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File Folder SIG-IEP MEETINGS: 09/13/1983-10/19/1983

FOIA

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Box Number 7

GRYGOWSKI

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
133796	DRAFT MINUTES	SIG-IEP MEETING	2	9/16/1983	B1
133800	MINUTES	SIG-IEP MEETING	3	9/23/1983	B1
133803	DRAFT MINUTES	SIG-IEP MEETING	3	10/7/1983	B1
133804	MINUTES	SIG-IEP MEETING (SIMILAR TEXT TO 133796)	2	9/16/1983	B1
133805	MINUTES	SIG-IEP MEETING	3	9/23/1983	B1
133892	DRAFT REPORT	RE: U.S.-JAPAN WORKING GROUP ON ENERGY	5	ND	B1
133893	DRAFT MINUTES	SIG-IEP MEETING	2	10/13/1983	B1
133894	MINUTES	SIG-IEP MEETING	2	10/7/1983	B1
133895	PAPER	RE: JAPANESE CAPITAL MARKET LIBERALIZATION	11	10/19/1983	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

September 13, 1983

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled for Friday, September 16, at 11:00 a.m., in the Roosevelt Room. The agenda is as follows:

1. International Debt Update; and
2. Proposed Inter-American Investment Corporation.

A paper on agenda item 2 is attached. Attendance will be principal, plus one.


Donald T. Regan

Attachment

U.S. Participation in Proposed Inter-American Investment Corporation

Treasury is seeking SIG-IEP support for U.S. participation in a proposed \$200 million Inter-American Investment Corporation (IIC). The IIC would be an affiliate of the Inter-American Development Bank (IDB); it would be located in IDB headquarters in Washington and would rely on the IDB for administrative and logistical support.

The U.S. share of the proposed corporation would be up to 35 percent or \$70 million. U.S. subscriptions to the Corporation would be paid in four equal installments beginning in FY 1985. Funding for the IIC has been included in the planning figures for the FY 1985-88 budgets.

The IIC fills a need created by the economic evolution of Latin America and the Caribbean. As the IDB's borrowing member countries have developed, it has become evident that a serious economic constraint has been a lack of private sector access to capital markets particularly for equity investments. The IDB conservatively estimates a gap of \$1.2 billion annually in the long-term financing of small and medium scale enterprises (SMSEs) of the region. The IDB also estimates that the above figure includes approximately \$410 million annually in equity requirements. Clearly the proposed IIC will not fill all the financial requirements of the regions SMSEs. By creating the IIC, however, we will be expanding the scope of IDB activities more completely in order to address the development needs of Latin America and the Caribbean, particularly its poorest members.

Description

The IIC is designed to support private sector activities in Latin America through equity and loan investments. The primary focus of the IIC would be SMSEs. Enterprises with partial government involvement would be eligible for financing if the proposed investments could be demonstrated to strengthen private sector activities. Because of the focus of the IIC, we expect that the primary beneficiaries will be the poorest countries of the region, principally in Central American and the Caribbean.

The IIC will be a multilateral organization whose membership, at the present time, will include almost all of the IDB's borrowing member countries, the United States and Italy. On the basis of communications with nonregional countries, we are confident that more countries will seek to join the IIC soon (particularly Japan, Germany, France and Spain). All subscriptions to the IIC will be made in convertible currencies thus significantly leveraging the U.S. subscription.

Overview

The most recent discussions surrounding the creation of a private sector oriented affiliate of the IDB began over two years ago at the initiative of the Venezuelan Government. Venezuela had become interested in creating a new organization because of their disappointment with the performance of their own IDB administered Venezuelan Trust Fund (VTF). Though the VTF was empowered to make equity investments, it became clear that IDB expertise and administrative procedures did not lend themselves to the task of making equity or loan investments to the private sector. In order to overcome this problem, the Venezuelans broached the idea of creating an independent organization aimed solely at promoting private sector development in the region.

The United States agreed to work with the Venezuelans on their initiative because of our long term view that the creation of such an affiliate would reflect the institutional evolution of the IDB and help meet the financial needs of the Bank's borrowing members by directly assisting a critical part of their economies - the private sector. An analysis of the IDB's financial requirements revealed early on that the economic development in many parts of the region had lessened the need for continued large inflows of concessional resources. What was needed to address the economic requirements of the 1980s and beyond was a program that would (1) concentrate the Bank's resources on the poorer members of the Bank, (2) expand access to the world's capital markets for all developing member countries and (3) create a mechanism that would stimulate private sector activities particularly in the poorest countries. The first two objectives were achieved with the completion of the IDB's Sixth Replenishment negotiations. The last objective is to be realized through the creation of the IIC.

The creation of the IIC will add a new, important, and complementary dimension to our goal of providing effective economic assistance to the poorest countries in the region particularly Central America and the Caribbean.

Structure of IIC - U.S. Objectives

Our overriding goal in designing the structure of the IIC was to create an efficient and professionally run organization in which there would be sufficient internal checks and balances to ensure that decision making would be based solely on the quality of the proposed operations. These goals had to be meshed with a Latin American desire to retain nominal control of the institution, i.e., they wished to be the majority shareholders. As the negotiations progressed, it became clear that the Latins would relinquish considerable operational authority over the organization if they could retain symbolic control.

The tentative agreement that was reached at the July 14 and 15 meetings of interested parties reflects the meshing of these objectives.

Tentative Agreement

The tentative agreement contains the following elements:

Size: \$200 million, to be paid in over 4 years by participating countries in convertible currencies.

Distribution of Capital Shares: Latin America and the Caribbean would receive 55 percent of the capital shares, the United States and other industrialized countries would receive 45 percent, of which the U.S. share would be up to 35 percent. This compares to the current shares in the IDB of almost 54 percent for Latin America and the Caribbean and 46 percent for the industrialized countries. The U.S. owns 34.5 percent of IDB capital and 41 percent of the IDB's Fund for Special Operations. Voting power on the Board of Executive Directors will be equal to capital shares.

Executive Committee: Although Latin America and the Caribbean will hold nominal control of the IIC, actual approval or rejection of individual equity and loan operations will be governed by a four-person Executive Committee selected from the Board of Executive Directors. The Executive Committee would review all investments prior to consideration by the Board of Executive Directors. This committee would be comprised of two Latins, one American, and one nonregional, each member would have a 25 percent vote. Approval of an investment operation requires a favorable vote by three out of four of the Executive Committee members. If approval is granted, the proposal goes to the full Board of Directors where, unless a Director specifically asks

for a Board discussion within a specified time period, it is considered approved. In instances where at least three out of four Executive Committee members vote against a proposal, the proposal is considered terminated. An individual Board member can, however, request a review and explanation by Management and the Board can make recommendations regarding the operation. The Board cannot, however, overrule a negative decision by the Executive Committee.

In cases of a tie vote, the proposal will be sent back to Management for reformulation if considered desirable or possible. If Management believes that the concerns raised by the Executive Committee are valid and the proposal cannot be reformulated, they can terminate the proposal at that stage. If they choose to bring it forward a second time, and a tie again results, the Chairman of the Board of Directors of IIC, who will be the President of the IDB, will cast the deciding vote.

Board of Executive Directors: The Board of Executive Directors will be comprised of thirteen directors, nine from Latin America and the Caribbean, one from the United States, and three from other countries. This formulation is similar to that of the IDB except that the IIC has one additional director from Latin America.

The additional seat was required to give more complete Latin representation on the IIC Board. In order to keep administrative expenses to a minimum, it has been decided that members of the IDB Board of Directors will act, wherever possible, as members of the IIC Board of Directors.

General Manager: It is our view that the success or failure of the IIC will be determined in large measure by the quality of the person chosen to be General Manager. The General Manager, in practice, will be responsible for the daily operations of the IIC including the hiring and firing of IIC personnel. The General Manager also has ultimate responsibility for selection, preparation, and submission of investment proposals to the Executive Committee. In order to ensure that the individual selected has the widest possible support, the charter will require that members comprising 80 percent of the total voting power concur in the selection. This percentage will also allow a U.S. veto in the selection process.

Issues Still to be Resolved

Though significant progress was reached in the July 14-15 meeting, two issues remain. While they are important, we do not believe they are sufficiently serious as to put the creation of the IIC at risk. These are:

a. Distribution of Capital Shares Among Member Countries:

A consensus was reached that the Latin Americans and the Caribbean would receive approximately 55 percent of the IIC while the U.S. and other interested parties would receive 45 percent. Specific country shares have not been finalized though it would appear that the U.S. will initially take approximately 30 percent and Italy 5 percent leaving approximately 10 percent open for other industrialized countries interested in joining the IIC. We would consider lowering our share a few percentage points to permit the greatest number of nonregional countries to join. The Latin American situation is somewhat more contentious. The Venezuelans, as co-sponsors of the IIC, would like to be equal to the largest Latin member. However, Brazil and Argentina, currently the co-largest Latin members in the IDB, insist that they retain their IDB ranking in the IIC. While a difficult issue for the Latins, we believe they will be able to arrive at a solution before the next meeting of interested parties.

b. Majority needed for Special Votes: Voting arrangements for membership, capital expansion, and transfer of resources usually require special majorities (e.g., such language usually requires the approval of members accounting for three-fourths of total votes and two-thirds of the Governors). Some percentages have not yet been agreed upon though we do not expect that this will be a serious issue.

Next Step

The next meeting of interested parties is now scheduled for November 3rd. Working Groups comprised of IDB Executive Directors are expected to have ironed out most of the remaining issues prior to the meeting. If the SIG-IEP concurs, the U.S. would formally indicate its intention to join the IIC and the level of our participation at the time of the next meeting. Formal U.S. participation in the IIC will be subject to Congressional authorization and appropriations.

SEP. 13 1983

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133796 DRAFT MINUTES

2 9/16/1983

B1

SIG-IEP MEETING

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Freedom of Information Act - [5 U.S.C. 552(b)]

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

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September 22, 1983

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
✓ ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

The attached paper on the Export Administration Act was received today from the Department of Commerce and should be regarded as additional background to the oral report at the meeting of the SIG-IEP to be held on Friday, September 23, 3:00 p.m., in the Indian Treaty Room.


David E. Pickford
Executive Secretary

Enclosure



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

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MEMORANDUM TO: Marc Leland

FROM: Lionel H. Olmer *LHO*

SUBJECT: Friday SIG-IEP meeting on the Export
Administration Act (EAA)

At a meeting held on September 20, Under Secretaries (or their representatives) from all interested agencies agreed that the SIG-IEP should consider the seven EAA issues which were the subject of that meeting. As background material for Friday's SIG-IEP meeting, I have attached descriptions of the primary differences among the various bills on each of the seven issues.

At the SIG-IEP meeting, I will present the options discussed at the September 20 meeting in order to allow the SIG-IEP to determine the Administration's position on these issues. To the extent possible, the SIG-IEP should decide as many of these issues as possible so as to enable our legislative strategy to develop. Remaining issues need to be resolved no later than Monday, September 26, because this legislation may well be considered by Congress next week.



CONTRACT SANCTITY
(FOREIGN POLICY CONTROLS)

Primary Differences Between EAA Bills

Present Law -- The President may impose export controls that affect existing contracts. The Commodity Futures Trading Act, however, provides contract sanctity for agricultural exports for a period of 270 days after imposition of the controls, unless there is a declared national emergency or state of war.

Administration Bill -- Protects existing contracts, the terms of which require delivery within 270 days, from the imposition of controls, unless the President determines that the overriding national interest requires such exports be prohibited.

Senate Bill -- All contracts entered into before the imposition of foreign policy controls are protected, with no Presidential "escape clause."

House Bill -- All contracts entered into before controls are imposed are protected, except when the controls relate directly and significantly to imminent or actual acts of aggression, international terrorism, gross violation of human rights or nuclear weapons tests.

LICENSING OF COCOM TRADE

Primary Differences Between EAA Bills

Present Law -- COCOM countries receive no special statutory treatment outside of exception from provisions relating to export of crime control and detection instruments.

Administration Bill -- The Administration bill retains the existing law and does not give COCOM countries special licensing treatment. The Administration bill does, however, declare that it is our policy to develop licensing mechanisms to minimize the burdens placed on free world trade.

Senate Bill -- Requires the issuance of only general licenses for exports of multilaterally controlled items to COCOM countries unless the item is on the Militarily Critical Technology List.

House Bill -- A validated license can no longer be required for exports to a country which maintains export controls cooperatively with the United States. A validated license can be required for exports to end-users identified by regulation, and the Secretary may require any exporter to notify the Department of exports of controlled items.

FOREIGN AVAILABILITY

Primary Differences Between EAA Bills

Present Law -- When the Secretary of Commerce determines that controlled goods and technology are available from foreign sources, he must decontrol the items and issue an export license, unless the President decides that removing controls would be detrimental to the national security, or are needed to protect our foreign policy interests.

Administration Bill -- Amends the definition of foreign availability by substituting the words "comparable quality" for the words "sufficient quality." Thus, the definition is consistent throughout the statute.

Senate Bill -- Adopts the change proposed by the Administration bill. For foreign policy controls, requires decontrol if foreign availability is present and not eliminated within 6 months, unless Secretary determines that maintaining control would still serve its purpose. Requires that representation of foreign availability by an applicant shall be accepted unless contradicted by reliable evidence ("burden shifting" provision). The bill also suggests standards for determining if availability exists such as cost, reliability, availability of spare parts, and durability.

House Bill -- For national security controls, requires decontrol if foreign availability is present and not eliminated within 6 months. Contains "burden shifting" provision similar to Senate.

NATIONAL SECURITY CONTROLS
UNILATERAL CONTROLS

Primary Differences Between EAA Bills

Present Law -- No limitations are placed on the authority to unilaterally control the export of goods or technology.

Administration Bill -- Makes no change to existing authority.

Senate Bill -- Makes no change to existing authority.

House Bill -- Unilaterally controlled national security items that have been approved to a country group for a one-year period must be decontrolled to that country group, but a license can be required for export of that item to end-users identified in regulations.

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EXTRATERRITORIALITY
(FOREIGN POLICY)

Primary Differences Between EAA Bills

Present Law -- Permits extending export controls to U.S. subsidiaries, re-exports of U.S. products or exports of foreign origin products of U.S. technology.

Administration Bill -- Makes no change to the present authority.

Senate Bill -- Makes no change to the present authority, although Senator Percy is expected to introduce amendment limiting use of extraterritorial controls to 45 days without Congressional approval.

House Bill -- Authority for the imposition of foreign policy controls is limited to goods or technology "produced" in the U.S. Controls applied extraterritorially require prior approval by Congress by Joint Resolution.

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AGRICULTURE

Primary Differences Between EAA Bills

Present Law -- Short supply controls require concurrence of Secretary of Agriculture. Foreign policy and short supply controls can be disapproved within 30 days by concurrent resolution of Congress (now unconstitutional). Existing agricultural contracts cannot be affected by any export controls for 270 days unless President declares national emergency or Congress declares war. Reimbursement provided for losses caused by imposition of export controls, if control not part of total embargo and affected nation purchased over 3% of total U.S. exports of controlled export in preceding year.

Administration Bill -- No change.

Senate Bill -- Precludes national security controls on agricultural products. Amendment is expected which would preclude foreign policy controls, except in cases of total embargo, unless there is prior Congressional approval (Senators Percy and Dixon).

House Bill -- Foreign policy and short supply controls effective for only 60 days unless extended by joint resolution of Congress.

CONGRESSIONAL CONSULTATION
(FOREIGN POLICY CONTROLS)

Primary Differences Between EAA Bills

Present Law -- Before imposing foreign policy controls the President shall "in every possible instance" consult with Congress. Whenever controls are imposed, expanded or extended the President shall immediately report on the actions taken to Congress.

Administration Bill -- Makes no change to existing authority.

Senate Bill -- Continues to require the President to consult with Congress "in every possible instance" before imposing foreign policy export controls. The bill, however, requires that a report on the controls be submitted to Congress before the controls are imposed, expanded or extended. Senator Percy may offer an amendment specifying consultations with the Senate Committees on Banking and Foreign Relations and House Foreign Affairs Committee.

House Bill -- Consultation with the House Foreign Affairs Committee and the Senate Banking Committee and a report to Congress on the controls is required before foreign policy controls are imposed, expanded or extended.

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133800 MINUTES

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SIG-IEP MEETING

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THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 5, 1983

Bailey

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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on Friday, October 7, 1983, at 2:00 p.m., in Room 208, Old Executive Office Building. The agenda is as follows:

1. International Finance Corporation;
2. International Debt Update;
3. Report on IMF/IBRD Annual Meeting; and
4. Export Administration Act.

A background paper on the International Finance Corporation is attached; the remaining agenda topics will be oral reports.

Attendance will be principal, plus one.

Donald T. Regan

Attachment

International Finance Corporation (IFC)

The following is a brief description and history of the IFC, and a discussion of current issues concerning U.S. participation and future programs of the IFC.

Description

The IFC was established in 1956 to supplement the activities of the IBRD by providing financing and investment expertise particularly suited to attracting, and lending confidence to, private sector investors in developing countries. Currently, IFC has capital subscriptions and accumulated earnings of \$748 million (compared to the original \$110 million). In FY 83, it provided financing totaling \$845 million through its own lending and through syndications.

The IFC is designed to further economic development in its developing member countries by promoting and supporting private enterprise. It accomplishes this by bringing together entrepreneurship with both foreign and domestic investment capital for developmental purposes. The Corporation provides and mobilizes funds and is one of the few international organizations which can provide risk capital as well as long-term loans without government guarantees.

Not only are IFC's own funds often critical to a venture's success, but its financial commitment has become increasingly important as a catalyst in attracting other financing. It attracts funds from international capital markets by syndicating loans, and through underwritings and standby financing.

IFC's technical assistance to member countries and project sponsors is equally important in stimulating private capital flows. The bulk of this assistance is project related, consisting of legal, financial and engineering advice to project sponsors going well beyond what private financial institutions would be prepared to provide.

The first twenty years of IFC's existence were characterized by conservative financial practices, as it developed investment experience. During the first five years, IFC lent only \$51 million, mostly in manufacturing and processing. From 1961 to 1966, IFC began to make equity investments, and in 1965 the IFC's Articles of Agreement were amended to permit borrowing from the IBRD up to a limit of four times its own capital, which has led to increased emphasis on IFC lending as opposed to equity investment. After twenty years, IFC had reached an annual commitment level of only \$245 million while at the same stage of their institutional existence, the IBRD was lending over a billion dollars, and IDA was lending over three billion dollars.

The 1977 Capital Increase

In 1977, the United States was able to push through an IFC Capital Increase as a quid pro quo for the large IBRD Selective Capital Increase that Bank management wanted. The subscribed 1977 increase of \$480 million included a U.S. share of \$112 million, (23%) representing a decline from our previous one third share.

This capital increase significantly changed IFC's approach to development, bringing with it the so-called "dual strategy". Whereas formerly IFC tended to focus its activities in middle income LDCs such as Brazil, Mexico, and the Philippines, where local private sectors were well developed, under the dual strategy it also expanded its activities in the poorest countries in Africa and South Asia. However, IFC recognized that the administrative costs and risks of promoting the private sector in the poorest countries would be high because of their lack of infrastructure, the heavily government-dominated economies, and the shortage of local private capital. Consequently, the second component of the dual strategy was designed to compensate for the high administrative costs. Drawing upon IFC's strength as a financial catalyst, it called for increased investment in large profitable projects (such as development of natural resources); this was also in keeping with the role of the IFC as a catalyst for increased private investment since these were also projects that normally attract large amounts of private capital. IFC's administrative costs and risk per dollar invested were relatively low in these types of projects and its return relatively high -- thereby offsetting the higher cost and risk associated with smaller projects in lower income countries.

Results of the Five Year Program (1979 - 83)

In the Five Year Program that has just ended, IFC was successful in meeting or surpassing its aggregate objectives, particularly in the early years of the program due to its own promotional efforts and favorable worldwide economic conditions. Investments in Africa almost doubled in accordance with the low income focus of the dual strategy. During the Plan, as expected, IFC diversified the sector composition of its activities, shifting away from manufacturing toward agroindustry. However, although net investments doubled, equity investments remained constant because of concern over the low returns and the limited opportunities.

During this Five Year Plan, IFC continued to be an effective financial catalyst. For every dollar invested by IFC for its own account, others invested about six dollars. Unfortunately, although IFC's capital base and scale of operations grew, IFC was not able to increase its profits proportionately; net income remained virtually unchanged, only rising from \$19.2 million to \$23 million in the period. The dual strategy also had a definite adverse impact on income growth through the Corporation's higher overhead and increased loss reserves. The income position was further exacerbated by the absence of large mineral investment opportunities in higher income areas because of

unfavorable economic conditions (particularly depressed commodity prices). In FY 83, the Board of the Corporation approved \$845 million in new investments, of which \$426 million were for its own account, and \$419 million were syndications. Equity investments reached \$55 million.

The New Five Year Plan and its Capital Increase

In the fall of 1982, IFC presented a new and ambitious Five Year Plan, which included a \$750 million capital increase that Bank President Clausen endorsed at the 1983 Bank/Fund Annual Meetings. (The U.S. share of a possible increase, if maintained at existing 27% share, would require about \$200 million over five years, or about \$40 million a year from FY 86-90.) The Plan would expand investment at a 12% annual rate in real terms and leverage its financial resources by seven to one. As an innovative departure IFC has proposed creating a fund to pool equity resources from small independent oil companies, commercial financial institutions, and IFC itself (\$100 million in equity) for use in oil and gas exploration and development projects in LDCs.

The Plan would also continue IFC's expanded emphasis on Asia (139% increase) and Africa (96% increase). Finally, the Plan proposes a six-fold increase in equity investments and a slight retrenchment in IFC participation in development finance corporations.

Since the presentation of the Plan almost a year ago, there has been little movement. IFC has held two seminars with the Executive Directors, but Board discussion of the proposed plan and capital increase, originally scheduled for October, has now been put off pending completion of an updated proposal, probably toward the end of this calendar year. (It has also been delayed because management has decided to place priority on IDA funding before going forth with other capital increases.) A definitive reaction by major countries has thus far been hampered by other pressing Bank issues; however, indications are that many members are prepared to consider a capital increase for IFC.

Issues

The United States has indicated support for an increase in IFC and its capital base, although we have not given a formal indication of our views on the specifics of the new Five Year Plan or the timing or size of a capital increase. In theory, IFC is the best vehicle to advance the Administration's emphasis on the private sector as the engine for growth in the developing world, as opposed to concessional aid programs. However, several issues about the future direction of the Corporation must be considered in relation to a capital increase.

1. The Dual Strategy. The current reluctance of commercial banks to extend credits to Latin America suggests that IFC, with its excellent financial leverage, could assist by increasing its Latin American activities at a greater rate than currently planned. Shifting the Plan's focus to increase Latin America's share might also improve IFC's net income position because of the greater profitability potential and lower overhead.

2. Degree of Government Participation in IFC Projects. In FY 81, 43% of non-IFC funding for its projects came from foreign and domestic government sources. In addition, IFC often invests in projects in which a government-owned entity dominates, especially in Sub-Saharan Africa. This requires close examination as to whether the expansion of IFC lending in Africa, and possibly other regions, would actually result in an expansion of private sector, or public sector activities.

3. Concentration of Investments in Low-Income Countries. The adverse global economic environment has brought to light many of the deficiencies in IFC's loan and equity program in low income countries lacking a private sector. New equity investments have stagnated over the past three years, loan arrearages have increased significantly; and the expected profitability of IFC equity investments has decreased. These portfolio problems raise issues of profitability, the degree of realism in the Plan, the relative regional sectoral priorities, etc. Although these problems could be alleviated by a shift back to more traditional geographic and sectoral priorities, the development focus of the Corporation, which mandates a presence in countries at the lower end of the income scale, must be maintained. The difficulty is in determining the balance which would allow the Corporation to operate in a financially efficient manner, while maximizing its developmental private sector focus.

4. Public Market Borrowings. Currently, IFC obtains its lending funds from the IBRD, which itself is experiencing an unprecedented demand by member governments for its scarce resources. As an alternative, IFC might borrow directly from public capital markets which would free up IBRD reserves and give IFC more flexibility in managing its investment funds. IFC does have the borrowing authority, but the market has never been tested. The IFC is currently preparing a study which will address the pros and cons of this issue.

5. Need for Capital Increase. The timing of IFC's need for new capital must be examined further. Since it can borrow four dollars for every dollar in paid-in capital, and currently has borrowed only about two, substantial lending capacity is still available. In addition, unused capacity for additional equity investment exists. Equity investment, which cannot exceed the amount of paid-in capital, presently only approaches one-third of existing capital. Although it has this authority, IFC's prudent financial practices prevent this. Because of the current investment

climate and IFC's poor income position, the Corporation feels it would be too risky to approach the limits of its borrowing and investment authority with the existing capital base. Therefore, the need and size of a capital increase must be evaluated in the context of what constitutes prudent operating ratios and how rapidly future growth will occur.

Conclusion

Before agreeing to the proposed capital increase, consultations within the U.S. Government, with the Corporation and with other members must be completed to resolve the outstanding questions previously mentioned. Any resolution would have to reconcile IFC's divergent roles as an investment corporation and development institution, and would have to settle on a future work program and level of capitalization which would maximize the IFC's role in enhancing commercial creditworthiness in developing countries while achieving the greatest financial impact with our scarce budgetary dollars.

October 4, 1983

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SIG-IEP MEETINGS: 09/13/1983-10/19/1983

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133803	DRAFT MINUTES SIG-IEP MEETING	3	10/7/1983	B1
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Barley

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220
October 11, 1983

UNCLASSIFIED
(With ~~Secret~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
✓ ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy

Attached are the minutes of the SIG-IEP meetings held on
August 11, September 16, and September 23.

David E. Pickford
David E. Pickford
Executive Secretary

Attachments

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SIG-IEP MEETINGS: 09/13/1983-10/19/1983

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133804	MINUTES SIG-IEP MEETING (SIMILAR TEXT TO 133796)	2	9/16/1983	B1

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OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 11, 1983

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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
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SUBJECT Senior Interdepartmental Group on
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Attached are the minutes of the SIG-IEP meetings held on
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David E. Pickford
Executive Secretary

Attachments

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133805 MINUTES

3 9/23/1983 B1

SIG-IEP MEETING

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THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

October 12, 1983

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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on Thursday, October 13, 1983, at 4:30 p.m., in Room 208, Old Executive Office Building. The agenda is as follows:

1. Export Administration Act;
2. International Debt Update; and
3. Report on U.S./Japan Energy Working Group.

A background paper on topic 3 is attached; the remaining agenda topics will be oral reports.

Attendance will be principal, plus one.


Donald T. Regan

Attachment

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sm 03/21/2012



S/S 8331084
United States Department of State

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Washington, D.C. 20520

October 11, 1983

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(With ~~Confidential~~ Attachment)

on 03/21/2012

MEMORANDUM FOR MR. DAVID E. PICKFORD
DEPARTMENT OF THE TREASURY

SUBJECT: SIG-IEP Review of Draft "Report of the U.S.-Japan
Working Group on Energy"

Attached is a draft "Report of the U.S.-Japan Working Group on Energy." The report is expected to be made public during the President's visit to Japan next month. Japanese officials are studying the draft, but understand that it remains an informal document for the moment. Under Secretary Wallis, in his capacity as Chairman of the U.S.-Japan Energy Working Group, has asked that this document be circulated for the information of participants in the SIG-IEP on October 13.

Covey

Charles Hill
Executive Secretary

Attachment:
As stated.

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133892	DRAFT REPORT RE: U.S.-JAPAN WORKING GROUP ON ENERGY	5	ND	B1
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133893	DRAFT MINUTES SIG-IEP MEETING
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Bailey

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OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 18, 1983

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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF
OF STAFF
AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy

Attached are the minutes of the SIG-IEP meeting held on
October 7.

David E. Pickford

David E. Pickford
Executive Secretary

Attachment

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133894 MINUTES

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SIG-IEP MEETING

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THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 18, 1983

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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
✓ ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY CHIEF OF STAFF
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

A meeting of the SIG-IEP is scheduled to be held on Friday, October 21, 1983, at 2:00 p.m., in the Roosevelt Room. The agenda is as follows:

1. International Debt Update;
2. Polish Debt Situation;
3. Japanese Capital Market Liberalization; and
4. IDA VII.

A background paper on topic 4 is attached; papers on topics 2 and 3 will be circulated separately. Topic 1 will be an oral report.

Attendance will be principal, plus one.


Donald T. Regan

Attachment

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SIG-IEP Paper
U.S. Participation in IDA VII

The following describes the status of negotiations for a seventh replenishment of the International Development Association (IDA VII) and the position taken by the United States in the negotiations. It also discusses the key inter-related issues of U.S. funding for IDA VII and the country allocation of the replenishment.

Status of Negotiations:

IDA VII negotiations began in November, 1982, for the purpose of arranging financing for IDA operations in the period after July 1, 1984.

There have been five IDA Deputies meetings:

- (1) November 22-23 (Washington) - to discuss the terms and conditions of lending.
- (2) February 1-2 (Paris) - to discuss eligibility and allocation criteria.
- (3) March 29-30 (Copenhagen) - to discuss burden sharing.
- (4) July 19-21 (Tokyo) - to discuss the size of IDA VII and legal/technical issues.
- (5) September 24 (Washington) - to continue discussions on the size of IDA VII.

Negotiations, which will resume November 21 in Paris, are now at a decisive stage. There is donor consensus that an IDA VII agreement is desirable by year-end to provide donors with adequate time to secure legislative approval which would ensure continuity in IDA operations for the period after July 1, 1984.

U.S. Approach to IDA VII:

IDA makes 50-year interest free loans to the world's poorest countries, generally those with a GNP per capita of \$795 or less. We recognize that the IDA VII replenishment is important for these countries. IDA also constitutes one of the more visible forms of international economic cooperation with our allies.

However, quantitative measures that would clearly establish the degree of IDA effectiveness cannot be devised (e.g., estimates on the economic rate of return on individual IDA projects cannot tell us about the overall impact of such assistance on domestic savings and investment, foreign private capital inflows etc.). Furthermore, institutions, policies and incentives are at least as important as concessional aid flows in the process of economic development.

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While IDA's policy dialogue and institution building capabilities are important, it is also important not to overstate the contribution of IDA in the desired economic development of IDA recipients. We have been working hard to focus IDA Management's attention on the importance of improving conditionality and liberalizing "price" and other distortions in the economies of IDA recipients. IDA is a project-oriented, not balance of payments oriented, lender.

U.S. goals for IDA VII can be categorized in three broad areas:

- (a) improved loan quality and efficiency of resource use (9% of all IDA projects have a negative rate of return and an additional 11% have a rate of return of less than 10 percent.)
- (b) a country lending allocation which better focuses on the poorest and least creditworthy countries, and
- (c) a financial and operating framework which more realistically reflects existing economic conditions and includes a level of U.S. participation which reflects U.S. budgetary realities and has Congressional support.

* The Administration considers it particularly important to avoid the funding uncertainties which have characterized U.S. contributions to IDA VI. Such uncertainties hinder World Bank planning for IDA lending operations, generate friction with other donors, and detract attention from other important issues we wish to pursue in IDA. Thus the importance of adequate Congressional support for the replenishment and for the negotiated level of U.S. participation.

Major Issues

(a) Level of U.S. Participation:

Since December 1981, the budget has included \$750 million as the outyear planning number for future U.S. contributions to IDA. This \$750 million annual planning figure assumed -- consistent with the Administration's MDB assessment -- an increased IDA focus on Sub-Saharan Africa and continued "maturation" of India into hard window borrowing.

While some Members of the Congress, primarily from the authorizing committees (House Banking Committee and Senate Foreign Relations Committee), have expressed a willingness to consider an IDA VII contribution above the \$750 million level, such a position most probably is not sustainable in either the House and Senate Appropriations Committees or the general membership of the House and Senate.

At the March IDA Deputies Meeting, the U.S. Deputy stated "that a United States share in IDA VII of no larger than 25 percent would be an appropriate reflection of our economic assistance policy." At the July meeting, the U.S. Deputy

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stressed that \$750 million should be viewed as the maximum annual contribution to IDA VII. We reinforced these positions at the recent Washington meeting. We have also encouraged other donors who were in a position to do so to increase their share, noting our willingness to reduce the U.S. share below 25 percent and thus increase the size of the replenishment while still maintaining the annual \$750 million contribution.

It is the considered judgment of the Treasury Department that any increase above \$750 million would encounter strong Congressional opposition and could jeopardize prospects for passage of the \$1,095 million FY 84 request needed to complete U.S. contributions to IDA VI as well as other foreign assistance requests.

(b) The Size of IDA VII:

The Bank proposed an IDA VII of "at least \$16 billion" (in a three-year replenishment) as necessary for IDA to meet the objectives for which it was established. Some donors supported the \$16 billion level, while others favored the same nominal level as IDA VI (\$12 billion) or a level in between \$12 billion and \$16 billion.

There is now widespread recognition among IDA Deputies that an IDA VII of \$16 billion is not realistic and that it will be difficult to achieve even the \$12 billion level initially negotiated for IDA VI. At the same time, there is widespread opposition to a \$9 billion replenishment, i.e., the level implied by an annual U.S. contribution of \$750 million and a 25 percent U.S. funding share over three years. A \$9 billion three-year IDA would support annual IDA lending commitments of roughly \$3 billion.

While the \$750 million U.S. funding level has been widely criticized, a number of other donors also have budgetary constraints, with some having experienced significant currency depreciations vis-a-vis the U.S. dollar. Up to now, these countries have let the United States assume the full onus for exerting downward pressure on the size of IDA VII.

IDA lending peaked in FY 80 at \$3.8 billion. IDA VI was intended to finance average annual commitments of \$4.1 billion in FY 83. As a result of the U.S. stretch-out and the significant depreciation of many donors' currencies vis-a-vis the U.S. dollar, average annual commitments are now expected to be about \$3.2 billion a year in FY 81-84 even though other donors provided \$2 billion in additional FY 84 contributions.

	<u>IDA VI Commitments</u> <u>as Initially Envisioned</u>	<u>IDA VI Commitments</u> <u>Latest Projection</u>
FY 81	\$ 3,500 million	\$ 3,482 million
FY 82	\$ 4,100 million	2,686 million
FY 83	\$ 4,700 million	3,341 million
FY 84	-	3,300 million

The fact that we view IDA as primarily a "hard" project lender for long-term development is also relevant to the size issue. Such projects take time to develop, particularly when policy reform is necessary. We do not believe IDA recipients' needs for "soft" projects, e.g., lines of credits for imports or budget support, should be used in justifying its capital requirements.

(c) Country Lending Allocation:

IDA has increased its lending emphasis on Sub-Saharan Africa with lending to this region accounting for almost one-third of FY 81-83 IDA commitments. India's traditional 40 percent share of IDA resources was reduced to 37 percent in FY 81, to 33.5 percent in FY 82, and to 31.8 percent in FY 83. Since China was not a member of the Bank when IDA VI was negotiated, it is receiving only a relatively small percentage (2.2% in FY 82 and 4.5% in FY 83) of IDA VI resources.

At the February IDA Deputies meeting, the Bank proposed that the combined ceiling for India and China be 40-50 percent of IDA VII, with the ceiling rising as the size of the replenishment increased, i.e., from a 40 percent ceiling in a \$9.9 billion replenishment to a 50 percent ceiling in a \$17.6 billion replenishment. The allocation proposed by the Bank for Sub-Saharan Africa would decrease from 30 percent in a \$9.9 billion replenishment to 26 percent in a \$17.6 billion replenishment.

The U.S. position was that:

- the countries of Sub-Saharan Africa and other least developed countries should have first claim on IDA resources as long as these countries are able to make effective use of these resources.
- the combined India/China ceiling should be below 40 percent and, on a comparative basis of both poverty and creditworthiness standards, India should receive a larger share of IDA VII resources than China.

In the \$16 billion "minimum" IDA VII replenishment proposal discussed in Tokyo, the Bank envisioned the following allocations:

	<u>Actual FY 81-83</u>		<u>Estimated FY 85-87</u>	
	<u>\$ billion</u>	<u>Percent</u>	<u>\$ billion</u>	<u>Percent</u>
SUB-SAHARAN AFRICA	3.0	32	6.0	37.50
OTHER "PURE IDA" COUNTRIES <u>a/</u>	1.8	19	3.0	18.75
OTHER "BLEND" COUNTRIES <u>b/</u>	4.4	46	7.0	43.75
FORMER IDA BORROWERS	.3	3	-	-
	<u>9.5</u>		<u>16.0</u>	

a/ 13 countries, the dominant recipient being Bangladesh which in FY 82 accounted for 63% of the commitments going to this group.

b/ four countries: India, China, Sri Lanka and Pakistan.

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Such a distribution would suggest two significant shifts in country allocation policy since the issue was discussed in February: (1) increased emphasis on Sub-Saharan Africa, and (2) a lower ceiling for India/China. (If one assumes that the two "other blend" countries, Sri Lanka and Pakistan, would obtain a 8 percent share of total IDA commitments -- they averaged 9.4% in the FY 80-82 period -- the combined India/China share suggested is about 36 percent.)

Assuming some minor alterations (i.e., increasing the shares of Sub-Saharan Africa by 1.5% and "Other Pure IDA Countries" by 2.25%, and decreasing the share of other "Blend" Countries by 3.75%) in the allocation percentages noted above, a \$9 billion IDA VII could result in the following distribution:

	<u>Share</u>	<u>Over 3 Years</u>	<u>Yearly</u>
Sub-Saharan Africa	39.0%	\$ 3,510 mil.	\$ 1,170 mil.
Other Pure IDA Countries	21.0%	\$ 1,890 mil.	\$ 630 mil.
Other "Blend" Countries	40.0%	\$ 3,600 mil.	\$ 1,200 mil.
		\$ 9,000 mil.	\$ 3,000 mil.

- implies a nominal increase in annual lending to Sub-Saharan Africa which averaged \$1.0 billion in FY 81-83.
 - implies a modest nominal increase (about \$30 million per year) in lending to the 13 other pure IDA countries.
 - implies a nominal decrease (about \$270 million per year) in lending to the India/China/Sri Lanka/ Pakistan group. However, as can be seen in the illustrative scenario in TAB A, this could be structured in a rational fashion which would:
 - * imply only modest maturation of Sri Lanka and Pakistan (reducing the combined share in IDA of these two countries from 9.4% in FY 80-82 to 8% in IDA VII),
 - * continue the maturation of India, while still allowing India's total World Bank borrowings to increase in nominal terms vis-a-vis the annual borrowings of the last several years, and
 - * allow a gradual and modest increase in lending to China during the IDA VII period.
-

IDA Deputies have agreed that "the eligibility for IDA resources should remain per capita income and countries' access to other sources of finance." In this context, we have asked that the November meeting review the creditworthiness of IDA recipients, so as to better ascertain to what extent prospective

borrowers have access to -- and the ability to service -- alternative sources of finance. We believe such a review would strengthen the claim of Sub-Saharan Africa to IDA VII resources, while also pointing out the relatively favorable creditworthiness of China -- which recorded a 1982 balance of payments surplus of \$7.3 billion, and reserves up by \$6.3 billion, with a \$6.8 billion payments surplus projected for 1983 -- and to a lesser extent India.

While we believe that Sub-Saharan Africa should -- on the basis of need and lack of access to alternative financing -- have first claim on IDA resources, we also recognize that there are some very difficult operational problems associated with this region, including absorptive capacity and sluggish economic performance. (As noted in the 1982 IDA in Retrospect report, the average rate of return on IDA projects in Africa is considerably below that of South Asia, with 14 percent of African projects having a negative rate of return and an additional 16 percent of projects having a rate of return below 10 percent.) We do not therefore accept the Bank's contention that Sub-Saharan Africa could effectively utilize \$6 billion, i.e., double FY 81-83 lending, in IDA VII. Our goal would be for a far more modest increase in lending to the region -- e.g., from \$3.0 billion in FY 81-83 to \$3.5 billion in FY 85-87 -- which should be accompanied by renewed efforts in the areas of technical assistance, training, and human resource development as the IDA in Retrospect report recommended.

(d) Length of Replenishment:

At the March IDA Deputies meeting, the United States proposed a five-year period rather than the three-year time frame of recent replenishments. We pressed this proposal at the July meeting, emphasizing that a five-year period would facilitate legislative and long-range operational planning. There was virtually no support among other donors for the five-year, rather than three-year, replenishment.

(e) Terms and Conditions of Lending:

At the November Deputies meeting, Deputies were open to the idea of reducing the maturity of IDA credits but most were not enthusiastic to levy interest charges on these credits feeling that more study should be given to the possibilities for expanding the use of blending for altering the concessionality of combined IBRD/IDA resources. There was also strong feeling that it was premature to reach any conclusions on specific changes in terms until it became clearer how other issues affecting the size and allocation of resources would be resolved.

It should be noted that the present terms for IDA credits were established in 1960 and have remained essentially unchanged since then. Under these terms, IDA credits are provided for a 50-year maturity period with ten years grace. Rising inflation

and interest rates have made IDA credits more attractive to borrowers. In line with generally rising capital costs, the element of concessionality (or the grant equivalent) of IDA credits has risen from 65 percent in 1961 to 90 percent in 1982. A significant shortening of the amortization terms would enable funds to be recycled with relatively little deterioration in grant terms.

Other Donors' Positions

Negotiation of a replenishment above \$9 billion would require either an increased annual U.S. contribution above the \$750 million now envisioned or a willingness by other donors to significantly increase their share in the replenishment. However, among the major donors, only Japan has suggested the possibility of increasing its share.

It appears likely that donors will continue to support increased IDA lending to Sub-Saharan Africa, although even in a \$9 billion replenishment there will still be considerable donor support (particularly from the UK and Canada) for a large program for India. Japan is also likely to emphasize the importance of a program for China. The larger the size of the replenishment, the greater will be the Bank's flexibility to downplay creditworthiness criteria and accommodate larger programs for India and China.

TAB A: Illustrative IDA VII Lending Scenario for "Other Blend" Countries

ILLUSTRATIVE SCENARIO: IDA VII LENDING TO "OTHER BLEND COUNTRIES"

1. Assumes "other blend countries" will receive a 40 percent share of IDA VII resources (vis-a-vis a 46% share in FY 81-83) during the FY 85-87 period. Also assumes the 40 percent share will be distributed as follows:

	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>
Sri Lanka + Pakistan	8.0%	8.0%	8.0%
India	27.5%	25.5%	23.5%
China	4.5%	6.5%	8.5%

2. Continues the maturation of India, while still allowing total Indian World Bank borrowings to increase in nominal terms vis-a-vis Indian borrowings over the last several years.

World Bank Lending to India

(\$ millions)

<u>Actual</u>	<u>IDA</u>		<u>IBRD</u>		<u>TOTAL WORLD BANK</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
FY 73	494	36	70	3	564	17
FY 74	390	36	52	2	442	10
FY 75	631	40	209	5	840	14
FY 76	684	41	210	4	894	13
FY 77	481	37	269	5	750	11
FY 78	952	41	330	5	1,282	15
FY 79	1,192	39	300	4	1,492	15
FY 80	1,535	40	125	2	1,660	14
FY 81	1,281	37	430	5	1,711	14
FY 82	900	33.5	1,265	12	2,165	17
FY 83	1,063	31.8	1,087	10	2,151	15

Illustrative

FY 85	825	27.5	1,330	10	2,155	13
FY 86	765	25.5	1,406	9.5	2,171	12
FY 87	705	23.5	1,476	9	2,181	11

Note: IBRD borrowings are based on currently projected overall lending levels for the Bank, i.e., \$13.3 billion (FY 85), \$14.8 billion (FY 86), and \$16.4 billion (FY 87).

India's share of total IBRD lending is projected to begin declining in FY 86 to reflect Bank concerns regarding the quality of its portfolio as well as internal Bank guidelines

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for limiting the proportion of IBRD lending allocated to a specific country. The guidelines are that:

- (a) the ratio of a country's disbursed and outstanding loans to total Bank disbursed and outstanding loans should not exceed 8 percent (India's 6/30/83 ratio was 4.1 percent), and
- (b) the ratio of a country's total loans, i.e., loans outstanding, undisbursed loans, and loans approved but not yet effective, to total Bank loans should not exceed 10 percent (India's 6/30/83 ratio was 5.5 percent)

- 3. Allows a gradual and modest increase in IDA lending to China during the IDA VII period.

IDA Lending to China

(\$ millions)

		<u>Amount</u>	<u>% of Total</u>
<u>Actual</u>	FY 81	100	2.9
	FY 82	60	2.2
	FY 83	150	4.5
<u>Illustrative</u>	FY 85	135	4.5
	FY 86	195	6.5
	FY 87	255	8.5



OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 19, 1983

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(with ~~Confidential~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
ASSISTANT TO THE PRESIDENT AND DEPUTY TO THE CHIEF
OF STAFF
DIRECTOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT Senior Interdepartmental Group on
International Economic Policy

Attached is a paper on possible steps to liberalize the Japanese capital market. This paper has been prepared by the IG-IEP, for discussion at this Friday's meeting of the SIG-IEP.


David E. Pickford
Executive Secretary

Attachment

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