests submitted by the recipient country. They include machinery and spare parts, fertilizers, textiles, commercial vehicles, industrial raw materials, as well as certain consumer goods."

Netherlands

"Virtually all Netherlands' capital assistance is extended in the form of program assistance, i.e., general purposes contributions not related to individual projects ... Following a decision of the Intergovernmental Group for Indonesia (I.G.G.I.) part of the assistance to that country has taken the form of project financing in 1968."

Sweden

"With the exception of four program loans extended to India for the purpose of capital equipment and raw materials, and the ... /1967/ loan to Tunisia, S.I.D.A. loans have been limited to project loans."

United Kingdom

"An important part of the United Kingdom aid effort is taken up by program aid, although the share of program aid in the total varies substantially according to recipient countries.

"Of the main regular recipients of United Kingdom aid, India, Pakistan, Ceylon and Turkey receive relatively the most program aid. The range of import requirements covered under program loans varies. Under some a very broad list of British goods and services are supplied. For example, the most recent commitment to Pakistan in January 1969 for $10.8 million is for the import of chemicals, drugs, tractors and agricultural machinery, marine diesel engines, fertilizers, spare parts, etc. ... Other program loans are narrower in their scope. Thus for India, there has been a series of loans for spares and equipment for metal-using industries.

"For the independent African Commonwealth countries program aid is generally supplied on a regular basis, although other forms of aid currently take a larger share of the total than for the first group of countries mentioned..."

United States

" In recent years, the United States has emphasized program loans designed to finance essential imports to enable recipient countries to mobilize domestic resources as compared to project loans which earlier had constituted the bulk of American lending: in 1967, 58 per cent of all A.I.D. development lending was in the form of program loans. The emphasis is put on programming at the country level and on strong country missions. Each year, A.I.D. makes a comprehensive review of each major recipient country's overall development effort. In principle, the review weighs priorities for development goals, examines alternative approaches for attaining them, defines needed self-help measures, and estimates requirements for external assistance. Country programming provides the basis for discussing with the recipient country its own efforts. In 1967, the United States introduced sector loans, a variant of program loans in aid programmes directed at the three areas given priority: agriculture, health and education."

. . .

"In order to further development and to make its own assistance more effective, the United States stresses performance by recipient countries, and loan agreements typically call for the recipient country to meet certain mutually agreed-on objectives which are incorporated in the text of the agreement. Special emphasis is placed on such requirements in the case of program loans. The measures required range from local cost financing by the recipient to large-scale reforms of fiscal systems or changes in monetary policies."

B. Multilateral Institutions

Three of the major multilateral institutions, the Asian and Inter-American Development Banks and the European Investment Bank, are project lenders by statute and in practice. The first two have only limited authority to finance local expenditures out of their regular resources. The third, the European Investment Bank, does not generally concern itself with the distinction between foreign and local expenditures, and finances either or both. A fourth multilateral institution, the European Development Fund is, as its name and statutes imply, an institution very different from the others. In addition to financing projects, it engages in a variety of developmental activities. It, like the European Investment Bank, does not concern itself with the distinction between foreign and local expenditures.

Table 1: ESTIMATED ANNUAL AVERAGE COMMITMENTS OF OFFICIAL BILATERAL ASSISTANCE BY MEMBER COUNTRIES OF THE DEVELOPMENT ASSISTANCE COMMITTEE BY TYPE, 1967-1969

(US$ millions)

Country	Total	Non-Project
Australia	187	141
Austria	22	11
Belgium	82	32
Canada	248	97
Denmark	119	6
France	1,162	172
Germany	659	213
Italy	374	307
Japan	461	354
Netherlands	160	112
Norway	11	5
Portugal	42	18
Sweden	45	8
Switzerland	17	9
United Kingdom	484	193
United States	4,168	2,347
TOTAL	8,162	4,027

Note: Estimates are derived from data in OECD publications.

ANNEX I: ATTACHMENT 4

Receipts of Project and Program Assistance in Six Countries

1. The enclosed set of tables shows the amounts of external assistance committed in recent years to six developing countries, namely Colombia, Ghana, India, Indonesia, Pakistan and Turkey. Each table refers to one of these countries. In all cases, the amounts of project and non-project assistance are shown separately, while for all countries except Turkey the assistance provided from each of the main sources is also shown. The figures relate not to disbursements, but to commitments or to agreements signed, and are drawn either from Bank economic reports or from consortium documents.

2. It can be seen that in the case of each of these countries non-project assistance has been an appreciable part of the total amounts committed. Except in the cases of India in the fiscal years 1966 and 1968, and Pakistan in the fiscal years 1965 and 1966, this form of assistance was provided, for the five countries for which information concerning the sources of assistance is available, entirely by the bilateral lenders. Among these lenders, the United States was generally the most important single source, except in the case of Indonesia where larger amounts of non-project assistance were made available by Japan.

Table 1: COLOMBIA - COMMITMENTS OF ASSISTANCE, 1963-1969

(US$ millions)

	1963	1964	1965	1966	1967	1968	1969	Total 1963-69
Program Loans	-	50.0	65.0	-	100.0	73.0	85.0	373.0
U.S. Aid	-	50.0	65.0	-	100.0	73.0	85.0	373.0
Project Loans	136.0	111.5	56.7	116.9	116.8	183.7	233.1	954.7
U.S. Aid and Eximbank	28.7	37.9	3.9	19.9	25.5	-	29.5	145.4
IDB	24.9	8.1	37.7	27.4	35.6	48.9	102.3	284.9
IBRD	73.8	45.0	-	41.7	25.0	93.1	60.3	338.9
Others	8.6	20.5	15.1	27.9	30.7	41.7	41.0	185.5
TOTAL (All Loans)	136.0	161.5	121.7	116.9	216.8	256.7	318.1	1,327.7

Source: Economic Growth of Colombia, Vol. II, "Development Projects: 1970", August 4, 1970, Tables 1 and 2.

Table 2: GHANA - EXTERNAL ASSISTANCE COMMITMENTS, 1966-1970

(US$ millions)

Country	1966		1967		1968		1969		1970		Total 1966-1970	
	Commodity	Project	Commodity	Project	Commodity	Project	Commodity	Project	Commodity	Project	Commodity	Project
Canada	-	-	-	-	-	-	-	7.0	-	-	-	7.0
Denmark	-	-	-	2.7	-	-	-	-	-	-	-	2.7
Germany	5.0	5.0	3.0	3.4	3.6	2.5	-	-	2.7	4.1	14.3	15.0
Italy	-	-	-	-	10.0	-	2.0	-	-	-	12.0	-
United Kingdom	-	-	11.2	-	11.5	-	13.0	-	10.1	6.1	45.8	6.1
United States	7.5	-	30.5	2.0	34.9	-	18.0	-	27.3	-	118.2	2.0
IBRD Group	-	-	-	-	-	10.0	-	12.3	-	8.5	-	30.8
TOTAL	12.5	5.0	44.7	8.1	60.0	12.5	33.0	19.3	40.1	18.7	190.3	63.6

Source: The Current Economic Position and Prospects of Ghana, October 13, 1970, Table X-6.

Table 3: INDIA - CONSORTIUM ASSISTANCE IN FISCAL YEAR 1966-1969/1

(US$ millions)

Country	1966		1967		1968		1969		Total 1966-1969	
	Non-Project	Project	Non-Project	Project	Non-Project	Project	Non-Project	Project	Non-Project	Project
Austria	4.7	-	4.6	-	0.9	-	1.1	-	11.3	-
Belgium	1.2	-	2.5	-	2.5	10.0	3.0	-	9.2	10.0
Canada	9.3	10.4	44.6	65.3	28.9	4.9	28.8	37.0	111.6	117.6
Denmark	-	-	9.3	-	-	-	-	-	9.3	-
France	16.7	11.3	13.6	13.5	19.1	13.5	-	-	49.4	38.3
Germany	60.0	6.5	46.7	18.1	49.0	16.4	56.6	10.9	212.3	51.9
Italy	31.0	-	-	-	21.5	-	7.4	-	59.9	-
Japan	45.0	-	52.0	-	45.0	-	45.0	-	187.0	-
Netherlands	11.0	-	11.0	-	9.7	-	11.6	-	43.3	-
United Kingdom	86.3	-	79.2	-	58.8	27.6	84.0	28.8	308.3	56.4
United States	379.2	12.8	277.7	14.0	225.7	82.0	8.7	38.0	891.3	146.8
IBRD/IDA	215.0	-	-	25.0	125.0	68.0	-	192.5	340.0	285.5
TOTAL	859.4	41.0	541.2	135.9	586.1	222.4	246.2	307.2	2,232.9	706.5

/1 The Indian fiscal year is April 1-March 31.

Source: India Consortium: Quarterly Report on the Utilization of Aid, November 12, 1970, Tables A-4, A-5.

Table 4: INDONESIA - COMMITMENTS OF EXTERNAL ASSISTANCE IN 1968, 1969 and 1970/71

(US$ millions)

Country	1968		1969		1970/71/1		Total 1968-1970/71	
	Program	Project	Program	Project	Program	Project	Program	Project
Australia	8.2	2.5	6.1	5.1	7.3	11.4	21.6	19.0
Belgium	0.4	-	1.2	0.8	1.7	3.0	3.3	3.8
Canada	-	-	-	0.2	2.0	0.5	2.0	0.7
Denmark	-	-	-	4.0	-	-	-	4.0
France	6.9	4.2	6.3	6.3	5.0	6.3	18.2	16.8
Germany	12.5	10.5	13.7	16.4	15.2	18.8	41.4	45.7
Japan	65.0	36.4	55.0	34.5	55.0	55.0	175.0	125.9
Netherlands	19.4	5.6	18.1	25.2	16.5	7.6	54.0	38.4
United Kingdom	3.1	0.8	4.4	1.0	7.2	1.8	14.7	3.6
United States	25.0	-	44.0	26.3	40.0	31.4	109.0	57.7
A.D.B.	-	-	-	13.4	-	30.0	-	43.4
I.D.A.	-	7.0	-	89.0	-	74.9	-	170.9
TOTAL	140.5	67.1	148.8	222.0	150.5/2	240.6	439.8/2	529.7

/1 January 1970 to March 1971.

/2 Includes $0.6 million from New Zealand.

Source: The Indonesia Economy, November 27, 1970, Tables 3.8-3.11.

Table 5: PAKISTAN - COMMITMENTS OF CONSORTIUM AID IN FISCAL YEAR 1965-1969

(US$ millions)

	1965		1966		1967		1968		1969		Total 1965-1969	
Country	Non-Project	Project	Non-Project	Project	Non-Project	Project	Non-Project	Project	Non-Project	Project	Non-Project	Project
Belgium	-	-	0.5	0.6	-	1.4	2.0	2.6	1.5	0.8	4.0	5.4
Canada	7.6	53.2	6.8	9.6	9.9	0.5	15.3	20.0	25.4	13.4	65.0	96.7
France	-	8.6	-	25.3	3.7	4.6	6.4	17.3	-	1.6	10.1	57.4
Germany	7.5	26.4	12.5	49.4	10.0	16.8	10.0	19.9	16.4	37.6	56.4	150.1
Italy	-	23.5	-	13.3	9.6	6.6	18.0	10.8	2.1	3.3	29.7	57.5
Japan	9.0	21.0	9.0	21.0	9.0	21.0	10.0	20.0	9.0	21.0	46.0	104.0
Netherlands	-	-	1.4	3.9	1.4	0.8	3.1	0.2	4.4	3.5	10.3	8.4
Sweden	-	4.8	-	1.8	-	5.0	-	-	-	-	-	11.6
United Kingdom	11.2	16.2	11.2	16.1	10.6	4.8	12.0	1.2	14.4	2.7	59.4	41.0
United States	49.2	25.8	140.0	16.6	140.0	40.2	71.0	6.9	103.0	7.0	503.2	96.5
IBRD	-	30.0	-	35.0	-	35.0	-	129.5	-	19.2	-	248.7
IDA	25.0	32.2	25.0	2.8	-	10.0	-	48.0	-	77.2	50.0	170.2
TOTAL	109.5	241.7	206.4	195.4	194.2	146.7	147.8	276.4	176.2	187.3	834.1	1,047.5

Source: Government of Pakistan, Memorandum to the Consortium 1970/71, Table 6.

Table 6: TURKEY - SUMMARY OF ASSISTANCE PROVIDED IN THE FRAMEWORK OF THE CONSORTIUM, 1966-1969

(US$ millions)

Agreements Signed In									
1966		1967		1968		1969		Total 1966-1969	
Program	Project	Program	Project	Program	Project	Program	Project	Program	Project
100	203	126	124	112	186	87	159	425	672

Source: The Development Prospects of Turkey, Vol. II, CONFIDENTIAL First Draft, October 16, 1970, Table 4.5.

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December 15, 1970

ANNEX II

THE CHOICE OF TECHNIQUES FOR DEVELOPMENT LENDING

1. The previous discussion has established that:

(i) the available lending techniques range from pure project loans at one extreme to pure program loans at the other;

(ii) the techniques differ in emphasis (on investment or imports), in focus (ranging from single projects to the whole economy) and in form of resource transfer;

(iii) the effectiveness and suitability of different lending techniques depend on the economic structure and policies of the borrowing country as well as the conditions attached by the lender;

(iv) virtually all of the bilateral aid agencies utilize some form of non-project assistance, which for the DAC countries as a whole comprise a large share of development assistance; and that

(v) to make a maximum contribution to development, the lending techniques of the Bank Group should take into account the economic structure and policies of the borrowing country and the resources supplied to it by the other lenders.

2. This annex discusses the factors that may make it desirable to employ techniques other than normal project lending. These include the economic structure and policies of the borrowing country, the total resource transfer that is needed, the forms and amounts of loans and grants from other sources, and the extent to which lending by the Bank Group is desirable. Within this general framework, it is then possible to judge whether circumstances justify departures from the normal forms of Bank Group lending (cases A and B in the table in Annex I). Since the Bank's decision is partially determined by the actions of other lenders, the analysis applies initially to the total flow of resources and in the second instance to the Bank Group's actions.

Characteristics of Borrowing Countries

3. In the typical developing country, the net inflow of external resources is on the order of 2% of GNP, but in a number of cases it rises to 5% or more. The nature of a country's requirement for external resources

is affected both by its total resource gap (the difference between total investment and achievable domestic savings) and by its trade gap (the difference between its export possibilities and its requirements for particular imported goods). Among the least developed countries, factors limiting the level of investment and domestic resource mobilization are particularly important. Capital goods and other inputs needed to carry out investment comprise a large proportion of imports and provide a basis for normal project lending. As countries industrialize, the composition of both exports and imports changes, and trade limitations become increasingly important. The effect of each of these structural characteristics on the choice of lending techniques is noted below.

4. The Size and Composition of Investment. The upper limit to the magnitude of the resource transfer that can be based on conventional project lending is determined by the total level of investment and the proportion that can conveniently be treated as a project by lending agencies. Total investment varies from under 10 per cent to over 20 per cent of GNP, with a median of about 15 per cent in developing countries. Typically, considerably less than half of a country's total investment is suitable for project evaluation by international lenders, since they specialize in certain sectors and can rarely consider loans of much less than $1 million. International financing of intermediate institutions lowers this limit and thus helps to increase the basis for project lending somewhat. From the demand side, therefore, the typical country's capacity to absorb resources through project lending is not likely to be much more than 2-3 per cent of its GNP -- even if 50 or 60 per cent of total project costs were financed.

5. Limited Domestic Resource Mobilization. Under the normal project technique, local costs of investment must be financed from domestic savings. The poorest countries are therefore likely to have their ability to utilize this technique limited by their ability to mobilize domestic resources. In countries with per capita income less than $100, gross savings are typically only 10 per cent of GNP or less, and feasible levels of tax revenues are the same order of magnitude. Conventional lending based on the foreign exchange component of projects would add less than 2 per cent to this total. When the ability of the country to carry out investment effectively exceeds the amount that can be financed in this way, there is a justifiable case for local cost financing. At higher levels of income and particularly with larger exports and imports, the taxing capacity normally increases. In these circumstances the justifiable amount of local cost financing needed to offset the limited flow of domestic savings declines.

6. The Volume and Composition of Imports. The level of normal project lending may also be limited by the total volume and composition of the country's imports. Total imports range from over 25 per cent of GNP in small countries to less than 10 per cent in large ones. As countries industrialize,

the proportion of investment goods that needs to be imported declines, while the requirement for imported raw materials and semi-finished products increases. This transformation takes place at fairly low levels of income in large countries like India or Brazil because of the size of their domestic markets and the relatively low volume of their trade in relation to GNP. While a resource transfer of 2-3 per cent of GNP composed mainly of investment goods may create no problem for a country having imports of 20 per cent of GNP, it may exceed the need for that type of goods in a country whose total imports are less than 10 per cent of GNP. The limit is even lower when the country itself produces capital goods. For such countries, the limitations on the composition of the resource transfer under normal project lending become quite restrictive, and a case is often established for the financing of local costs.

7. Underutilized Capacity. In the course of industrialization, countries may develop excess capacity - particularly in the newer branches of industry - by investing ahead of the growth of demand. This situation is accentuated when a shortage of foreign exchange curtails the supply of imported goods needed to produce the industrial goods for which a demand already exists. In this event, the imports of intermediate goods and spare parts needed to make maximum efficient use of existing capacity have a higher priority on additional foreign exchange supplies than imports needed to increase capacity. Thus when imports are the effective limit to growth, the productivity of the imported goods needed to utilize existing capacity is very high. Within a given level of lending, the share of the resource transfer that should consist of project-related imports is correspondingly lower.

8. Whether it is desirable for the lenders to insist on a maximum of project lending before furnishing additional resources in the form of commodity loans depends on the development performance of the country and the relative needs of its public and private sectors. Project and sector lending are well adapted to supply the needs of the public sector. Trade liberalization and other measures to improve the efficiency of the private sector can often be supported more effectively by program lending because the commodities imported flow through commercial channels to private investors. In some circumstances, therefore, the "optimum" composition of the resource flow to be provided to a country may need to contain less than a maximum of project-related imports.

9. In summary, the upper limit to the amount of project lending that is economically efficient is determined by the combined effects of the set of factors described in paragraphs 4-8. This limit will vary considerably from country to country in accordance with its income level, size, natural resource endowments, and other factors. While the limits to project lending can be determined with reasonable accuracy from an analysis of a country's development program, the interaction of these factors cannot be reduced to any simple formula or set of criteria.

Illustrative Cases

10. Since these characteristics occur in varying combinations in individual countries, it is rarely possible to specify simple criteria that determine the best combination of lending techniques. Virtually all developing countries receive some development assistance in the form of normal project loans, and most of them receive one or more of the other forms as well. The following paragraphs illustrate typical cases in which there is a strong case for either local cost financing or program lending as part of the total assistance provided.

11. As indicated in paragraphs 24 and 26 of the basic memorandum, the appropriate form of Bank Group lending should be determined in the context of the policies of other lending agencies and the total assistance to be provided. The larger the share of the Bank in the total, the stronger the case is likely to be for it to share in non-project lending when that is needed. There is an increasing number of countries in which the Bank Group provides more than 20 per cent of total public assistance and to which this consideration applies with particular force.

12. The Cases of Reconstruction and Rehabilitation. A number of less developed countries have undergone periods in which their economies were disrupted by war, internal disorder, or political mismanagement. When a responsible government attempts to restore the economy and initiate a process of development, it is confronted by a situation in which the highest priority for external resources must go to imports needed to restore the flow of raw materials and spare parts and rehabilitate existing productive capacity. This situation is illustrated by Korea in the 1950's and currently by Indonesia and Nigeria.

13. In the case of Indonesia (described in the Bank's Economic Report of November 1970), the amount of public external assistance received in fiscal 1970 was about $360 million or 30 per cent of total imports. The disbursements from project financing amounted to $52 million. Even financing 100 per cent of the local cost of these projects would have provided considerably less than half of the needed amount of assistance. Although a somewhat higher proportion of total investment might have been taken as a basis for project financing, it could have made only a limited contribution to the import requirements during the period of economic rehabilitation, since project disbursements are spread over a long period. By 1972, the proportion of investment that is suitable for project evaluation is expected to grow and with it the resulting resource transfer in project form is expected to rise to $175 million. In the longer run, rising exports should cover a growing proportion of the need for current imports. There should therefore be a steady reduction in the share of assistance needed by Indonesia on a program basis. This is a general characteristic of successful programs of reconstruction and rehabilitation.

14. Cases for Fuller Use of Existing Capacity. As indicated in paragraph 7, an imbalance sometimes develops between the amount of capacity installed in each sector and the volume and composition of demand. One cause of such structural imbalance is a failure of agriculture to grow as fast as anticipated - as in India in the early 1960's - with a consequent limitation on the demand for industrial output. Excess capacity may emerge periodically as a consequence of economies of scale in basic industries and transportation, where it is often efficient to build ahead of demand. It may also arise from a shortfall in export earnings or a reduction in expected receipts of external assistance, either of which can mean that imports of raw materials are insufficient for full capacity operation. Whatever the cause of structural imbalance, it results in strains on the balance of payments. If resources of capital and foreign exchange can be allocated to removing the trade and other bottlenecks that have developed, an opportunity for accelerated growth emerges. Efficient allocation often requires liberalization of imports and greater use of the market mechanism in order to influence private producers and investors.

15. Situations of this kind have arisen in recent years in countries such as Colombia, Turkey, Pakistan, and India. In these cases (as well as others), structural imbalance has periodically been reflected in import restrictions, overvalued exchange rates and a shortage of maintenance imports to operate existing industrial capacity. The Bank's reviews of the needs of these countries for external assistance have shown that a substantial component of program assistance was needed to provide for these high-priority needs. A portion of this need could have been met by local cost finance or debt relief if lending agencies had preferred these alternatives. The proportion of total official assistance provided to these countries in recent years in the form of program loans has ranged from under one-third of the total in Colombia to more than two-thirds in India, as indicated in Annex I, Attachment 4.

16. This structural case for program assistance is strongest in countries that have a well-conceived development program and set of policies for allocating available supplies of investment and foreign exchange. While allocation to the public sector can be made directly, the response of the private sector depends on import liberalization and other improvements in the functioning of the market mechanism. To meet the needs of the latter situation, a program loan is typically made against the needs for specified commodity imports so that the annual flow of resources will correspond to the balance of payments needs of the economy.

17. Cases of Limited Savings. In most of the poorest countries, the possibility of generating additional public and private domestic savings, and/or the desirability of doing so, is likely to be one of the principal constraints on growth. Where, for example, the maximum feasible share of savings in GNP is low and there is also little domestic production of manu-

factured goods, an increase in investment may require a large increase in imports in order to satisfy both the direct and indirect requirements for increased consumption as well as for investment goods. In that case, the indirect imports required can be effectively provided through financing the local costs of individual investment projects. More generally, if the government's revenue effort and its restraint on current expenditures have already been pushed to the feasible limit, and if it has done all that could be expected to generate and mobilize private savings, external financing of a substantial portion of the total cost of the additional investment would be justified.

18. Cases of Local Production of Capital Goods. Apart from limited savings capacity, the second principal case for local cost financing is based on the existence of local capacity for the production of capital goods. It is in the interest of the borrowing country to utilize this capacity to the maximum degree that is economic, and to import intermediate products rather than finished machinery and equipment in order to do. Examples of countries in this position include India, Brazil, Mexico, and Argentina. In these cases, the average foreign exchange component of investment is reduced from the 50-60 per cent that is typical of the least industrialized countries to 25-30 per cent or less. Furthermore, there is typically excess capacity (and labor) in the capital goods industries, so that the opportunity cost to the economy of producing capital goods may in the short run consist mainly of the imported materials and semi-finished products required.

19. The amount of local cost financing needed and the extent to which this form of project finance can satisfy the total assistance requirement also depends on the gross public inflow needed in relation to a country's total investment program and debt service requirements. Since the public flow is relatively small in some of the richer countries (e.g., Argentina and Mexico), it can be transferred via the normal process of financing projects or sectors with a moderate amount of local cost financing. By contrast, to transfer the estimated gross official flow of $1,500 million per year that the Bank has estimated to be currently needed by the Indian economy on the basis of a foreign exchange component of 30 per cent of investment would require annually 250 projects of an average size of $20 million. This compares to less than 50 projects per year currently being initiated by all external lending agencies. Here it is apparent that the capability and willingness of the lending agencies to review projects, as well as the prospective improvement that might be achieved in the quality of Indian investment, must be assessed in order to arrive at a proper mix of local cost financing and program assistance.

20. Paragraphs 10-19 indicate the effects of the principal factors that combine to determine the suitability of different forms of lending in different cases. More detailed analyses of individual countries are given in the

Bank's annual economic reports. In conclusion, it should be stressed that a decision as to the appropriate combinations of lending techniques rarely depends only on a few simple criteria, but rather involves an assessment of the quality and effectiveness of development policies and programs as well as consideration of the factors discussed here.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

FROM: The President

SecM69-472

October 10, 1969

PEARSON COMMISSION'S RECOMMENDATIONS
RELATING TO THE WORLD BANK GROUP

The Executive Directors will recall that, in my annual statement to the Board of Governors, I said that "I propose to undertake a careful analysis of each of the Commission's recommendations which in any way bears upon our work, and to submit these analyses to the Bank's Directors with proposals for appropriate action."

Attached is a list of the 33 recommendations in the Pearson Commission's report which are directed to, or bear upon the activities or policies of, the Bank Group. With respect to each of these recommendations I will present to the Executive Directors a memorandum proposing the position which I believe the Bank should adopt on the recommendation and the action, if any, which I believe it appropriate for the Executive Directors to take. I have assigned to Mr. Demuth responsibility for preparing these memoranda.

The first series of memoranda will be scheduled for distribution to the Executive Directors by early December. Thereafter, I intend to distribute further series of memoranda on a monthly basis. I would hope that we could complete consideration of all, or virtually all, of the recommendations by April 30, 1970.

Robert S. McNamara

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

ATTACHMENT

RECOMMENDATIONS DIRECTED TO OR BEARING ON THE ACTIVITIES OF THE WORLD BANK GROUP

1. "Thus, for example, international agencies such as the World Bank should take into account in considering loans for agricultural projects not only the rates of return in the borrowing country, but also the impact of new production capacity on world market prices." (Ch. 4, text, p. 83)

2. "Discussions should be expedited leading to a program of supplementary finance to deal with problems caused by unexpected and sustained shortfalls in the export earnings of developing countries." (Ch. 4, Rec. 3, p. 97)

3. "Financing of reasonable buffer stocks in support of well-conceived commodity agreements and policies should be recognized as a legitimate object of foreign aid." (Ch. 4, Rec. 4, p. 97)

4. "Bilateral donors and international agencies should provide financial assistance to institutions, such as development banks and clearing and payment unions, which are designed to promote trade among developing countries on a regional scale." (Ch. 4, Rec. 9, p. 97)

5. "Regional development banks, in cooperation with other international agencies, should take the lead in making available special funds for the refinancing of export credits granted by developing countries, and in establishing regional export credit insurance facilities." (Ch. 4, Rec. 10, p. 98)

6. "At the international level, talks leading to the establishment of a multilateral investment insurance scheme should be pursued vigorously." (Ch. 5, text, p. 109)

7. IFC policies should be reoriented to emphasize the development effect of its investments and not just their profitability. (Ch. 5, text, pp. 114-115)

8. "The Commission . . . urges international institutions such as the World Bank to give suitable technical assistance to developing countries in appraising the terms of export credits offered to them." (Ch. 5, text, p. 121)

9. "Because the IFC and organizations like it have links with the private sectors of both developed and developing countries, they are logical agents for project identification and investment promotion work, and they should become much more active in this field." (Ch. 5, Rec. 5, p. 123)

10. "International institutions, such as the World Bank and UNIDO, should expand further their advisory role regarding industrial and foreign investment policies." (Ch. 5, Rec. 7, p. 123)

11. "In regard to the possible excessive use of export credits, a strong 'early warning system' based on external debt reporting should be evolved by the OECD and the World Bank." (Ch. 5, Rec. 10, p. 123)

12. "Preparations should begin at the earliest possible moment for establishment, where necessary, of new multilateral groupings which provide for annual reviews of the development performance of recipients and the discharge of aid and related commitments by donors. The World Bank and the regional development banks should take the lead in discussions to this end, and the World Bank, or another appropriate existing agency, should provide the necessary reporting services for such groups." (Ch. 6, Rec., p. 135)

13. "All member nations of the Development Assistance Committee should prepare plans for reaching the 0.70 per cent target, and the President of the World Bank should place discussion of these plans on the agenda of the 1971 meeting of the Board of Governors. The national plans should be submitted for publication to the Chairman of the DAC by January 1, 1971." (Ch. 7, Rec. 3, p. 152)

14. "We recommend that debt relief operations avoid the need for repeated reschedulings and seek to re-establish a realistic basis for development finance. The World Bank and the IMF, as important providers of long-term and short-term finance respectively, must of course participate in rescheduling discussions." (Ch. 8, text, p. 157)

15. "We recommend greater help to development banks and similar institutions in developing countries. In addition, assistance should be provided to such promising activities as industrial parks and agricultural cooperative credit institutions, designed to promote financing of the domestic private sector." (Ch. 9, text, p. 179)

16. "Multilateral agencies should extend the practice of joint or parallel financing of projects." (Ch. 9, Rec. 6, p. 189)

17. "Aid-givers should remove regulations which limit or prevent contributions to the local costs of projects, and make a greater effort to encourage local procurement wherever economically justified." (Ch. 9, Rec. 10, p. 190)

18. "Aid-givers should adapt the forms of aid to the needs and level of development of the receiving country and recognize the great value, in many cases, of more program aid.

"IDA should undertake program lending wherever appropriate, seeking, if necessary, statutory change to make this possible." (Ch. 9, Recs. 11 and 12, p. 190)

19. "Multilateral and bilateral technical assistance should be more closely integrated with capital assistance." (Ch. 9, Rec. 14, p. 190)

20. "Donors should give financial assistance for local recurring expenditures and for equipment, transport, and other supplies in connection with technical assistance projects." (Ch. 9, Rec. 17, p. 190)

21. "Loans for projects should include a greater component of technical assistance." (Ch. 9, Rec. 18, p. 190)

22. "International technical assistance should be strengthened by the creation of national and international corps of technical assistance personnel with adequate career opportunities." (Ch. 9, Rec. 19, p. 190)

23. "We . . . recommend that the World Bank, in consultation with the WHO, launch immediately a wide-ranging international program for the direction, coordination, and financing of research in the field of human reproduction and fertility control." (Ch. 10, text, p. 199)

24. "The World Bank Group, as well as the Regional Banks, should pay greater attention to problems of research and development in their country studies and should themselves identify needs for scientific and technological research." (Ch. 10, text, pp. 205-206)

25. "Bilateral and international agencies should press in aid negotiations for adequate analysis of population problems and of the bearing of these problems on development programs." (Ch. 10, Rec. 2, pp. 206-207)

26. "Greater resources for education should be made available for (a) research and experimentation with new techniques, including television and programmed learning; and (b) a systematic analysis of the entire learning process as it applies to developing countries." (Ch. 10, Rec. 7, p. 207)

27. "Regional or national laboratories and research institutes should be established to study techniques of natural resource utilization and to improve industrial product design and production techniques.

"Industrialized countries should assist in the establishment of international and regional centers for scientific and technological research in developing countries, designed to serve the community of developing countries and specializing in distinct fields of research and their application." (Ch. 10, Recs. 10 and 13, p. 207)

28. "The World Bank should continue to assume responsibility for /country economic/ reports for major recipients and accept reporting responsibility where it is requested to do so by the new multilateral groupings recommended in Chapter 6. For some of the smaller countries, however, the Bank's responsibility for economic reporting might well be passed to regional banks as their capacity grows." (Ch. 11, text, p. 219)

29. "A procedure, already in use, to reduce the effective rate of Bank loans is the practice of 'blending' IDA and Bank loans available to the borrower, thus reducing the average rate on loans from the World Bank

Group as a whole. Sometimes a single project is financed by such a blend. We also suggest that the blending technique for single projects or programs be used more frequently." (Ch. 11, text, p. 222)

30. "The World Bank and the IMF, in countries where both operate, should adopt procedures for preparing unified country assessments and assuring consistent policy advice." (Ch. 11, Rec. 2, p. 230)

31. "The President of the World Bank should undertake a review of the need for organizational change in IDA as its functions increase." (Ch. 11, Rec. 5, p. 230)

32. "IDA should formulate explicit principles and criteria for the allocation of concessional development finance and seek in its policies to offset the larger inequities in aid distribution." (Ch. 11, Rec. 6, p. 230)

33. "The President of the World Bank should invite heads of appropriate organs of the U.N., pertinent multilateral agencies, and the regional development banks and coordinating bodies, to a conference to be held in 1970 to discuss the creation of improved machinery for coordination capable of relating aid and development policies to other relevant areas of foreign economic policy, moving toward standardized assessments of development performance, making clear, regular and reasonably authoritative estimates of aid requirements, and providing balanced and impartial reviews of donor aid policies and programs. Representatives of at least the major bilateral donors and appropriate representatives of developing countries should also participate in the conference." (Ch. 11, Rec. 7, p. 230)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM69-541

FROM: The Secretary

December 12, 1969

PEARSON COMMISSION RECOMMENDATIONS

Attached hereto for information is a copy of a summary analysis of the kinds of joint financing arrangements in which the Bank or IDA has been involved through 1968. This document is referred to in the President's memorandum of December 11 on Recommendation no. 16 distributed under report no. R69-232.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

(i) IBRD/IDA JOINT FINANCING OPERATIONS WITH U.S. DLF/AID 1/
(Millions US$ Equivalent)

'E OF PROJECT ...EEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 114 PE Quiros-Piura Irrigaion April 5, 1955 $26.6 $18.0 Bank Loan: $18.0 For 25 years, including 4 yrs. grace at 4.3/4 percent interest	Republic of Peru U.S. participation was a result of normal U.S. operations in Peru and Government's request for assistance towards local currency financing of project.	U.S.A. PL-480 Funds under Mutual Security Act: $2.6 for 20 yrs. including 4 yrs. grace at 3½ percent interest to cover local currency costs of "farmer settlement" phase of program. Repayment was 50% in dollars, 50% in local currency. Government provided remaining $6.0	Normal separate loan documentation between Bank and Borrower and between U.S. and Borrower. No cross-conditions of effectiveness or default. No inter-agency agreements; U.S. contribution effectively supplemented Government contribution to financing of local currency costs. Normal Bank procurement and disbursement procedures.
IBRD Loan 176 EC Highway maintenance and construction September 20, 1957 $23.0 revised to $32.1 $10.3 " " $14.5 Bank Loan: $14.5 For 20 years, including 4 yrs. grace at 5.3/4 percent interest	Republic of Ecuador Bank did not seek DLF contribution; Govt. approached DLF for local currency financing as better alternative than inflationary Central Bank financing.	U.S.A. DLF: $5.3 (untied) divided by indeterminate amounts into Loan A and B. Loan A: Dollar purchases of sucres from Central Bank for 18 years, including 1 yr. grace at 3½ percent interest. DLF option to call for repayment in dollars up to 21st installment on principal, otherwise repayment was in sucres. Loan B: Sucres obtained by DLF from other sources with terms to be negotiated and repayable in sucres. Govt. provided remaining $11.2	Normal loan documentation between Bank and Borrower and between DLF and Borrower. No cross-conditions of effectiveness or default. Bank loan effective in January 1958, and Bank Agreement provided that "until the Project shall have been carried out.... the Borrower shall not hereafter incur any indebtedness in foreign currency to finance in whole or in part any road construction, reconstruction or maintenance," without Bank approval. DLF loan signed November 1959, before Bank was consulted. After consultation with DLF and Borrower, Bank approved DLF loan December 1959. No Memorandum of Understanding, but informal assurance from DLF that certain provisions of its loan contract restricting procurement to specific countries (ICA Code 899) and require DLF to review of all contracts did not apply to procurement with Bank funds. Bank procurement by international competitive bidding. Bank disbursement against separate list of goods on percentage basis: 45%, representing the estimated foreign exchange component.
IBRD Loan 195 HO Road Construction May 9, 1958 5 IBRD Loan: $5.5 for 20 yrs., including 3 yrs. grace at 5.3/8 percent interest.	Republic of Honduras In view of fiscal situation of Borrower Bank sought local currency financing.	U.S.A. DLF: $5.0 (untied) for 20 years, including 1 yr. grace at 3½ percent interest. Repay in local currency.	Normal loan documentation between Bank and Borrower and between DLF and Borrower, including cross-conditions of effectiveness and default. Inter-agency "Letter of Understanding" which included all the standard provisions of IBRD/DLF-AID Memorandum of Understanding (cf. IBRD Loan 259 NI, below). Procurement of Bank/DLF financed goods and services on the basis of international competitive bidding. Disbursement on separate application for reimbursement by Borrower to Bank and DLF for foreign and local currency costs respectively.
IBRD Loan 240 IRN Industrial Development Project November 23, 1959 $23.7 $10.4 at least, with actual amount to be determined as IMDBI goes into operation. IBRD Loan: $5.2 for 15 yrs., including 5 yrs. grace at various interest rates to be determined as the loan is drawn for various projects implemented by IMDBI. Bank Loan to cover only foreign exchange costs of these projects.	Industrial and Mining Development Bank of Iran (IMDBI) Joint financing a result of Bank's early role as advisor to the Government and private U.S. sponsors on the establishment of IMDBI and request of Government to DLF for additional foreign currency financing.	U.S.A. DLF: $5.2 for 15 yrs., including 3 yrs. grace at 5.3/4 percent interest. DLF funds to be used for foreign exchange costs of projects. Share capital: $5.3 of which $3.2 Iranian; $2.1 foreign. (U.S., U.K., French, German, Italian, Belgian, Dutch investors.) Government Advance: $8.0 a) subordinated to other debt in the event of liquidation; b) ranking pari-passu with share capital; c) interest-free repayment in 15 annual installments to begin 15 years after disbursement.	Normal loan documentation between Bank and Borrower/Guarantor and between AID and Borrower, with cross-conditions of effectiveness and default. IMDBI also agreed that it would commit the proceeds of the Bank Loan pari-passu with proceeds of the DLF Loan No Memorandum of Understanding, but some informal cooperation with DLF in the project.

1/ Development Loan Fund until November 31, 1961, thereafter Agency for International Development.
Subsequent to October 20, 1959 US foreign assistance has been tied to procurement in the USA or in the borrower/grantee country.

IBRD/IDA JOINT OPERATIONS WITH U.S. DLF/AID 1/
(Millions US$ Equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 259 NI Rio Tuma Hydroelectric Project June 22, 1960 $20.8 $14.5 IBRD Loan: $12.5 for 25 yrs., including 5 yrs. grace at 6 percent interest.	Empresa Nacional de Luz y Fuerza (ENLF) Guarantor: Republic of Nicaragua Borrower sought additional local currency financing from DLF.	U.S.A. DLF: $2.5 (tied) for 20 yrs., including 1 yr. grace at 3½ percent interest. Repayment in local currency. Govt. of Nicaragua: $1.8 ENLF: $4.0	Documentation as in IBRD Loan 195 HO, but with formal Bank/DLF Memorandum of Understanding, approved by the Borrower, which included: a) general description of financing arrangements for the project; b) agreement that as a result of each agency's arrangements with the Borrower, "approval of both is required with respect to certain actions and documents pertaining to the project;" c) the right of both institutions to receive reports and inspect the project; d) agreement of both agencies to collaborate closely in the execution of the project, and DLF intention, "to rely on the Bank's administration of the Bank loan for the project for certain aspects of the DLF loan," to the extent consistent with DLF operations; e) Bank agreement to inform the DLF of conclusions of Bank review of consultants, contracts and contractors and of the action it proposed to take, with a view to enabling DLF promptly to comment thereon; f) Bank agreement to keep DLF informed on the progress of the project based on Bank end-use inspection; g) agreement of Bank/DLF to inform each other if any event came to their knowledge which might affect or impede the project and, in the event of difference of view on action to be taken, agreement to use their best efforts to resolve the difference before acting; and DLF agreement that procurement restrictions peculiar to the use of its funds are not applicable to Bank procurement. NOTE: This Memorandum of Understanding was prepared after the Loan Agreement was signed. The basic outline was established in the Memorandum of Understanding accompanying IBRD Loan 271 PE, and subsequently adapted for IBRD Loan 259 NI, as well as IBRD Loans: 261 HO and 264 PAN below. Bank procurement on the basis of international competitive bidding. Bank disbursement against separate list of goods. DLF disbursement parallel with Government contribution to ensure debt/equity ratio would remain constant or fall, as specified in DLF Loan Agreement. DLF Loan Agreement with Borrower delegated to the Bank the following functions: i) review of contracts and approval of contractors (sec. 1.03); ii) approval of engineering consultants and terms of employment (sec. 5.04(d)). iii) approval of management consultants (sec. 6.08).
IBRD Loan 261 HO Canaveral Hydroelectric Project June 29, 1960 $14.5 $ 9.0 IBRD Loan: $8.8 for 25 yrs., including 4 yrs. grace at 6 percent interest.	Empresa Nacional de Energia Electrica(ENEE) Guarantor: Republic of Honduras Borrower sought additional local currency financing from DLF.	U.S.A. DLF: $2.8 (tied) for 25 yrs., including 1 yr. grace at 3½ percent interest, of which $1.2 cancelled. Repayment in local currency. ENEE: $2.9 Government Central Bank financing of DLF cancellation, i.e., $1.2.	Documentation as for IBRD Loan 259 NI, except that DLF disbursem not parallel to Government disbursement, and there was no specific delegation of functions mentioned in the DLF Agreement (cf. i, ii, iii, 259 NI, above). Memorandum of Understanding prepared after Loan Agreement signed as in IBRD Loan 259 NI. Following change in Government of Honduras in September 1963, DLF discontinued disbursement and cancelled the remainder of its loan, i.e., $1.2.
IBRD Loan 264 PAN Second road project. Construction of feeder roads. August 19, 1960 $14.5 $ 7.2 IBRD Loan: $7.2 for 15 yrs., including 4 yrs. grace at 5.3/4 percent interest.	Republic of Panama Borrower sought additional local currency financing from DLF.	U.S.A. DLF: $5.3 (tied) for 15 yrs., including 1 yr. grace at 3½ percent interest. Repayment in dollars. Government of Panama: $2.0	Documentation as for 261 HO, except Memorandum of Understanding also provided that: a) at request of the Borrower, the Bank would forward to DLF notification of all charges to the Loan Account, "which action will inform the DLF that the Bank has found the Borrower's request and documentation satisfactory for, and has made, the requested disbursement from the Loan Account;" b) Bank agreement to consult DLF before making any changes in the Bank "list of roads or the order of their construction;" c) Bank agreement to notify DLF of results of its review of contracts, contractors, consultants and design standards of the project and the action the Bank proposed to take, with the aim of reaching a common viewpoint on action to be taken. Memorandum of Understanding prepared after Loan Agreement signed as in IBRD Loan 259 NI. Foreign Procurement on the basis of international competitive bidding. Disbursement on a percentage basis: 50% IBRD; 37% DLF, according to the individual procedures of each agency for estimated foreign and local currency expenditures respectively.
IBRD Loan 271 PE Aguaytia-Pucallpa Road construction and reconstruction December 19, 1960 $11.0 $ 6.2 IBRD Loan: $5.5 for 15 yrs., including 4 yrs. grace at 5.3/4 percent interest.	Republic of Peru Bank sought additional local currency financing.	U.S.A. DLF: $4.5 (tied) for 15 yrs., including 1 yr. grace at 3½ percent interest on the dollar disbursement of up to $3.5; ¾ percent interest on local currency disbursement of up to $1.0 (cf. IBRD Loan 176 EC). Government of Peru: $1.0	Documentation as for IBRD Loan 259 NI, except Memorandum of Understanding also provided that: a) at request of the Borrower, the Bank would forward to DLF notification of all charges to the Loan Account (cf. IBRD Loan 264 PAN, above); b) agreement that Bank and DLF have parallel rights with respect to approval of consultants, contractors, contracts, and general design standards for the project, and that neither the Bank nor DLF will indicate approval or disapproval on these matters without having consulted the other. Bank procurement on the basis of international competitive bidding. Bank disbursement against own list of goods on a percentage bas. 50%, representing the estimated foreign exchange cost of the pr DLF disbursed 80% of local currency cost, and the Government th other 20%. (NOTE: The Memorandum of Understanding for this project was the first such agreement and was used as a pattern for the Memoranda subsequently governing joint administration, etc., of IBRD Loans: 259 NI; 261 HO; 264 PAN.)

1/ See page 1.

IBRD/IDA JOINT OPERATIONS WITH U.S. DLF/AID 1/
(Millions US$ Equivalent)

'E OF PROJECT EEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 288 AR Road reconstruction and improvement June 30, 1961 Original: $110.0 / $ 48.5 Final: $62.5 / $32.0 IBRD Loan: initially $48.5 and net of cancellations: $31.0 for 16 yrs. including 4 yrs. grace at 5.3/4 percent interest. Cancellations: July 26, 1965..$16.5 August 28, 1968..$ 1.0	Republic of Argentina Joint financing a result of Government's and Vialidad's (Direccion Nacional de Vialidad, an autonomous Government agency) deteriorating financial situation, and subsequent inability to meet their commitments under the Loan Agreement. Government requested AID to cover part of local currency costs of original project. Unfinished part of project was then cancelled by Bank. Ultimately, the Bank and AID were financing 100% of all project costs.	Original Government contribution: $61.5. Government contribution after AID Loan ($30.5) granted: $31.5 until original project revised down, at which time the Government contribution fell to zero. US-AID contribution: $30.5 (tied) Loan signed March 18, 1963 for 50 yrs. including 10 yr. grace at 3/4 of 1 percent interest from Alliance for Progress resources.	Normal, separate loan documentation between Borrower and IBRD and between Borrower and AID. No cross-conditions of effectiveness or default. No Memorandum of Understanding, but close working relationship with AID. Normal Bank procurement and disbursement against its own list of goods on a percentage basis: 40% representing the estimated foreign exchange cost of the project. AID disbursed 60% of the cost of works completed, and in the interest of efficiency agreed to utilizing Bank method of disbursing directly to Vialidad rather than through the Central Bank of Argentina, as was its usual practice.
IBRD Loan 299 CR IDA Credit 10 CR Road construction and maintenance project October 13, 1961 $13.2 $11.0 IBRD Loan: $5.5 for 15 yrs., including 5.3/4 percent interest. IDA Credit: $5.5, repayable on normal IDA terms. Cancellation: $0.950.	Republic of Costa Rica Joint financing a result of deteriorating Government financial situation and request to AID for assistance in financing part of the local currency component of the Bank project. AID contribution part of U.S. $10.5 budget support operation.	U.S.A. AID: $2.1 for 50 yrs., including 9½ yrs. grace at 3/4 of 1 percent interest. Repayment to be in dollars. Alliance for Progress funds. Government of Costa Rica to provide remainder: $0.1.	Separate, normal loan/credit documentation between the Bank/IDA and the Borrower. Separate loan documentation between AID and Borrower with no cross-conditions of affectiveness or default. AID Loan not signed until July 23, 1963. No Memorandum of Understanding, but close working relationship between Bank and AID. Normal Bank/IDA procurement. AID procurement according to its own procedures. Bank disbursement against a list of goods for contracted construction on a percentage basis: 60%, representing the estimated foreign exchange component. Where AID participation was involved, they financed 40% of contracted construction, the estimated local currency component. (AID financing was specified for 12 sub-projects within the entire Bank project.) Disbursement for works done on force account made upon separate presentation to Bank/IDA and AID, by Borrower, of evidence of works completed. Bank/IDA and AID reimbursed Government for the respective percentages of estimated foreign costs and local costs.
IBRD Loan 331 PH lopment Corporation Project uary 15, 1963 IBRD Loan: $15.0 Cancellation: 0.132 $14.868 Under Loan Agreement, amortization schedules and interest rates were to be agreed between Bank and Borrower as the Loan Account was credited, with stipulation that final payment was not to be later than January 1, 1978.	Philippine National Bank (PNB) Guarantor: Republic of Philippines Joint financing a result of Bank appraisal of local and foreign exchange requirements for setting up a private development corporation in the Philippines.	U.S.A. AID: $9.6 for 30 yrs., including 15 yrs. grace at ½ of 1 percent interest. Local currency generated by ICA dollar disbursements for purchase of surplus agriculture commodities. <u>IFC commitment</u> of $0.205 and stand-by <u>commitment</u> of $1.28. Equity share capital: $6.4, of which $4.48 Philippine owned and $1.92 foreign banks and investors in U.S., U.K., and Germany. PNB to relend proceeds of IBRD Loan in full to PDCP on terms and conditions specified in Subsidiary Loan Agreement between PNB and PDCP. Source of AID funds authorized by predecessor agency: ICA. Sec.402 of MSA '54.	Normal loan documentation between Bank and Borrower/Guarantor and between AID and Borrower, including cross-conditions of effectiveness and default. Subsidiary Loan Agreement between PNB and PDCP in which PNB delegated most of its rights as Borrower to PDCP. No Memorandum of Understanding. AID/PDCP Loan Agreement (sec. 7.01) provided for prepayment equivalent of a proportion of any surplus of PDCP's net profits after taxes and reserve appropriations. In such a case, Bank Agreement does not call for pro-rata prepayment of Bank Loan, but Subsidiary Loan Agreement provided that any other circumstance of prepayment prior to maturity would require Bank approval. Procurement and disbursement of Bank/AID funds followed normal procedures of each agency respectively as projects were implemented by PDCP.
IBRD Loan 557 GUI Boké Project September 18, 1968 <u>Total Program: $182.5</u> (mining operation, port, railway and township) <u>Bank project: $83.5</u> (port, railway, township and refinancing of previous engineering loan S-1 GUI of $1.7) $64.5 for 24 yrs. including 5 yrs. grace at 6¼ percent interest.	Republic of Guinea Joint financing of Bank project a result of Government request for foreign exchange financing from Bank and local currency financing from A.I.D., for infrastructure project complementary to the establishment of a large bauxite mining operation. Mining operation is, in turn, necessary for feasible Bank project.	<u>Bank Project: $83.5</u> U.S. AID Loan: up to $21.0 to cover local currency requirements, (tied procurement as to source and origin either in borrower country or the U.S.) Repayable at the option of the borrower in local currency. Repayment over 30 yrs. including 4½ yr. grace at 2½% interest. Source of AID funds is previous sale under PL-480 of agricultural commodities. Government contribution consisting of proceeds of Bank and AID loans. Stockholders of mining company (HALCO, an association of six international aluminium producers) to provide any overrun in foreign exchange costs of Bank project. Government executing agency for Bank project: Office d'Amenagement de Boke (OFAB). <u>Mining Project: $99.0</u> Companie de Bauxite de Guinee (owned by Halco and Government of Guinea) is the executing agency: $37.0 in equity capital. Until the long-term arrangements are completed, temporary arrangements with a banking syndicate headed by Bank of America have been made to provide revolving bank credit totalling $75.0.	Normal separate loan documentation between Bank and Borrower and between AID and Borrower including cross-conditions of effectiveness and default. Special arrangements for the security of the Bank loan and for the physical completion of the project were incorporated in a Financial Assurances Agreement and a First Agreement. Memorandum of Understanding between the Republic of Guinea, the Bank, Halco and stockholders was signed March 29, 1968, before the Loan and laid down the basis for negotiation of the Bank loan. Effectiveness of all instruments and agreements between the Bank and the Borrower, AID and the Borrower and between the Bank, the Borrower and stockholders of CBG are conditions of effectiveness of Bank loan and the Bank would have the right to suspend, cancel and in certain circumstances premature the loan if the instruments and agreements affecting the Project were modified without Bank approval or if certain other designated events were to occur. In addition if the borrower were to prepay any part of its indebtedness under the AID loan agreement, it would simultaneously prepay a proportionate amount of the Bank loan, (Section 5.09). Bank procurement to be on the basis of international competitive bidding. Bank/AID disbursement arrangements not yet available, but AID Loan Agreement (Section 1.2) states: "The loan will be disbursed by AID upon submission of supporting documentation the same as (or, if specified by AID, reasonably similar to) that required pursuant to" the IBRD Loan Agreement.

NOTE:

For additional Bank/IDA joint financing operations involving the U.S. DLF/AID see also the following loans/credits:

Under "IBRD/IDA Joint Financing Operations with Two or More Co-lenders:" 266PAK/60 PAK; 310 GH; 379 EC/51 EC; 383 UNI; 548 PAK; 568 TU.

r "IBRD/IDA Joint Financing Operations with IDB":
O

Under "IBRD/IDA Joint Financing Operations with Suppliers' Credits Arrangements": 536 CO

Under "IBRD/IDA Joint Financing Operations with FAC": Proposed Upper Volta Telecommunications Project.

1/ See page 1.

(ii) IBRD/IDA JOINT FINANCING OPERATIONS WITH U.S. EXPORT-IMPORT BANK
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 334 PE Railway Rehabilitation March 13, 1963 $21.3 (Total cost of program which began July 1, 1961.) $19.5 IBRD Loan: $13.25 for 16 yrs., including 1½ yr. grace at 5½ percent interest. Loan subject to reduction corresponding to the amount the Corporation can generate in excess of its working capital requirements.	Peruvian Corporation Limited (Corporation) Guarantor: Republic of Peru Joint financing a result of Government request to both the Bank and Eximbank for financing of the foreign exchange component of its four-year railway rehabilitation program.	U.S. Eximbank: $4.75 for 7 yrs. (no grace period) at 5.3/4 percent interest, plus $1.5 disbursed under 1962 line of credit which supported first year of four year program. Corporation contribution: $1.8.	Normal loan documentation between the Bank and Borrower and between Eximbank and Borrower, including cross-conditions of effectiveness and default. Bank [illegible] Eximbank Agreements required security of repayment on principal and/or interest in form of Mortgage Agreement on movable and immovable property of Corporation dated June 27, 1963, between Corporation, Industrial Bank of Peru, IBRD, Eximbank and person or entity noted as "representative" under the Mortgage. (Bank Agreement: sec. 5.04; U.S. Eximbank Agreement Article XII, C.) Inter-agency Agreement signed May 6, 1964 between IBRD and Eximbank regarding administration and enforcement of Mortgage noting that: a) the "Representative" under the Mortgage was to act only upon the instructions of the IBRD; b) the IBRD will give to the Representative appropriate instructions in respect of the Mortgage as requested by Eximbank; c) agreement that IBRD will consult Eximbank before taking any action related to the Mortgage and general agreement to consult with each other on matters of common interest. Supplementary Agreement (dated July 5, 1965), between Corporation, IBRD, Eximbank, and Government, provided for utilisation of funds from sale of Corporation's movable and immovable property, as required under Mortgage Agreement. Bank procurement on the basis of international competitive bidding, excluding specified rails and fittings and five locomotives, which were to be purchased in the USA on grounds of speed and standardisation. Disbursement against separate lists of goods for Bank and Eximbank respectively, with Eximbank disbursement: a) directly to a commercial bank in the U.S., designated by the Corporation, to reimburse the Corporation for expenditures made by it; b) to reimburse a commercial bank in the U.S. for expenditures made by it under a letter of credit (opened upon request by the Corporation); c) directly to suppliers. In fact, Eximbank has never reimbursed the Corporatic method (a) above.

For additional IBRD/IDA joint financing arrangements with U.S. Eximbank see also under: "IBRD/IDA Joint Financing Operations with Two or More Co-lenders:" 310GH; 548PAK.

(iii) IBRD JOINT FINANCING OPERATIONS WITH U.S. COMMERCIAL BANKS AND U.S. PRIVATE INTERESTS

(millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 161 IN Air-India Project March 5, 1957 $23.0 $22.0 IBRD Loan: $5.6 for about 10 years including 6 year grace at 5.1/2 percent interest	Air-India International Corporation Guarantor: India Joint financing a result of Government request for assistance in financing project and subsequent Bank indication that if India could arrange financing for two-thirds of the cost, the Bank would provide the remaining one-third, with subsequent increase in the size of the original project.	First National City Bank of New York: $2.5 Bank of America N.T. and S.A.: $2.5 The Chase Manhattan Bank: $2.5 Irving Trust Company: $2.5 The First National Bank of Boston $1.2 total: $11.2 for up to 5.3/4 years, including 6 months grace after final delivery, at 5 percent interest. Air India: $6.2	Normal, separate loan documentation between Bank and Borrower and between U.S. commercial banks and Borrower with cross-conditions of effectiveness and default. A default under the Credit Agreement with the banks, any change in the Agreement without prior agreement of the Bank, or any failure to disburse the loans provided for in the Agreement were also stipulated as cases of default. Credit Agreement also conditional on IBRD making a loan on a "first in and last out" basis. No Memorandum of Understanding between Bank and other lenders Procurement largely negotiated, due to limited source of supply, otherwise normal Bank procedures with disbursement against separate list of goods, with other lenders following their own procedures of disbursement.
IBRD Loan: 272 JA Third Kawasaki Project December 20, 1960 (as amended April 24, 1967) $23.0 No foreign exchange component estimated, but nature of project indicates major portion to be foreign exchange costs. IBRD Loan: $6.0 for 15 years including 3 years grace at 5.3/4 percent interest.	Japan Development Bank (JDB) for onlending to Kawasaki Steel Corporation. Guarantor: Japan, but April 24, 1967 Amendment provided for JDB to assume full responsibilities as Borrower and Japan to be no longer obligated under the Guarantee Agreement of December 20, 1960. Joint financing envisaged from beginning of project as a result of (a) the successful experience of the JDB in financing the Miboro Power Project (IBRD Loan 220 JA) by the utilization of a Bank Loan and a Public Issue floated in the U.S. through the First Boston Corporation and (b) desire to strengthen the JDB to enable it to obtain its capital requirements on the World capital market.	U.S. Private Placement: $4.0 for 10 years including 3 years grace at 7.5 percent interest. U.S. Hanover Bank: $2.0 for 5 years including 1.1/2 years grace at 6.1/2 percent interest. Domestic mortgage debentures: $6.0 for 7 years including 2 year grace at 7.5 percent interest. Internal cash generation: $5.0	Normal, separate loan documentation between the Bank and Borrower and Guarantor and between the Kawasaki and private investors, including cross-conditions of effectiveness. Provisions for repayment of Bank loan if Kawasaki repays JDB. Subsidiary Loan Agreement between JDB and Kawasaki was also considered a condition of effectiveness of the Bank loan and any default under it would be a default under the Loan Agreement. This Agreement remained in effect under the Amendment of 1967. Bank procurement on the basis of international competitive bidding where imported equipment was competitive. Bank disbursement against separate list of goods for (a) 20% of the cost of expenditures retroactive to July 1, 1960, (b) 100% of the reasonable cost of imported goods made or to be made, and (c) amounts including local expenditures, which have been otherwise expended, or which are to be expended on the Project, in such currencies and at such times, as shall be agreed upon between the Bank and the Borrower. Disbursement by other co-lenders according to own procedures.
IBRD Loan 273 JA Second Sumitomo Project December 20, 1960 (as Amended December 20, 1967) $161.1 (Total Project) $47.3 (Bank Project) $9.8 (" ") IBRD Loan: $7.0 for 15 years including 3 years grace at 5.3/4 percent interest.	Japan Development Bank with onlending to Sumitomo Metal Industries Guarantor: Japan, but April 24, 1967 Amendment provided for JDB to assume full responsibilities as Borrower and Japan to be no longer obligated under the Guarantee Agreement of December 20, 1960. Origin of joint financing: See IBRD Loan 272 JA.	U.S. Private Placement: $5.8 for 14 years, including 3 years grace at 7.1/2 percent interest. Loan from Manufacturers Trust Co. of N.Y: $0.6 for 3 years at 6.1/2 percent interest Domestic Loans: $26.1 for 5 to 10 years including 1.1/2 years grace at 6.5 percent interest. Domestic mortgage debentures: $25.0 for 7 years including 2 years grace at 7.5 percent interest. Retained earnings and depreciation: $56.6 Old IBRD Loan: 201 JA $11.7 of initial $33.0 Share issue: $28.9 Total: $161.1	Documentation as for IBRD Loan 272 JA, except that Bank disbursement was solely for the foreign exchange cost of imported goods.

IBRD/IDA JOINT FINANCING OPERATIONS WITH FRENCH AGENCIES 1/
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 230 FR Manganese Project June 30, 1959 $81.9 No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs. IBRD Loan: $35.0 for 15 yrs., including 4 yr. grace at 6 percent interest for mine and washing plant, cableway, railroad, port and general services.	Compagnie Miniere de l'Ogooue (COMILOG) Guarantors: Republic of France Republic of Gabon Republic of Congo (Brazzaville) Joint financing a result of normal French operations in Congo and request by COMILOG to the Bank for additional financing of project.	Caisse Centrale de la France d'Outre-Mer: $7.1 for 30 yrs., including 6 yr. grace at 3 percent interest. Private Shareholders' Loans: $31.6 Share capital: $4.2 Cash generated by initial operations: $4.0	Normal, separate loan documentation between the Bank and Borrower/Guarantors, and between the Caisse Centrale and Borrower, including cross-conditions of effectiveness and default. Memorandum of Agreement between Caisse Centrale and the Bank providing for: a) exchange of information on disbursements made; b) agreement that the Caisse Centrale would waive its normal requirement of assignment of ore contracts as security on its loan until the Bank loan was completely repaid, except in the case of default; c) agreement to consult one another before declaring the Borrower in default; d) Bank agreement that accelerated repayment of annual installments of the Caisse Centrale loan under a clause allowing such prepayments in anticipation of an expected fall in the Borrower's turnover in the following twelve months without pro-rata prepayment of the Bank loan; e) agreement to consult one another with respect to the amount of working capital required by the Borrower with the object of reaching common agreement; f) agreement to consult one another before consenting to any act of the Borrower proposed under their respective loan Agreements. Procurement on the basis of international competitive bidding as far as practicable. Disbursement against separate lists of goods with Bank disbursement for foreign exchange costs of imported goods and services and limited to amounts equal to amounts received from COMILOG shareholders together with withdrawals theretofore made from the Loan Account from time to time by way of advances as provided for in the Loan Protocol. (cf. section 2.02 Bank Loan Agreement.)
IBRD Loan 249 MAU Iron Ore Project March 17, 1960 $151.3 No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs. IBRD Loan: $66.0 for 15 yrs., including 5¾ yr. grace at 6 percent interest for mine, railway and port.	Societe Anonyme des Mines de Fer de Mauritanie (MIFERMA) Guarantors: Republic of France The Islamic Republic of Mauritania Joint financing a result of MIFERMA request to the Bank for assistance in financing the project, and normal scope of French interest in the area.	Caisse Centrale de Cooperation Economique: $10.1 for 30 yrs., including 6 yr. grace at 3 percent interest. Share capital: $53.9 French Treasury Loan: $21.3 for 15 yrs., including 3 yr. grace at 8 percent interest.	Normal, separate loan documentation between the Bank and Borrower/Guarantors; between the Caisse Centrale/Borrower; between the French Treasury and the Borrower, including cross-conditions of effectiveness and default. Memorandum of Agreement between the Bank and Caisse Centrale as in IBRD Loan 230 FR. Procurement on the basis of international competitive bidding as far as practicable. Disbursement against separate lists of goods with Bank disbursement for foreign exchange costs of imported goods and services and limited to an amount equal to the aggregate amount received from time to time from paid-in shareholders' capital and drawings on the French Treasury Loan, together with withdrawals theretofore made from the Loan Account, and limited further to $65.0 until the French Treasury Loan was fully drawn down. (cf. section 2.02 Bank Loan Agreement.)
IBRD Loan 378 AL Liquified Gas Project May 14, 1964 $89.1 No foreign exchange component expressed, but by nature of project most costs were foreign exchange costs. IBRD Loan: $20.5 for 12 yrs., including 2 yr. grace at 5¾ percent interest.	Compagnie Algerienne du Methane Liquide (CAMEL) Guarantors: Republic of Algeria and several private interests. Joint financing a result of normal operations of French and international oil companies in the area and the project in particular, and request of the Borrower for assistance in financing the project.	Caisse d'Equipement pour le Développement de l'Algerie (CEDA): $8.1 for 15 yrs., including 3 yr. grace at 4 percent interest for first 5 yrs. and at 5¾ percent interest thereafter. Shareholders' Loans: $14.8 for 16 yrs. including 5 yr. grace at 6 percent interest and subordinate to Bank Loan and maintenance of working capital. Share Capital: $12.7 CEDA grant: $3.0 Other Medium Term Loans to be made to Borrower: $3.5 for 5 yrs. at 6 percent interest. No grace period. Repayment by Societe d'Exploitation des Hydrocarbures d'Hassi R'Mel (SEHR): $26.5 in accordance with terms of CAMEL/SEHR Protocol of March 8, 1962 for SEHR to finance one-third of the cost of facilities in exchange for CAMEL's agreement to supply SEHR with liquid natural gas amounting to approximately one-third of the plant's output. Several substantial shareholders' advances to offset Borrowers' losses.	Normal loan documentation between Bank and Borrower/Guarantors and between CEDA and Borrower, including cross conditions of effectiveness and default; also Shareholders' Guarantee Agreement; Supplementary Letters of Agreement and Assignment Agreement. Bank Loan Agreement also included: a) prepayment requirement in the event that net profits of the Borrower exceeded a certain percentage. (cf. Section 2.08 Bank Loan Agreement); b) security "for the due payment of the principal of, interest, premium, if any, on prepayment or redemption, and other charges on the Loan and the Bonds" in the form of an assignment (delegation) of any and all rights to and claims for payments from British Methane Limited which the Borrower now has or may hereafter acquire under the FOB Sale Contract. (Assignment Agreement referred to under Article 11 of the CEDA Agreement and Section 5.10 of the Bank Loan Agreement); c) requirement that at Bank's request, or if CEDA exercises its rights under Article 10 of its Agreement, the Borrower would furnish the Bank with a mortgage on the Borrower's movable and immovable property. (Section 5.12 of Bank Loan Agreement); d) as an additional event of default, a demand by CEDA for repayment in advance of maturity of its loan (Section 5.02(J)). The Assignment Agreement provided, amongst other things that the Shareholders' Guarantee Agreement would become operative if CEDA had made a demand for payment under its own assignment (Section 1.03).

Agreement between the Bank and CEDA provided for:
a) agreement on the arrangements required under the Assignment Agreement (see (b) above) between the Bank, CAMEL and British Methane Ltd. (Section 1.02);
b) agreement to consult each other with the object of reaching common agreement before consenting to action of the Borrower which would increase his indebtedness;
c) agreement to consult each other before taking any measure which may envoke the articles relating to default under their respective Agreements;
d) exchange of information related to prepayment under Section 2.08 of the Bank Loan Agreement.

Procurement on the basis of international competitive bidding to fullest extent practicable.

Disbursement against separate lists of goods with Bank disbursing pari passu with the CEDA loan for the foreign exchange costs of imported goods and services.

1/ Fonds d'Aide et de Cooperation (FAC); Caisse Centrale de Cooperation Economique (CCCE); Caisse d'Equipement pour le Developpement de l'Algerie (CEDA).

(iv) IBRD/IDA JOINT FINANCING OPERATIONS WITH FRENCH AGENCIES[1/]
(Millions US$ equivalent)

PE OF PROJECT REEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IDA Credit 126 CD Education Project August 29, 1968 $4.0 $3.45 IDA Credit: $1.8 repayable on normal IDA terms.	Republic of Chad Bank interest in joint financing arrangements in view of Chad's poor economic position and dependence of project on provision of technical assistance.	Fonds d'Aide et de Cooperation (FAC): Provided technical assistance in a grant equivalent to $1.65 Government contribution: $0.55	Normal IDA/Borrower documentation, no cross-conditions of effectiveness or default. No Memorandum of Understanding, but close cooperation with FAC for arrangements covering bilateral technical assistance. Normal Bank procurement and disbursement procedures.
IDA Credit 128 NIR Highway Maintenance Project September 23, 1968 $8.95 including $0.82 for feasibility and engineering studies. $6.26 IDA Credit: $6.12 repayable on normal IDA terms.	Republic of Niger Joint financing a result of Government request to FAC to cover gap in financing part of the cost of continuing technical assistance.	FAC grant: $0.14 for technical assistance. Government contribution: $2.96 plus $7.50 outside project to cover recurrent expenditure during four-year maintenance program.	Normal, separate IDA/Borrower and FAC/Borrower documentation as in IDA Credit 126 CD with only an informal understanding governing the FAC contribution. Normal Bank procurement and disbursement.
Proposed IDA Credit Hinvi Agricultural Development Project Under consideration. $9.6 $4.4 (foreign exchange component) IDA Credit: $4.6 repayable on normal terms, of which $1.8 for local costs.	Republic of Dahomey Joint financing resulted from cooperation of FAC and Bank in preparation of the project following Government request to both agencies for assistance. In view of the Government of Dahomey's reliance on French financed technical assistance and particularly to French financing of budget deficit, association with FAC was regarded as essential.	FAC grant: $4.6, of which $3.0 for local costs. In view of Dahomey's poor economic situation and chronic budget deficit, FAC is financing Government counterpart of $0.4 representing equivalent of taxes and duties paid on indirect imports.	Loan documentation not yet available, but will presumably be normal separate agreements between IDA and Borrower and between FAC and Borrower, including cross-conditions of effectiveness and default. A Draft Memorandum of Understanding between IDA and FAC provided for each party to: 1- keep the other currently informed on the progress of work; exchange views from time to time, and at least every six months, keep the other informed of aggregate amounts disbursed under their respective agreements; 2- exchange information with respect to parts of the project which are each lender's particular concern relating to the placing of contracts, orders for works and materials, etc.; 3- forward to the other lender summary information concerning "applications received for disbursements on a percentage basis," and inform the other lender of any event which would prevent such disbursement within agreed periods; 4- carry out its own separate supervision, with agreement to inform the other lender beforehand of any scheduled mission; afford the other opportunity to participate therein, and exchange views on the results of such inspections; inform the other of any event liable to threaten carrying out of the project; 5- consult each other, to the extent possible, prior to: a) demanding prepayment; b) taking any action which may result in suspension, cancellation, termination; c) making amendments to each respective agreement; d) agreeing to changes in the project, with the object of finding a jointly suitable solution; 6- advise the other before giving individual consent to any request of the Government under their respective agreements. Normal Bank procurement and disbursement for 100 percent of cost of all directly imported goods and equipment. Local and franc zone purchases of imported goods to be entirely financed by FAC. Joint percentage disbursement against common list of goods for all remaining items to be procured under normal Bank procedures.
Proposed IBRD Loan Cameroon Oil Palm Project Under consideration $14.1 $ 7.8 IBRD Loan: $7.9 for 30 yrs., including 10 yr. grace at 6½ percent interest.	Société des Palmeraies de Mbongo et d'Eseka (SOPAME) Guarantor: Republic of Cameroon Joint financing a result of Government request to Bank, FAC and Caisse Centrale for assistance in financing foreign and local costs of project. Project prepared under joint guidance of Bank and FAC on basis of FAC-financed feasibility study.	FAC grant: $1.8 to Government. Caisse Centrale Loan: $1.8 proposed for 21 yrs., including 9 yr. grace at an average of 4% interest to SOPAME, the executing agency of the project. Government contribution: $2.6	Normal, separate draft loan documentation between the Bank and the Borrower/Guarantor, including cross-conditions of effectiveness and default. Memorandum of Understanding between the Bank, Caisse Centrale and FAC and draft document follows pattern adapted from the Dahomey Oil Palm project. Bank procurement and disbursement for 100 percent of cost of all directly imported goods and equipment will be in accordance with normal Bank guidelines, with the exception of one oil mill, the costs of which are to be financed entirely from French funds on the basis of competitive bidding restricted to the franc zone. Joint percentage disbursement against a common list of goods for all remaining goods and services procured locally. (cf. Sec. 2.03 of draft Loan Agreement.)
Proposed IDA Credit Telecommunications Project Under consideration 2 8 IDA Credit: $0.8 on normal IDA terms.	Republic of Upper Volta No joint financing but FAC expected to provide ongoing technical assistance.	FAC grant: $0.122 Government contribution: $0.63	Normal, separate documentation expected, with informal assurances from FAC concerning the continuation of their on-going technical assistance. Procurement is expected to be on the basis of international competitive bidding wherever warranted. Disbursement expected to follow normal Bank procedures.

1/ Fonds d'Aide et de Cooperation (FAC); Caisse Centrale de Cooperation Economique (CCCE); Caisse d'Equipement pour le Developpement de l'Algerie (CEDA).

IBRD/IDA JOINT FINANCING OPERATIONS WITH FRENCH AGENCIES[1/]
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
Proposed IBRD Loan/IDA Credit Agricultural Credit Project in Senegal Awaiting signature. $24.15 $ 7.0 IBRD Loan: $3.5 for 30 yrs., including 10 yr. grace at the current rate of interest when the Loan is drawn down. Bank Loan not to be drawn down until IDA Credit is fully drawn or committed. IDA Credit: $6.0 on normal IDA terms.	Republic of Senegal Present project does not involve joint financing. Original Government request was for IDA assistance in financing the continuation of a five-year groundnut and millet improvement program involving a costly form of external technical assistance. Project was begun with the assistance of the European Economic Community (FED), and was later financed, on an interim basis, by the CCCE. Bank appraisal missions have assisted in streamlining and redefining the Bank project by separating certain elements for independent financing by CCCE and FED.	Government contribution: $2.72 and on-lending of proceeds of loan/credit to BNDS for 14 yrs., including 4 yr. grace at 3½ percent interest. Banc Nationale de Developpement du Senegal (BNDS): $8.0 of its own resources and on-lending of proceeds of loan/credit received from the Government. BNDS on-lending through cooperatives to farmers expected to be at 5½ to 8 percent interest over various time periods from 1 to 5 yrs., with no grace period. Farmers: $3.88	Normal Bank/IDA documentation. Normal Bank/IDA procurement and disbursement procedures expected. For additional joint financing operations with France see also under: "IBRD/IDA Joint Financing Operations with Two or More Co-Lenders:" IBRD Loan 548 PAK, 568 TU, and proposed Oil Palm Project in Ivory Coast.

1/ Fonds d'Aide et de Coopération (FAC); Caisse Centrale de Coopération Economique (CCCE); Caisse d'Equipement pour le Développement de l'Algérie (CEDA).

IBRD/IDA JOINT FINANCING OPERATIONS WITH GERMANY 1/
(Millions US$ equivalent)

... PROJECT ...MENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENT METHOD OF PROCUREMENT
IBRD Loan 2?4 SU IDA Credit 2 SU June 14, 1961 $178.2 $96.0 IBRD Loan: $19.5 for 25 years including 7 years grace at 5-3/4 percent interest. IDA Credit: $13.0 on normal IDA terms.	Republic of Sudan Joint financing a result of Government request to the Bank to examine the technical and economic aspects of the project as early as 1958, and subsequent Bank initiative to obtain additional financing of the project from countries interested in the development of the Sudan.	Germany (KfW): $18.4 (untied) for 25 years including 7 years grace at 4-3/4 percent interest. Government contribution: $127.3	Normal, separate loan documentation between the Bank and IDA and Borrower and between KfW and Borrower, including cross-conditions of effectiveness and default. Administration agreement between the Bank/IDA, KfW and Borrower which provided for: (a) methods and procedures of procurement to be determined by the Borrower and the Bank (2.02) with the concurrence of the Association and KfW; (b) the withdrawal from funds provided in all three lending Agreements to be made on application of the Borrower (for reimbursement) to the Bank, which would apportion the amount so requested: 35% IBRD 30% IDA 35% KfW

(c) approval of disbursement under the Bank Agreement to be notified to the other lenders, which would then disburse their respective portion according to their respective agreements;

(d) each lender to retain their independent rights of decision and action under their respective Agreement, but the lenders agreed to close collaboration in matters relating to the execution, administration and supervision of the project.

Memorandum of Understanding between the Bank/IDA and KfW regarding Section 7.10 of the Administration Agreement provided that in "special circumstances, upon the request of Sudan, and upon such terms and conditions (including special commitment charges or other special charges, if any) as shall be agreed upon by the Parties hereto, the Bank may enter into special commitments, for the respective accounts of itself, Kreditanstalt and the Association, to pay amounts to Sudan or others in respect of the cost of goods notwithstanding any subsequent suspension or cancellation of any of the Agreements".

Procurement and disbursement according to normal Bank/IDA procedures.

IBRD Loan 370 TH Industrial Finance Corporation of Thailand (IFCT) Project March 11, 1964 Foreign exchange cost not available since objective of project was to raise resources of IFCT from $3.2 to $9.5 ...oan: $2.5 ...lation $1.455 $1.045 for a maximum of 15 years with grace periods and interest rates determined at time the loan was credited for qualifying sub-projects	Industrial Finance Corporation of Thailand Guarantor: Kingdom of Thailand Joint financing arose from the fact that Germany had already signed a loan agreement, December 20, 1963 for the same project.	KfW: Loan dated December 20, 1963 for DM 11.0 million (equivalent) $2.75 for 15 years, grace period not known, at 5% interest. Domestic and foreign (U.S., Germany, Japan, U.K.) shareholders: $0.9 increased by $0.6 million to $1.5 million equivalent as a result of operation.	Normal, separate loan documentation between Bank and Borrower/Guarantor and between the KfW and Borrower, with no cross-conditions of effectiveness or default. No Memorandum of Understanding between the Bank and KfW, but informal agreement to work together as closely as possible. IFCT has recorded understanding that it will use its best efforts to draw down both loans at the same rate. Normal Bank procurement and disbursement procedures.
IDA Credit 68 AF Education Project November 23, 1964 $5.0 $2.35 IDA Credit: $3.5 on normal IDA terms.	Kingdom of Afghanistan Joint financing arose from UNESCO participation in appraisal mission and Germany's existing interest in providing technical assistance to Afghanistan.	UNICEF/UNESCO technical assistance in the equivalent of $0.9 KfW grant: $1.8	Normal Credit documentation between the Bank and Borrower, including requirement that arrangements satisfactory to the Association be made for UNICEF/UNESCO and German grants, before Credit became effective. No Memorandum of Understanding between IDA and UNICEF/UNESCO or Germany, but close informal cooperation during appraisal and administration of project. Procurement on the basis of international competitive bidding where possible.

Disbursement will be for 100% of the foreign exchange cost of goods and services for the project; with the "equivalent of a percentage or percentages to be established from time to time by agreement between the Borrower and the Association of such amounts as shall have been expended for the reasonable cost of goods required for carrying out Part B of the Project;" (school construction).

The IDA Agreement amended Credit Regulation 1, dated June 1, 1961, section 3.01 so that withdrawals from the Credit Account could be made "on account of expenditures in currency of the Borrower or for goods produced in (including services supplied from) the territories of the Borrower, in such currency or currencies as the Association shall from time to time reasonably select".

1/ Kreditanstalt für Wiederaufbau (KfW).

(vi) IBRD/IDA JOINT FINANCING OPERATIONS WITH SWEDEN
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IDA Credit 83 PAK Foodgrain Storage Project February 10, 1966 $39.0 $24.0 IDA Credit: $19.2 on normal IDA terms.	Islamic Republic of Pakistan Joint financing a result of Swedish interest and initiative in promoting joint financing and utilizing Bank/IDA appraisal services. (At IDA initiative, a pending extension of this project involving an additional silo is to be financed by Sweden, thus increasing total cost and Sweden's percentage share in total financing.)	Sweden: $4.8 (untied) for 20 yrs. including 5 yr. grace at 2 percent interest. Sweden to provide foreign exchange financing only. Government: $15.0 in local currency, plus proceeds of Credits to be relent to the Province of East Pakistan on IDA terms.	Normal Loan/Credit documentation between IDA and Borrower and Sweden and Borrower with cross-conditions of effectiveness and default. Procurement on the basis of competitive bidding with percentage disbursement against a joint list of goods. Administration Agreement between IDA/Sweden/Borrower which provided for: a) methods and procedures of procurement to be determined by the Borrower and the Association (2.02), with concurrence of Sweden (2.04); b) the withdrawal from funds provided in both Credit Agreements to be made on application of the Borrower for reimbursement to the Association which would apportion the amount so requested: 80% IDA 20% Sweden. c) approval of disbursement under the IDA Credit to be notified to the Sveriges Riksbank, agent for Sweden, which would then disburse its portion according to the Swedish Credit Agreement; d) each lender to retain its respective independent rights of decision and action under its respective Agreement, but the lenders agreed to close collaboration in matters relating to the execution and administration of the Project; IDA leadership in administration and supervision of the project was recognized by Sweden.
IDA Credit 106 PAK Lahore Water Supply, Sewerage and Drainage Project May 12, 1967 $5.8 $2.6 IDA Credit: $1.75 on normal IDA terms.	Islamic Republic of Pakistan Swedish interest and initiative in promoting joint financing, but within the framework of Bank/Swedish exchanges on project possibilities.	Sweden: $1.75 (untied) for 20 yrs. including 5 yr. grace at 2 percent interest. Government of Islamic Republic of Pakistan: Proceeds of IDA/Swedish Credits to be relent to the Province of West Pakistan on terms similar to those specified in the IDA and Swedish Agreements respectively, except that repayment to the Government by the Province was to be in rupees. Further relending of the proceeds of the IDA/Swedish Credits by the Province to the Lahore Improvement Trust (LIT) for 25 yrs. including 5½ year grace at 3½ percent interest. Province of West Pakistan to provide the balance of local currency financing: $2.3 equiv.	Documentation same as for IDA Credit 83 PAK except: a) Administration Letter between IDA/Sweden replaced the more formal three-party Administration Agreement; b) Supplementary Letter between the Borrower and Sweden authorizing the Association to act on behalf of Sweden with respect to supplementary agreements or arrangements regarding the joint list of goods for the project, the share of the Swedish contribution, and withdrawal procedures; c) percentage disbursement: 50% IDA 50% Sweden d) disbursement provisions in IDA/Swedish Credit Agreements provided for an agreed amount of local currency expenditure to be disbursed according to the percentages: 25% IDA 25% Sweden
IBRD Loan 523 ET IDA Credit 111 ET Fourth Highway Project January 15, 1968 $38.4 $27.0 IBRD Loan: $13.5 for 24 yrs. including 4½ yr. grace at 6¼ percent interest. IDA Credit: $7.7 on normal IDA terms.	Empire of Ethiopia Swedish interest and initiative in promoting joint financing, but within the framework of Bank/Swedish exchanges on project possibilities.	Sweden: $5.8 (untied) on normal IDA terms. Government of Ethiopia: $11.4 local currency financing.	Documentation same as for IDA Credit 106 PAK except for: Percentage disbursement: Parts A and B / Parts C and D 35.0% IBRD 50.0% 20.0% IDA 28.5% 15.0% Sweden 21.5%
IDA Credit 117 PAK Second Agricultural Development Bank (ADB) Project June 13, 1968 $18.0 $15.0 IDA Credit: $10.0 on normal IDA terms.	Islamic Republic of Pakistan Original appraisal of Project justified a larger credit, but problems of IDA replenishment precluded this. IDA sought additional foreign currency financing within the framework of Bank/Swedish exchanges on project possibilities.	Sweden: $5.0 (untied) on normal IDA terms. Government of Pakistan: Proceeds of Credits to ADB for 20 yrs. including 5 yr. grace at 4 percent interest. ADB: Further relending of proceeds of Credits to agriculturalists for 18 months or longer at 7 percent interest, plus: $3.0 in local currency from its own resources.	Documentation same as for IDA Credit 106 PAK except for: Percentage disbursement: 66.2/3% IDA 33.1/3% Sweden
IDA Credit 129 KE Livestock Development Project September 26, 1968 $11.4 $ 4.4 IDA Credit: $3.6 on normal IDA terms	Republic of Kenya Swedish interest and initiative in promoting joint financing and utilizing Bank/IDA appraisal services, but within the framework of Bank/Swedish exchanges on project possibilities.	Sweden: $3.6 (untied) on normal IDA terms. Government of Kenya: Proceeds of Credits to be relent to the Agricultural Finance Corporation (AFC) in local currency for 18 yrs. including 5 yr. grace at 3 percent interest plus $3.6 from its own resources. AFC: Proceeds of all loans to be relent to participating ranch enterprises for 12 years, including 4 yr. grace at a minimum 7½ percent interest. Ranching enterprises: $0.6 in local currency for their own resources.	Documentation same as for IDA Credit 106 PAK except for a) procurement of equipment and supplies from proceeds of Credits to be through ordinary commercial channels. (The Government agreed to notify IDA of any changes in the competitive situation among suppliers in Kenya. The Borrower was to utilize its normal competitive bidding procedures for allocating civil works contracts to be financed under the project.) b) Ranch development. long-term loans and working capital IDA [illegible] Swe" technical services IDA 30% " Livestock movement IDA 30% " Range survey and development IDA 30% " Ancilliary technical services IDA 50% " [illegible]

Millions of US$ equivalent

---- OF PROJECT GMENT DATE L COST [GN] EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan Tunisia Water Supply Project Negotiations completed, but no formal agreement on terms. $33.2 $17.1 Proposed IBRD Loan: $15.0 For 25 yrs. including 5½ yr. grace at 6¼ percent interest.	Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) Guarantor: Republic of Tunisia The Government of Tunisia approached the Government of Sweden and the Bank as early as 1966 with a request for local and foreign currency financing for a major water development program.	Sweden: Proposed $5.0 (untied) on IDA terms. Sweden would lend directly to the Republic of Tunisia for on-lending to SONEDE on IDA terms. SONEDE: To provide balance of local currency expenditure: $13.2	Documentation (draft) same as for IDA Credit 106 PAK except: a) procurement on the basis of international competitive bidding with 15% preference for locally produced goods, or an amount equal to the actual customs duties paid, whichever is lower; b) Percentage disbursement: 75% IBRD 25% Sweden
Proposed IDA Credit and IBRD Loan Tanzania Second Highway Project (Iyayi-Morogoro section of Tan-Zam Highway) Currently under consideration. $30.0 $25.8 Financing still under consideration, but project appears suitable for external financing up to 80% of total cost, i.e., $30.0. Due to IDA replenishment problems, proposed IDA credit limited to $8.0 with Bank loan of $7.0.	Republic of Tanzania Sweden expressed "keen interest in participating in financing this project jointly with IDA" during the normal exchanges of Bank/Sweden project possibilities as early as March 1968, and before the replenishment problem became acute, but due to this problem IDA also sought additional foreign and local currency financing.	Sweden: Proposed $7.5 (untied) on IDA terms, plus a "supplementary interim contribution" of up to $7.5 subject to IDA Executive Directors' approval in principle of IDA refinancing Swedish supplementary credit to Tanzania if and when IDA replenishment is achieved. Government of Tanzania: $8.0.	No documentation yet available, but likely to follow normal procedures noted in IDA Credit 106 PAK. Executive Directors approved in principle of proposal for refinancing which will be requested in the President's Report.
Proposed IBRD Loan Ethiopia Fourth Telecommunications Project Ready for Loan Committee consideration $25.0 $16.0 Proposed IBRD Loan: $4.5 [illegible] yrs. including 4 yrs. at 6½ percent interest.	Imperial Board of Telecommunications of Ethiopia (IBTE) Guarantor: Empire of Ethiopia Joint financing result of request of Government and expressed interest by Sweden during normal discussions with IDA on project possibilities.	Sweden: Proposed Credit of $4.5 for 25 yrs. including 10 yr. grace at 2 percent interest. (Untied) IBTE: $2.84 from proceeds of Bank Loan 441 ET, plus balance of financing required: $13.16, including local currency component of $9.0. IBTE proposes to finance $1.1 of the $13.16 with a supplier's credit at 6.5% repayable over 8 years with no grace period.	Documentation not yet available. Project represents a part of the sector program. List of goods will presumably identify parts of the program to be included in the project, for which the foreign exchange component would be financed by Sweden, 50%, and the Bank, 50%. The Borrower preferred that the remainder of the project should not be subject to international competitive bidding in order to save time and to benefit from standardization.

(vii) IBRD/IDA JOINT FINANCING OPERATIONS WITH THE UNITED KINGDOM AND ITS LENDING AGENCIES[1/]
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 145 RN Kariba Project June 21, 1956 Total Cost of entire Kariba Program: $322.0 Total Cost (Bank Project: Dam, Power plant, transmission lines) $226.0 Foreign exchange component not specified, but Bank Loan to be used for financing only foreign exchange costs. IBRD Loan: $80.0 for 25 yrs., including 6 yr. grace at 5 percent interest.	Original Borrower: Federal Power Board (FPB). Guarantor: The United Kingdom until 1964, the Federation of Rhodesia and Nyasaland. Borrower under the Loan Assumption Agreement dated December 30, 1963: the Central African Power Corporation (CAPC). After 1st January 1964 additonal guarantors: The Territory of Northern Rhodesia; The Colony of Southern Rhodesia; Joint financing a result of requests by the U.K. and the Government of the Federation for assistance in financing the project.	CDC: $42.0 (untied) for [illegible] yrs. for each tranche, dating from March 25 of the year the installment was advanced, including o yr. grace at interest rates averaging 7 percent per annum. CDFC: $8.4 (untied) for 25 yrs., including 6 yr. grace at 6 percent interest. Various Copper Mining Interests: $56.0 to the Government for 28 yrs., including 1 yr. grace at 4½ percent interest. British South Africa Company (BSA): $11.2 to the Government in four tranches for 20 yrs. from date each tranche (with no grace period) was received by the FPB (CAPC) at 5 percent interest. Two private banks: Barklay's D.C.O. and Standard Bank of South Africa: $5.6 each to Government for 25 yrs., including 5 yr. grace at 5 percent interest with grace period beginning from time last installment of each loan paid out individually. Government contribution: $12.3 for approximately 20 yrs. with varying grace periods from 0 to 12 yrs. at an average of 5 percent interest. Government on-lent to FPB proceeds of loans from the copper interests, the BSA, the private banks and its own contribution on the same terms it received, except that in the case of the loan from the copper interests, repayment from FPB included a 5 yr. grace period. Balance of $4.9 was to be obtained from internal cash generation.	Normal, separate loan documentation between Bank and Borrower/Guarantors and between Borrower and other co-lenders. Bank Loan Agreement was made [illegible]ingent upon all other financing arrangements. No Memorandum of Understanding between the Bank and the co-lenders. Loan Assumption Agreement between the Bank, the CAPC and the U.K. which: a) recognized the transfer of obligations of the FPB under the Loan Agreement of 1956, to the CAPC; b) provided for the addition of the two new Guarantors; c) added cross-conditions of default for the Guarantee Agreements. Procurement was on the basis of international competitive bidding. Bank procurement and disbursement against separate list goods for the foreign exchange costs of goods and services for the Bank project. Disbursement of other co-lenders followed their own respective procedures.
IBRD Loan 210 MA Cameron Highland Project September 22, 1958 $51.2 $35.6 IBRD loan: $35.6 for 25 yrs., including 5 yr. grace at 5.3/4 percent interest, for Stage I of Cameron Highlands Scheme.	Central Electricity Board (CEB) of the Federation of Malaysia. Guarantor: Federation of Malaysia. Joint financing a result of Government request for assistance in financing the foreign exchange component of the project and normal CDC and CDFC operations in Malaysia.	Colonial Development Finance Company, Ltd.: $1.4 for 20 yrs., including 10 yr. grace at 6.3/4 percent interest. Government Loans to CEB: $12.7 for 40 yrs. at 5½ percent interest. No grace period. CEB contribution from earnings: $1.5 Bank required that CEB make firm arrangements for financing capital works of program not in project before negotiations were to begin. Subsequently, with Bank representatives present, CEB/CDC/CDFC agreed in London in 1958: a) that CDC would release immediately the charges it had on the assets of CEB to secure outstanding debentures due in 1960 and 1963 totalling $19.82 in exchange for a Government Guarantee and; b) that CDC would make a fresh loan to CEB upon the CEB redeeming the debentures, in the same amount over 25 years at 6½ percent interest.	Normal, separate loan documentation between Bank and Borrower/Guarantor, between CDFC and Borrower and between CDC and Borrower/Guarantor, including cross-conditions of effectiveness and default. No Memorandum of Understanding, but close cooperation with CDFC and CDC throughout negotiation and administration of project. Normal Bank procurement and disbursement procedures [illegible] a separate list of goods for foreign exchange costs [illegible] Stage I of Cameron Highlands Project. Procurement and disbursement of co-lenders according to their own procedures.
IBRD Loan 303 KE Lands Settlement and Development Project. November 29, 1961 Original Project (1961) $24.5 $ 8.4 IBRD Loan (1961): $8.4 for 20 yrs. including 4 yr. grace at various interest rates to be notified to the Borrower as loan drawn down. Revised Project (1964) $16.0 $ 4.6 IBRD Supplemental Agreement (1964) to original Loan Agreement: $8.4 cancellation: $3.8 Actual Loan: $4.6 for 17 yrs., including 4 yr. grace at various interest rates to be notified to Borrower as loan drawn down.	Initial Borrower: Colony and Protectorate of Kenya. Guarantor: United Kingdom Final Borrower under Supplemental Agreement: Kenya Guarantor: United Kingdom Joint financing a result of request by the U.K. and the Government to the CDC and the Bank for assistance in financing the project.	Original financing arrangements (1961) U.K. Exchequer Loan: $6.5 (untied) for 30 yrs., including 1 yr. grace at 6½ percent interest. CDC Loan: $4.2 (untied) for 25 yrs., including 5 yr. grace at an interest rate between 7 and 8 percent. CDWF Grant: $3.95 Overdraft by the Land Development and Settlement Board, the executing agency, for $0.504. Financing gap of $1.0 expected to be covered by farmers' repayments of loans. Financing under Supplemental Agreement (1964) U.K. Exchequer Loan: $3.7 (untied) for 30 yrs., including 1 yr. grace at 6½ percent interest. CDC Loan: $2.3 (untied) for 15 yrs., including 4 yr. grace at an interest rate between 7 and 8 percent. CDWF Grant: $4.37 Overdraft deleted with dissolution of Land Development Board. Financing gap of $1.0 to be provided by the Government of Kenya.	Normal, separate loan documentation between the Bank and Borrower, the CDC and Borrower, and the CDWF and Borrower, including cross-conditions of effectiveness. Supplemental Agreement dated April [illegible], 1964 between the Bank, the Borrower and the U.K., provided for the change of Government in Kenya (formerly the Colony and Protectorate of Kenya) and the change in project, and project costs. Under the Supplemental Agreement, the Bank contribution remained $8.4, even though only $4.6 was expected to be withdrawn under the revised project. The remaining $[illegible] was left for possible financing of additional qualifying sub-projects, but was subsequently cancelled. No Memorandum of Understanding, but close cooperation between co-lenders during appraisal, negotiations and administration of project. Procurement on the basis of international competitive bidding where possible. Bank procurement and disbursement against a list of goods for sub-projects jointly approved by the Bank and CDC in the field sector of the over-all program with disbursement on a percentage basis: 66.2/3% IBRD 33.1/3% CDC Remainder of project roads, land purchases, buildings financed by the Government and long term loan funds from U.K.

1/ (Colonial) Commonwealth Development Corporation (CDC); (Colonial) Commonwealth Development Finance Company, Ltd. (CDFC); Colonial Development and Welfare Fund (CDWF); Exchequer, and U.K. Export Credit Guarantee Department. For convenience, operations involving participation of British commercial banks are included under this heading.

IBRD/IDA JOINT FINANCING OPERATIONS WITH THE UNITED KINGDOM AND ITS LENDING AGENCIES 1/
(Millions US$ equivalent)

<table>
<tr>
<th>TITLE OF PROJECT
AGREEMENT DATE
TOTAL COST
FOREIGN EXCHANGE COMPONENT
BANK/IDA - LOAN/CREDIT</th>
<th>BORROWER
GUARANTOR
ORIGIN OF JOINT FINANCING</th>
<th>JOINT LOAN TERMS AND CONDITIONS
AND OTHER FINANCING ARRANGEMENTS</th>
<th>SPECIAL PROVISIONS IN LOAN/CREDIT
DOCUMENTATION
INTER-AGENCY AGREEMENTS
METHOD OF PROCUREMENT</th>
</tr>
<tr>
<td>IBRD Loan 335 CY
Power Project

April 17, 1963

$30.0
$24.8

IBRD Loan: $21.0 for 20 yrs., including 4 yr. grace at 5½ percent interest, but subject to cancellation depending on how much of U.K. Credit was utilized. Cancellation amounted to $5.732, due mainly to readjustment and savings on project.</td>
<td>Electricity Authority of Cyprus (EAC)

Guarantor: Republic of Cyprus

Joint financing a result of Government request for assistance in financing part of the foreign exchange component of the project.</td>
<td>U.K. Export Credit Guarantee Department: $5.6 (tied), for 20 yrs., including 5 yr. grace, however, U.K. financing was dependent on the results of international competitive bidding and on the rate of interest on U.K. funds being less than interest on Bank Loan Funds. Thus, only $0.549 was drawn down at about 5.5 percent interest.

EAC Contribution: $9.1, including locally arranged loan for $4.2 for 20 yrs., including 3 yr. grace at 6.3/8 percent interest.</td>
<td>Normal, separate loan documentation between the Bank and Borrower/Guarantor and between the U.K. and Borrower. No cross-conditions of effectiveness or default, but Bank Loan Agreement effectiveness contingent upon Borrower making arrangements satisfactory to the Bank for financing the remainder of the costs of project.

No Memorandum of Understanding between the Bank and the U.K.

Bank procurement and disbursement according to normal procedures.</td>
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<tr>
<td>IDA Credit 64 KE
Kenya Tea Development Project

August 17, 1964

$8.96 (includes field sector and factory sector)
$2.84

IDA Credit: $2.8 on normal IDA terms, to finance both foreign and local currency costs in the field sector of the project.</td>
<td>Republic of Kenya

Joint financing a result of Government request for IDA assistance in financing foreign and local costs of second stage of tea development project begun with the assistance of CDC and Kreditanstalt fuer Wiederaufbau (KfW) in the late 1950's.</td>
<td>CDC: $2.52, of which $1.96 for the first stage of the project for 15 yrs., including 10 yr. grace at between 7 and 7½ percent, except that the first installment was to be repaid over 15 yrs., including 11 yr. grace; and $0.56 for second stage (Bank project) for 16 yrs., including 8 yr. grace at between 7 and 7½ percent.

Commercial loans and equity capital to Kenya Tea Development Authority (KTDA), the Government executing agency, for the factory sector totalling: $1.34. Commercial loans were for 18 yrs., including 5 yr. grace at 8 percent interest.

Miscellaneous Government Loans to KTDA: $0.854 total, of which $0.59 was from proceeds of German loan (KfW) to Government for 15 yrs., including 5 yr. grace at 4½ percent interest and relent to KTDA over the same period, but at 4.5/8 percent interest. In addition, the Government also relent the proceeds of the IDA Credit to KTDA for 16 yrs., including 8 yr. grace at 5½ percent interest.

KTDA contribution: $0.144</td>
<td>Normal, separate loan documentation between IDA and Borrower, CDC and Borrower and between KfW and Borrower, including cross-conditions of effectiveness and default.

IDA Agreement also required as condition of effectiveness a Subsidiary Loan Agreement between the CDC/Borrower and KTDA, and normal Project Agreement between IDA and KTDA.

No Memorandum of Understanding, but close cooperation and exchange of information between lending agencies during appraisal, negotiations and administration of project.

Procurement on the basis of international competitive bidding where possible.

IDA disbursement against notification of expenses made in field sector for foreign and local currency expenditure with the following limitations (section 2.03 IDA Credit Agreement):
a) withdrawals shall be limited to the lesser of (i) that portion of the excess of KTDA's payments over its receipts in respect of the field sector of the Program which is not financed by CDC or (ii) the equivalent of specific amounts noted in section 2.03 through June 30, 1965-68;
b) no withdrawals shall be made on account of expenditures incurred prior to July 1, 1964;
c) no withdrawals shall be made unless by the time of such withdrawal KTDA has drawn a total of $0.420 of the loan from CDC referred to in Recital C of the IDA Credit Agreement plus $0.112 of such loan for each completed three month period subsequent to June 30, 1964.</td>
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<tr>
<td rowspan="2">IDA Credit 109 UG
Uganda Tea Growers Corporation Project

September 15, 1967

Total Cost (entire tea development program): $11.4, including field and approximate cost of factory sector

Total Cost (Bank Project):
$6.4 (Field sector)
$1.2 (foreign exchange component)

IDA Credit: $3.4 repayable on normal IDA terms.</td>
<td>Republic of Uganda

Joint financing a result of Government request to CDC and Bank for additional financing of Tea Development Program along lines similar to those in Kenya (cf. IDA credit 64 KE). Bank appraisal based on earlier study by CDC updated by Bank mission.</td>
<td>Government contribution: $2.2 inclusive of smallholders' contribution and UTGC for 20 years., including 6 yr. grace at 5 percent interest. ($0.8 balance of IDA credit to be used by Government to pay for technical staff it was to provide to UTGC).</td>
<td>CDC: Loan to UTGC of $0.84 for 20 yrs. including 6 yr. grace at 1½ percent interest for the first 7 years and approx. 8 percent interest thereafter. For the factory sector which is not financed by IDA, CDC expressed willingness to contribute up to a maximum of $2.5 towards half the cost of the factories as and when required, the other half coming from the Government.

Loan documentation as for IDA Credit 64 KE, including cross-conditions of effectiveness and default.</td>
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<tr>
<td colspan="3">IDA disbursement up to $2.6 against simultaneous notification to IDA and CDC of expenses made in the field sector of project for foreign and local expenditure for amount equivalent to 75% of such amounts as shall have been expended by UTGC less the revenues of UTGC during the period of such expenditures. CDC would simultaneously disburse 25% of net expenditures of UTGC as computed above.

IDA disbursement of up to $0.8 in amounts equivalent to 80% of such amounts as shall have been expended by the Government on staff for Part B of Bank project. (cf. section 2.03 IDA Credit Agreement and Schedule annexed thereto.)</td>
</tr>
<tr>
<td>IDA Credit 130 UG
Beef Ranching Development Project

October 5, 1968

$5.1
$3.0

IDA Credit: $3.0 on normal IDA terms.</td>
<td>Republic of Uganda

Joint financing a result of Government request for assistance in financing project and Bank's efforts to broaden the project to include the commercial sector and additional sources of financing.</td>
<td>Commercial Banks 2/: $0.948 loans to ranchers and ranching enterprises directly for 10 to 12 yrs., including 3 to 4 yr. grace at 8 to 8½ percent interest

Ranchers: $0.947

Government contribution: $0.190 and on-lending of $2.8 of IDA Credit proceeds to UCB (Uganda Commercial Bank) for 10 to 12 yrs., including 3 to 4 yr. grace at 6 to 6½ percent interest. Balance of $0.2 of IDA Credit to be retained for technical assistance provided by Government.</td>
<td>Normal, separate loan/credit documentation, between IDA and Borrower and between the Uganda Commercial Bank (UCB) and Borrower with Project Agreement and Subsidiary Loan Agreement. The Project Agreement provided for Administration Agreements between the UCB and the Participating Banks. (cf. section 2.02(b))

No Memorandum of Understanding between IDA and the Commercial Banks.

Procurement on the basis of international competitive bidding where possible; otherwise local purchasing on competitive basis.

IDA disbursement on a percentage basis, i.e., "75 percent of such amounts as shall have been disbursed by the UCB or by the Participating Banks under the ranch development loans described in part A of Schedule to this Agreement," and for "the reasonable foreign exchange costs of goods required to carry out part B of the Project." (cf. section 2.03 IDA Credit Agreement.)</td>
</tr>
</table>

olonial) Commonwealth Development Corporation (CDC); (Colonial) Commonwealth Development Finance Company, Ltd. (CDFC); Colonial Development and Welfare Fund (CDWF); Exchequer, and U.K. Export Credit Guarantee Department. For convenience, operations involving participation of British commercial banks are included under this heading.

2/ These banks are at present Barclay's D.C.O., National and Grindlay's Bank and Standard Bank Ltd., along with their respective development corporations. These financing arrangements were devised during negotiations when it was determined that the Government could not on-lend the proceeds of the IDA Credit to any financial institution that was not an "approved body" under the External Loans Act. Under the agreed arrangement, UCB would lend directly to ranchers on its own account and to ranchers and ranching enterprises through other participating commercial banks which would act as its agents.

IBRD/IDA JOINT FINANCING OPERATIONS WITH THE UNITED KINGDOM AND ITS LENDING AGENCIES[1/]
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 563 ZA Second Highway Project October 5, 1968 $17.0 (including $2.4 already expended prior to March 1, 1968) $10.7 IBRD Loan: $10.7 for 20 yrs., including 2 yr. grace at 6¼ percent interest.	Republic of Zambia Joint financing of successive stages, with U.K. financing expenditures up to March 1, 1968 from a grant of $2.2.	U.K. grant: $2.2 already expended. Government contribution: $4.1, including $0.2 already expended prior to March 1, 1968.	Normal, separate loan documentation between Bank and Borrower. No Memorandum of Understanding. Normal Bank procurement procedures with disbursement up to 70 percent of project costs, representing the estimated foreign exchange component. Retroactive financing to February 1, 1968 was provided in the Loan Agreement (Section 2.03), except that no withdrawals were to be made on account of initial expenditures on the project amounting to the equivalent of $2.2. For additional joint financing arrangements with the U.K. see also: "IBRD/IDA Joint Financing Operations with Two or More Co-lenders," Loan/Credit 266 PAK/60 PAK; Loans 548 PAK, 310 GH, 383 UNI, 568 TU.

1/ (Colonial Commonwealth Development Corporation (CDC); (Colonial) Commonwealth Development Finance Company, Ltd. (CDFC); Colonial Development and Welfare Fund (CDWF); Exchequer, and U.K. Export Credit Guarantee Department. For convenience, operations involving participation of British commercial banks are included under this heading.

(viii) IBRD/IDA JOINT FINANCING OPERATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(Millions US$ Equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IDA Credit 1 HO Western Highway Extention May 17, 1961 $13.5 $ 8.0 IDA Credit: $9.0 on normal IDA terms.	Republic of Honduras Borrower requested IDB help in financing its share of the project costs under separate arrangements.	IDB Loan: $2.25 for 20 yrs., including 4 yrs. grace at 4 percent interest from FSO resources[1/] with local currency ceiling of $0.75. Government contribution: $2.25.	Normal loan/credit documentation between IDA and Borrower with cross-conditions of effectiveness and default. Bank agreed informally that Borrower could finance part of its share of project costs through IDB loan before the Bank signed its credit. No Memorandum of Understanding. Arrangements for procurement, disbursement, etc., were worked out on an *ad hoc* basis as the project progressed. Procurement on the basis of international competitive bidding. Separate disbursement directly to contractors by IDA/IDB respectively; in foreign or local currency as required.
IDA Credit 61 BO ENDE Power Project July 24, 1964 $15.1 $11.1 IDA Credit: $10.0 on normal IDA terms.	Republic of Bolivia Joint Financing a result of Government initiative taken to obtain additional local and foreign currency financing to complement Bank contribution.	IDB Loan: $3.1 to Government with Empresa Nacional de Electricidad (ENDE) as executing agency (ENDE repays principal and interest) for 25 yrs. including 5 yr. grace at 4 percent interest from FSO resources with a local currency ceiling of $0.4. Government of Bolivia: $2.0 Original overall project divided three ways: (i) Bolivia Power Company project financed by IDA Credit 62BO for $5.0 and Borrower $2.7; (ii) financing of separate project with AID loan of $4.4 for 40 yrs. including 10 yr. grace at 3/4 of 1 percent interest; (iii) ENDE project jointly financed by IDA/IDB and Borrower. Government contributed proceeds of IDA Credit to ENDE as equity contribution.	Normal loan/credit documentation as in IDA Credit 1 HO, with the following additions: 1. Standard Bank/IDB Memorandum of Understanding based on arrangements worked out for IDA Credit 1 HO included: a) summary of financing arrangements and details of common list of goods and services; b) agreement to cooperate closely in administration and supervision of the project, and to exchange information periodically and consult on appropriate action, especially in the event any condition arises which affects or threatens to impede progress of the project; c) agreement to consult each other before taking any measure of common interest, especially in the exercise of any rights under the separate loan agreements; and, in event of difference of view about what action is to be taken, agreement to use best efforts to reach a mutually acceptable resolution; d) IDB acceptance of IDA leadership; including IDA review of matters of common interest "with a view to suggesting appropriate action in such matters as approval of consultants, award of contracts, end-use inspection" and other matters, subject to the independent right of each lender to receive reports, inspect the project and make decisions; e) procurement and disbursement procedures. 2. Procurement was on the basis of international competitive bidding. 3. Disbursement was against a joint list of goods on the following percentages: 76% IDA 24% IDB
IBRD Loan 400 HO IDA Credit 71 HO North Road Project February 2, 1965 $23.6) including $0.6 for previously $14.0) completed engineering studies IBRD Loan: $6.0 for 25 yrs., including 6 yrs. grace at 5½ percent interest. IDA Credit: $3.5 on normal IDA terms.	Republic of Honduras In view of Borrower's fiscal situation, the Bank considered external financing of up to 80% of total cost of the project justified, but was unwilling to contribute the full amount and sought additional local and foreign exchange financing from IDB.	IDB Loan: $10.1 total, of which: $2.1 from <u>Ordinary Capital</u> resources, for 25 yrs., including 6 yrs. grace at 6 percent interest. $8.0 from FSO resources for 25 yrs., including 6 yrs. grace at 6 percent interest, including $0.6 for previous engineering studies. Local currency ceiling was $2.4 Government of Honduras: $4.0	Normal loan/credit documentation and standard Memorandum of Understanding between the Bank and IDB as in IDA Credit 61 BO, except: 1. IDB insistance on including in its Loan Agreement certain "Conditions Precedent to First Disbursement" which delayed effectiveness of the Bank/IDA-Loan/Credit Agreements. These conditions included submission to IDB by the Government of plans for improving and modernizing the highway cost accounting system, the Planning Unit of the Ministry of Communications, and specified items in the highway program as well as proof of the allocation of Government funds for highway maintenance, evidence of prior acquirementof rights of way for specific road sections, exclusion of imports for the project from taxes and duties, and a signed Memorandum of Understanding between the Bank/IDA and IDB approved by the Borrower. Some of these conditions could have been included as covenants in the IDB loan agreement, since they were not necessary preconditions for efficient technical execution of the project. 2. <u>Special Provisions in the Memorandum of Understanding:</u> a) omission of section acknowledging Bank leadership, and insistance by IDB on equal responsibility for project supervision and administration; b) provision for Bank to cover any excess local currency costs over the ceiling of $2.4, with further agreement that IDB would then cover foreign exchange cost which otherwise would have been paid by the Bank; c) agreement that expenses for project supervision and inspection stipulated under the IDB Agreement would be borne entirely by the IDB and not subject to joint financing. Disbursement against a joint list of goods for the Bank/IDB in the following percentages: 40% IBRD/IDA 40% IDB 20% Government

1/ IDB "ordinary capital" resources, until January 1, 1968, were available for procurement on the basis of unrestricted international competitive bidding, except that the use of the local currency component of the paid-in portion (there is a "callable" portion as well) could be limited, at the option of the contributor, to domestic procurement. In practice only Guatemala and Mexico invoked their rights under this option. Until January 1, 1968, FSO resources were partially tied and partially untied, the portion of tied resources increasing with successive replenishments in local currency (particularly in the case of U.S. contributions). By the end of 1967, the untied portion was virtually exhausted.

(Millions US$ Equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
Santa Isabel Project in Bolivia. Under consideration. $10.2 $ 6.1 Proposed IDA Credit: $6.1	Republic of Bolivia In view of IDA replenishment problems, IDA contribution restricted to foreign exchange cost, and IDA sought additional local currency financing.	IDB was prepared to finance up to $3.0 to $4.0, including $1.5 in local currency. Proposed Government contribution: $?.0	Problems Impeding Joint Financing Proposals a) modifications in IDB procurement policy effective January 1, 1968, which limits procurement to the U.S., Latin America and specific contributing non-member countries; b) IDB stipulation that it participate in financing part of foreign exchange costs, and only a part of local currency costs leaving a shortfall in local currency for IDA to finance. Due to scarcity of IDA resources and restrictions on local currency financing, IDA found this difficult to do; c) IDB desire to make separate and independent appraisal mission which IDA believes impractical; d) IDB reluctance to be influenced in its lending operations by IDA performance criteria, especially with respect to questions of overall fiscal policy and debt-servicing problems.

For additional Bank/IDA joint financing arrangements see: IBRD Loan 379 BC/IDA Credit 51 BC under "Joint Financing with Two or More Co-lenders."

(ix) IBRD/IDA JOINT FINANCING OPERATIONS WITH THE EUROPEAN ECONOMIC COMMUNITY 1/
(millions US$ equivalent)

PE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IDA Credit 69 MAU Road Project December 28, 1964 $10.0 $7.0 IDA Credit: $6.7 on normal IDA terms.	Islamic Republic of Mauritania Joint financing a result of Government request for assistance to IDA for assistance in financing the project. In view of acute fiscal situation and need for almost 100% financing, Bank/Government sought participation by FED. Engineering studies were completed by French technical assistance.	FED: $3.22 grant. Government Contribution: $0.08	Normal documentation between IDA and Borrower, and separate documentation between FED and Borrower, including cross-conditions of effectiveness and default. Administration Agreement between IDA, Borrower and FED which provided for: a) methods and procedures of procurement to be determined by the Borrower, FED and Association, (2.02), with modification thereof to be made by the Borrower and the Association with the concurrence of FED (2.04); b) the withdrawal from funds provided in the IDA and FED agreements to be made on application of the Borrower (for reimbursement) to the Association, which would apportion the amount so requested; c) approval of disbursement under the IDA credit to be notified to FED, which would then disburse its portion according to its own Agreement; d) each lender to retain its independent rights of decision and action under its respective Agreement, but the lenders agreed to close collaboration in matters relating to the execution, administration and supervision of the project; IDA leadership was recognized by FED.

IDA procurement was on the basis of international competitive bidding where possible, with FED funds restricted to procurement in the EEC countries.

Bank disbursement was for 100% of final design and engineering costs, with disbursement for costs of road construction on a percentage basis: 65% IDA
35% FED

The IDA Credit Agreement amended Credit Regulation 1, dated June 1, 1961, section 3.01, such that the proceeds of the Credit shall be withdrawn from the Credit Account "on account of expenditures in currency of the Borrower or for goods produced in (including services supplied from) the territories of the Borrower, in such currency or currencies as the Association shall from time to time reasonably select". Section 1.01 IDA Agreement.

IDA Credit 74 SO Road Project March 29, 1965 $14.2 (revised to $17.0 in 1968) $11.1 (revised to $13.0 in 1968) IDA Credit: $6.2 on normal IDA terms, plus Supplementary Credit 123 SO dated June 26, 1967 to cover increased costs of project, for $2.3	Republic of Somalia Joint financing a result of Government request for assistance to IDA and in view of fiscal situation and need for almost 100% financing, IDA's interest in associating other co-lenders in financing.	FED grant: $5.15 plus $0.3 in technical assistance. UN Special Fund grant: $2.15 Government contribution: $0.7 (original) Government contribution: $0.5 (Supplementary Credit)	Documentation as for IDA Credit 69 MAU, except that: a) FED financed 100% of final design and engineering costs; b) FED financed 100% of cost of maintenance equipment and Highway Department Offices; c) UNDP financed technical assistance; d) Percentage disbursement on road construction was 22.5% FED 77.5% IDA Under Supplemental Credit, IDA was to meet for 82% of the cost overrun of road construction.
IBRD Loan 490 CM IDA Credit 100 CM Plantation Project March 28, 1967 Total 1967-74 Program Costs: $35.0 including $4.0 for equipment after 1974 necessary to bring immature areas into production. Bank/EEC Project Total Cost: $31.0 $15.5 (foreign exchange component) IBRD Loan: $7.0 for 30 yrs., including 8 yr. grace at 6 percent interest. Disbursement of Loan to begin only after IDA Credit fully disbursed. IDA Credit: $11.0 on normal IDA terms.	Borrowers: IBRD Loan: Cameroon Development Corporation (CAMDEV) IDA Credit: Federal Republic of Cameroon Guarantor: (IBRD Loan) Federal Republic of Cameroon Joint financing a result of Bank interest in coordinating administration of two separate CAMDEV projects for which the Government had asked assistance in financing from the Bank/IDA and EEC respectively.	EEC Loan (with EIB acting as agent for EEC): $6.4 for 22 yrs., including 10 yr. grace at 2 percent interest to the Government. CAMDEV contribution: $10.6 Joint agreement that previous loan of $2.8 from Commonwealth Development Corporation (CDC) to CAMDEV will rank pari-passu with IBRD and EEC Loans, i.e., for 18 yrs. including 3 yr. grace at 7¼ percent interest.	Normal, separate loan documentation between Bank/IDA and Borrower, between EEC and Borrower, and between CDC and Borrower, including cross-conditions of effectiveness and default. Management agreement between CDC and CAMDEV. Memorandum of Understanding between the Bank/IDA and CDC regarding: a) exchange of information relating to demands for repayment on any part of their respective loans, the taking of any step to enforce any guarantee of their respective loans, prior consultation and approval of any proposed legislation affecting CAMDEV; b) prior agreement relating to CAMDEV's incurring any new debt, creating any mortgage or lien, or payment to the Government (except taxes or rent) or to the Federated State of West Cameroon; c) consultation with CDC relating to management of CAMDEV, and any action which might or would result in suspension or cancellation of the loan/credit; d) CDC agreement to consult with Bank/IDA relating to termination or amendment of its loan agreement, termination of Management Agreement with CAMDEV, surrender of any right to be represented on CAMDEV Board during continuance of Management Agreement. Memorandum of Understanding between Bank/IDA/EEC and EIB (acting as agent of EEC) regarding: coordination, exchange of information, consultation and mutual consent as in Memorandum of Understanding between Bank/IDA and CDC, plus agreement to exchange information with respect to disbursements made against individual loan accounts at least every six months. Normal Bank procurement and disbursement procedures against separate list of goods.

1/ Fonds Européen de Développement. See also Ivory Coast Oil Palm and Coconut Project under "IBRD/IDA Joint Financing Operations with two or more co-lenders".

(x) IBRD/IDA JOINT FINANCING OPERATIONS WITH THE EUROPEAN INVESTMENT BANK
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 224 IT Southern Italy Development Projects - 1959 April 21, 1959 $90.0 (approximately) No foreign exchange component expressed. IBRD Loan: $20.0 for 20 yrs., including 4 yr. grace at 5.3/4 percent interest. Loan to assist in financing two industrial and one power project in Southern Italy, but rest of program financed by public loan issue.	Cassa per il Mezzogiorno (Cassa) Guarantor: Republic of Italy Joint financing was accepted by the Bank in view of: a) EIB expressed interest in making its first investment (EIB was just newly established) in the same project as, and in association with the Bank.	EIB Loan: $20.0 for 20 yrs., including 4 yr. grace at 5.5/8 percent interest. Public issue: $30.0 of which: $20.0 through Morgan Stanley and Company with several investment banks, providing 5½ percent sinking fund bonds maturing in 15 yrs; and $10.0 issued by Morgan Stanley only, of which: $5.0 in 4.3/4 percent bonds maturing in 4 yrs. and $5.0 in 4.3/4 percent bonds maturing in 5 yrs. Cassa to provide balance of $20.0 IBRD and EIB loans were made concurrently with the offering of a $30 million bond issue by the Cassa per il Mezzogiorno to assure success of issue on New York market. Proceeds of issue were to be used for the general development program of the Cassa.	Normal, separate documentation between Bank and Borrower/Guarantor and between EIB and Borrower, including cross conditions of effectiveness and default. Morgan Stanley and Co. waived usual requirement of simultaneous effectiveness of their issue with IBRD/EIB loans and issued bonds before the Bank and EIB Loans. No Memorandum of Understanding between Bank and EIB, but close cooperation with EIB and detailed exchange of letters between IBRD/EIB throughout period of appraisal, negotiation, and administration of project. Procurement for IBRD/EIB on the basis of international competitive bidding. Disbursement against a common list of goods upon application for reimbursement from the Borrower to the IBRD and EIB individually. Disbursement on a percentage basis: Mercure Power Project: 35% IBRD, 35% EIB Simcat Industrial project: 27% IBRD, 21% EIB Celene Industrial Project: 27% IBRD, 21% EIB
IBRD Loan 480 COB Potash Project January 9, 1967 $81.8 No Foreign Exchange Component expressed, but most costs are foreign exchange costs. IBRD Loan: $30.0 for 17½ yrs., including 4 yr. grace at 6 percent interest.	Compagnie des Potasses du Congo (CPC) Guarantors: Republic of the Congo (Brazzaville) and Shareholders. Joint financing a result of Bank interest in broader participation of foreign interests in the financing of the project.	EIB Loan: $9.0 for 17½ yrs., including 4 yr. grace at 7 percent interest. Shareholders advances: $26.7 equivalent with repayment not to start prior to January 1, 1977, or after full repayment of BNP Loan, whichever is later, at 6.3/4 percent interest. Shareholders capital: $10.1 Banque Nationale de Paris (BNP): $6.0 for 10 yrs., including 5 yr. grace at 7 percent interest. Obtained under separate arrangements with shareholders and not calling for any particular coordination with respect to the project.	Normal loan documentation between Bank and Borrower and between EIB and Borrower including cross-conditions of effectiveness and default, except: 1. that in event CPC becomes highly profitable, Bank/EIB agreements include an accelerated repayment clause, which states that until the amounts outstanding on the Bank Loan in total and for each maturity, shall have been reduced to the amounts due on the EIB loan, [illegible] such accelerated repayments would be solely applied [illegible] the Bank loan, and thereafter on an equal basis to [illegible] IBRD; 2. EIB required Shareholders' Guarantee Agreement to be unconditional, while Bank subjected its Shareholders' Guarantee Agreement to a "force majeure" clause, the events of "force majeure" suspending or terminating the shareholder guarantors' obligation. These events would be events of default and therefore engage the responsibility of the Republic of Congo under the Government's Guarantee Agreement. The EIB was not party to a Guarantee Agreement with the Government. Memorandum of Agreement between IBRD and EIB drawn up with the purpose of "receiving from the other, authority to devote its attention to the supervision, administration and inspection of a specific portion of the project in general." EIB was delegated supervision of port and transport investment; IBRD, mining investments "both under ground and on the surface as also in the matter of any other investments that did not form part of those belonging to the sphere of competance of EIB." Each institution was to: a) exercise supervision over its sphere of competance and "acting both for its own account and on behalf of the other institution, shall abide by the arrangements specified for the carrying into effect" both loan agreements; b) "receive and examine applications for disbursement and forward to the other institution all information concerning the carrying out of its portion of the disbursement." c) inform the other institution with respect to execution of the project, results of visits paid to sites, installations and works; d) exchange views with the object of "achieving the [illegible] collaboration possible" and coordinate their requests for information from the Borrower, "whether these relate to himself or to the project;" e) inform each other of any event which will hamper or impede the project; f) consult one another with respect to any amendments in [illegible] agreements, project specifications, etc., "with the [illegible] of finding a suitable solution by their joint efforts" g) consult one another regarding any measures to be taken with respect to accelerated repayment, disbursement, cancellation, suspension; or sale or transfer of shares of the Borrower; h) consult one another "before their consent to any request that the Borrower may put forward within the framework of sections of both Loan Agreements relating to additional projects, incurring additional debt, accelerated [illegible] ment, creation of any subsidiary or prepayment of [illegible] Loan. Procurement was on the basis of international competitive bidding for IBRD and EIB Loan. Disbursement was against a common list of goods in proportion to the contribution of each lender, i.e., 10:3 for the IBRD/EIB respectively.

For additional IBRD/IDA joint financing arrangements with EIB see also under "IBRD/IDA Joint Financing Operations with Two or More Co-lenders" 568TU.

(xi) IBRD/IDA JOINT FINANCING OPERATIONS WITH TWO OR MORE CO-LENDERS
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 266 PAK Indus Basin Project September 19, 1960 IDA Credit 60 PAK Indus Basin Project July 21, 1964 Initial <u>estimated</u> total cost of project: $840 Initial <u>estimated</u> foreign exchange cost: $425 Revised 1964 <u>estimated</u> total cost of project: $1120 (excluding Tarbela) Revised <u>estimated</u> foreign exchange cost: $730 (excluding Tarbela) IBRD Loan: $90.0 of which $80.0 was for the project and $10.0 for interest and commitment charges on the loan. Repayable over 30 yrs., including 10 yr. grace at interest rates to be determined as the loan is drawn down. IDA Credit: $58.54 on normal IDA terms.	Islamic Republic of Pakistan Joint financing an outcome of: a) settlement of the complicated dispute over the waters of the Indus River between India and Pakistan; b) joint collaboration with the Pakistan Consortium.	Grant Funds: 1960 / 1964 (Supplemental) ($ equiv.) Australia 15.6 / 11.2 Canada 23.0 / 15.6 Germany 30.0 / 20.0 New Zealand 2.8 / 1.4 United Kingdom 58.4 / 37.7 U.S.A. 177.0 / 118.6 Loans: U.S.A. DLF (1960) $70.0 repayable in rupees over 30 yrs., including 10 yr. grace at 3½ percent interest. The U.S.A. was also to contribute in grants and/or loans an equivalent of $235.0 in rupees. U.S.A. AID (1964) Supplemental Loan contribution: $51.22 which "will be in the form of the proceeds of a U.S. dollar loan to Pakistan on terms to be agreed between Pakistan and the United States." (Sec. 2.03 Indus Basin Development Fund (Supplemental Agreement.) Government of Pakistan: £9,850,000 in rupees (1960 contribution and £440,000 in pounds sterling equiv. to $27.6 and $12.1 respectively. Under the 1964 Supplemental Agreement, the Government was to make all rupee requirements available as the Administrator determines. India, under <u>The Indus Waters Treaty 1960</u>, was also required to pay into the Indus Basin Development Fund an amount of £62,060,000 equivalent to $175.0 in ten annual installments.	Normal Bank Loan documentation between the Bank and Borrower except for reference to the Indus Basin Development Fund Agreement for: a) use of the proceeds of the loan and the method of procurement and disbursement; b) certain conditions of effectiveness and default. IDA Credit (1964) documentation normal except for reference to the Indus Basin Development Fund Agreement and the Indus Basin Development Fund (Supplemental) Agreement (1964) for (a) and (b) above. <u>The IBDF Agreement</u>: Under the IBDF Agreement and the Supplemental Agreement, the Bank was designated Administrator of all resources. All of these resources are available for procurement on the basis of international competitive bidding. Disbursement from the Fund is carried out under normal Bank procedures by the Administrator. <u>Payment of contributions into the Fund</u>: Except for Pakistan and New Zealand, who paid-in specific amounts as noted in the Fund Agreement, payments are divided between grants and loans in the ratio of 65 to 35. Grant contributions are apportioned according to the following percentages: Australia 5.13% Canada 7.63% Germany 9.86% United Kingdom 19.20% United States 55.18% Loan contributions are apportioned between the Bank/IDA and the U.S. in the ratio of 80 to 70, or such other ratio as the Bank and the U.S. may agree. All payments are made half-yearly, except as noted for India, above. <u>The Supplemental Agreement</u> provided that the 1960 IBDF Agreement remain in effect; and that a "Study of the Water and Power Resources of West Pakistan" be undertaken, and noted further that if the study indicated the (Tarbela) project feasible and justified, any balance of foreign exchange available to the Indus Fund would be used to meet the foreign exchange costs of the Tarbela Project (cf. IBRD Loan 548 PAK).
IBRD Loan 548 PAK Tarbela Project July 10, 1968 $830 (approximate) $492 (approximate) IBRD Loan: $25.0 for 25 yrs., including 10 yr. grace at an interest rate current at the time of first withdrawal.	Islamic Republic of Pakistan Joint Financing a result of arrangements worked out within the context of the Indus Basin project following the conclusion of studies carried out under the IBDF Supplemental Agreement, 1964. (cf. IBRD Loan 266 PAK/IDA Credit 60 PAK.)	Residual amount from the Indus Basin Development Fund: $324.0 (estimated) untied. Canada: $ 4.6 tied loan, interest free, for 50 yrs., including 10 yr. grace; France: $30.4 untied loan (terms not available); Italy: $40.0 untied loan (terms not available); United Kingdom: $24.0 tied loan, interest free, for 25 yrs., including 7 yr. grace; U.S. Eximbank: $50.0 tied loan, 6 percent interest, for 14 yrs., including 4 yr. grace. The U.S. Eximbank and the Bank contributions are "residual financing" to be utilized only if all other funds are utilized as specified under Article IV of the Tarbela Development Fund Agreement.	Normal Loan documentation except for reference to the Tarbela Development Fund Agreement for: a) use of the proceeds of the loan and the method of procurement and disbursement; b) certain conditions of effectiveness and default. <u>The Tarbela Development Fund Agreement</u>: Tarbela Development Fund Agreement was drawn up on lines similar to the Indus Basin Development Fund Agreement, i.e., with the Bank as Administrator and contributor with procurement and disbursement according to normal Bank procedures. Signatories were Canada, France, Italy, the U.K., the U.S. and the Bank. (cf. 266 PAK/60 PAK.) <u>Payment of Contributions into the Tarbela Fund</u>: Tarbela Agreement stated that the residual of the Indus Fund would be transferred to the Tarbela Fund for use as working capital, with contributions of tied aid (Canada, U.K., U.S.) being paid to the Tarbela Fund on a reimbursement basis as evidence of expenditure in the lending countries concerned is provided by the Borrower. Untied contributions would be drawn down in the following manner: 1. First, up to $100.0 of the Indus Fund balance would be used; 2. Next, $140.0 disbursement divided equally between the Indus Fund balance on the one hand, and France and Italy on the other hand, with the French and Italian contributions providing a total of 50% apportioned in the ratio of 3:4 respectively; 3. Next, disbursement of the last of the Indus Fund; 4. Finally, the Bank contribution would be drawn down.
IBRD Loan 310 GH Volta Project February 8, 1962 $196.0 $118.0 IBRD Loan: $47.0 for 25 yrs., including 6 yrs. grace at 5.3/4 percent interest.	The Volta River Authority. Guarantor: The Republic of Ghana. Joint financing resulted from size of project and external financing required, political interest of U.S., following discussions between Presidents and historic interest of U.K. in the country as well as the project.	U.S.A. AID (tied): $27.0 of which $20.0 came from funds available to AID from its predecessor agency, the DLF; $7.0 came from AID's own development loan funds. Entire amount was for 30 yrs., including 6 yr. grace at 3½ percent interest. U.S. Eximbank (tied): $10.0 for 25 yrs., including 6 yr. grace at 5.3/4 percent interest. United Kingdom Export Credit and Guarantee Department (tied): £14.0 for 25 yrs., including 6 yr. grace at various interest rates. Government contribution in local and foreign exchange: $98.0.	Normal separate loan documentation between Bank and borrower and between co-lenders and borrower with cross-conditions of default. Any default under concession agreement also a default under Bank loan. Memorandum of Understanding between the Bank and AID; standard except for the following: a) to the extent AID funds were not utilized after the allocation of contracts on the basis of international competitive bidding, the AID would use these funds, up to the total of $27.0, for financing local currency expenditures; b) recognizing the desirability of coordinating their disbursements for the Project, AID and the Bank undertook to review together the Authority's proposed procurement plans for the entire Project ... and to consult with each other concerning the portions of that procurement each will finance.

Procurement was on the basis of international competitive bidding.

urement by the Bank was for 100% of the foreign exchange costs of items for which the Bank was responsible as indicated on a <u>Master List of Goods</u>.

irawal from the loan account only permitted when the amount requested for withdrawal, together with all previous withdrawals from the loan account, and all withdrawals from other external lenders, totalled not more than 50% of the agrregate amount theretofore expended on the Project (Section 2.02 Bank Loan Agreement). This was verified by a statement from the Borrower on a quarterly basis, and checked by the Bank with the other lenders from time to time.

Disbursement by joint lenders followed their own procedure.

IBRD/IDA JOINT FINANCING OPERATIONS WITH TWO OR MORE CO-LENDERS
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 379 EC IDA Credit 51 EC Second Highway Project May 26, 1964 $63.9 $27.6 IBRD Loan: $9.0 repayable over 25 yrs., including 5 yrs. grace at 5½ percent interest. IDA Credit: $8.0 repayable on normal IDA terms.	Republic of Ecuador Project prepared with joint financing in view primarily to co-ordinate lender's policies and ensure adequate standards of sector investment planning, project financing and general fiscal performance.	U.S.A. AID Loan $16.0 (tied) for 40 yrs., including 10 yrs. grace at 3/4 of 1 percent interest during the grace period and at 2 percent thereafter. To cover approximately $10.7 in local currency costs, but with no limits specified. Alliance for Progress funds, one loan $2.7 signed Sept. 1, 1963 and one for $13.3 signed May 24, 1964. IDB Loan: $6.0 from Ordinary Capital resources for 25 yrs., including 4½ yrs. grace at 5.3/4 percent interest with local currency ceiling: $0.6. Government of Ecuador contribution: $24.9.	Memorandum of Understanding covering all lenders and incorporating standard provisions of earlier individual memoranda between the Bank and AID, and between the Bank and IDB. (cf. "IBRD/IDA Joint Financing Operations with US DLF/A.I.D" and "IBRD/IDA Joint Financing Operations with IDB.") Special Provisions in Memorandum of Understanding: a) mutual agreement on establishment of Project Revolving Fund (PRF); b) agreement that U.S.A. AID would provide up to $3.3 for equipment of U.S. origin, but after international competitive bidding; c) further agreement that AID would finance part of foreign exchange costs of engineering in case all $3.3 was not utilised for equipment, in which case the Bank would finance corresponding equipment costs. Common investment and financing plan provided for the allocation of certain items to individual co-lenders for 100 percent financing of foreign exchange costs and for joint financing of other items on the following percentage basis: Stage I construction: 45% IBRD 55% Government Stage II construction: 35% IDA 17% IDB 27% U.S. AID 21% Government
IBRD Loan 383 UNI Kainji Project July 7, 1964 1964 / 1968 $208 Total Cost $246 $135 for. exch. $148 IBRD Loan: $82.0 for 35 yrs., including 5 yrs. grace at 5½ percent interest. Supplementary loan signed November 27, 1968 for $14.5 for 31 years, including 2½ years grace at 6¼%.	Niger Dams Authority (NDA) Guarantor: Federal Republic of Nigeria. Bank sought joint financing because of the need for large amount of foreign exchange, limiting its initial contribution for about 60% of foreign exchange costs.	Italy: $26.1 (tied) through Instituto di Credito per le Imprese di Publica Utilita (ICIPU), to the Government for 25 yrs., including 5 yrs. grace at 4.45 percent interest, with onlending to NDA on same terms, except that no interest was payable to the Government until Nov. 30, 1968. U.S.A. AID: $14.0 (tied) to the Government, cut back in March 1967 (by mutual agreement with Borrower, (Govt.) and Bank to $7.0. For 40 yrs., including 10 yrs. grace at 3/4 of 1 percent during the grace period and at 2 percent thereafter. Government would re-lend to NDA for 40 yrs., including 10 yrs. grace at 5½ percent interest. Proceeds of loan were restricted to 50% of sub-contracts placed in the U.S. United Kingdom: through Export Credit Guarantee Department: $14.0 (tied) for 25 yrs., including 5 yrs. grace at 6-7.3/4 percent interest. Proceeds of loan were restricted to financing 50% of sub-contracts placed in the U.K. Netherlands: $5.5 (tied) to the Government for 25 yrs., including 7 yrs. grace at 5½ percent interest with onlending to NDA for 25 yrs., including 5 yrs. grace at 5½ percent interest. Government of Nigeria: On-lending as noted above, plus a loan for NDA equivalent to: $84.0 for 30 yrs., beginning date of project completion at 5½ percent interest. Government is prepared to finance additional $20.0 of local costs of 1968 estimates. Canada: $1.68 ... Grant for technical assistance.	No Memorandum of Understanding, but exchange of informatio between lenders was handled partly through the mechan the Consultative Group and partly by direct contacts. Procurement was on the basis of international competit... bidding, with contracts allocated after the bidding. Disbursement followed the regular procedures of each lender with adaptation to the Borrower's situation. The supplementary loan is to cover a shortfall in foreign exchange which has developed from: a) a rise in project costs, coupled with b) the inability to utilise all the tied funds available after competitive bidding was completed.

IBRD IDA JOINT FINANCING OPERATIONS WITH TWO OR MORE CO-LENDERS
(Millions US$ equivalent)

F PROJECT ...ENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTATION INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 568 TU Keban Transmission Lines Project October 31, 1968 Total Project $400.0 $130.0 Bank Project (transmission lines, substations and accessories) $35.9 $22.7 IBRD Loan: $25.0 for 25 yrs., including 4 yr. grace at 6-1/2 percent interest.	Republic of Turkey Joint financing was result of Government request to OECD Consortium for Turkey for assistance in financing the overall project and subsequent formation of a Syndicate of Lenders under the Chairmanship of the World Bank. Due to restriction of bidding to members of the Syndicate, the total project was subdivided between the Syndicate members on the one hand, and the Bank (IBRD) on the other. Differences of opinion between the Bank and EIB on the method of exercising responsibility for management of project led to complete separation of projects, with EIB primarily responsible for supervision of the civil works and power station project, and with the Bank retaining responsibility for supervision of the transmission lines project, in accordance with its normal procedures.	The ceilings on tied offers from participating co-lenders were: USA $40.0 France 10.0 Germany 20.0 Italy 10.0 EIB 30.0 The Syndicate agreed on the following financing principles: a) terms of lending to be not harder than 15 yrs., including 5 yr. grace at 4 percent interest, except for the World Bank loan; b) contributions from each bilateral lender to be used for financing an initial $5.0 of local currency expenditures; and thereafter for financing the foreign exchange cost of purchases in the respective contributing countries up to the ceilings specified. Any residual funds were to be available for local expenditures up to one-third of the amounts used for foreign exchange financing.	Normal separate Bank loan documentation, including cross-conditions of default with respect to arrangements made, or to be made, for Syndicate financing. Loan Agreement provided that local currency withdrawals shall not exceed the equivalent of 85 percent of the amounts paid under contracts or the cost of goods payable in local currency, and the aggregate amount of withdrawals in local currency shall not exceed an amount equivalent to one-third of the amounts which the Borrower shall have withdrawn, or on the basis of signed contracts can reasonably be expected to withdraw, from the Loan Account in foreign exchange. Bank procurement and disbursement according to normal procedures against a separate list of goods. No Memorandum of Understanding between the Syndicate and the Bank, but Syndicate agreement on financing principles Project provided opportunity for EIB to press for the principle of co-management of the project and for a joint IBRD/EIB "Syndicate secretariat." The Bank regarded both ideas as impracticable.

c) EIB contribution to be used to finance purchases in EEC countries, which, in the case of EEC member countries participating in the Syndicate, would be on a 50 percent matching basis; or otherwise 100 percent;
d) competitive bidding to be restricted to participating countries consistent with arrangements with (b) and (c) above;
e) World Bank participation would carry standard lending terms and be used for procurement on basis of full international competitive bidding;
f) contingency reserves were to be set aside equivalent to 10 percent of foreign exchange requirements of each contract;
g) an important agreement provided that the prime civil works contractors could finance purchases of materials, equipment and services from any and all of the participating countries up to certain limits to be specified on the basis of the bid analysis of costs.

U.S. AID Loan: $40.0 (tied) was for 40 yr., including 10 yr. grace at 1 percent interest during the grace period and 2½ percent thereafter from development loan resources.

France: $10.0 total, of which: $6.0 export credit for 10 yr., with no grace period at 6 percent interest; and $4.0 French Treasury Loan for 15 yr. including 5 yr. grace at 1 percent interest for the first five yr. and at 3 percent thereafter.

Italy: $10.0 for 15 yr. at 4 percent interest. Grace period not known.

Germany: $20.0 for 25 yr., including 7 yr. grace at 3 percent interest.

EIB: $30.0 for 30 yr. including 7 yr. grace at 3 percent interest. The favorable terms of EIB lending result from use of special fund (totalling $175.0) appropriated for the use of Turkey, as an Associate Member of the EEC, and reserved for financing of qualifying industrial projects at 4½ percent interest (at least 30 percent of the total must be used for this ...) and for financing qualifying infrastructure projects at 3 percent interest (up to 70 percent of the total may be used for this purpose). Repayment may take up to 30 yr. ... funds so lent. The special fund agreement expires December 1, 1969.

Total contriburions for Keban Dam Project: Syndicate Co-lenders: $110.0; Government: $265 (or more).

Total contributions for Bank Transmission Lines Project: Bank: $25.0; Government: $10.9 with on-lending of Bank Loan, on same terms, to ETIBANK (or TEK, the Turkish Electric Authority, when it comes into existence).

Cost Overrun on Dam Project Due to increase in cost, inability to utilize fully the U.S. and German offers, and expenditures in France and Italy in excess of ceilings, project cost exceeded both available and usable funds. Financing of the shortfall of funds not yet decided pending revision of cost estimates.

Proposed IBRD Loans for an oil palm and coconut project in the Ivory Coast. Under consideration. $29.4 (total cost Bank project) $17.0 (foreign exchange cost of Bank project) IBRD Loans totalling $17.1 for 21 years including 6 year grace at 6-1/2 percent interest to the following agencies in the amounts specified: $4.8 to PALMINDUSTRIE, for one oil mill; $9.0 to SODEPALM, for oil palm and coconut outgrowers and coconut plantations; $3.3 to SODEPALM, for oil palm plantations.	Borrowers: Société pour le Développement et l'Exploitation du Palmier à Huile (SODEPALM) PALMINDUSTRIE, an associate company of SODEPALM Guarantor: Republic of the Ivory Coast NOTE: PALMIVOIRE will be established as a management company to operate the above property holding companies. The three companies will be linked in an "Association en Participation" a profit-sharing partnership. Joint financing a result of Government request to the Bank for assistance in financing (a) a modest expansion of an ambitious on-going oil palm development program (primarily financed by FED grants) and a small program for coconut development, and (b) the establishment of the necessary industrial processing facilities. In view of the predominant role of FED in plantation development, and the role of EIB in the development of the processing industry, the cooperation of co-lenders in establishing satisfactory sector organisation and management became essential. The Government request to CCCE was originally for assistance to the Government in meeting the balance of the financing needs.	CCCE Loans: $5.8 total for 21 years including 6 years grace at 4-1/2 percent interest and divided as follows: $1.7 to SODEPALM for oil palm plantations; $4.1 to SODEPALM for oil palm and coconut outgrowers. Government contribution: $3.7 to SODEPALM for oil palm outgrowers and coconut programs. Government and other shareholders: $1.4 to PALMINDUSTRIE for one oil mill. Outgrowers: $1.4 for oil palm and coconut programs. Parallel project of 5 oil mills costing about $24.0 total to be financed by loans to PALMINDUSTRIE by Caisse Centrale (CCCE) and EIB in a joint operation providing $3.0 and $9.0 respectively, CCCE at 6 percent repayable over 21 years including 6 years grace, EIB at 6-7/8 percent repayable over 16-1/2 years including 4-1/2 years grace, and with the balance to be provided by Government capital contributions in cash and kind, the Ivory Coast Caisse Autonome d'Amortissement, foreign suppliers' credits and cash generation.	Normal, separate loan documentation between the Bank and Borrower, between CCCE and Borrower, including cross-conditions of effectiveness and default is envisaged. Bank loan effectiveness also to depend on the effectiveness of the joint CCCE/EIB loans for the parallel oil mill project. Bank will presumably require certain guarantees and assurances from PALMIVOIRE and its shareholders with regard to the maintenance of the "Association en Participation" (a form of joint venture) between the executing agencies of the project, SODEPALM, PALMIVOIRE and PALMINDUSTRIE. No Memorandum of Understanding between the Bank and co-lenders, but all have agreed to coordinate their efforts, and the Government has taken great care to clear the program and project proposals with all potential sources of external finance. Procurement for the Bank project is expected to be on the basis of international competitive bidding. Disbursements of Bank loans would be against a common list of goods for: 100% of the costs of all imported items; 100% of the cash credits made to oil palm and coconut outgrowers; 100% of the costs of land clearing, civil works, and consultancy contracts. Joint disbursement with CCCE for remaining items, field development and local costs, is expected to be on a percentage basis yet to be determined between the Bank and CCCE.

(xii) IBRD/IDA JOINT FINANCING OPERATIONS INVOLVING EXPORT FINANCING INSTITUTIONS

Introductory note

1. Origin of joint financing. Following a series of exploratory discussions by Bank staff with officials of various governments concerned with financing assistance to developing countries and with representatives of private financing institutions during the course of 1964 and 1965 agreement was reached on a mechanism through which private financing institutions, using bilateral export credits, could join with the Bank to finance goods procured under international competitive bidding for projects prepared and executed under the supervision of the Bank. The first pilot project was a Mexican power sector project, costing $309 million, for which a Bank loan was made in December 1965.

2. For the first operation, agreement on arrangements for joint financing was reached with five countries, namely Canada, France, Italy, Japan and Switzerland. These arrangements provided that contracts potentially subject to joint financing would be awarded on the basis of cash prices (i.e. without taking account of credit terms); and that the Bank would finance 2/3 and joint lenders 1/3 of the value of orders. However, the actual terms of joint loans were left in large part to the individual participating countries. In practice joint loans were at least 10 years from delivery of the goods. There was no general agreement on what would be covered by these loans, and participating governments appear to have applied certain restrictions on the nature of the goods and the size of the orders, which they treated as eligible for joint financing.

3. Following the experience of the pilot project, discussions on joint financing with governments and private financing institutions were continued under the auspices of an ad hoc group 1/ consisting of member countries of the Consultative Group for Colombia and those interested in joint financing of projects in both Colombia and Mexico. In October 1967, agreement was reached in principle on the joint financing of three projects in Colombia (the Bogota Water Supply Project, the Bogota Third Power Expansion Program, and the National Power Interconnection Project) and one project in Mexico (the Second Power Sector Project). The choice of projects was based on the following considerations: (a) external financing was required primarily for imported goods; (b) the imported goods required were generally of a kind appropriate for long term export credit financing; and (c) the countries and the borrowing enterprises were creditworthy.

4. The following table shows the estimates of joint loans envisaged at the time the amounts of the Bank loans were fixed:

	Estimated US $ million equivalent			
	Total Cost	Foreign Exchange Cost	Bank Loan	Other Joint Loans
Bogota Water Supply	35	17	14 2/	3 2/
Bogota Power Supply	44	25	18 2/	[illegible] 2/
Colombia Power Interconnection	2.96	21.4	18 2/	3.4 2/
Second Mexican Power Sector Project	..	112	[illegible]	22
/First Mexican Power Sector Project	300	145	110	35.7

1/ Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, United Kingdom, United States of America and Switzerland.

2/ Portions of the Bank loan may be cancelled should the joint financing formula result in larger financing by other joint lenders.

The participants in the October 1967 discussions expressed the strong feeling that there should be the greatest possible degree of prior agreement on the terms of joint financing operation before any effective action was taken to implement it and on the cost-sharing formula; both participating countries and the Bank emphasized that acceptance of the formula should not be taken to imply a commitment to the formula for the future.

General formula for joint financing: The following provisions of the memorandum 1/ recording the points agreed between the Bank and the Governments of countries participating in the second meeting on Joint Financing, held in Paris, October 1967, are quoted verbatim:

> "The formula for provision of external financing of imported goods required for the project would be, in the case of contracts for the three Colombian projects, 50 percent by the Bank and 50 percent by the supplying countries and, in the case of contracts for the Mexican project two-thirds by the Bank and one-third by the supplying country. This formula would only apply to individual orders for imported goods of at least $200,000 aggregating for each individual project at least $1.0 million in any one supplying country."
>
> "All countries with prospects of obtaining significant contracts under the above formula for a particular project would indicate their willingness to join in its financing as a pre-condition for proceeding with joint financing of that project."
>
> "The terms of maturity of joint loans would be a minimum of 10 years from delivery of goods, with an appropriate grace period, in cases where maturity is calculated from the date of signature [as opposed to the date of delivery]. The interest rate and other charges would be no higher than the most favorable rate and charges which the country otherwise provided with respect to long-term export credits."
>
> "The goods to be imported for the project with financing provided under joint financing arrangements would be procured on the basis of international competitive bidding and in accordance with practices usually followed for Bank projects, without reference to credit terms including interest rates and amortization schedules."

The Bank was to continue to finance 100% of orders not eligible for joint financing under the formula and also goods procured in countries not participating in the joint financing agreement. Special difficulties arose in obtaining joint financing for some cases of multi-national procurement. 2/ These difficulties stemmed from the award of large contracts to a prime contractor of one country who intended to supply goods and services originating not only in that country but also in other countries.

1/ Distributed to Executive Directors as attachment No. 2 to the President's Report and Recommendations (P-596) on a proposed loan for the third power expansion program in Colombia (R68-72), May 16, 1968.

2/ It is understood that a number of European countries have concluded reciprocal agreements with each other under which the insurance of a major contractor for capital goods could cover work sub-contracted to another country (a party to the agreement) up to a certain proportion of the value of the main contract. However, this also depends on the type of financing provided, i.e. whether it is a credit to the supplier or the buyer. Not all of the major supplying countries participate in these reciprocal agreements.

The joint financing arrangements of October 1967 did not provide for the allocation of responsibility for providing credit in such cases. It has since emerged that the export credit institutions of some countries are prohibited by their statutes from providing credit in respect of goods procured outside the home country or of goods with a significant import content. Some countries of sub-contractors are also reluctant to provide credit in respect of sub-contracts where the prime contractor is of another country.

8. The role of the Bank: The Bank is responsible for establishing agreement in principle with governments and private financial institutions on (a) the desirability in principle of a joint financing arrangement of a particular country or countries; (b) identification of projects considered suitable; (c) the general formula for joint financing; and (d) the major issues involved. The Bank is also responsible for appraisal of the project in accordance with its customary procedures and, in due course, for the execution of a loan agreement to cover its share of the financing of imported goods, in accordance with the agreed formula, as well as the finance of other items in the project. Joint lenders are advised by the Bank from time to time on the progress of its project appraisal, on the status of procurement and the award of contracts for the projects concerned.

9. The Bank is responsible for ensuring adherence to Bank guidelines for the prequalification, bidding and award of contracts. In carrying out this role, supervising the project and administering its own loan, the Bank necessarily provides an equivalent service to joint lenders. The Bank is not responsible for the disbursement of joint loans. However, at the request of three countries, arrangements have been made under which certification of the Borrower's withdrawal application and accompanying documents as acceptable for Bank reimbursement is also accepted for disbursement under the joint loans of the countries in question.

10. The Bank included in its loan agreement provisions: (a) requiring the Borrower and the Guarantor to use their best efforts to secure other loans (under the joint financing arrangements) for the project; (b) entitling the Bank to reduce its loan by any amount in excess of the foreign exchange amount of the project after taking into account the joint arrangements made (in the case of the Colombian projects); (c) permitting adjustment within prescribed limits, of the amortization schedule of its loan to the schedule of joint loans, once these are established, so that the total annual amortization payments required of the Borrower would be reasonably approximate to those which the Borrower would have made if the entire amount had been provided by the Bank; (d) providing for the Bank loan to become effective under certain conditions, in advance of the effectiveness of joint loans if this were to be justified by the circumstances of the case; (e) stipulating that prematuring of a joint loan because of a default by the Borrower would be an event of default under the Bank loan.

11. Role of other lenders: The joint lenders agreed to enter into loan negotiations with the relevant borrowers in Colombia and Mexico promptly upon receipt of notification from the Bank. In the case of the Colombian projects, the joint lenders were notified at the time of the Bank's own negotiations, when the award of contracts was known for over 50% of imported goods; in the case of the Mexican project the award of contracts extends over a period of time and joint loans need to be negotiated when there are indications that countries' suppliers are receiving contracts in amounts eligible for joint financing.

12. 1/It was also agreed that, if a joint lender found it necessary to place a ceiling on the amount of the financing to be made available, it would consider seriously the possibility of increasing this amount in the event that the flow of orders was such that its share of their financing under the joint financing formula would otherwise have exceeded the ceiling. The Bank was made responsible for considering the effect of any such ceiling and for advising, after consultation with interested joint lenders, as to whether the ceiling would, in the Bank's judgment, be adequate in relation to the orders likely to be obtained. Ceilings were imposed by most countries but there has been no necessity as yet to seek any increase in the limits prescribed.

13. Joint loans are normally to be made directly by the export financing institutions to the borrowing agencies in Colombia and Mexico, and not to the governments.

14. The joint lending institutions, that is the export finance institutions (E.F.I.) and the appropriate borrowers, were requested to agree with the Bank on a letter providing for coordination of the Bank and joint loans, defining the specific joint loans and summarizing the understandings between the Bank, the financing institutions and the borrowers. These understandings are to cover the following subjects: (a) terminology and definitions; (b) notification of award of contracts to suppliers; (c) payment of goods and services and subsequent claims for reimbursement by the Bank and individual export finance institutions in the appropriate cost sharing percentage; (d) in the event of any refusal to disburse, notification by the lender in question of all other parties concerned, (e) supply to the Bank of information regarding the utilization of the proceeds of the loan together with the appropriate amortization schedule; (f) cooperation and exchange of views and information on operation of such loans and performance of obligations thereunder; and (g) prior warning of any conditions likely to interfere with the performance of the agency's obligations or the execution of the project. The Bank and E.F.I. will also agree not to premature, terminate or substantially amend the appropriate loan agreement, or suspend or cancel disbursements without prior consultation.

15. Role of the Borrower and Guarantor: The Borrower and Guarantor are required to use their best efforts to secure other loans under the joint financing arrangements for the project and are responsible for financing the full local currency costs of the project and, in addition, any possible short-fall of foreign exchange requirements that may arise due to inability to obtain or utilize joint loans to the full. They are also responsible for the conduct of negotiations on the detailed terms and conditions of loans from the joint lenders and for dealing with the many new problems of a legal, administrative and financial nature arising from the need to deal with several lenders in association with the same project; at the request of both the Borrower and the E.F.I. the Bank has been represented during some of these negotiations.

16. Further details of individual projects are given overleaf.

1/ Ceilings were imposed as follows :-

	Colombia	Mexico
Belgium	5	10
France	10	10
Germany	10	10
Italy	10	10
Japan	10	10
Sweden	4	4
U.K.	10	10
USA	10	8

No ceilings were imposed by Canada, Netherlands, Spain and Switzerland.

IBRD/IDA JOINT FINANCING OPERATIONS INVOLVING EXPORT FINANCING INSTITUTIONS
(Millions US$ equivalent)

TYPE OF PROJECT AGREEMENT DATE TOTAL COST FOREIGN EXCHANGE COMPONENT BANK/IDA - LOAN/CREDIT	BORROWER GUARANTOR ORIGIN OF JOINT FINANCING	JOINT LOAN TERMS AND CONDITIONS AND OTHER FINANCING ARRANGEMENTS	SPECIAL PROVISIONS IN LOAN/CREDIT DOCUMENTA... INTER-AGENCY AGREEMENTS METHOD OF PROCUREMENT
IBRD Loan 436 ME Power Sector December 15, 1965 $309 $145 external financing proposed Bank loan: $110 - $93.4 at 5.1/2 percent and $16.6 at 6 percent, repayable over 20 years with 4 years grace; amount determined in expectation that Mexico would obtain remainder of external financing, $35 from countries which would be major suppliers.	Comision Federal de Electricidad and Nacional Financiera S.A. Guarantor: Government of Mexico For origin of joint financing see "Introductory Note"	Canada - $5.0 ($2.1) Export Credit Insurance Corporation at 6 percent for 15 years from signature (October 22, 1966) France - $10.0 ($2.9) from two commercial banks at 6-7 percent for 10 years delivery Italy - $10.0 ($0.1) from Istituto Mobiliare Italiano at 6 percent for 15 years from signature Japan - $10.0 ($10.0) from Eximbank at 6 percent + 3/8 percent commitment fee for 15 years from signing Switzerland - $7.0 ($0.9) from commercial banks at 6%-7% for 10 years from date of delivery Procurement in Mexico, Spain, USA, Sweden, U.K. and Germany, in some cases substantial, was not covered by joint loans and the joint loans which were made were utilized to the extent of actual procurement, estimates of which are shown in brackets.	See "Introductory Note". Loan made for payments eligible for Bank financing during two year period 1965/66 (a) 2/3 of payments on e[illegible]ment contracts eligible for joint financing; (b) payments on equipment contracts for other goods procured under international competitive bidding up to $50.0 million equivalent; (c) foreign exchange component of civil works, estimated at $15.0 million; (d) interest during construction, consultants services, etc.
IBRD Loan 536 CO Bogota Water Supply June 3, 1968 $35.3 $17.3 Bank loan: $14.0 for 20 years including 4.1/2 years grace at 6.1/4 percent subject to corresponding reduction if joint financing exceeds $3.0. See also "Introductory Note".	Empresa de Acueducto y Alcantarillado de Bogota Guarantor: Government of Colombia For origin of joint financing see "Introductory Note"	Terms and status of joint loans reflect progress of award of contracts and are not yet final. Germany - Kreditanstalt für Wiederaufbau (KfW) DM 2.3 to 4.0 million (US$600,000 equivalent); completion of negotiations awaiting agreement on amount; 10 years from start of operation or delivery; 7 percent p.a.; 1/4-3/4 of 1 percent commitment charge. U.S. Export-Import Bank - up to US$3.0; negotiation substantially completed; 10 years from shipment; 6 percent p.a.; 1/2 of 1% p.a. commitment fee.	See "Introductory Note"
IBRD Loan 537 CO Bogota Power Supply June 3, 1968 $43.7 $25.0 Bank loan: $18.0 at 6.1/4 percent repayable over 20 years with 3.1/2 years grace, subject to corresponding reduction if joint financing exceeds $7.0.	Empresa de Energia Electrica de Bogota Guarantor: Government of Colombia For origin of joint financing see "Introductory Note"	Terms and status of joint loans reflect progress of award of contracts and are not yet final. Germany - Kreditanstalt für Wiederaufbau (KfW) up to DM 8.0 million (US$2.0 million equivalent); negotiation completed. Awaiting signature. 10 years from start of operation or delivery; 7 percent p.a.; 1/4-3/4 of 1 percent commitment charge. Italy - Istituto Mobiliare Italiano (IMI) It.Lire 1.8 billion (US$2.9 million equivalent). Signed August 1968; awaiting declaration of effectiveness; 10 years from completion of work; 6 percent p.a.; no commitment charge.	See "Introductory Note"
		Japan - Export Import Bank of Japan, up to YEN 1.08 billion (US$3.0 million equivalent); negotiation not yet completed. 10 years from shipment; 6-3/4 percent p.a.; 3/4 of 1% p.a. commitment charge. U.S. Export-Import Bank, up to US$2.0 million; negotiation substantially completed. Signature expected shortly. 10 years from shipment; 6 percent p.a.; 1/2 of 1% p.a. commitment fee.	
IBRD Loan 544 ME Second Power Sector Program June 28, 1968 $155.0 $112.0 Bank Loan: $90.0 at 6.1/2 percent repayable over 20 years with 4 years grace period; amount determined in expectation that Mexico would obtain remainder of external financing required, $22.0 from countries of major suppliers.	Comision Federal de Electricidad and Nacional Financiera S.A. Guarantor: Government of Mexico For origin of joint financing see "Introductory Note"	Terms and status of joint loans reflect progress of award of contracts and are not yet final. France - substantial contracts awarded. Germany (KfW) - DM 8.0 million (US$2.0 million equivalent) at 7 percent p.a. for 15 years from date of signature. Italy - Joint loan for 436 ME extended to June 1968. Japan - $25.0-$30.0 negotiated but no details available. Spain - $6.0 signed but no details available; probably at 5%, with appropriate bank charges, for 10 years. Switzerland - $6.0-$7.0; Joint loan from 436 ME extended. U.K. - $2.0; no details. USA Eximbank - $5.0 at 6 percent for 10 years including 2 years grace. Canada - ECIC intends to negotiate loan for $4.6 for 15yrs. with 2 yrs. grace.	See "Introductory Note" Loan of $71 for construction expenditure items, consulting fees, transmission and distribution equipment and generating equipment with a short production time; $19 million allocated for specific contracts for major generating equipment with long production periods. Bank loan covers: (a) 2/3 of payments for equipment contracts eligibl for joint financing; (b) full amount of payments for other equipment procured abroad; (c) foreign currency component of equipment procured in Mexico; (d) foreign currency component of civil works; (e) payments to foreign consultants.
IBRD Loan 575 CO Power Interconnection December 2, 1968 $29.6 $21.4 IBRD Loan: $18.0 at 6.1/2 percent repayable over 25 years with 5.1/2 years grace, subject to corresponding reduction if joint financing exceeds $3.4 million.	Interconexion Electrica S.A. Colombia Guarantor: Government of Colombia For origin of joint financing see "Introductory Note"	Terms and status of joint loans reflect progress of award of contracts and are not yet final. Italy, Istituto Mobiliare Italiano (IMI) - It.Lire 1.4 billion (US$2.25 million equiv.); 10 years from completion of work; 6 percent p.a.; no commitment charge; ISA has advised IMI of desire to negotiate. Japan, Export-Import Bank of Japan - at least YEN 225 million (US$625,000 equiv.); 10 years from shipment; 6.3/4% p.a.; 3/4 of 1% p.a. commitment charge; lender informed of intention to negotiate.	See "Introductory Note" Bank loan would cover (a) 50% of cost of eligible contracts for imported equipment up to $11.5; (b) 50% of cost of engineering services up to $2.2; (c) interest on loans during construction of $2.0; (d) contingencies $2.3. Local cost financing from award of contracts to local firms should not exceed $2.0 million.
		Switzerland - amount will depend on amounts of sub-orders and Swiss policy on financing sub-orders; lender informed of intention to negotiate. Sweden, 1/ Svenska Handelsbanken - US$2.0 million equiv. 10 years from shipment; interest rate not yet known. France, 1/ Banque Française commerce d'exterieur - US$2.0 million equiv., terms not yet known.	

1/ The Swedish and French loans are alternatives for the same order. They would be sub-orders derived from a prime contract with an Italian supplier and we are currently awaiting informatior from the supplier as to which of these two countries will receive the sub-order. Both institutions have indicated an interest in providing financing for the sub-order.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

R69-232

FROM: The Secretary

December 11, 1969

PEARSON COMMISSION RECOMMENDATIONS

In pursuance of the procedure indicated in the President's Memorandum dated October 10, 1969 (SecM69-472), there are attached hereto analytical memoranda dealing with Recommendation Nos. 7, 9, 10, 15, 16 and 31 in the list set out in the attachment to the memorandum of October 10.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

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

OFFICE OF THE PRESIDENT

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: PEARSON COMMISSION'S RECOMMENDATIONS RELATING TO THE WORLD BANK GROUP

The Executive Directors will recall that on October 10, I distributed a list of the 33 recommendations of the Pearson Commission relating directly to the activities or policies of the Bank Group (SecM69-472, dated October 10, 1969). In my covering note, I said that I would present to the Executive Directors, with respect to each of the recommendations, a memorandum proposing the position which I believed the Bank should adopt on the recommendation and the action, if any, which I believed it appropriate for the Executive Directors to take.

Attached is the first group of analytical memoranda, dealing with the following recommendations:

Recommendation No. 7:	IFC Policies
Recommendation No. 9:	IFC Project Identification and Investment Promotion Work
Recommendation No. 10:	Advice on Industrial and Foreign Investment Policies
Recommendation No. 15:	Assistance to Development Banks, Industrial Parks and Agricultural Cooperative Credit Institutions
Recommendation No. 16:	Joint or Parallel Financing
Recommendation No. 31:	Need for Organizational Changes in IDA

The numbers assigned to the recommendations are those which appear in the list set forth in SecM69-472, referred to above.

As the Executive Directors will recognize, this first group of memoranda deals with recommendations which present no difficult analytical problems; in most instances, the Commission has recommended an intensification or a broadening of present activities, which is already reflected in the Bank Group's plans for the next five years. I believe that we can readily accept these recommendations. There is one recommendation, however, which I do not feel we should accept: the recommendation which suggests the need for a review of IDA's organizational structure, if and when IDA's resources are substantially increased.

While I believe that the Executive Directors will find the attached memoranda of interest, none of the recommendations analyzed seems to me to call for action by the Directors at this time. Therefore, unless any Executive Director wishes me to do so, I do not intend to schedule these memoranda for Board discussion.

As I said in my October memorandum, it is my intention to submit additional groups of memoranda on a monthly basis.

Robert S. McNamara

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

CONFIDENTIAL

OFFICE OF THE PRESIDENT

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 7 Concerning IFC Policies

Recommendation

IFC policies should be reoriented to emphasize the development effect of its investments and not just their profitability.1/

Background

This recommendation appears in the context of a discussion on ways in which developing countries might realize greater advantages from foreign investment. The Commission says that while many of IFC's investments have benefited the host country, others have contributed only marginally, if at all, to economic development, rarely being preceded by an analysis of their impact on the country's economy. This, the Commission comments, is because profitability has been IFC's principal investment criterion. While it does not suggest that IFC should ignore profitability, it urges that IFC reorient its policies "for the sake of the economic impact of its own investment and even more for that of the new investments ... it is well placed to promote."2/

Analysis

As the Commission recognizes, profitability is an essential investment criterion for IFC. IFC's Articles direct it to undertake its financing on terms and conditions which take account, among other considerations, of "the terms and conditions normally obtained by private investors for similar financing."3/ In addition, it is directed to "seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms."4/ IFC wants partners in the enterprises in

1/ This is a paraphrase of two paragraphs in the Commission's report (pages 114-115) which are cast in the form of an analysis and an expression of hope for change, rather than in the form of a recommendation. It has been included in this series of memoranda, however, because the Commission's intent was clearly to suggest an important policy change for a member of the Bank Group.

2/ Report, page 115.

3/ Art. III, Sec. 3(v).

4/ Art. III, Sec. 3(vi).

which it invests, it wants to revolve its funds by selling seasoned securities out of its portfolio and, above all, it wants to encourage the growth of private productive enterprise in the developing countries. Each of these objectives alone, and certainly in combination, makes the prominence of the profitability criterion inevitable.

It is true that IFC has not in the past had a strategy of development based on the needs of the countries in which it operated. It tended to consider individual projects as they came up. One reason was that, until the Bank's Articles of Agreement were amended to permit it to lend to IFC, IFC did not have sufficient resources to enable it to make a significant impact on the economies of its member countries. Another was that in the past it did not itself engage in promotional activity.

Although my appraisal of the current situation is less negative than that of the Commission, I nevertheless agree that developmental significance should be given a more prominent place in IFC's investment decisions. This shift in emphasis has already begun and is reflected in the revision of the IFC policy statement which I have submitted to the IFC Board for approval.

At the same time, I agree with the Commission's recommendation that IFC should be better equipped to ascertain and to take into account the economic implications of its investments. One step we have taken in that direction is to authorize IFC to appoint an Economic Adviser who will add to IFC's in-house economic strength. In addition to the attention which IFC will thus be enabled to bring to bear directly upon the implications of proposals which it is considering, IFC will have the benefit of the work of the new Industrial Projects Department of the Bank. As I have pointed out in another of this series of memoranda, it is my intention that the work of IFC and the new Bank Department should be complementary.

Conclusion

The paths along which IFC is proceeding are consistent with and should effectively implement the Commission's recommendation. I have submitted for the approval of the IFC Board a revised IFC policy statement which reflects this trend.

Robert S. McNamara

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

OFFICE OF THE PRESIDENT

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 9 Concerning IFC Project Identification and Investment Promotion Work

Recommendation

". . . because of their links with the private sectors of both developed and developing countries, IFC, and organizations like it, are logical agents for project identification and investment promotion work, and we accordingly recommend that they become much more active in this field."1/

Background

The report records the Commission's "definite impression that most low-income countries would welcome a larger flow of foreign investment."2/ The Commission notes that there are bilateral programs intended to stimulate the flow of private capital, which include subsidization of investment surveys and the publicizing of investment opportunities. It comments that these programs are useful, but often too small and too imperfectly geared to the investor's real needs, and it recommends that they devote more attention to inducing small and medium-sized investors to take up projects in developing countries, providing them where necessary with technical assistance. The report proposes that "similar change" should be encouraged with respect to IFC. Commenting that in the past IFC has interpreted its Articles "to mean that it should leave all project initiative to others," the Commission adds that there are signs that IFC and similar bilateral institutions are beginning to appreciate the role they could play in actively identifying new investment opportunities and bringing together domestic and foreign partners to execute them.3/ There follows the recommendation quoted above.

Analysis

The Commission is correct in stating that in the past IFC was content to leave the project initiative to others. But its reference to IFC's approach does not fully reflect our plans for the future.

1/ Report, page 110.

2/ Ibid., page 105.

3/ Ibid., page 110.

In July 1968, I told the IFC Board that I considered that IFC had established itself in the industrial and financial community and had built up staff experience to the point at which it could usefully do more in the direction of investment promotion. Many developing countries were thought to have a low absorptive capacity with respect to industrial projects. But, if experience in other fields was any guide, some of this apparent lack of absorptive capacity could be overcome by increased preinvestment assistance. Experience also indicated that there were instances of promising investment opportunities in the developing countries where projects had not been carried out, or had been carried out inefficiently or ineffectively, because of the absence of suitable sponsors to do the necessary developmental and promotional work. We therefore proposed that IFC should become more active in seeking to promote industrial projects where there was a reasonable prospect that the project would eventually be suitable for financing by IFC in accordance with its established criteria. We proposed, further, that IFC should be free to suit the form of promotional activity to the needs of the proposed venture and the circumstances prevailing in the country in which the venture would be located. This might mean, in some instances, that IFC would assume responsibility for implementing a project from its inception, through the stages of a feasibility study, detailed engineering and market investigations, finding technical and financial partners and putting together a financial package. At the other extreme, it might mean that IFC would participate as one of a number of shareholders in a pilot company which would conduct the requisite investigations on behalf of a group of technical and financial sponsors already committed to proceed with the venture if the investigations demonstrated the project's viability. We suggested an over-all limit of $250,000 for promotional costs. The Board approved the proposal, with a limit of $50,000 for any one project.

Under this policy, in the 1969 fiscal year IFC invested in an industrial promotional company in Honduras 1/and in two tourism promotional ventures,in Colombia 2/and Tunisia.3/ IFC also committed funds to a cement project in Indonesia, taking primary responsibility for determining the feasibility of the project and organizing financial and technical support for it.

In January of 1969, the IFC Board approved my proposal that IFC should be willing to put a director on the Board of any promotional company to the shares of which it has subscribed, if in IFC's judgment this would enable its promotional activity to be carried out more effectively.

Locating investment opportunities, promoting indigenous entrepreneurial talent and encouraging the growth of private investment is a difficult job. IFC plans to increase its efforts in this area by continuing and intensifying activity of the kind described above and by increasing its contacts with individuals and institutions in both the developing and developed countries, with an eye to uncovering and exploiting investment opportunities. These plans

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1/ No. 140.

2/ No. 137.

3/ No. 152.

are reflected in the new policy statement for IFC which has been submitted to the IFC Board of Directors for approval.

If these policies are to be more than pious statements of intention, it will be necessary that IFC have available staff who can spend a considerable portion of their time in the developing countries. It would be their primary function to look for investment opportunities which IFC might appropriately participate in or bring to the attention of others. This will require adding several senior professionals to IFC's staff.

Even if IFC's staff is enlarged, IFC cannot by itself accomplish all that needs to be done. As the Executive Directors know, the Bank Group as a whole has given considerable support to institutions in the developing countries which are themselves engaged in promoting private enterprise. The Pearson Commission has recommended greater help to development banks and similar institutions, and the memorandum analyzing that recommendation reviews the past activity of the Bank Group and plans for increased support in the future. However, IFC's assistance should not be limited to institutions formed by residents of the developing countries. It should, and it intends to, work with, support and help to finance institutions such as the Atlantic Community Development Group for Latin America (ADELA),1/ the Private Investment Company for Asia (PICA),2/ and other comparable organizations (including the private investment company proposed for Africa) provided that they need help, are well managed, and are carrying on investment programs that will assist the development of the countries in which they are doing business.

It is relevant to remind the Executive Directors that the Bank also intends to do more to help identify and prepare industrial projects. As the Executive Directors are aware, we have recently established an Industrial Projects Department within the Bank, which will carry out sector analyses and

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1/ ADELA is a private corporation, with authorized capital of $60 million, $52.65 million of which has been subscribed by 234 stockholders in Europe, the United States, Latin America, Canada and Japan. It makes equity and loan investments and, through an entity known as ADELATEC, which is in effect a firm of development consultants rendering services to ADELA and to others, it engages in a variety of other activities designed to support private investment in Latin America: underwriting, project identification and promotion, project management, market studies, resource surveys, and feasibility and pre-feasibility surveys. The ADELA Group is at present giving priority to agri-business and tourism. It is increasingly devoting its energies and resources to self-initiated sectoral studies, project identification and project promotion in these fields.

2/ PICA, whose authorized capital is $40 million, was modeled on ADELA; the two corporations have a number of shareholders and directors in common. PICA was formally organized in February of 1969 and its operations have thus far been limited.

project identification work in the industrial sector. To assure that the efforts of IFC and of the new Department, as well as the activities of the Bank's Development Finance Companies Department, are complementary, and that there is a full exchange of information and an appropriate allocation of responsibility among all Bank Group operational units working in the field of industry, we are also creating an Industrial Coordination Committee composed of the Executive Vice President of IFC, as Chairman, the Directors of the two Bank Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

Conclusion

The plans for future IFC activity are consistent with the Commission's recommendation. As indicated above, the implementation of these plans involves a revision of the IFC policy statement. Such a revision has been submitted to IFC's Board of Directors for approval.

Robert S. McNamara

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

OFFICE OF THE PRESIDENT

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 10 Concerning Advice on Industrial and Foreign Investment Policies

Recommendation

"International institutions, such as the World Bank . . . , should expand further their advisory role regarding industrial and foreign investment policies. These activities could eventually be fully transferred to IFC if the proposed reorientation of IFC is successfully achieved."1/

Background

This recommendation appears in the context of the Commission's discussion of the potential of foreign investment, primarily direct investment, for contributing to the faster growth of the developing countries. The Commission reports its impression that most low income countries would welcome a larger flow of foreign investment, and suggests a number of ways in which that flow might be stimulated. It believes that developing countries urgently need impartial advice concerning their posture toward foreign investment. It finds that such advice has rarely been provided in the past. With respect to the Bank Group, the Commission says that the Bank has tended to delegate much of its industrial activity to IFC, but that IFC has deliberately and to the extent possible avoided involvement in issues of governmental policy and is, in any case, not equipped to ascertain the economic implications of government policies.2/

The Commission also observes that much of the substantial industrialization achieved by developing countries in the last two decades has been in the form of high-cost import-substituting industry and that, in many cases, new industries have become a burden rather than a benefit to

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1/ Report, page 115. The proposal for reorientation of IFC policy is the subject of a separate memorandum.

2/ Report, page 114.

the economies, with adverse effects on agriculture and on the prospects for increasing exports. Thus the advice to be given to developing countries on foreign investment policies is closely linked with advice on their industrial policies.

Analysis

In recommending that the Bank "expand further" its advisory role, the Commission implicitly recognizes that the role would not be a new one for the Bank. The principal vehicle for the provision of advice has been country economic missions.1/ The resources devoted to the industrial sector on these missions have, however, been limited. From the beginning of 1967 to date, the total of industrial specialist resources devoted to such coverage has averaged only five man-years annually. There has been some increase in emphasis on industrial policy recommendations to individual countries in this work, exemplified by recent missions to, e.g., Argentina, Brazil and Mexico in the Western Hemisphere, and India, Indonesia, Iran, Korea and Pakistan in Asia. Appraisal and follow-up of industrial projects have also provided the occasion for advice on industrial policies.

The Bank's advisory role with respect to policies of individual countries towards foreign direct investment has not been well defined. In the course of the country economic work, such policies have been the subject of attention when they appeared to be hampering development. But these policies have not been systematically reviewed, nor has any specialist been employed to deal with them.

I fully agree with the Commission's recommendation that the Bank's advisory functions should be enlarged. Many developing countries need advice on trade, fiscal and other policies which will foster industrial growth and attract foreign private investment. Tariffs, import licenses, taxation, subsidies, price controls -- all can affect industrial progress to an extent often not fully appreciated by the government involved. Protection policies, which have been the subject of discussion by the Executive Directors in the context of some recent Bank Group operations, frequently foster the growth of uneconomic enterprises. The Bank ought to be in a position to advise its developing country members on the implications of particular policies and to assist them to make sensible choices.

It is my intention that comprehensive industrial sector studies shall in future form part of the Bank's economic reviews conducted under the direction of the Area Departments. As the economic missions now do for other sectors, they will be systematically analyzing the industrial capacity and strategy of individual countries and the relationship of industrial progress to over-all growth. This is a difficult process which will take some time to organize and to staff, and which will in due course have budgetary implications.

1/ Some of the general survey missions organized by the Bank included industrial specialists, but no survey mission has been sent out since 1964.

The Industrialization Division of the Economics Department was organized a year ago to undertake research concerning the industrialization process, and more recently we have created an Industrial Projects Department in the Bank which, in addition to its operational functions, is charged with making recommendations on industrialization problems and policies of member countries, including advice on industrial planning and priorities and on measures to stimulate efficient and sound industrial growth.

We shall also look to other international organizations for assistance in their fields of specialization. The United Nations Industrial Development Organization (UNIDO), since its establishment a few years ago, has been engaged primarily in providing technical assistance for specific industrial activities. It is now widening its advisory activities, and in view of my intention that the Bank should step up its own activities of that character, closer cooperation with UNIDO seems appropriate. Arrangements have accordingly been made with UNIDO for an exchange of information about matters of common interest, on an informal basis. The International Labour Organisation (ILO) and the Food and Agriculture Organization of the United Nations (FAO) are also concerned with some aspects of industrialization, and we shall be cooperating with these agencies as well.

I also believe that IFC could usefully play a role in considering and advising governments on measures to encourage the development of the private sectors of their economies, in particular the flow of foreign private capital. IFC has begun to collect some data bearing on this problem. As reported in the memorandum dealing with the Commission's recommendation for a reorientation of IFC policies, I have authorized IFC to appoint an Economic Adviser. This adviser will be expected to organize the data collection work more efficiently and to evolve proposals for systematic activity by IFC in providing advice to governments on their foreign investment policies.

As noted in another of this series of memoranda, an Industrial Coordination Committee is being created in order to coordinate work in the Bank Group on industrialization policies and measures to promote foreign private investment. This Committee will be composed of the Executive Vice President of IFC, as Chairman, the Directors of the Bank's Industrial Projects and Development Finance Companies Departments, and the Chief of the Economics of Industrialization Division of the Economics Department.

I am not now prepared, however, to endorse the tentative suggestion of the Commission that eventually all advisory activities on industrial and foreign investment policies might be performed, for the Bank Group, by IFC. Although, as indicated above, our plans call for IFC to play an important advisory role in connection with foreign investment policies, it seems likely that most of the Bank Group's advisory activities in the field of general industrialization policy, including the establishment of priorities for industrial development, will, at least in the foreseeable future, and probably over the long term, be undertaken by the Bank, where work in this field may be integrated with the guidance being given to member countries on other aspects of their development programs.

Conclusion

The plans for increased emphasis by the Bank Group on the provision of advice to member countries concerning the industrial and foreign investment policies of developing countries are fully consistent with the Commission's recommendation. No action by the Executive Directors is now required.

Robert S. McNamara

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

OFFICE OF THE PRESIDENT

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 15 Concerning Assistance to Development Banks, Industrial Parks and Agricultural Cooperative Credit Institutions

Recommendation

". . . we recommend greater help to development banks and similar institutions in developing countries. In addition, assistance should be provided to such promising activities as industrial parks and agricultural cooperative credit institutions, designed to promote financing of the domestic private sector."1/

Background

In the context of its discussion of ways to make aid more effective, the Commission notes that "Smaller investment projects may also require support, and there is then a case for the assistance of national development banks and similar institutions, public and private."2/ These institutions, particularly the development banks, the Commission says, "are especially important because they can reach the small investor, their administrations are generally more decentralized and fast moving than larger enterprises, and they result in such important institution-building as the strengthening of local capital markets."3/ In its historical review of the last two decades, the Commission also notes the role of development banks in facilitating savings and investment,4/ and elsewhere in the report stresses the importance of the role of financial intermediary.5/

1/ Report, page 179.

2/ Ibid., page 179.

3/ Ibid., page 179.

4/ Ibid., page 31.

5/ Ibid., pages 64-65.

There is no mention or discussion of industrial parks per se in the Commission's report, beyond the statement in the recommendation that they constitute a promising activity. The closest reference occurs in the discussion, earlier in the report, of the problems of the private sector, where mention is made particularly of financial institutions to accommodate small entrepreneurs, and there is a passing reference to the need for legal and accounting facilities, suitable land tenure and management training as well.1/ All of these considerations arise in connection with industrial parks. There is no extended discussion of agricultural credit institutions, although it is noted elsewhere in the report that increasing agricultural production raises a demand for more farm credit.2/

For convenience, each of the three types of facilities mentioned in the recommendation -- development banks, industrial parks and agricultural cooperative credit institutions -- will be analyzed separately.

Analysis

A. Development Banks 3/

The Bank's involvement with development banks dates from 1950 when it assisted in the establishment of the Industrial Development Bank of Turkey and the Development Bank of Ethiopia. Ever since, the Bank Group has been heavily engaged in promoting, financing and extending technical assistance to such institutions. A few indications of this activity are cited below:4/

a. The Bank Group has helped to promote 12 development banks and to reorganize another six.

1/ Report, page 65.

2/ Ibid., page 61.

3/ In view of the characteristics cited by the Commission (quoted in the text, above) to illustrate the importance of "development banks", it appears that the Commission had in mind the kind of institution known in Bank Group parlance as a "development finance company", in contrast to such institutions as e.g., the Japan Development Bank which is the government's agency for borrowing abroad and which serves as a conduit for funds to private industry, or the Corporacion de Fomento de la Produccion of Chile, created to devise and give effect to a plan to promote production in all sectors of the economy and to borrow abroad. Accordingly, the following description of the Bank's experience with "development banks" concerns institutions of the former type, devoted primarily to stimulating medium-sized and smaller enterprises in the private sector of the economy.

4/ The data includes companies in Austria and Finland although these countries fall outside the category of "developing countries". Both are Part I IDA countries.

b. The Bank Group has assisted in recruiting key personnel for a number of development banks. IFC is represented on the board of 13.

c. Fifty-five officials of development banks which have been financed by the Bank Group have received training in the Bank's Economic Development Institute; sixty-one have received training under special programs.

d. Gross commitments to development banks up to the end of September 1969 amounted to $954 million. This financing was extended to 28 companies in 24 countries and included Bank loans (93%), IDA credits (4%), and IFC investments (3%). These figures reflect a recent rapid acceleration of commitments. Until the end of fiscal 1963, commitments amounted to only $229 million; in the next five-year period they totalled $497 million. In fiscal 1969 alone, commitments reached almost $195 million. About 61% of gross commitments had been disbursed up to the end of September 1969. Allowing for repayments and redemptions of about $149 million, the disbursed amount outstanding was $430 million.

Bank Group policies towards development banks have been reviewed periodically, most recently by the Executive Directors in November 1968. Several significant changes have recently taken place. For example, in June 1968, the Bank, whose policy once prohibited lending to government-controlled development banks, decided it would be prepared to lend to such institutions provided their management was sound and autonomous in day-to-day decision making. Another policy departure, accepted in November 1968, involved the scope of operations of institutions financed by the Bank Group. Formerly they were eligible only if they were devoted primarily to manufacturing industry. Now they may be multi-purpose companies, financing not only industry but also tourism, housing, and other productive activities. Moreover, in the past year IFC has sponsored and helped bring into existence two companies which are primarily devoted to promoting new enterprise and to providing investment services, rather than finance.1/ These developments, all indicative of increased flexibility on the part of the Bank Group, reflect the importance which the Group attributes to institutions which can mobilize capital, allocate it for productive purposes, promote investment and generally act as intermediaries in the investment process.2/

1/ These companies, and IFC's investment in them, are not included in the figures cited in the previous paragraph.

2/ As noted in the memorandum concerned with IFC's preinvestment promotion work, IFC intends also to work with, support and help to finance such institutions as the Atlantic Development Community Group for Latin America (ADELA), the Private Investment Company for Asia (PICA) and other comparable organizations (including the investment company proposed for Africa), if these institutions need help, are well managed and are carrying on investment programs that will assist the development of the countries in which they operate.

The 28 development banks presently associated with the Bank Group are now committing the equivalent of about $430 million per annum in loans, investments, etc. These in turn contribute to a total investment estimated at about $900 million. The vast bulk of these investments assist the manufacturing sector. Judging by the size of the operations, it is fair to say that development banks are financing primarily medium-scale enterprises and, to some extent, small enterprises. If it did not work through such intermediary institutions, the Bank Group would be unable to reach a very significant part of the manufacturing sector of developing countries.

The principal objective of the Bank Group, however, is not simply to find retail outlets for dispensing external finance and technical assistance, but to help build effective investment institutions in developing countries. Hence, the Group encourages development banks to be active in mobilizing domestic capital, underwriting securities, subscribing to equities, selling from their portfolios in order to broaden ownership of enterprises, identifying and promoting investment opportunities and assisting entrepreneurs in formulating and carrying out investment proposals. While some progress has been made on these lines, a great deal remains to be done. Most development banks have not acquired much capability as mobilizers of financial resources and remain dependent on government funds, or on international institutions or on foreign aid. Furthermore, development banks, in the main, still respond to investment opportunities presented to them by their clients and only rarely do they do much in the way of identifying and promoting projects on their own initiative.

I fully accept the recommendation of the Pearson Commission that the Bank Group should provide more help to development banks.

The Bank's Five-Year Program already reflects this view. The plan for gross Bank and IDA commitments to development banks in the period 1969-73 is around $1,500 million, compared with $483 million in the preceding five-year period. As noted above, in fiscal 1969, the first year of the period, $193 million was committed. Although there is not yet a projection for IFC operations in this field, I have little doubt that IFC, too, will expand its role in financing development banks.

To achieve the objective of the Five-Year Program, the number of development banks associated with the Group will grow to perhaps twice the current number of 28.

The proposed expansion in the number of institutions, as well as in the volume of operations, is closely related to the recent changes of policy already mentioned, which make possible a significant expansion of activity in Africa and in Latin America. In particular, it is probable that three or four loans will be made to government-controlled development banks in the current fiscal year. We have begun a systematic exploration of existing small development banks in Africa and of the possibilities of financing such institutions.

This expansion of activity, in exploration, in appraisal of companies, and in actual lending, has placed an unusual strain on staff. In fiscal 1969 the number of professional staff in the Bank's Development Finance Companies Department increased by 50%, from 20 to 30; another 25% increase is expected in the current year.

As noted above, Bank Group policies towards development banks have in the past been periodically reviewed in the light of experience and as new problems emerged. I shall continue to bring to the Executive Directors proposals for further changes as and when they appear desirable.

B. Industrial Parks

Industrial parks, sometimes referred to as industrial estates, essentially consist of tracts of land provided with services and public utilities for the establishment and operation of a group of industrial enterprises. First employed in industrialized countries as a device for the planned location or relocation of industries, they have been widely used in developing countries since the 1950's primarily as a tool to foster small-scale and medium-sized industrial enterprises.1/ Experience has been widespread and interest is growing, but the results have been uneven.

Fundamentally, the industrial estate provides developed sites for the construction of factories, to be built by the entrepreneur or to be offered for sale or lease by the estate management authority. The resulting clustering of enterprises may facilitate working arrangements between enterprises and provide a focal point for other assistance needed by smaller industries. This assistance may take the form of financing; contracts with government regulatory agencies; training; advisory services; research; subsidies; testing facilities; common industrial, purchasing, or marketing services; or labor relations services. Thus industrial estates can serve to create external economies of scale, to make available serviced industrial land at reasonable cost, to produce a desirable pattern of location of industry, and to serve as a means of centralizing official assistance to industry.

In addition to the general-purpose industrial estate, a variety of other forms has evolved in developing countries. Some are large estates for both heavy, large industries and smaller, light industries, and may include major transport facilities such as ports or railway yards.2/ A newer type for particularly small industries is the estate consisting of "flatted"factories or lofts, for relocating squatter workshops or others covered by urban renewal programs,3/or for attracting foreign investment to labor-intensive activities such as electronic assembly.4/ There are "functional" estates specializing in one type of industry, e.g., metal working. "Satellite" estates have been

1/ Industrial estates are found in such diverse countries as Ireland, in Europe; Puerto Rico, Mexico and Brazil, in the Western Hemisphere; India, Pakistan, Malaysia, Singapore and Taiwan in Asia; Ghana and Nigeria in Africa.

2/ e.g., Jurong near Singapore with a potential area of 17,000 acres; Aratu near Salvador in Brazil with 110,000 acres.

3/ e.g., Hong Kong, Singapore.

4/ e.g., Singapore.

created for sub-contractors of larger industries. There are also estates set up in thickly populated rural areas to tap a new work force and decentralize industrial concentrations.1/ Some countries have created export-oriented estates with customs-free bonding arrangements.

The ownership of industrial estates may be private or governmental, in the latter case at the local, regional or national level. In developing countries ownership must usually be public, although the hope is sometimes that the governmental initiative may induce similar operations by private entrepreneurs. Given public ownership at one or another level of government, the question arises, in relation to the Commission's recommendation, as to what kind of external assistance governments need and what role there can be for the Bank Group. Technical assistance, which can be used to good advantage for preinvestment studies and planning of industrial estates as well as for their operation, is available from the U.N. Industrial Development Organization (UNIDO) with financing from the United Nations Development Programme, and from bilateral sources, both public and private, such as USAID and the Ford Foundation. Finance is required for land acquisition, the provision of infrastructure, factory buildings and equipment, and for various kinds of services.

The Bank Group's potential role is obviously primarily one of providing finance. Our experience with industrial estates is limited to one IDA credit of $6.5 million, extended to Pakistan in 1962 to help develop two industrial estates. This particular project ran into difficulties, partly because the estates were not well sited and partly because the financing arrangements for the prospective tenants were inappropriate. Nevertheless, I believe that we should, consistent with the Commission's recommendation, be prepared to give assistance to appropriate projects involving the establishment of industrial estates. A follow-up of the Pakistan project is in fact in an advanced state of preparation and should come forward to the Board early in 1970.

As the Executive Directors know, we keep searching for ways in which the Bank Group of institutions, centrally organized as they are, can effectively help the small entrepreneur. The Commission is, in my judgment, entirely correct in pointing to industrial estates as a promising vehicle for such assistance. Of course, in each case we would need to weigh the relative merits and costs, social as well as economic, of helping to establish an industrial estate as against other possible ways of promoting the particular small industries concerned.

In the single instance in which we have thus far provided financing for an industrial estate, our funds were used primarily for importation of capital equipment for private factories located on the estates. The financing requirements for other cases may well be primarily for the public sector infrastructure. Each case will have to be judged on its merits. In most instances, it is likely to be desirable to associate our financing with technical assistance from other sources. We should also, I believe, be prepared to help in the planning of industrial estates projects for which Bank Group financing is contemplated. This might be done, in appropriate cases, in association with UNIDO.

1/ e.g., Taiwan.

C. Agricultural Credit Cooperatives

The Commission noted that increasing agricultural production in the developing countries has increased the demand for farm credit. It was particularly concerned about the needs of small farmers, who characteristically have difficulty in finding funds with which to buy imported seed, fertilizer, pesticides and implements and to improve the productivity of their property. In framing its recommendations, the Commission singled out for support, among the other various kinds of agricultural credit institutions, the credit cooperatives. The analysis which follows is, accordingly, similarly limited, although cooperatives are of course only one of several vehicles through which agricultural credit may be extended.1/

Agricultural credit cooperatives specializing in investment lending are rare in developing countries. More frequently multi-purpose cooperatives are found which extend credit in the form of seasonal inputs and collect payment through marketing the crops. There are also various forms of farmer associations, for example in Taiwan, Pakistan and West Africa, which are not cooperatives in a strict sense but which perform many of the same functions effectively. Even where specialized agricultural credit cooperatives do exist, the apex organization is usually not a cooperative, as is the case in Western Europe and North America, but a public agency or specialized banking institution designed to exercise control over the cooperatives and to channel government subsidies to them. In addition, agricultural credit cooperatives often deal mainly or only in short-term credit and, because of lack of experience and appraisal staff, find it difficult to provide longer term credit. That kind of credit is, instead, provided through specialized public agricultural credit institutions.

Within these limitations, the Bank Group has used both agricultural cooperative credit institutions and multi-purpose cooperatives as a channel for making funds available to their members, the ultimate beneficiaries. In some cases, these cooperatives have played an important role in the project as a whole by providing needed services rather than funds.

Experience with these projects has been mixed: some have been successful, others not. The critical factor has been the quality of the management of the cooperatives; if it is weak, as it often is, the project has not been fully effective. In one case, the management of a cooperative group which was expected to act as the channel for Bank funds was so weak that a proposed financing operation had to be postponed indefinitely.

Experience suggests that, in most cases, working through cooperatives imposes a sizeable workload on the Bank, in that substantial guidance and supervision appear to be required. I believe, nevertheless, that our use of

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1/ A sizeable portion of the Bank Group's total financing of the agricultural sector has, over the years, been extended to agricultural credit institutions, to which we have also provided considerable technical assistance. Bank and IDA financing for agricultural credit aggregated $285.2 million as of June 30, 1969.

cooperatives has been worthwhile and that they are an important tool in carrying out our agricultural programs and particularly in reaching individual farmers and ranchers. They are not the only tool, however, and therefore the Bank Group must in each case choose the institutional vehicle most suited for carrying out its financing objectives.

When the Bank Group lends for projects which make use of agricultural cooperatives to provide credit and other services for farmers, provision normally has to be made for substantial technical assistance to supplement the provision of finance and to make it more effective. A recent example is the loan and credit of $9.5 million equivalent made to Senegal in February 1969 to provide (a) credit to farmers, through existing cooperatives, for various agricultural inputs; (b) management services to reorganize the cooperatives' supply and marketing organization and train local staff for its future operations; and (c) extension services to the farmers.1/ Several agricultural credit projects in India are under consideration now, all of which include the use of specialized credit cooperatives as channels of funds and some of which involve substantial inputs of technical assistance.

I believe, however, that we could do more in this field by way of assistance in project preparation, perhaps most effectively in association with the international cooperative movement which has been active in helping cooperatives in the developing countries. I have therefore directed the staff to consider ways in which the Bank Group might support that movement by relating it more closely to Bank operations, and to come forward with proposals to that end.

Conclusion

I am in full agreement with the recommendation of the Commission that more should be done by way of support to the indicated types of intermediary institutions and facilities. Substantially increased assistance to development banks is already provided for in the Bank Group's program for the next five years. Assistance for industrial estates and agricultural cooperative credit institutions must necessarily proceed at a slower pace, for the reasons indicated. However, we are mindful of the potential in these areas. We shall be prepared not only to provide finance in support of industrial estate projects but to assist in the planning of projects of that character for which Bank Group financial support would be appropriate. We shall also be exploring the possibilities of helping to improve the management of agricultural credit cooperatives and of assisting governments in preparing agricultural credit projects involving the use of cooperatives, where appropriate, for Bank Group financing.

No action by the Executive Directors is now required.

Robert S. McNamara

1/ Loan No. 584 SE; Credit No. 140 SE.

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

OFFICE OF THE PRESIDENT

CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 16 Concerning Joint or Parallel Financing

Recommendation

"We recommend that multilateral agencies extend the practice of joint or parallel financing of projects."1/

Analysis

This recommendation comes in Chapter 9 dealing with ways of making aid more effective. It is one of a series of recommendations in the context of a sharp criticism of aid tying and is put forward as one way in which the multilateral agencies can help to mitigate the harmful effects of tying.

The Bank shares the view of the Commission that joint financing between multilateral and bilateral agencies, where feasible, can help borrowers to obtain the advantages of wide international competitive bidding while at the same time utilizing some of the tied bilateral assistance available to them. Joint financing between the Bank and co-lenders also has other advantages. It provides a means whereby funds from other sources are channelled into high-priority projects. Because of the responsibility taken by the Bank for project appraisal and supervision, the execution of jointly financed projects is likely to be more effective than might otherwise be the case. And joint financing with the Bank enables bilateral agencies, notably those in some of the smaller aid-giving

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1/ Report, page 174. The Commission did not say what it meant by "joint or parallel financing." As used in the Bank, "joint financing," in its narrow sense, refers to arrangements under which individual contracts for a single project or program are financed partly by the Bank and partly by the co-lender(s). "Parallel financing," as used in the Bank, refers to arrangements under which the Bank provides all the external finance for individual contracts or separable facilities for a project or program and co-lenders provide all the external finance for other contracts or other facilities. For purposes of this memorandum, however, the term "joint financing" is used in a general sense to include all arrangements for co-lending.

countries, to ensure that their funds are being applied to sound projects without the necessity of building up large project appraisal staffs of their own. For all these reasons the Bank maintains a positive and flexible attitude towards joint financing wherever it can be carried out under conditions insuring wide international competition and without involving unduly complex procedures.

A recent review of the Bank's experience reveals a great diversity in the methods of joint financing that have been used. No one formula, and no one set of rules as to the detailed arrangements, can fit all circumstances. Attached as Annex 1 is a table showing the number of projects, total cost, foreign exchange cost, and the contribution of the Bank or IDA and co-lenders, respectively, in joint financing operations for 1955-1968 and up to October 15, 1969. The table indicates that, while joint financing has been a regular feature of Bank operations for many years, both the number of such operations and the amounts involved increased sharply in 1968 and 1969. This reflects both greater efforts by the Bank to find ways of associating Bank Group finance with funds available from bilateral sources and greater interest by a number of national aid and export financing agencies in becoming associated with projects appraised and partly financed by the Bank Group. There is being circulated separately a summary analysis of the kinds of joint financing arrangements in which the Bank or IDA has been involved through 1968.

Some types of joint financing arrangements have been quite difficult to work out and have imposed a significant administrative burden on the Bank, on co-lenders and on borrowers. Where funds of a bilateral co-lender are already untied, as are those of the Swedish International Development Agency, there is no significant administrative difficulty. On the other hand, joint financing with co-lenders providing funds tied in various ways and operating under different sets of constraints, as in the case of the Colombian power and water supply[1/] and the Mexican power projects,[2/] has involved extensive negotiations and detailed administration; this type of financing is therefore likely to be appropriate primarily for larger projects.

While several variations are possible, the basic necessity, if tied funds are to be "untied" by use of joint financing techniques, is to obtain credit offers from the countries likely to win orders under a system of international competitive bidding, each country so participating agreeing to finance the whole, or an agreed proportion, of the orders it receives. If international competitive bidding is to be open to all Bank members, credit offers have to be available from all the countries which are likely to be competitive.

If, however, only a few countries are prepared to participate, it may be necessary to restrict bidding to these countries. While even some

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1/ Loans 536 CO and 537 CO, June 3, 1968; Loan 575 CO, December 2, 1968.

2/ Loan 436 ME, December 15, 1965; Loan 544 ME, June 28, 1968.

competition is better than none, the full contribution of joint financing in untying tied aid can be achieved only by a broad participation by equipment-supplying countries.

In a joint financing operation, the terms on which countries are prepared to provide credit are important. It is understandable that capital goods-exporting countries wish to avoid a credit race involving ever-increasing periods of credit and subsidized interest rates. It would, however, greatly facilitate joint financing if countries were prepared to adjust the terms of their lending to a reasonable extent so as to have a minimum term and a maximum interest rate agreed to by all participating countries, so that orders can be allotted purely on the basis of price. The longer this minimum term is, the more suitable the joint financing will be for the needs of the less developed countries.

Progress by potential co-lenders towards lengthening and standardizing credit terms for projects financed jointly with the Bank would facilitate increased use of joint financing, as suggested by the Pearson Commission, thus effectively extending the field of competitive bidding and enabling borrowers to make the best use of the tied funds available to them.

Conclusion

The staff has been instructed to examine every project with a heavy requirement of external financing to see whether it has possibilities for joint financing. Such joint financing is facilitated by the Bank's practice of maintaining close contacts with both development aid and export financing agencies in the principal capital-exporting countries that are potential co-lenders. Since the Bank's policies are consistent with the Pearson Commission's recommendation, no action by the Executive Directors is necessary.

Robert S. McNamara

JOINT FINANCING OPERATIONS BY YEAR OF SIGNATURE OF LOAN OR CREDIT

Year	No. of Projects	Total Cost	Foreign Exchange Cost 1/	Bank/IDA Contribution	Co-lender amount 2/	% Total Cost Bank/IDA	% Total Cost Co-lenders
Primarily development finance:		$ million					
1955	1	26.6	18.0	18.0	2.6	67.6	9.7
1956	1	226.0	200.0	30.0	128.8	35.3	57.0
1957	2	54.0	32.3	20.1	16.5	37.2	30.5
1958	2	61.7	41.1	41.1	6.4	66.6	10.3
1959	3	195.6	160.4	60.2	32.3	30.7	16.6
1960	7	279.7	230.2	113.0	56.3	40.4	20.1
1961	5	283.4	151.6	75.1	63.7	25.4	22.5
1962	1	196.0	118.0	47.0	51.0	23.9	26.0
1963	3	97.6	64.6	43.6	22.9	44.6	23.5
1964	8	445.4	284.5	145.6	99.5	33.2	22.3
1965	2	37.8	25.1	15.7	17.1	41.5	45.2
1966	1	39.0	24.0	19.2	4.8	49.2	12.3
1967	4	125.0	94.3	53.2	18.0	52.5	14.4
1968	9	586.4	264.8	145.9	150.3	25.2	25.7
1969 thru Oct. 15	10	577.8	242.4	153.4	101.8	26.5	17.6
Total	59	3,232.0	1,951.3	1,031.1	772.0	31.9	20.8
Indus Basin 3/ and Tarbela	2	1,626.0	1,030.0	173.4	1,191.5	10.7	73.3
Total	61	4,858.0	2,981.3	1,204.5	1,963.5	24.7	40.2
Export Finance							
1968	5	536.6	320.7	250.0	51.4 4/	46.5	9.6
1969	1	247.4	80.0	60.0	19.7	24.3	7.9
Total	67	5,642.0	3,382.0	1,514.5	2,034.6	26.8	36.0

1/ Includes some estimates.
2/ Excluding public issues but including private placement through banks.
3/ The saving of $324 million in the Indus Basin Fund has been deducted from both the total cost and the co-lenders' amount and pro rata, 60% from the foreign exchange cost.
4/ Amounts likely to be utilized following pattern of award of contracts.

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CONFIDENTIAL

December 11, 1969

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Subject: Pearson Commission Recommendation No. 31 Concerning Need for Organizational Changes in IDA

Recommendation

" . . . we recommend that the President of the World Bank undertake a review of the need for organizational change of the International Development Association as its functions increase." 1/

Background

Although the recommendation is addressed to IDA's organization, the report makes clear that in fact the Commission was concerned with IDA's policies, which are described as "almost indistinguishable" from those of the Bank.2/ The Commission comments that the Bank's policies reflect constraints imposed by the Bank's reliance on the private capital markets. It reasons that, since IDA does not go to the market, these constraints do not apply to IDA and accordingly IDA's policies need not be the same as the Bank's. In the Commission's view, however, the integration of IDA into the Bank's organizational structure has effectively precluded IDA from developing its own policies -- in such areas, for example, as non-project lending, local cost financing and debt relief. The Commission suggests that the recommended expansion of IDA's resources 3/ and the enlarged scope of activity which could be expected to follow would provide a suitable occasion for considering the need for a change in IDA's organizational structure.

The report itself does not indicate what kinds of organizational change the Commission thought might facilitate an independent approach by IDA. It appears from papers prepared by the Commission's staff that some or all of the following were suggested to the Commission as possibilities:

(a) a separate IDA president, or an IDA executive vice-president responsible for developing lending policy;

1/ Report, page 226.

2/ Ibid., page 223.

3/ Ibid., page 224.

(b) a separate IDA policy-making staff, to function independent of, although in consultation with, Bank staff;

(c) separate IDA Executive Directors (at the option of governments); and

(d) a Bank/IDA coordinating committee composed of the presidents of the Bank and IDA and a number of Directors nominated by the Boards of Governors.

Analysis

The recommendation by its terms does not call for any immediate action, since it relates possible organizational change to a substantial increase in IDA's resources and to an expanded scope of operations. However, since we are undertaking a general review of all of the Commission's recommendations relating to the Bank Group, it seems desirable to analyze the issues which this particular recommendation poses, assuming for purposes of the analysis that the recommended expansion of IDA's resources will take place.

The issues raised by the Commission's recommendation are (a) whether it is desirable that IDA follow policies different from those of the Bank, and (b) if so, whether and what kind of organizational changes are required to put IDA in a position to do so. If the answer to the first is in the negative, it is not necessary to consider the second.

The Commission is correct in stating that in most major respects the Bank and IDA follow identical policies. Both finance only projects or programs of high economic priority, which are economically and technically sound and which appear likely to be successfully carried out and operated. They apply the same standards in determining which projects or programs satisfy these criteria.

Compatibility, if not identity, of policies was a specific objective of the design of IDA's organization. The resolution of the Bank's Board of Governors requesting the Bank's Executive Directors to prepare Articles of Agreement for an IDA directed that the institution should be affiliated with the Bank but left open the manner of affiliation.1/ The Bank staff, preparing to work on a first draft of Articles, proposed following the pattern set by the IFC Articles to the extent of providing that Bank Governors and Directors should serve IDA *ex officio*. However, the staff also proposed a departure from the IFC pattern of a separate chief executive and staff by providing that the President of the Bank should serve as IDA's President and that Bank staff should serve IDA as well. The latter proposal was justified on the ground that, since IDA operations would be close to those of the Bank, the absence of unified direction at the level of the top management, as well as the Board, might be confusing and that it would be desirable to avoid conflicting lines of policy. The existence of a separate executive would be likely to lead to creation of a separate staff; although it might be necessary to recruit additional Bank staff to

1/ Resolution No. 136, Annual Meeting 1959, adopted October 1, 1959.

handle IDA work, it was desirable not to label staff as either "Bank" or "IDA".1/

Among the alternatives or modifications suggested by Directors during the Board discussions were that IDA's Articles should permit, rather than require, the President of the Bank to serve as president of IDA,2/ and that provision be made for the possibility of a separate management 3/ and a separate staff.4/ However, the consensus favored the original approach, modified only to provide that Bank officers and staff should serve IDA "to the extent practicable".5/

IDA and the Bank are complementary institutions, both intended to promote economic development. They differ only in the terms on which they lend, the spectrum of developing countries to which they provide finance and the source of their funds. The Commission felt that the latter difference, the fact that the Bank borrows in capital markets and that IDA does not, justifies a difference in approach. The report does not specify how IDA's policies might differ from the Bank's but it appears that the Commission had in mind at least that IDA should be prepared to do more program lending and more local currency financing than the Bank will do.

Although in its early days the Bank was concerned to establish itself in the market and its policies necessarily reflected that concern, I believe it fair to say that our policies are now determined, not by considerations of market appeal, but primarily by what the Bank regards as the best use of its funds from the standpoint of the developing countries, subject only to creditworthiness considerations. The market, for its part, is primarily concerned with the guarantees behind the Bank's bonds and with the Bank's creditworthiness criteria; as long as the Bank's lending procedures continue to provide satisfactory assurance that Bank funds are used sensibly, the market pays scant attention to the specific sectors for which the Bank lends or to the Bank's position on such

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1/ IDA/R59-1, dated October 9, 1959, para. 6; IDA/R59-2, dated October 22, 1959, page 5.

2/ IDA/R59-2, dated October22, 1959, page 5.

3/ IDA/R59-2, dated October 22, 1959, page 5.

4/ Ibid., page 4.

5/ IDA Articles of Agreement, Article VI, Section 5(b). In consequence, it may be noted, it would require an amendment to the Articles to permit the optional designation of separate IDA Directors or to give IDA its own president. The other changes mentioned in the Commission staff papers -- an IDA vice president for policy, a policy-making staff and a Bank/IDA coordinating committee -- could be brought about without amending the Articles.

issues as program lending or local currency financing. Moreover, it is clear that the source of the funds to be lent is irrelevant to the economic case either for or against program lending or local currency financing.

If the Bank were indeed subordinating the development interests of its borrowers to market considerations -- which would mean, because IDA follows the same policies as the Bank, that IDA borrowers would also be prejudiced -- the proper solution, in my opinion, would be to change the Bank's policies, not to set IDA free to follow an independent course. What is best for the borrowing country should be the determining factor in both Bank and IDA operations. Any policy, except those having to do with creditworthiness, which can be justified for IDA as consistent with its development function can, I believe, equally be justified for the Bank, and the Bank should adopt it.

This is not to say that the circumstance of a substantial increase in IDA resources might not be the occasion for some modification of IDA policies, the allocation criteria in particular. But any changes of this type can readily be considered within the existing IDA organizational framework, as demonstrated by the full-scale reviews of IDA lending policy which have taken place periodically in the past.1/

Conclusion

No change in IDA's organization is now, or is likely to become, necessary to achieve the objectives sought by the Commission and I do not believe any such change would be desirable.

Robert S. McNamara

1/ "IDA Lending Policy", IDA/FPC 64-8, July 30, 1964; IDA/FPC 64-9, August 10, 1964; IDA/FPC 64-10, August 12, 1964. "IDA Policies", June 24, 1968 and July 16, 1968; IDA/SecM68-81, August 8, 1968 and IDA/SecM68-81/1, August 15, 1968.