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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

EXTERNAL PUBLIC ASSISTANCE FOR DEVELOPMENT AVAILABLE FROM NATIONAL AND REGIONAL SOURCES

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Public Disclosure Authorized

CURRENCY EQUIVALENTS AT THE END OF 1961

Currency unit	Effective date of present rate	Currency units per U.S. $	U.S. $ per currency unit
New franc (NF)	January 1, 1960	4.937	0.202
Pound (£)	September 18, 1949	0.357	2.800
Deutsche mark (DM)	March 6, 1961	4.000	0.250
Lira (Lit)	March 30, 1960	625.00	0.0016
Yen (¥)	May 11, 1953	360.00	0.0027
Canadian dollar (Can. $)	fluctuating rate	1.043	0.959

N.B.: All data shown in the text in terms of dollars are based on conversion factors used in the original source. These factors have varied in the period under consideration as the exchange rates have changed.

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PREFACE

This paper is a compendium of information on the terms and amounts of external financial assistance on public account which is made available to the less developed countries by major capital exporting countries on bilateral account and by regional institutions. It does not purport to cover financial assistance extended by the United Nations (UN), International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and International Finance Corporation (IFC). The need for a paper of this kind has grown as more countries and institutions have become active in financing development and as old-established aid programs have been revised.

The paper is descriptive in character. It makes no attempt to analyze the adequacy of the present efforts to assist the less developed countries or to examine the problems involved in the coordination and allocation of developmental aid.

This study relates to financial assistance only; it does not deal with technical assistance. Although it is supplemented by numerous tables showing the actual flow of assistance in recent years, it does not purport to be a statistical study of capital flows; indeed none of the data shown herein have been independently derived.

While the principal focus has been on long and medium-term loans as well as on grants, various references have also been made to export credit insurance because of the growing importance, changing character and relationship of government guarantees of export credits to long-term financial assistance. The data on capital flows do not, however, include guaranteed private export credits.

Since the paper is intended primarily for use by the staff of the IBRD, no attempt has been made to cover the activities of the IBRD, IDA or the IFC. Only passing reference is made to the operations of consortia which have marshalled assistance for the development plans of certain countries such as India and Pakistan or for a special program such as the Indus Basin works in Pakistan. The paper accordingly concentrates on the aid programs of the major capital-exporting countries and of two regional institutions, the Inter-American Development Bank and the Overseas Development Fund of the European Economic Community. For each of these, information is provided on the terms and amount of assistance and on the institutions through which aid is channeled.

For convenience, the study is in two parts. The first part consists of a chapter for each country covered; the second part relates to regional institutions. The particular order in which the chapters are arranged has been based purely on the over-all magnitude of assistance rendered by the countries or institutions concerned.

A table showing terms and conditions of a representative sample of loans made in 1961 is appended.

The terms and institutional framework of developmental assistance is undergoing constant change. It will accordingly be necessary to revise this paper from time to time and to remedy any deficiencies or errors in the data now included in the report.

PART I

CHAPTER I

THE UNITED STATES

The United States is by far the most important contributor to the economic development of underdeveloped countries. In the past five years 1956-60, its assistance has averaged close to $2.6 billion a year on a gross basis and $2.25 billion on a net basis.[1] This assistance consists of grants, loans and sales of surplus agricultural commodities for local currency. It includes developmental assistance per se as well as "Supporting Assistance" which includes types of aid formerly called 'Defense Support' and 'Special Assistance'.

The bulk (i.e., roughly 60%) of net U.S. aid to underdeveloped countries in 1956-60 consisted of grants. An additional 17.5% represented net sales of surplus agricultural commodities for local currency. Loans accounted for the remaining 22.5%.

The legislative authority for the provision of this massive assistance was, till very recently, derived from "a series of legislative measures and administrative measures conceived at different times and for different purposes"[2] which have now become obsolete as a result of the enactment on September 4, 1961, of the "Act for International Development". For the record it is sufficient to identify the principal channels through which foreign aid has heretofore been disbursed. These were the International Cooperation Administration operating under the Mutual Security Act, the agricultural surplus disposal program authorized under the Agricultural Trade Development and Assistance Act (PL 480), and the Development Loan Fund, a corporate entity operating with funds provided under the Mutual Security Act. In addition, underdeveloped countries also benefited from loans extended by the Export-Import Bank, an independent agency operating outside the framework of the Mutual Security Act. Eximbank was also till recently the channel through which loans repayable in local currency under Section 104 (e) of PL 480 (so-called Cooley Amendment) were administered. The functions of this institution are treated separately.

The U.S. foreign aid program was, in the words of the President's Special Message to Congress, "bureaucratically fragmented, awkward and slow (and) its administration (was) diffused over a haphazard and irrational structure covering at least four departments and several other agencies". Accordingly, measures were instituted early in 1961 for revamping the machinery for U.S. foreign aid.

1/ OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development 1956-59" and a similar study for 1960 by OECD.

2/ President's Special Message to Congress on Foreign Aid, March 22, 1961.

A. The Agency for International Development (AID)

The new Act which became law on September 4, 1961, seeks to integrate the various foreign economic aid activities of the U.S. Government and to centralize their administration in a single agency. The Agency for International Development (AID) was accordingly set up on November 4, 1961; it took over the assets, obligations and undisbursed funds of the International Cooperation Administration and of the now defunct Development Loan Fund. AID also administers the "Alliance for Progress" program established for the Latin American countries.

The principal features of the new aid program are: (1) its accent on developmental assistance (2) greater emphasis on assistance through loans rather than grants (3) a shift from loans repayable in local currency to loans repayable in dollars at lower rates of interest and with longer maturities (4) its stress on sound country plans and self-help measures as the pre-condition for assistance (5) a somewhat reduced emphasis on defense support assistance (6) government participation, for the first time, in investment surveys undertaken under private auspices and (7) widening of the investment guarantees program.

One important change sought by the President - legislative approval of a 5-year program of borrowing from the Treasury for developmental lending - was denied by the Congress. Instead, Congress appropriated $1,112,500,000 for fiscal 1962 and authorized the President to enter into loan commitments up to $1.5 billion in each of the succeeding 4 years subject, however, a annual appropriations by Congress.

The Foreign Assistance Act of 1961 (PL 87-195) consists of two parts. Part I is the Act for International Development and relates to economic assistance. Part II is the International Peace and Security Act relating to military assistance which will continue to be administered by the Defense Department.

The Agency for International Development will administer the economic aid program[1/] including the Food for Peace program; the latter is essentially a new name for a similar program authorized under the Agricultural Trade Development and Assistance Act (PL 480) for providing economic assistance through the disposal of surplus agricultural commodities.

The main forms of bilateral assistance authorized under the Act for International Development are: developmental loans (Title I), developmental grants and technical cooperation (Title II) and supporting assistance (Section 401). In addition, there is provision for investment guarantees (Sections 221-224), government participation in surveys of investment opportunities (Sections 231-232) and development research (Section 241).

1/ This paper does not deal with the so-called "Peace Corps" since it relates to training and technical assistance.

Appropriations for Fiscal 1962

For the fiscal year ending June 30, 1962, Congress appropriated in the Act for International Development a total of rather more than $1.8 billion for strictly bilateral assistance distributed as follows (in millions of dollars):

Development loans	1112.5
Development grants	296.5
Investment surveys	1.5
Support assistance	425.0
	1835.5

A brief description of the ends and purposes of the major components of the aid program[1] follows.

Development Loans

The primary emphasis in the new foreign aid program is on development loans; appropriations for 1961/62 under this head amount to $1112.5 million or some 48% of the total appropriated for this fiscal year.

The Act of September 4, 1961, provides for this purpose the establishment of a fund to be known as the Development Loan Fund; it will not be a corporate entity like the DLF which it has supplanted.

Development loans will be repayable both as to principal and interest in U.S. dollars on such terms and conditions as will "promote the economic development of less developed friendly countries and areas, with emphasis upon assisting long-range plans and programs designed to develop economic resources and increase productive capacities". 2/

Criteria for development loan assistance are, besides the usual creditworthiness tests: availability of similar assistance from other free-world sources (underlining supplied), economic and technical soundness of the activity financed and its prospective contribution to long-range economic development of the recipient country, and the latter's capacity for self-help. An important consideration in making a development loan is its "possible effects upon the U.S. economy with special reference to areas of substantial labor surplus". 3/

Title I of the Act for International Development relates to the Development Loan Fund. Section 202 of the Act authorizes the appropriation of $1.2 billion for the fiscal year 1962 and of $1.5 billion annually in the next 4 years. Whereas the Act authorizes commitments in each year up to the amounts authorized, the necessary appropriations have to be voted by Congress each year. Appropriations for fiscal 1962 amount, as mentioned earlier, to $1112.5 million.

Section 205 of the Act also provides that, where the purposes of such assistance may be better served, an amount not exceeding 10% of the funds made available under Section 202 may be lent to the International Development Agency(IDA)

1/ Congress appropriated a total of $2311.5 million for economic assistance in fiscal 1962; this includes $275 million for the President's Contingency Fund which may, at his discretion, be used for bilateral assistance. Appropriations under other heads (e.g., multilateral aid) amounted to $201 million.
2/ See 201 (b) of the Act for International Development.
3/ Ibid.

Criteria for lending, loan policies and procedures are to be determined by an inter-agency Development Loan Committee. Pending a decision on this, it might be expected that terms and conditions will generally follow the preliminary policy statement contained in the "Summary Presentation" of the Act for International Development. This provides:"All loans under the new authority will be repayable in dollars, will bear interest at low rates or will be interest free and will extend for terms of up to 50 years with substantial grace periods where warranted...Within certain established limits, loan terms will be devised with respect to each country in terms of its capacity to repay. In all cases, however, loans will be made on more favorable terms than the countries could obtain from other sources".

The first loan made under the new program of development lending was one of $50 million to Brazil. It was for 40 years, carries no interest and has a grace period of 10 years. The loan carries a service charge of 0.75% per annum.

Informal discussions with the people concerned suggests that development loans will not be restricted to direct foreign exchange costs of development activities; that is to say, under appropriate circumstances such loans could be used to finance local currency expenditures provided that the goods purchased as a result of such expenditures come from acceptable sources.

The policy in respect of procurement of aid-financed goods and services is governed by the over-all balance of payments considerations set forth in the President's message of February 6, 1961. Broadly the objective is that until such time as reasonable over-all equilibrium in the payments position is achieved, the preponderant bulk of foreign assistance procurement should consist of domestically produced goods and services.

Procurement from sources outside the United States is not, however, ruled out. Indeed Section 604 (a) of the Foreign Assistance Act of 1961 envisages that a part of funds made available under the Act may be so used provided that the President determines that such procurement will not adversely affect the domestic economy or the net balance of payments position of the United States.

Pursuant to this requirement, the President informed the Secretary of State in a memorandum dated October 18, 1961, that although he would continue to place primary emphasis on the procurement of American goods in the administration of the aid program, procurement from less developed countries would not militate against the over-all objective of balance of payments' equilibrium and that by advancing their economic development, it would, in fact, be in line with the purposes of the foreign economic assistance program.

The President however ruled that no funds provided for non-military programs under the Foreign Assistance Act of 1961 are to be expended on procurement from Australia, Austria, Belgium, Canada, Denmark, France, Germany, Hong Kong, Italy, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland and the United Kingdom. Specific exceptions may, however, be made at the discretion of the Secretary of State if he finds that such exclusion seriously militates against U.S. foreign policy objectives. In any case, procurement from outside the United States will be limited to free-

world sources.1/ According to present indications, between 75% and 80% of the foreign economic assistance funds appropriated for the fiscal year ending June 30, 1962, will be obligated for U.S. goods and services.

Development Grants and Technical Cooperation

Under Title II of Chapter I of the Act for International Development, Congress has appropriated $296.5 for 1961/62; the amount authorized under the Act was $380 million, of which roughly $250 million was meant for continuing projects and the remainder for new projects.

Development grants are meant to be complementary to assistance through development loans; consequently, barring the creditworthiness test, the criteria for grant assistance are generally the same as for loan assistance since the over-all objective is sound economic development. Emphasis in the grant program will be on the development of human resources, but in those countries which do not qualify for loans a certain amount of capital costs may also be financed by development grants. This emphasis on the development of human resources is further underlined by the statutory injunction that for countries in the earlier stages of development "the furnishing of capital facilities for purposes other than the development of education and human resources shall be given a lower priority until the requisite knowledge and skills have been developed".2/

Development grants are also to be used, inter alia, for resources surveys, land reform, improved housing, development of agricultural credit institutions, community development etc. A small part of the funds appropriated ($2 million) is to be used for the development of the peaceful uses of atomic energy.

Special mention is made in the Act of the importance of assisting less developed countries with an essentially agrarian base "particularly through loans (sic) of foreign currencies for associations of operators of small farms formed for the purpose of joint action designed to increase or diversify agricultural productivity. .... The aggregate unpaid balance of all loans made under this section may not exceed $10 million at any one time".3/

Supporting Assistance

The purpose of such assistance towards which Congress appropriated $425 million for the fiscal year 1962 is to help friendly countries to support their own military effort. It is also meant to help maintain U.S. base rights and generally to "prevent economic instability which would threaten U.S. political interests and to prevent exclusive economic dependence on Sino-Soviet aid".4/

1/ Memorandum of October 18, 1961 from the President to the Secretary of State printed on page 10543 of the Federal Register, November 9, 1961.
2/ Section 211 (b) of Title II, Chapter 2 of the Act.
3/ Public Law 87-195 of September 4, 1961 relative to AID.
4/ An Act for International Development: a program for The Decade of Development, Summary Presentation June 1961.

The reduction in the scale of assistance under this head from former years, e.g., 1960/61 appropriations of some $900 million under "Defense Support" and "Special Assistance" - is likely to be offset by greater reliance on loan assistance and on the provision of surplus commodities under the Food for Peace Program.1/

Surveys of Investment Opportunities

One of the most interesting and novel provisions of the New Act authorizes the government to participate in the costs of surveys of investment opportunities undertaken by any person; the limit to its participation is 50% of the total cost of any such survey. Should the individual decide not to undertake the investment made possible by such a survey, the results of the survey become the property of the U.S. Government.

The Act authorized the appropriation of $5 million for use beginning in fiscal 1962 until expended, but Congress appropriated only $1.5 million for this year.

Investment Guarantees

Title III of Chapter 2 of the Act for International Development relates to the investment guarantee program of the U.S. Government. In essence, it incorporates the features of the old ICA and DLF investment guarantees programs and somewhat enlarges the scope of the risks covered.

The investment guarantee program is designed to stimulate investment in underdeveloped countries. By itself, it does not lead to a transfer of resources in the same way as loans or grants. A brief sketch of its scope is therefore sufficient for the purpose of this paper.

The Act authorizes the insurance of U.S. investors against the following types of risks: (a) inconvertibility (b) loss due to expropriation or confiscation and (c) loss due to war, revolution or insurrection. The total face value of guarantees against such risks shall at no time exceed $1 billion.

There is also provision for an all-risk guarantee (except against fraud or misconduct) up to 75% of the investment "in those special and specific cases which occupy an agreed high priority position in the host country's development plan". The total face amount of such investment guarantees may at no time exceed $90 million. A similar guarantee will be available for investments in pilot housing projects in Latin American countries; the face amount of such guarantees may not at any time exceed $10 million.

1/ Summary Presentation of "An Act for International Development".

B. Food for Peace

An integral part of the U.S. foreign aid program has been assistance through the transfer of surplus agricultural commodities to aid recipient countries. The new foreign aid program further emphasizes the role that surplus agricultural commodities can play in foreign economic development through the integration of the various facilities for such assistance authorized under the Agricultural Trade Development and Assistance Act, as amended, of September 4, 1961.

The objectives of the Food for Peace Program are essentially those of the old so-called PL 480 program. They are, chiefly, to permit increases in food supply more rapidly than domestic production and import on conventional terms would allow, to improve nutritional standards in recipient countries, and to provide buffer stocks against natural catastrophes.

These objectives are to be achieved through assistance under the four Titles of the Agricultural Trade Development and Assistance Act, as amended.

Title I of the Act relates to sales of surplus agricultural commodities for foreign currency. Title II authorizes the U.S. Government to extend grant assistance for famine relief and other extraordinary relief requirements of friendly nations, including relief "to friendly and needy populations without regard to the friendliness of their government". It also permits the use of these commodities on a grant basis for work relief projects with some of the foodstuffs sold on local markets to provide cash wages for workers. Title III authorizes the Government to barter surplus agricultural commodities for commodities not produced in the U.S. or in exchange for strategic or other materials. It also encompasses donations of surplus agricultural commodities to voluntary relief organizations (e.g., CARE). Title IV relates to long-term supply contracts and long-term credit to countries in course of economic development for purchases of surplus agricultural commodities for domestic consumption. Such credits will be repaid in dollars, may extend to as long as 20 years and will bear an interest rate in line with the Treasury's borrowing rate.

Sales for foreign currency under Title I of the Act is the core of the Food for Peace Program. The Act authorizes the negotiation of sales agreements between January 1, 1962 and December 31, 1964, in an amount which will call for appropriations to reimburse the Commodity Credit Corporation (CCC) in an amount not exceeding $4.5 billion. The commodities will be sold at world market prices which generally correspond to two-thirds of CCC's cost price.

In negotiating these sales agreements, the Government is urged to ensure that private trade channels are used to the maximum extent practicable and that such sales do not disrupt the world market for such commodities.

Local currency accruals from Title I sales are to be used by the U.S. for a variety of purposes envisaged in the Act, e.g., to pay U.S. obligations abroad, to help develop new markets for U.S. agricultural commodities (5% of total sales each year to be set aside for this purpose), to purchase strategic materials and, most importantly, to make loans for promoting multilateral trade and economic development.

Section 104(e) of the Act requires that not more than 25% of local currencies accruing from these sales may be used for loans to U.S. enterprises abroad or to domestic firms. Such loans may, at the option of the borrower, be repaid in foreign currency.

A new feature of the Act authorizes the U.S. Government to sell local currency accruing to its credit to tourists against dollars.

The authorization for food grants for famine relief and other assistance under Title II is $300 million in each of the calendar years 1962 through 1964; this amount again, represents, CCC's costs and does not reflect the world market prices of commodities shipped.

The administration of the "Food for Peace" program, as in the case of the PL 480 program, involves several agencies, viz., the Departments of Agriculture and State and AID. In brief, the Department of Agriculture determines the availability of surplus agricultural commodities, the State Department deals with over-all policy matters and AID determines the major uses to which the surplus commodities will be put. The division of inter-agency responsibility is not, however, very clearly fixed.

C. Export-Import Bank (Eximbank)

The Eximbank was established in 1934 and is the principal agency of the U.S. Government engaged in international lending on conventional banking principles. Its loans, which are made under the authority of the Eximbank Act of 1945 as amended, are dollar obligations repayable in the same currency.

The Eximbank has a capital of $1 billion subscribed to and held by the U.S. Government. In addition, it can borrow from the U.S. Treasury to finance its loan operations. The present lending authority is $7 billion.

The Eximbank can make available loans and credits and guarantee credits.

Types of Loans

Loans made by Eximbank fall in the following categories:

a. Commodity credits involving short-term financing (about 1 year) of exports of specified raw materials and foodstuffs from the U.S.,

b. Medium-term "exporter credits" of up to 7 years for financing exports of capital equipment and consumer goods and with a view to enabling U.S. exporters to meet credit terms offered by competing foreign suppliers,

c. Investment loans to private firms, foreign as well as domestic, to finance specific investment abroad; ordinarily such loans carry a guarantee and have a maturity of 5 to 10 years,

d. Developmental loans to foreign governments, political subdivisions and agencies thereof with or without guarantee depending on individual circumstances; such loans may be for financing specific projects or occasionally for a group of projects within the framework of a general development program and may be for up to 20 years, and

e. Balance of payments loans to foreign countries to enable them to maintain essential imports from the U.S. The term of these varies; generally they are up to 8 to 10 years.

Terms of Loans

The general lending policies of Eximbank may be summarized as follows:

a. The loan should be for a specific purpose and there must be reasonable assurance of repayment in U.S. dollars.

b. Financing covers only the foreign exchange costs of a project and is confined to purchases of materials and equipment produced in the U.S.

c. Eximbank is not precluded from lending, under exceptional circumstances, to a foreign government which is in default on its obligations to the U.S.

d. Eximbank does not always insist that its loans be guaranteed; when it does, it is prepared to accept a guarantee by a foreign central bank or even a commercial bank's guarantee.

e. Eximbank is not to compete with private capital or engage in equity financing.

f. The Eximbank may sell portions of its loan portfolio to commercial banks.

g. Loan maturities are arranged in accordance with the circumstances of each case. Interest charged depends on the maturity of the loan and generally depends on what the Bank itself would have to pay for similar accommodation from the Treasury; the current lending rate is about 5-3/4% to 6%.

Volume of Lending

As of December 31, 1961, the cumulative total of Eximbank's active[1/] authorized dollar credits was $8.0 billion. Funds disbursed by Eximbank amounted to $5.9 billion and the total amount of credits outstanding was $3.7 billion.

1/ Total credits authorized since Eximbank's inception amounted to $11.8 billion as of year-end 1961; of this $3.8 billion had been fully repaid as of that date.

The bulk of Eximbank's active dollar credits was to Latin America ($3.4 billion), and Europe ($2.8 billion); together they amounted to 78% of the total of $8.0 billion.

The average annual rate of new credits authorized by Eximbank in the five years ending 1959 was around $0.6 billion p.a.; in 1960 it rose to rather more than $0.8 billion and in 1961 it was somewhat less than $0.8 billion. The rate of disbursements which averaged approximately $0.4 billion p.a. over the past several years rose to rather more than $0.6 billion in 1961.

Export credits and guarantees

The present Eximbank program of "exporter credits" and guarantees is of relatively recent origin; it dates back to 1953 i.e., around the time when the world market for U.S. exports changed from a seller's to a buyer's market. More recently as a result of the pressure on the U.S. balance of payments, several changes in the program have been made and the Bank is now in the process of finalizing a new scheme of export-credit insurance which may be put into force in February 1962.

Under the program as presently administered, it is possible for a U.S. exporter to obtain Eximbank assistance in one of several ways. He may (a) obtain its political-risk guarantee in respect of short-term transactions, (b) obtain a comprehensive guarantee covering both political and commercial risks on medium-term transactions, (c) get the Bank itself to finance medium-term credits or (d) secure the funds needed to finance medium-term transactions through the intermediary of the Bank.

(a) The short-term political-risk guarantee is available for all transactions involving credit up to 180 days. It covers risks arising from inconvertibility or non-transferability of local currency, cancellation of import permits and import restrictions and losses arising from war, civil disturbances or expropriation. The maximum coverage is limited to 90% of actual losses. The fee corresponds to 0.25% p.a. computed on the balance outstanding. In order to obtain this guarantee, the exporter must, however, offer the Bank all of his short-term business; i.e., he cannot seek cover only in respect of selected transactions. Eximbank limits itself to underwriting the political risks in order that private companies may be encouraged to insure credits against the usual commercial risks.

(b) To be eligible for the Bank's medium-term guarantee, it is necessary that at least 10% of the invoice value of an export contract is paid for by the foreign buyer. Of the remaining 90% representing the so-called "financed portion of the transaction", the exporter is required to assume at least 15% at his own risk. Eximbank is then prepared to guarantee the credit against political as well as commercial risks provided that it is not required to finance any part of the credit. The maximum period for which the guarantee would run is 5 years except in the case of exports of jet-aircraft when the period may be as high as 7 years. The fee charged by Eximbank for this kind of comprehensive policy averages 1.5% p.a. based on the balances outstanding.

In lieu of the comprehensive guarantee, an exporter has always the option to ask for coverage against political risks only on the same terms and conditions that apply to short-term credits.

(c) When an exporter is unable to arrange for the financing of a medium-term transaction, Eximbank stands ready to assist him to the extent of 85% of the "financed portion"; i.e., the purchaser has to pay 10% of the invoice-value by delivery date and the exporter himself has to assume at least 15% of the balance.

The initiative for negotiating such medium-term credits ordinarily comes from the U.S. exporter but once made the loan is treated as a "foreign" loan in the name of the importer. Such credits are made on a "non-recourse" basis, i.e., the risks involved in making the credit are borne by Eximbank except for that part (15%) retained by the exporter for his own account.

(d) With a view to encouraging more direct participation in medium-term export credits by U.S. commercial banks and other private financial institutions, Eximbank introduced a new guarantee scheme in October 1961. Under this scheme, a participant bank is required to provide the funds needed to cover the "financed portion" of each medium-term transaction; Eximbank will guarantee the participant bank against political risks up to the full amount of its participation. But since a participant may not want to incur all the commercial risks involved in any such transaction, Eximbank is also prepared to guarantee against commercial risks that part of each transaction in respect of which the participant bank seeks Eximbank protection. To be eligible for this, participants must, however, assume at least 50% of the risks in respect of credits up to 2 years' maturity e.g., in the case of a 1 year credit, the risks in respect of the first 6 monthly payments have to be borne by the participant. In the case of 3, 4 and 5 year credits the participant bank must assume the risks on at least the first 18 monthly installments. Eximbank will not, however, extend its guarantee if it is required to purchase from the participant any part of the later maturities.

In order to enable Eximbank to undertake guarantee obligations on this broader basis, it was legislatively authorized in September 1961 to insure U.S. exporters against political and credit risks up to $1 billion outstanding at any time. The Bank is required to hold $250 million as a reserve against such liabilities.

As mentioned earlier, a new scheme for the issue of comprehensive all-risk export credit insurance is soon to be put into effect. Under this scheme export credit insurance will be issued through the Foreign Credit Insurance Association (FCIA), a voluntary unincorporated group of major U.S. insurance companies. Exporters will be offered a single comprehensive-risk policy against both political and commercial risks. The commercial risk will be insured jointly by FCIA and Eximbank and the political risk will be underwritten by Eximbank.

The original expectation was that the entire program comprising both short-term and medium-term credit insurance would become effective by February 1, 1962. But because details in respect of the medium-term insurance program have yet to be fully worked out, it has now only been possible to implement the short-term credit insurance program.

This program became effective on February 5, 1962. It provides that on short-term credits of one year or less the foreign buyer need not make any cash payment. The U.S. exporter must assume 15% of the commercial risk and 5% of the political risk and must be prepared to insure the whole volume of his short-term credits through FCIA.

The insurance facilities will be available in respect of all short-term deals involving exports to "friendly countries". Premium rates for exporters who insure the whole volume of their export business through FCIA will vary according to the terms of payment for the exports and the country of the foreign buyer. They will range from $0.20 to $1.72 on each $100 of gross invoice value. 1/

In the first instance, FCIA will issue policies covering a period not exceeding 180 days; however, under appropriate circumstances, FCIA may issue policies for up to 1 year.

In the case of small exporters who have sold less than $50,000 abroad in the preceding year, FCIA coverage will be limited to 2 years or $100,000 of guaranteed exports whichever comes first and will not be renewable. The policy will cover 90% of both commercial and political losses on credits not in excess of 180 days. Small exporters need not, however, undertake to insure the whole volume of their business with FCIA; i.e., they may obtain cover against selected transactions.

The new guarantee arrangements will replace the short-term political risk guarantee program described in sub-section (a). However, till the old guarantees issued under that program run out, Eximbank will be liable for guarantees under both the old and the new programs.

According to present indications, the guarantee program for medium-term export credits (i.e., credits with a maturity in excess of 1 year) will be made available on the following basis. The foreign buyer will be required to make a cash payment of at least 10% of the invoice value of the consignment before delivery. Of the remaining 90%, the exporter must assume 15% and the balance will be covered by FCIA guarantee. Exporters who sell on credit at medium-term may insure with FCIA against selected risks without having to insure the whole volume of their export business. It may be some months before the medium-term insurance program goes into effect.

Insurance of Cotton and Tobacco Exports

Under Public Law 30 of the 83rd Congress, Eximbank is also authorized to insure cotton and tobacco exports against loss from war on expropriation 2/ up to $50 million. Its liability in respect of unexpired policies was $1 million as of June 30, 1961.

1/ Export-Import Bank of Washington, Press Release of January 30, 1961.
2/ Proponents of the legislation contended that such insurance was not available through private sources and that it would facilitate the movement of large cotton stocks held in the U.S.

UNITED STATES: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-1960*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959	1960
Net Official Grants 1/	1288	1302	1342	1394	1481
New Official Loans					
Gross	332	422	804	751	854
Net	236	150	665	596	684
Consolidation Credits					
Gross	-	66	214	112	3
Net	- 52	12	157	30	- 72
Net assistance through sales of surplus agricultural commodities for local currency 2/	454	569	239	247	436
Total					
Gross 3/	2074	2359	2599	2504	2774
Net	1926	2033	2403	2267	2529

1/ Original data are shown net.
2/ Claims acquired by the U.S. less currencies disbursed.
3/ This is not truly gross since 1/ and 2/ are shown only on a net basis.
* Data refer to disbursements.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development, in 1960".

CHAPTER II

FRANCE

French foreign economic assistance on public account has been of very great significance to the economic development of overseas countries, particularly to those in the Franc Zone. The annual contribution in the 5 years 1956-60 averaged about $820 million gross most of which was in grants and long-term credits. Net assistance in 1956-58 averaged the equivalent of some $770 million a year. In 1959, it rose to $805 million and in 1960 it was at $780 million.1/

As a proportion of GNP, the French contribution in these years averaged about 1.6% annually, i.e., a substantially higher proportion than that contributed by any other country.

Excluded from this discussion are: assistance provided by France in support of local budgets, current administrative expenditures and various capital expenditures financed out of budgetary appropriations of the various French ministries concerned although the magnitude of such assistance is included in the figures cited earlier. Neither does the paper discuss technical assistance, subsidies and assistance extended through the "Fonds de Soutien des Textiles d'Outre-Mer" to cotton growers and through the "Fonds National de Regularisation des Cours Produits d'Outre-Mer" to "Caisses de Stabilisation des prix"; the foreign exchange facilities available to countries through membership in the Franc Zone are also not dealt with here. However, the export credit program is dealt with in a separate section to bring this chapter in line with others in Part I.

I. Investment Assistance

The discussion in Sections A, B & C which follow is limited to a description of the various agencies which except for the Fonds d'Aide et Cooperation which covers all forms of external aid, were specially established by France for the channeling of its investment assistance. Investment expenditures averaged some $475 million equivalent in the 5 years under review and corresponded to about 60% of the total assistance referred to earlier. The bulk of these expenditures (some $430 million annually) was accounted for by specific social and economic projects included in the development plans of individual countries. The remainder consisted of expenditures (dépenses non ventilées) not specifically allocable to individual countries such as those undertaken by the specialized bureaus for petroleum prospecting and development, infrastructure investments in the field of aviation etc.

The scope of this assistance and the agencies through which it is channeled have been determined by a number of factors including the closeness of the administrative links with the Metropole, historical developments, differences in geographical location and variations in the economic evolution of the countries assisted. The countries in question may, therefore, be

1/ OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59" and a similar study for 1960 by OECD.

grouped with respect to the basis for assistance as follows: (a) Overseas Territories and Departments (b) Countries with bilateral economic cooperation agreements with France and (c) all other countries.

A. Assistance to Overseas Territories and Departments.

Through FIDES and FIDOM

In the past, France provided developmental assistance primarily to its Overseas Departments (DOM) and Overseas Territories (TOM). The Overseas Departments are and have been Guadeloupe, Guyane, Martinique and Reunion. But with the achievement of independence by most African countries, the number of Overseas Territories has been reduced to Comeres, Côte francaise des Somalis, Nouvelle-Calédonie, Polynésie francaise, St. Piérre-Miquelon, Terres Australis et Antartiques and the islands of Wallis and Futuna.

The machinery for channeling developmental assistance to these areas remains the same as that established in 1946 when the law relative to the French public investment program (the Monnet Plan) was enacted. At that time two separate but similar funds were established; the Fonds d'Investissement pour le Développement Économique et Social des Territoires d'Outre-Mer (FIDES) in respect of the Overseas Territories, and Fonds d'Investissement des Départements d'Outre-Mer (FIDOM).

FIDES and FIDOM have no corporate existence but are strictly "funds". These funds not only finance project expenditures in individual territories, i.e., projects directly benefiting the territory in which they are located, but also finance projects of general and inter-regional importance requiring central coordination and benefiting groups of territories. The latter type of expenditures include subscriptions to the capital of public and semi-public entities in the Overseas Territories. They fall within the scope of the so-called "section générale" of FIDES and FIDOM and are wholly financed out of grants-in-aid from the French Treasury.

Expenditures in respect of projects of direct interest to individual Territories or Departments come under the "sections locales" of FIDES and FIDOM. These are projects that fall within the scope of the developmental plans of each Territory and are jointly financed out of contributions from the Metropole and local budgets. Until 1959/60 the share of local budgets in such FIDES expenditures corresponded to only 10% (formerly as high as 45%); the corresponding proportion in the case of FIDOM was 15%. Even these small amounts could, however, be borrowed under 25-year loans at 1.5% from the Caisse Centrale de Coopération Économique (CCCE) which itself derives its resources from the Metropole and is the agency for administering FIDES and FIDOM funds. Virtually the whole amount of FIDES and FIDOM investment expenditures were therefore met out of funds originating from the Treasury. In 1960, for example, the total budgetary authorizations for FIDES and FIDOM was NF 89 million of which NF 57 million was in respect of "section générale" and the remaining NF 32 million for "section locale ". For FIDOM alone the 1960 authorization was NF 68 million of which NF 20 million for "section locale".1

1/ Source: Sixième Rapport du Conseil de Direction du Fonds de Développement Économique et Social, published in the March 1961 issue of Statistiques et Etudes Financières, Ministère des Finances; Vide p. 551.

Investment financing of territorial developmental projects through FIDES as well as FIDOM generally takes the form of grants. Although a small part of expenditures was financed by loans. the distinction between grants and loans has become rather tenuous; to all intents and purposes the entire amount of FIDES and FIDOM expenditures are to be regarded as "grants".1/ The only obligations incurred by the Territories and Departments that are strictly to be regarded as loans are those owed to the CCCE in respect of the loans made by it out of its own resources as described later. In 1960, for example, disbursements on loans made by CCCE out of its own resources amounted to NF 93 million of which NF 14 million was in the Overseas Territories and NF 79 million in the Overseas Departments.

Through CEDA and OCRS to Algeria and Sahara

The financing of development in Algeria and French Sahara is undertaken through other special agencies.

The "Caisse d'Équipement pour le développement de L'Algérie" (CEDA) is the principal channel through which the Metropole finances Algerian investment. The 1960 Budget provided an authorization of NF 1,140 million for investment in Algeria. Of this, NF 1,000 million was grant assistance, NF 136 million was for low-cost housing loans and NF 4 million for direct expenditures on Posts and Telegraphs. 2/

In addition to the funds appropriated to it in the French Budget, CEDA received in 1961 loans amounting to NF 81 million from the French Treasury and raised another NF 120 million on the capital market with the guarantee of the French Treasury.

L'Organisation Commune des Régions Sahariennes is the agency through which investment aid is channeled to the Saharan region which comprises of the two departments of Saoura and Oasis and the northern parts of the adjoining Republics of Mali, Niger and Tchad. The bulk of such assistance consists of Metropolitan grants-in-aid; they amounted to NF 133 million in 1960. In addition, direct expenditures of NF 7 million were met out of the Metropolitan Budget making a total of NF 140 million for 1960.

B. Assistance to Countries under Bilateral Economic Cooperation Agreements.

Through FAC

When most of France's Overseas Territories in Africa achieved internal autonomy in 1959, the mechanism of channeling foreign aid was revamped. The newly designated "Fonds d'Aide et de Coopération" (FAC) took over the functions

1/ Source: Les Relations extérieures de la France cited in the UN's "Economic Survey of Africa since 1950". p. 216.

2/ Source: Sixième Rapport de Conseil de Direction du Fonds de Développement Économique et Social published in the March 1961 issue of Statistiques & Etudes Financières, Ministère des Finances; pp. 541 and 545.

of FIDES. FAC continues to be the agency for administering aid to the following countries even after they became fully independent in 1960: Congo (Brazzaville), Côte d'Ivoire, Dahomey, Gabon, Haute Volta, Malagasy, Mali, Mauritanie, Niger, Republique Centrafricaine, Senegal and Tchad. Besides, FAC assistance is also extended to the old Trust Territories of Cameroun and Togo.

Unlike FIDES, its predecessor, which had concerned itself only with investment financing, FAC covers all forms of French external aid including the provision of experts and technical assistance and the extension of budgetary subsidies when necessary. Moreover, in contrast to FIDES, FAC does not receive any contribution from the overseas countries and therefore finances its expenditures entirely out of French sources. Since 1961 FAC assistance to these countries has consisted wholly of grants.

The provision of aid through FAC, which has now been placed under the direction of the Ministry of Cooperation, takes place under a system of bilateral treaties between France and the countries concerned i.e., the French speaking countries in Africa South of the Sahara and Malagasy. Requests for aid have to emanate from the countries concerned on their own initiative and have to be related to an over-all program of development showing clearly how the program is to be financed. FAC may then assist in the financing of these programs through grants as well as loans; to date its assistance has consisted entirely of grants.

The Metropolitan Budget for 1960 authorized expenditures of NF 372 million by FAC for 1960; the authorization for 1961 was higher at NF 453 million. The distribution of these funds by broad purpose is approximately as follows: agricultural development, 33%; transport and communications, 25%; social projects, 20%; scientific and other research and mining prospecting and development, 15%.

Through CCCE

In addition to the assistance made available by France to these countries through FAC, "La Caisse Centrale de Coopération Économique" (CCCE), mentioned earlier, also extends loan assistance. The total amount lent by it in 1960 was NF 232 million as against NF 246 million in 1959; the source from which these figures are drawn does not give a breakdown by individual borrower countries. 1/

CCCE also operates in the French Overseas Territories and Overseas Departments. The volume of its lending in 1960 in these areas is indicated in Section A of this chapter. Its functions and operational procedures may briefly be described as follows.

In the first place, CCCE is the agency which administers project expenditures undertaken by FIDES, FIDOM and FAC; it also administers the Fonds de Soutien des Textiles d'Outre-Mer and the Fonds National de Régularisation des Cours de Produits d'Outre-Mer mentioned earlier in this chapter. In

1/ Source: Sixième Rapport de Conseil de Direction du Fonds de Développement Économique et Social published in the March 1961 issue of Statistique & Etudes Financières, Ministère des Finances; Vide p.551.

actual fact, CCCE is the successor agency to the old Caisse Centrale de la France d'Outre-Mer.

Like its predecessor, CCCE is not merely the administrative agency of FIDES, FIDOM and FAC. CCCE is also endowed with other resources specially put at its disposal by the French Treasury for its own account.

In dealing with its own funds("opérations propres") CCCE operates as any other development bank. It makes medium and long-term loans to a variety of entities, public, quasi-public as well as private. CCCE participates as a shareholder in the capital of public and semi-public corporations but although authorized to participate in the capital of the private enterprises it finances, it does so only rarely. Besides lending out of its own resources, CCCE also guarantees loans made by others.

CCCE lends out of its own resources only when the project financed is of a self-liquidating nature.

The terms and conditions of CCCE loans vary from case to case. Generally, where the borrower is a private enterprise, it lends up to 50% of the project costs; in the case of projects of public or semi-public authorities, CCCE lends up to 100% of project costs. Loans to public authorities are from 10 to 20 years and bear a rate around 2-1/2%; those to private borrowers are 7 to 30 years and carry a rate of around 5-1/2%.

C. Assistance to Other Countries

French financial assistance to other countries is of relatively minor importance; most of this is to countries formerly associated with France. There are no specialized agencies through which such assistance is channeled. Aid funds are normally appropriated in the Budget of the Ministry of Foreign Affairs and are occasionally met by the Treasury proper out of the over-all funds allocated to it in the Budget.

Morocco and Tunisia receive larger and more continuous assistance than others. The French Budget for 1960, for example, included authorizations of NF 80 million in respect of these two countries; the 1961 Budget provided for a rather smaller amount, viz, NF 53.8 million. It is not clear whether this consists of loans as well as grants; the presumption is that it is wholly grants.

South Vietnam, Cambodia and Laos were provided NF 20 million in the 1960 Budget. In March 1960, a Franco-Vietnamese agreement on economic and financial cooperation was reached. Under this agreement, a credit for NF 50 million was opened in a special account of the French Treasury for financing at long term South Vietnamese purchases of French equipment. The loan is being channeled through CCCE (further details are not available).

France has also made other loans mostly, consolidation credits, to Turkey and Spain. In 1959 she made consolidation credits of the equivalent of $75 million to Turkey and $5 million to Spain.1/ In addition, France made a loan of the equivalent of $1.5 million to Turkey in 1958; it carries an interest rate of 5-3/4% and is repayable in 1969. Consolidated credits made in 1960 amounted to $11 million equivalent.

1/ OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development 1956-59".

Under a law enacted in August 1960, the French Government was authorized to assist foreign countries through long-term loans for the purchase in France of equipment goods. These loans may be made to foreign governments or other public agencies and may take the form of consolidation credits. As of the end of 1961, for example, France had undertaken to assist India to the extent of the equivalent of $15 million and to assist Pakistan to the extent of $10 million; these commitments were made at the meetings of the IBRD consortia. 1/

II. Export Credit Financing and Guarantees

The Banque Française du Commerce Extérieur, (BFCE) is a specialized institution established in 1946 for the purpose of facilitating the financing of foreign trade, principally exports. It does this by way of acceptances, discounts and guarantees and in effect acts as an intermediary between commercial banks and the Bank of France mainly by giving its guarantee to short and medium-term bills which commercial banks may rediscount with the Bank of France.

BFCE is a semi-public institution now with a capital of NF 15 million which is 3 times as large as it was at the time of its inception. Its capital is held by the Bank of France and the Caisse des Dépots et Consignations each of which holds 25% of its shares; the balance is held by the Crédit National, the Caisse Nationale de Crédit Agricole and other nationalized banks. In addition to its capital, BFCE is authorized to borrow both domestically as well as on foreign markets to finance its operations.

Export credits are made to the French exporter or, occasionally, an intermediary, but never to the foreign buyer. The credits are made available in respect of exports to all foreign countries and other independent countries that are members of the Franc Zone. 2/ The exporter is required to finance up to 20% of the invoice value. The maximum period for an export credit is 5 years from the date of despatch of goods but an exporter may avail himself of prefinancing facilities of up to 2 years; in exceptional cases involving large-scale capital projects this may be extended to 2½ years.

Credits in excess of 2 years' maturity have to be insured with the Compagnie Française d'Assurance pour le Commérce Extérieur (COFACE). The cost of medium-term credits varies depending on the nature of the contract and the discount rate. The rate for contracts with public authorities is lower than that for private entities; as of the end of 1960 the rate inclusive of commissions, amounted to 4.575% in the case of the former and 5.175% for the latter.

The total amount of credits extended by BFCE in 1960 was NF 3.3 billion of which NF 2.4 billion were guaranteed credits. 3/

1/ IBRD press releases and OECD "The Flow of Financial Resources to Countries in Course of Economic Development in 1960". Commitments in respect of an additional $15 million were made at the January 1962 meeting of the consortium for Pakistan.

2/ OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development 1956-59".

3/ Banque Française du Commérce Extérieur, Rapport 1960.

The Compagnie Française d'Assurance pour le Commérce Exterieur (COFACE) mentioned earlier, is the agency through which export credits are insured. It was established in 1928 as a private company but since 1946 has come under government control and therefore enjoys a special status although it continues to be a private joint stock company. Its capital of NF 2.25 million is held by the Caisse des Depots et Consignations, the Crédit National, the Banque Francaise du Commérce Exterieur, the nationalized banks and insurance companies and the Societé Francaise d'Assurance pour favoriser le Crédit. 1/

Besides insuring against commercial risks in respect of short-term export credits, COFACE acts on behalf of the Government in covering political risks as well as risks arising from natural catastrophes. All guarantees given on behalf of the government have to be approved by the Commission des Garanties et du Crédit du Commérce Exterieur.

COFACE administers one of the most comprehensive schemes of export credit insurance. Besides covering commercial, convertibility and political risks, it insures the exporter against possible cost increases due to internal factors during the production period (i.e., prior to delivery). It also insures against losses arising from national catastrophes after delivery and losses arising in connection with the exploration of export markets.

COFACE offers two kinds of policies; short-term policies covering both commercial and non-commercial risks are extended on exports of consumer and semi-capital goods. Medium-term policies are made available for capital goods exports or exports of whole plants. Such policies, however, cover only non-commercial risks.

The percentage of cover against commercial risks is 75-80%; in the case of political risks and natural catastrophe it is between 80-90% (sometimes even 95%); exchange risks are covered up to 100%; losses arising from domestic cost increase in the production period are covered up to 100%. The maximum coverage in respect of losses arising from market exploration (e.g., losses arising from participation in foreign trade fairs, advertizing and stock-piles) is however 60%. The basis for insurance cover is the invoice value of goods exported. 2/

Premium rates depend on the nature of the goods, country of destination, maturity of credit type of policy and the standing of the exporter.

COFACE has been increasingly active in guaranteeing export credits; the volume of such credits guaranteed by it annually rose by roughly 15% in 1959 and 1960. 3/ The bulk of the credit corresponding to some 70% of the total was in respect of exports to underdeveloped countries.

1/ Export Credit Insurance and Export Credits at the end of 1960, Bank for International Settlements.
2/ Financing Foreign Operations, Business International 1961 and the BIS Study of Export Credit Insurance and Export Credit at the end of 1960.
3/ Compagnie Francaise d'Assurance pour le Commérce Exterieur, Exercise 1959, and 1960.

As a result of legislation enacted in August 1960, it is now possible for exporters in France to offer foreign purchasers of equipment credits in excess of 5 years and normally up to a maximum period of 10 years. This can be done through the Crédit National which will rediscount bills with maturities in excess of 5 years; the early maturities (5 years and under) will be covered by the rediscount facilities offered by the Banque de France. The Crédit National will ordinarily discount the later portion of the longer dated bills using funds which will normally be secured from the "Caisse dés Depots", insurance companies and savings banks. But in case funds from these sources are not adequate, it may draw on the French Treasury which will also make good the difference between the rate charged by the intermediary agencies mentioned above and that charged by the Credit National itself which amounts to 6.5%.1/

The Act also authorizes the French Government to use the Crédit National as the medium through which it may make loans to foreign governments and their agencies for financing purchases of capital goods and equipment in France. All such loans have, however, to be approved by the French Parliament.

The ceiling for long-term loans to be made by the Crédit National is the equivalent of $40 million annually.

1/ L'Aide Économique Aux Pays Sous Developpés; Conseil National du Patronat Francais, July 1961.

FRANCE: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-60*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959 1/	1960
Net Official Grants	450	580	783	665	708
Official Loans (excluding consolidation credits)					
Gross	223	257	116	176	114
Net	183	234	75	134	61
Consolidation Credits					
Gross	-	-	-	6	11
Net	-	-	-	6	11
Total					
Gross	673	837	899	847	833
Net	633	814	858	805	780

1/ Revised.
* Data relate to disbursements.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development in 1960".

CHAPTER III

UNITED KINGDOM

The United Kingdom has over the years developed an extensive institutional framework for public assistance to its colonies and to independent Commonwealth countries. According to OEEC/OECD sources[1], public bilateral assistance to all areas combined has risen from around $140 million equivalent in 1956 to an estimated $300 million in 1960. These figures relate to grants, new loans and consolidation credits net of repayments but exclude contractual repayments on obligations incurred by the U.K. as also assistance through multilateral agencies.

A. Assistance to Colonies

Under the Colonial Development and Welfare Acts (C.D. & W.)

Recognizing its special responsibilities in regard to its colonies and the need for a special stimulus to the colonies for undertaking capital projects which private enterprise could not be expected to finance the U.K. enacted in 1929 the Colonial Development Act which provided £1 million a year to develop colonial agriculture and industry. The scope of this Act was greatly enlarged by the Colonial Development and Welfare Act of 1940 which authorized expenditure of over £55 million in the ten years 1941-1951 to enable the colonies to undertake long-term realistic programs of public development and permitted this money to be directed to "any purpose likely to promote the development of the resources of any colony or of its people". Further Acts in 1945, 1950, 1955 and 1959 extended the life of the Act of 1940 and increased the total of money available.

The Act of 1945 provided £120 million for the ten years to 1956; the Act of 1950 increased this to £140 million, while those of 1955 and 1959 raised the total of money available in the period 1945-1964 to £315 million, of which £140.5 million falls to be spent in the five years to the 31st March 1964. At the same time these various Acts raised the total that may be spent in any one year from £17.5 million, as provided in the 1945 Act to over £30 million.

The actual flow of assistance under the C.D. & W. Acts has risen sharply over the years; expenditures in the period 1951/52-1955/56 were 75% above 1946/47-1951/52 and the annual rate in the three years 1956/57 through 1958/59 was again some 25% above that in the preceding five years. Expenditures in 1959/60 and 1960/61, around £26 million annually, were 35% above the level of 1958/59.

1/ OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development in 1956-59", and a similar study for 1960 by OECD.

The total amount of funds committed under the C.D. & W. Acts in the period April 1, 1946 to March 31, 1961 was £275.3 million, almost all of which was in grants.1/ About one quarter of the assistance has been for communications, primarily roads, and a like amount for agriculture including related services. The remaining half was for social services with education and health accounting for the largest share.

The procedure for extending C.D. & W. funds is as follows: except for a few common services, of which research is the most important, nearly all development has been planned and executed by the Colonial Governments. They have been encouraged to submit development plans covering a period of several years showing priorities and the source of finance, and have been informed in advance of the allocations of C.D. & W. money to be made them over a given period, so that the work of development can be confidently put in hand. Within their over-all programs, individual projects are then submitted for approval, supported by a detailed statement of how the project costs are to be financed and what part of such costs is expected to be met out of C.D. & W. allocations. On the basis of these requests, the Secretary of State for the Colonies, with the concurrence of the Treasury, makes a scheme for the amount sought.

Schemes approved for C.D. & W. assistance may be for grants or loans, but in practice almost the whole amount of C.D. & W. assistance has been in grants. On the rare occasions when a project has been financed by loans, the decision to use loans has been based entirely on the revenue-earning prospects of the project financed. Ordinarily, most Colonial Governments prefer to use C.D. & W. moneys for projects which are not directly revenue-earning; hence the preponderance of grants (about 97%) in total C.D & W. assistance.

In all but the poorest Colonies the U.K. Government expects the Colony to contribute to the costs of projects financed out of C.D. & W. funds; the exact proportion depends on individual circumstances and may vary from 5 to 50% of the total costs of the project.

Colonies achieving independence are precluded from further C.D. & W. assistance, but to the extent that there are unspent balances from previous C.D. & W. allocations they are permitted to draw on them.

1/ In the case of loans, the terms and conditions are so flexible as to preclude generalization; some are interest free; others, such as a recent £ 6,425 loan to Grenada, do not stipulate any repayment conditions. A £ 3 million loan to Malta in 1961 provides that no interest be paid in the first 3 years; thereafter it carries 5% simple interest; amortization on this commences when the project begins to earn profits.

Under Exchequer Loans

In order to assist Colonies in raising loans for financing capital projects and in view of their rather limited capacity to raise money on the London market the U.K. Government introduced a scheme of Exchequer loans in 1959. In all, £100 million was provided for the five years 1959-64 under Section 2 of the C.D. & W. Act of 1959, with the proviso that not more than £25 million could be so used in any one year. These loans are not intended to be a substitute for loans on the London capital market; indeed, it is implicit that a colonial government would first seek accommodation from the market on reasonable terms. The main purpose of the scheme is to ensure that a minimum of loan finance will be available to the Colonies at an appropriate time so that they may plan their investment programs.

Exchequer loans are intended to supplement assistance channelled through the C.D. & W. Acts. They carry an interest rate 1/4% higher than the rate at which the Exchequer itself is able to raise the money. Maturities are determined by individual circumstances; normally they do not exceed 30 years. In 1959/60 loans totalling £17.5 million were made. Nigeria and Kenya each received a loan of £1.5 million with a 25 year maturity, but the loan to Nigeria carried an interest rate of 6½%, whereas the loan to Kenya bore 5-7/8%.

Assistance from the Colonial Development Corporation (C.D.C.)

The Colonial Development Corporation (C.D.C.) was established in 1948 under the Overseas Resources Development Act of that year with a view to assisting overseas development on commercial principles. To this end C.D.C. was authorized to (a) invest in productive investments directly operated by it, (b) to invest in enterprises undertaken by other interests in the colonies and (c) to act as managing agents on behalf of Colonial governments or private interests.

C.D.C.'s functions were broadened under the amending act of 1959 which also enlarged the financial resources of the Corporation. The C.D.C. is now authorized to continue projects in newly independent countries on which work had started prior to their independence. C.D.C. may, however, do so only with the approval of the Secretary of State of the Colonies. With the agreement of the governments concerned, it may also act as managing agents or perform advisory services in any independent country within the Commonwealth.1/

To enable it to carry out its statutory functions, C.D.C. is authorized to borrow long and medium-term funds provided that the amount outstanding of such obligations at no time exceeds £150 million. C.D.C. may, with the concurrence of the Secretary of the State for the Colonies, borrow long and medium-term funds from the Treasury but at no time may the amount of its obligations in this respect exceed £130 million. C.D.C. may also borrow short-term funds as long as no more than £10 million is outstanding.

1/ Colonial Development Corporation: Report and Accounts for 1960.

The C.D.C. is expected to operate on commercial principles so that, over a period of years, it must pay its way, as well as paying interest on and repaying its liabilities to the Treasury. Each advance to the Corporation is charged interest at the rate then prevailing and is based on the Treasury's borrowing rate for similar funds. Consequently the rate which the Corporation itself charges is based on that at which it borrows. The maximum maturity has been 40 years with a grace period of 7 years. Revised arrangements were introduced in 1961, under which these provisions will continue to apply to advances used by the Corporation for investment in shares, but where the investment is in loans the period of repayment will be related to that of the capital repayment the Corporation receives from third parties. The provision of a seven year grace period on advances for all types of transactions has meant that the Corporation has accumulated liabilities in respect of unpaid interest, and a sum of £20 million in respect of this and other liabilities is henceforward relieved of interest and will be repaid by instalments calculated by reference to the Corporation's net annual operating profits.

C.D.C. activities over the years fall into three phases. In the beginning, investments were mainly in projects directly owned and run by it. In the second phase (1951 to around 1953) there was greater emphasis on investments in public utilities under government guarantee. In the third phase, C.D.C. has increasingly favored partnership arrangements with local governments or private enterprises.

As of December 31, 1960, the aggregate total of C.D.C. commitments in respect of 91 projects was £109.5 million. Utilities alone accounted for some 52%, primary production and processing (i.e., agriculture, forestry, processing and minerals) accounted for another 38%; the remainder was in commerce and industry. Actual expenditures of some £65.5 million were, however, much below commitments; roughly one third of this amount was in loans and advances and two thirds in equity investment.

Assistance under the Colonial Services Vote

In addition to these various kinds of assistance to colonies, the U.K. provides budgetary assistance under the Colonial Services Vote for meeting current expenditures, as well as for emergency relief. This type of assistance has averaged some £20 million in recent years. In fiscal 1959/60, expenditures were approximately £23.6 million.

Almost all financial assistance granted by the U.K. under this head consists of grants-in-aid. Where assistance is through loans these are in most cases (for about 75% of the amount outstanding) free of interest and in other cases carry concessional rates of interest which have recently ranged from 3% to 4½%.

B. Long-Term Capital Assistance to Commonwealth Countries

Through the Export Credit Guarantee Department

The principal channel through which the U.K. Government assists overseas independent countries is the Export Credit Guarantee Department (E.C.G.D.) which operates under the legislative authority of the Export Guarantees Act, 1949, as amended.

Under Section 3 1/ of the Act, E.C.G.D. is authorized to extend credit to overseas countries to enable them to purchase British goods. It does so by drawing on the Consolidated Fund against promissory notes drawn by the overseas buyer in payment for goods purchased in the U.K.

Terms of Section 3 loans vary depending on the circumstances of each case; maturity may extend up to 25 years. Interest rates are fixed at 1/4% above the rate at which the U.K. Treasury can itself borrow similar funds.

E.C.G.D. is the channel through which the U.K. Government extends Commonwealth Assistance loans. These loans which are being made pursuant to a decision reached at the 1958 Conference of Commonwealth Finance Ministers, are meant to assist sound economic development in the independent Commonwealth countries by assuring them a flow of resources supplemental to those they may be able to obtain from other sources.

Recent loans to India and Pakistan made as a result of the IBRD sponsored consortia meetings, for example, are for 25 years with a grace period of 7 years.

Through the Commonwealth Development Finance Company (C.D.F.C.)

Whereas the E.C.G.D. operates with Exchequer funds on behalf of and at the direction of the U.K. Governments, the Commonwealth Development Finance Company was established in 1953 with the joint participation of private and Bank of England capital for the purpose of financing development on a commercial basis in the Commonwealth countries as well as in Colonial and Trust Territories. It was set up with a capital of £15 million of which £6.75 million was subscribed by the Bank of England and the remainder by numerous private entities in the U.K. In 1959 the authorized capital was increased to £30 million; the amount paid in as of March 31, 1961 was £7.3 million. C.D.F.C.'s statutes permit it to borrow up to twice the amount of issued capital.

C.D.F.C. invests, in association with other interests, in projects which are commercially viable; its assistance takes a variety of forms; it may make a secured or unsecured loan, take up debenture stock with or

1/ Section 1 of the Act relates to short and medium-term export credit insurance per se. Section 2 pertains to guarantees for the purpose of encouraging trade or of rendering aid to countries outside the U.K. where the risks are not insurable under Section 1. Source: Finance for Exports, The Credit Insurance Association, October 1959.

without conversion rights or subscribe to equity capital or may combine these forms of investments. It may also underwrite or guarantee an issue.

C.D.F.C.'s loans are normally in sterling and are not tied; they are fixed-interest obligations and the terms are those normally prevailing on the market.

As of March 31, 1961, its total commitments amounted to £ 19.9 million. Of this, the C.D.F.C.'s equity interest was approximately equivalent to £ 7.5 million.

Through the Commonwealth Services Vote

The U.K. Government also provides technical assistance and some grant aid through the Commonwealth Services Vote. In recent years the amount of such assistance has averaged some £ 6 million. Included in this is the technical assistance provided by the U.K. under the Colombo Plan.

C. Assistance to Other Underdeveloped Countries

U.K. bilateral assistance to other underdeveloped countries consists of loans extended under Section 3 of the E.C.G.D. on the same terms and conditions as those mentioned above or of loans under the Foreign Office Grants and Services Vote. The terms and conditions of loans made under the Foreign Office Grants and Services Vote vary from case to case. Some, such as the loans made to Jordan since 1951/52 and to Libya in 1950/51 and 1951/52, are interest free. A loan to Turkey in 1959 was at 5-3/4%. 1/ A £ 2.5 million loan made to Brazil in 1961 for consolidating commercial arrears due to the U.K. was made for 5 years at the U.K.'s borrowing rate.

Finally, it might be added that in addition to long-term government credits under Section 3 of the E.C.G.D., it is now possible for a foreign government to obtain long-term financial accommodation, with E.C.G.D. guarantee, from funds originating in the private sector. Under a new scheme introduced in April 1961, E.C.G.D. stands ready to extend its guarantee to privately negotiated long-term export credits. The announcement of this undertaking by E.C.G.D. led to the formation of consortia of merchant banks and insurance companies for raising the funds necessary for the financing of exports for long-term capital projects. Lazard Brothers, for example, were among the first to organize such a consortium. But these arrangements were not altogether satisfactory. In the first place, they were ad hoc arrangements frequently negotiated by an individual consortium for financing a specific project or group of projects. Secondly, the interest rate charged was quite high amounting to 7 to 7.5% p.a. Thirdly, as the rate was determined on the basis of the Bank rate, it fluctuated in line with changes in the Bank rate. These drawbacks have now been overcome under a new plan worked out by City banks in association with ECGD and announced on January 24, 1962.

1/ Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development 1956-59".

Under the new arrangments which are to run initially for 5 years, the London clearing banks in association with the Scottish banks and a group of some 60 insurance companies will jointly be able to finance, according to present estimates, long-term credits well in excess of £ 200 million over the next 5 years. The first tranche of up to 5 years will be financed by the banks at a fixed rate of 5.5% p.a. The later maturities will be picked up by the insurance companies at a fixed rate of 6.5%, up to an amount of £ 100 million which is the maximum which they have agreed to at present. The credits will be in respect of capital projects involving financing of not less than 3 years and will be made direct to the foreign buyer and not through the intermediary of the British exporter. E.C.G.D. will guarantee all such credits.

UNITED KINGDOM: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-1960*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959 1/	1960
Net Official Grants	130	144	136	145	165
Official Loans (excluding consolidation credits)					
Gross	37	45	72	147	184
Net	23	22	38	110	153
Consolidation Credits					
Gross	11	-	84	21	8
Net	- 10	- 20	65	- 3	- 21
Total					
Gross	178	189	292	313	357
Net	143	146	239	252	297

1/ Revised.

* Data relate to disbursements.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development in 1960".

CHAPTER IV

GERMANY

A. Over-all Economic Assistance

The average annual volume of Germany's economic assistance to underdeveloped countries in the five years 1956-60 was the equivalent of some $210 million gross; net of repayments, it was some $180 million. The bulk of this, corresponding to some 75%, consisted of consolidation of payments due to Germany under bilateral payments agreements and under the European Payments Union, reparation and indemnification payments and some grants. New credits, net of repayments, accounted for the remaining 25%.

The extension of new credits for developmental purposes is of relatively recent origin. The total of such credits in 1960 was the equivalent of $151 million gross or $145 million net. In the preceding four years 1956-59, they, however, averaged only some $35 million gross p.a. or $26 million net.

Basic Policies[1/]

The principles which govern German public development lending are spelled out in the recently drafted "Grundsaetze für die Ausgestaltung der bilateralen Finanzhilfe der Bundesrepublik Deutschland an Entwicklungslaender".

According to this document, public development aid should preferably take the form of loans rather than grants. Technical assistance, and international financial arrangements of special types (e.g., for the Indus Basin) are exceptions to this general rule. Generally, it is said, grants do not promote a real spirit of partnership, and may lead to waste. Public development lending should promote the mobilization of the receiving countries' own resources; this aspect - "assistance for self-help" - is particularly stressed.

Policies governing assistance to underdeveloped countries are to follow broadly the principles of German domestic economic policy which stress the development of private enterprise and limit the public sector to activities which cannot be left to private enterprise. Thus it is considered that the promotion of the flow of private capital to developing countries by such schemes as investment guarantees and credit insurance is more consistent with basic economic policy than direct public lending. However, it is realized that under conditions now prevailing substantial public lending is indispensable.

Public development lending is to be used primarily, but not exclusively, for financing projects which are non-commercial. In general, public loans will be made available for commercial or profit-making schemes in the public

1/ This and the following section are based on an article by Schubert, in: Entwicklungslaender, Baden-Baden, Bonn, No. 6, 1961.

sector only if these cannot be undertaken by private enterprise. Generally, financing is to be limited to specific projects. In exceptional circumstances, loans or credits can be made available for general development needs as part of a multilateral agreement to support a national development program.

The credit terms are adjusted to the requirements of the specific project and the general situation of the recipient country. Years of grace may be granted, and the rate of interest may be reduced below the rate prevailing on the German capital market. At present, no repayment in soft currency is envisaged. Concessions in terms are generally to be kept within certain limits particularly because it is considered desirable to make the terms consistent with later refinancing by the private sector. The proceeds of loans need no longer be spent in Germany so that recipients can take full advantage of international competition.

Administration of Public Development Lending

An application for development finance, which is normally received through the usual diplomatic channels, is screened by a committee (Interministerieller Referentenausschuss für Kapitalhilfe) consisting of representatives of all Federal Ministries concerned as well as the Federal Bank and the Reconstruction Loan Corporation (Kreditanstalt für Wiederaufbau - "KW"). This committee considers whether the project is in principle suitable for being financed by loans. If the decision is in the affirmative, KW undertakes a detailed study of the project, scanning reports from national and international sources and utilizing the services of independent consulting firms and the reports of members of its own staff. The final report, including KW's recommendations, is then submitted to the above-mentioned committee which makes the final decision and fixes the terms of the loan.

If the project is large, or if problems of fundamental importance arise, the final decision has to be referred to another committee (Interministerieller Ausschuss für Entwicklungspolitik). This higher level committee consists of the department heads of the Federal Ministries concerned, and also includes representatives from the Federal Bank and KW.

After the loan is finally approved, the technical details including the drafting and conclusion of the loan agreements and the disbursement of funds, are handled by KW. Disbursement procedures for projects are fundamentally the same as those of IBRD. In the case of program lending, payments are made in a lump sum to the recipient country.

B. Kreditanstalt für Wiederaufbau (KW)

All public lending is effected through KW. This institution was established in 1948 for the purpose of financing the reconstruction of German industry from the local currency counterpart (ERP Fund) of postwar foreign aid to Germany. The financing of underdeveloped countries was added to its functions a few years ago and accounts for almost half of total new business. Until recently, however, ERP funds have made only

a minor contribution to the resources available for development financing, because these funds were reserved for domestic lending, primarily for the promotion of small and medium-sized business.1/

Structure of KW

KW started its operations in 1949 with a capital of DM 1 million equally shared by the Federal Government and the Provinces. Its authority to borrow has been set at DM 8 billion. In addition, it may guarantee loans up to a maximum of DM 1 billion.

In the past KW has borrowed primarily from the ERP Fund which can lend at an interest rate lower than that prevailing on the market. KW is also empowered to issue securities on the German capital market, and to borrow abroad. Operating profits are set aside in a special reserve with the proviso that any excess over 10% of KW's combined capital and liabilities must accrue to the Federal Government and the Provinces in proportion to their capital subscriptions to KW.

In October 1961 the capital of KW was increased to DM 1 billion, with 80% subscribed by the Federal and 20% by the Provincial Governments. However, paid-in capital amounts to only DM 150 million. Whereas the original capital subscriptions were made from the budgets of the Federal and Provincial Governments, the 1961 increase was financed from other sources; partly through conversion of reserves and partly through conversion of loans from ERP funds into capital.

KW's Development Lending in 1960

In the calendar year 1960, KW's foreign lending for the first time exceeded domestic lending. Table 1 gives the breakdown of the total of DM 885.8 million committed for development loans during that year as well as the source of funds out of which these commitments were made. A substantial part of the loans made in 1960 was still tied to procurement in Germany. This was true of DM 154.9 million in direct project loans. Of the largest single loan under "other" direct foreign lending - the DM 250.2 million credit to India - half was designed to cover liabilities to German exporters and the balance was made available for payments in other countries as well. Indirect financial assistance in the form of credits to German exporters was, of course, in the form of German goods.

1/ At the end of 1960 KW still had a right to draw DM 105 million out of an original amount of DM 250 million put at its disposal by the ERP Fund for the purpose of financing German exports to developing countries.

TABLE I: KW's Development Loan Commitments in 1960

(million DM)

	Total	Source of Funds: Government 1/	Source of Funds: KW's Resources
1. Direct foreign lending			
- project	367.7	4.3	363.4
- other	402.2	127.6	274.6
2. Indirect foreign lending			
- export credits	110.6	-	110.6
- loans for foreign branch establishments and participations	5.3	4.3	1.0
Total	885.8	136.2	749.6

1/ DM 4.3 million from the Budget; the balance from the ERP Fund.
Source: Annual Report of KW for 1960.

Table 2 shows the total loans made in 1960 classified by maturity and conditions of procurement and the amount of disbursements. It will be noted that one half of the amount newly committed was not tied to procurement in Germany and that 70% of the total was lent for terms in excess of 10 years. Gross loan disbursements amounted to DM 940.8 million, including DM 306.6 million in consolidation credits. Disbursements net of amortization were DM 722.4 million.

TABLE 2: Loan Commitments and Disbursements in 1960

(million DM)

Maturity	Commitments: Total	Commitments: Untied	Commitments: Tied	Disbursements
1 - 5 years	33.6	-	33.6	96.6
5 -10 years	238.9	147.8	91.1	180.6
More than 10 years	639.7	336.0	303.7	357.0
Consolidation credits	-	-	-	306.6
Total	912.2 1/	483.8	428.4	940.8
Amortization				218.4
Net Disbursements				722.4

1/ The discrepancy between this total and that in Table 1 is presumably due to slight differences in coverage.
Source: Data on commitments are from DAG/5 Doc 3 of June 21, 1961. Disbursements data are from OECD "The Flow of Financial Resources to Countries in Course of Economic Development in 1960". Figures in these documents are in dollars which have been converted into Deutsche Marks at the rate of DM 4.2 to $1.

KW's Development Lending in 1961

Resources for development financing on public account were greatly increased in 1961. Table 3 shows the sources of the DM 2.65 billion available for new loan commitments in that year. Of this total, all but DM 300 million representing KW's own resources was appropriated in the Federal Budget. In addition, the government is permitted under advance authorizations to make additional loan commitments up to DM 1.4 billion which entail expenditures after the fiscal year and for which financial provision will have to be made in subsequent fiscal years. DM 400 million of such authorizations were included in the Federal Budget for 1961 and DM 1 billion in the ERP Development Aid Law of June 9, 1961.

TABLE 3: Public Finance for Development Lending Made Available in 1961
(million DM)

Source	Amount
Federal Budget	1,200 1/ (approximate)
Budget of ERP Fund	650 2/
Budgets of the Laender	500
KW's own Resources	300
Total	2,650

1/ Actual proceeds of a special DM 1,500 million bond issue placed by the Federal Government with industry.

2/ Of this total DM 500 million is a loan by the Volkswagen Foundation to the ERP Fund and relent at lower interest rates to KW; the balance of DM 150 million represents the interest received on loans out of the ERP Fund.

Source: Helmstaedter, in: Entwicklungslaender, Baden-Baden, Bonn, No. 6, 1961.

Altogether, therefore, new development loan commitments of DM 4.05 billion could be made in 1961.

It should be noted that the ERP Budget for 1961 also provided DM 10 million for loans that would assist German firms to finance their foreign branches or participations in foreign business enterprise. Plans are being made to set up a Development Finance Corporation, financed by the ERP Fund, to promote the establishment, through loans to foreign and German investors, of small and medium-sized enterprises.

Terms of KW's Lending

There are no fixed terms for development lending; this is so irrespective of whether the loans are made out of public funds through KW as intermediary or are out of KW's own loanable resources. Interest rates and loan maturities are determined case by case taking into account all relevant considerations. By and large development loans are now extended for periods up to 20 years and at rates of interest as low as 3% and 3-1/2%. Usually, several years of grace are given before repayments start. The present trend in German official development lending is towards untied[1] and longer term lending, and towards a reduction in interest rates.

Generally, KW applies commercial bank principles to loans made out of its own resources which do not call for a government guarantee or have no particular political significance. In the case of loans which are made through the intermediary of KW and which require a government guarantee, prior agreement is sought on all matters of mutual interest to the guarantor and the agency that provides the funds for the credit. Similar agreement is reached in the case of loans made by KW out of its own resources but guaranteed by the German Government.

Terms and conditions for all types of loans and credits (e.g., export credits, development loans, consolidation and stand-by credits) are determined on the basis of the requirements of the particular operation involved and by market considerations. It would appear that although it has to pay interest on and repay public moneys put at its disposal, KW attaches only secondary importance to the source of its loanable funds.

C. Credit Guarantees

In addition to guarantees or insurance for export credits of less than five years which do not fall within the scope of this paper, Germany has facilities for guaranteeing credits extended for a term of more than five years provided the individual credit is at least DM 5 million. Such guarantees can be accorded not only to credits arranged for financing German exports, but also to credits which are not tied to procurement in Germany.

Guarantees of this type are issued not only for private development credits, but also for credits extended on public account such as those made by KW. Under this arrangement, losses arising from commercial and political risks are largely[2] met out of the Federal Budgets.[3] In the

1/ Recently, some criticism of untied lending has been voiced by the Development Discussion Group of the CDU/CSU (Dr. Adenauer's party) on the ground that publicity for development aid is given not to the country providing finance, but to the country furnishing tangible assets.

2/ Largely, because guarantees do not cover 100% of losses.

3/ Appropriations in the 1961 Federal Budget for possible disbursements pursuant to guarantees and for debt rearrangements to avert loan defaults amounted to DM 140 million.

case of private credits, the coverage of the guarantee is 90%, at a cost of 0.75% a year if the credits are not tied to procurement in Germany; if, however, they are so tied, only 70% of the commercial risks and 80% of the political risks are covered by the guarantee. Public credits (KW credits from public sources) are insured to the extent of 100%.

Applications for guarantees on tied credits are decided on by the Export Guarantee Committee which rules on all requests for guarantees on credits for the financing of German exports. A special committee has recently been established to approve applications for guarantees on untied credits. The guarantees are actually extended and administered by consortia - in the case of tied credits by a consortium formed by "Hermes"1/ and in the case of untied credits, by a consortium formed by "Treuarbeit".2/

A combined ceiling of DM 5 billion applies to guarantees of the type discussed above and to guarantees for private German investment abroad which can also be issued under existing German legislation. This ceiling is expected to be raised before long.

1/ Hermes Kreditversicherungs-Aktiengesellschaft.
2/ Abbreviation for "Deutsche Revisions - und Treuhand - Gesellschaft".

GERMANY: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-1960*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959 1/	1960
Net Official Grants	1	2	6	8	8
Reparations and indemnification payments	79	78	76	57	62
New Credits					
Gross	12	26	47	56	151
Net	12	18	38	38	145
Consolidation Credits					
Gross	47	14	32	218	73
Net	27	- 1	11	198	27
Total					
Gross	139	120	161	339	294
Net	119	97	131	301	242

1/ Revised.

* Data relate to disbursements.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development, 1960".

CHAPTER V

ITALY

The Italian contribution on public account to the economic development of less developed countries is fairly substantial; it is the more impressive for the reason that Italy itself is engaged in a massive program for the development of its southern region.

In terms of relative magnitudes, Italian assistance is exceeded only by that of the U.S., France, the U.K. and Germany. In the five years 1956-60 Italy contributed a total of $425 million net. A relatively small portion of Italian assistance consists of grants or long-term development loans.

Basic Policies

The relatively small role played by developmental loans in the Italian contribution to foreign economic assistance may be due to several reasons. In the first place, it was only in 1961 that legislation was enacted providing for government insurance of credits up to 10 years or more; prior to that only short and medium-term credits could be so insured. However, short and medium-term credits were frequently in effect converted into longer term credits through periodic refinancing and consolidation agreements. Secondly, Italy does not yet regard itself as structurally a capital exporting country. Having regard to its own developmental requirements, it believes that its contribution to the development of underdeveloped countries should generally be limited to the amount of capital flowing into the country; in other words, its function would be that of an intermediary trying to match capital outflows to capital inflows. Thirdly, the general policy is to rely on Italian private capital to extend the necessary assistance, with government participation limited to guarantees against various losses. Government policy opposes financing through the Central Bank; hence credit institutions engaged in external financing must resort to the capital market for raising necessary funds.

Unilateral Transfers

Roughly $45 million or 10% of the total gross assistance in 1956-60 consisted of grants, as such; most of it was to Italian Somaliland. An additional $75 million is in reparation payments, principally to Yugoslavia and Ethiopia.[1] The annual level of these payments in the 5 years under reference was substantially lower than in the preceding quinquennium and will

1/ The Peace Treaty stipulated the following amounts to be paid by Italy in reparations over a period of 7 years: Ethiopia, $25 million; Greece, $105 million; and Yugoslavia, $125 million. Obligations to other countries not covered in this study were: Albania, $5 million and U.S.S.R., $100 million. Actual payments are, however, on the basis of bilateral agreements subsequently negotiated.

presumably decline further. Unilateral transfers, in all, accounted, therefore, for about one fourth of total gross assistance in 1956-60; the remaining three quarters, amounting to some $340 million gross, represented consolidation credits and new credits.

Consolidation Credits

Of the $340 million in credits extended, $200 million were consolidation credits in respect of trade balances with clearing account countries, principally Argentina, Egypt and Turkey. A very small part amounting to some $2 million consisted of credits owed by Greece and Turkey under the European Payments Union.

The agreement with Argentina in respect of the consolidation of $89.8 million of credits due to Italy calls for repayment in 10 annual instalments ending 1966. The credit is at 3.5% p.a.

In 1959 Italy extended a 10-year credit to Egypt in the amount of $54 million equivalent. Under a subsequent agreement made in 1960, Italy agreed to relend 95% of the amortization payments due under this credit for a period of 6 years at 3% with the first payment due in 1969.[1] Thus Egypt has to pay only 5% of the amortization payments originally required under the $54 million credit for the years through 1969.

New Credits

The total volume of new lending in 1956-60 amounted to, in round figures, $140 million gross and consisted of medium-term export credits made mainly through the Mediocredito, a public agency.

Mediocredito was established in 1952. It has a capital of $160 million equivalent contributed by the Government. To supplement its capital resources, Mediocredito is authorized to obtain funds from certain government trust funds and private insurance companies. It may also raise loans on foreign capital markets but is specifically precluded from having recouuse to the domestic capital market. Mediocredito has so far raised only one loan on foreign markets, viz., Swiss F.100 million in 1954, all of which was repaid by March 31, 1959.

To cover the difference between the cost of the funds it raises and its own receipts from discounts and advances, Mediocredito receives annually a government subsidy amounting to 1.5% of the balance of loans outstanding over the preceding 12 months.

Government guarantees of privately extended export credits are made available through the "Instituto Nazionale delle Assicurazioni". The Instituto receives its funds from the budget and the limit up to which it may extend such guarantees is fixed annually. In fiscal 1960/61 as in the

1/ Source: OEED:"The Flow of Financial Resources to Countries in Course of Economic Development in 1960". N.B: The statement in the report under reference on this operation is rather ambiguous.

two preceding years it has been set at the equivalent of $240 million.

Guarantees cover non-commercial risks only, e.g., losses through war, revolutions and transfer moratoria. They may also cover the risk of increases in production costs as a result of economic developments which make the execution of the orders unduly burdensome. (No explanation of what these circumstances might be is given.)

The percentage of cover is 85% and the guarantee normally runs for a period of up to 4 years from the date of shipment. Premia are determined each year and depend on the maturity of the credit insured and on the percentage of cover sought. The current rate of premium ranges between 0.2 to 2.5% p.a.

The scope of Italian export credit guarantees was recently expanded under new legislation enacted on May 17, 1961. In the first place, the range of goods that the Instituto Nazionale delle Assicurazioni may insure has been extended; the period over which they may be insured has also been extended to 5 years. Secondly, certain financial institutions including the 5 big commercial banks under the control of the State, two investment banks, the Mediocredito and the Instituto Mobiliare Italiano are authorized to extend medium-term as well as long-term credits to finance Italian exports as well as works executed in foreign countries. Credits in excess of 10 years have to be approved by the Ministry of Foreign Trade in consultation with the Ministry of Foreign Affairs. Thirdly, an autonomous fund of Lit 35 billion ($56.2 million) has been set up within Mediocredito to meet liabilities arising from the insurance of credits. The necessary funds are to be provided in the budget annually through the year 1966/67. 1/

These credits may or may not be tied to Italian exports, depending on individual circumstances. It is expected that the broadening of the guarantee scheme will stimulate the flow of private Italian capital to foreign countries, particularly since the government guarantee may also be extended to foreign bonds with a maturity up to 10 years issued on the capital market by foreign governments and foreign agencies with the guarantee of their governments.

1/ Source: Translation of Bill in respect of Export Credit Legislation approved by Italian Senate, May 16, 1961.

ITALY: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-1960*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959 1/	1960
Net Official Grants	9	9	10	9	9
Reparations	16	27	10	15	7
Official New Lending					
Gross	7	22	30	63	19
Net	7	22	30	63	19
Consolidation Credits					
Gross	-	115	6	61	18
Net	-	111	1	49	2
Total					
Gross	32	173	56	148	53
Net	32	169	51	136	37

1/ Revised.

* Data relate to disbursements.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development, 1960".

CHAPTER VI

JAPAN

Because of her preoccupation with her own reconstruction and development problems for which Japan has had to rely to a considerable extent on external assistance, Japanese bilateral assistance on public account to underdeveloped countries is of relatively recent origin. Moreover, since external trade is of vital importance to the country, Japanese external assistance is basically oriented towards the development of foreign trade. The emphasis is therefore on export credits and on investments in the development of foreign raw material resources essential to the Japanese economy.

The total amount of Japan's bilateral contribution to underdeveloped countries in the five years 1956-1960 averaged some $170 million equivalent on a gross basis; on a net basis, it amounted to roughly $140 million per annum. The bulk of this amounting to rather more than $90 million annually consisted of grants and reparation payments. Consolidation credits amounted to about $16 million p.a. on a gross basis; net of repayments they amounted to $11 million p.a. Japan also made available new credits amounting on average to $62 million p.a.; net of repayments received by Japan, they amounted to $36 million p.a.

The net outstanding amount of loans and export credits extended by Japan to underdeveloped countries was the equivalent of some $233 million as of the end of 1960. An additional $432 million had been committed but not expended as of the same date.1/

Direct Assistance through the Export-Import Bank of Japan

The principal agency through which the Japanese Government extends assistance to underdeveloped countries is the Export-Import Bank. The Bank was established in 1950 with a capital of 1 billion yen with the specific purpose of making medium-term credits for financing Japanese foreign trade. The scope of the Bank's activities has grown considerably over the years and it has now a capital of ¥78.3 billion ($217.5 million equivalent at the current exchange rate).

The capital of the Bank is wholly subscribed by the Japanese Government and is fully paid up. Any increase in the capital has to have the approval of the Diet; the last occasion on which the Diet approved of an increase was in November 1961 when the Bank's capital was increased from ¥58.3 billion to the present ¥78.3 billion.

1/ Source: Report of the Ministry of Foreign Affairs on "Some Aspects of Japan's Development Assistance".

The Bank is authorized to borrow, from domestic as well as external sources, to supplement its loanable resources; the maximum it may borrow is set under the law at twice the amount of its capital and reserves. The Bank's operating funds as at the end of 1960 amounted to ¥143.2 billion and consisted of ¥58.3 billion in paid-in capital, ¥78. billion of borrowing and ¥ 6.1 billion of reserves; none of the borrowed funds was from external sources.1/

Although essentially in the business of providing short and medium-term credit for foreign trade per se, the Bank is authorized to extend longer term credits in direct loans to foreign governments, public entities and foreign corporations with government guarantee. Such loans are denominated in yen so that the exchange risk is on the borrower and are normally tied to exports of Japanese machinery and equipment and ancillary technical services. Alternatively, they may provide yen funds to enable the borrower to invest in joint ventures with Japanese interests, or funds for "specific development projects in the countries concerned on condition that either the proceeds of such loans are to be used to buy equipment and services necessary for the projects, mostly from Japan, or (that) important raw materials to be produced as a result of execution of such projects are exported to Japan".2/

There are no set terms and conditions for loans to foreign governments and foreign corporations. Ordinarily the maturity is about 10 years and the interest rates are based on those charged by IBRD.

As of August 31, 1961, the Bank had made, in all, four such loans; two to India and one each to Paraguay and Vietnam. The first loan to India in 1958 was a 10-year ¥18.0 billion credit($50 million) to finance India's Second Five Year Plan and was followed by a 15-year ¥28.8 billion loan ($80 million) in 1961 under the IBRD "consortium" financing program for India in 1961/62 and 1962/63.3/

The ¥28.8 billion credit to India, details of which have since been negotiated, is to be used for such projects as may be agreed upon by the governments of India and Japan as well as for the purchase of Japanese equipment of the same category as that financed under the ¥18 billion credit extended to India earlier for the Second Five Year Plan. The loan is repayable in 15 years, including a 5-year grace period, and carries an interest rate of 6% per annum. Twelve private banks are participating in this loan along with the Export-Import Bank of Japan.

The loan to Paraguay was for ¥1.4 billion and is a 10-year credit at 6%. The credit to Vietnam was for ¥2.7 billion and was presumably on the same terms; no details are available.

1/ Annual Report of the Export-Import Bank of Japan, April 1, 1960-March 31, 1961.
2/ Export-Import Bank of Japan, Functions and Operations, April 1960.
3/ Monthly Report of the Export-Import Bank of Japan for August 1961.

Japan is also participating in the IBRD consortium for Pakistan. As of the end of 1961 Japan had pledged $20 million to Pakistan for its Second Five-Year Plan.1/ This excludes a like amount of assistance committed to Pakistan by Japan prior to the formation of the consortium.

Whereas the so-called yen credits mentioned above are directly made to foreign borrowers and are of a maturity of 10 years or more, the Export-Import Bank also, as mentioned earlier, extends short and medium-term credits to Japanese exporters for financing exports of Japanese equipment to foreign countries. While such credits are not strictly germane to this paper which deals only with long-term financing, a few words about them may nevertheless be in order. These loans which may be repayable by the foreign purchaser in dollars, sterling or any other foreign currency (e.g., the Rs. 95 million line of credit to Pakistan for financing purchases of textile machinery) constitute the bulk of Export-Import Bank credits. They accounted for no less than ¥ 113 billion of export credits outstanding as of March 31, 1961, whereas the so-called yen credits amounted to only ¥ 13 billion.

It is the declared policy of the Japanese Government that the maturities for deferred payments should be as short as possible, taking into account the amount of Government risk and Government funds involved, the type of equipment financed and the terms offered by Japan's foreign competitors. In principle the Government is not in favor of credits extended in the form of a general line of credit. 2/

Indirect Assistance through the Export-Import Bank of Japan

Besides lending directly to foreign governments and corporations the Export-Import Bank of Japan indirectly assists in the economic development of underdeveloped countries by extending investment loans to Japanese firms for the following purposes. 3/

a. Establishing or operating productive overseas enterprises;

b. Investing in, acquiring stocks in, or leasing equipment to foreign corporations;

c. Lending funds to foreign partners for their investments in joint ventures;

d. Lending equipment funds to joint ventures;

e. Investing in Japanese corporations established for the purpose of executing large-scale investment projects abroad.

Priority is accorded to the financing of self-liquidating projects of mutual benefit to Japan and the country of investment and which are conducive to the development of new markets for Japanese goods.4/ The

1/ At the January 1962 meeting of the consortium, Japan made a further commitment of $25 million.
2/ Quoted from a statement of policy submitted to an IBRD mission.
3/ Export-Import Bank of Japan, Functions and Operations, April 1960.
4/ Statement of policy submitted to IBRD mission.

Bank's loans for such purposes are not usually in excess of 10 years; interest rates vary from case to case and are based inter alia on prevailing market rates.

The Overseas Economic Cooperation Fund

In March 1961, the Japanese Government established the Overseas Economic Cooperation Fund as the successor institution to the Southeast Asia Development Cooperation Fund established in 1958. The Fund has at present a capital of ¥ 10.4 billion ($28.9 million) of which ¥ 5.4 billion were transferred from the now defunct Southeast Asia Development Cooperation Fund.

The Fund will be administered by the Government Economic Planning Agency. It is yet to become operationally effective.

Reparations

In addition to providing long-term loan assistance to foreign governments, Japan also makes substantial war reparations payments to Burma, Indonesia, the Philippines and Vietnam. The amount of such payments that remained to be made as of December 31, 1960, was the equivalent of $744 million.1/ Annual payments in the past few years have been at around $75 million. The funds for payments of these reparations are provided in the budget under a "Special Account for the Settlement of Reparations and Extraordinary Debts".

Along with these reparation agreements, Japan also entered into economic cooperation agreements with each of the four countries mentioned earlier. The obligations under these supplemental agreements differ from those under the reparations agreements proper in that they are not contractually binding.

In the case of Burma, Japan agreed to make available a total of $50 million equivalent over a 10-year period beginning 1955 for "promoting economic rehabilitation and development and the advancement of social welfare in the Union of Burma.2/ The Japanese contribution was to consist of machinery and equipment made available under long-term credits or against equity in joint enterprises; however, to date no such deliveries have been made.

The Agreement with respect to the Philippines was to assist in its economic development through the provision of long-term or "similar credits" amounting in all to $250 million equivalent over the 20 years commencing 1956. 3/

1/ Exclusive of $177 million owed by Indonesia on credits accumulating in an "open account" which were waived by the Japanese Government in 1958 and set off against reparations. In this connection it may be mentioned that recent negotiations between Burma and Japan pursuant to Burma's request for an increase in reparation payments by $400 million equivalent ($200 million in straight reparations and $200 million under the economic cooperation agreement) have bogged down, with Japan willing only to increase its reparations payments by $75 million equivalent. (Source: The Oriental Economist, November 1961.)

2/ Source: Documentation submitted to IBRD mission.

3/ Source: Documentation submitted to IBRD mission.

Indonesia was promised $400 million equivalent in Japanese investments, long-term loans and similar credits over the 20 years starting 1958. 1/

Japan undertook to assist Vietnam with long-term loans and credits at concessional rates up to about $17 million equivalent; of this $7.5 million equivalent was specifically for the construction of an earth dam and hydro-electric power station on the Danhim River. 2/

Pursuant to these economic cooperation agreements, Japan had, as of December 31, 1960, approved of loans and credits amounting to a total of $76 million equivalent, $48 million in respect of the Philippines and $28 million for Indonesia. The collateral for these loans and credits is provided by the reparations owed to these countries by Japan under the regular reparations agreements mentioned earlier. 3/

Grant Assistance

Japanese grant assistance essentially consists of technical assistance grants with which we are not concerned in this paper. Total grant disbursements in 1956-60 was $7 million including those channeled through the Colombo Plan. 4/

In addition to these grants, as mentioned earlier, Japan waived $177 million of claims due to it by Indonesia on "open account".

1/ Source: Documentation submitted to IBRD mission.
2/ Far East Economic Review April 30, 1959.
3/ Ministry of Foreign Affairs Statement on "Some Aspects of Japan's Development Assistance".
4/ Source: OEEC Study on "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59" and OECD: "The Flow of Financial Resources to Countries in Course of Economic Development in 1960".

JAPAN: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-1960*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959 1/	1960
Net Official Grants	-	-	178	4	2
Reparations	11	69	63	66	64
Loans					
Gross	38	44	54	95	80
Net	27	18	20	62	55
Consolidation Credits					
Gross	55	-	8	15	-
Net	55	- 3	5	6	- 7
Total					
Gross	104	113	303	180	146
Net	93	84	266	138	114

1/ Revised.

* Data relate to disbursements.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development, 1960".

The principal beneficiaries of Canadian Colombo Plan assistance are India, Pakistan and Ceylon. Aid disbursed to India amounted to Can. $149 million as of March 31, 1961. For Pakistan the corresponding figure was Can. $87 million. The two together accounted for 90% of the Can. $265.5 million disbursed as of March 31, 1961. In addition to these amounts Canada had also contributed Can. $3 million to the Indus Basin Fund as of that date.

Typical projects financed are the Warsak Dam for power generation in Pakistan; the Kundah Dam in Madras, India; the Canada-India Reactor in Bombay, India, and the aerial survey of Ceylon's natural resources.

B. Aid Outside the Colombo Plan

In addition to assistance under the Colombo Plan, Canada also makes other long-term bilateral contributions through grants to underdeveloped countries. It is participating in the Development Program for the West Indies and has committed $10 million over the 5 years ending 1963/64.1/ Canada is also participating in the newly established Special Commonwealth African Aid Program to the extent of Can. $10.5 million over a 3 year period. A sum of Can. $3.5 million was appropriated for this purpose in the budget for 1961/62; it is to be used for technical assistance and aid to education as well as for capital projects. In addition Canada also makes wheat and flour grants outside the Colombo Plan. The total amount of these grants has averaged Can. $12 million in the three years 1958/59-1960/61.

Besides grant assistance, Canada has also made wheat loans to India (Can. $33 million) and Ceylon (Can. $2 million). The loans are for 9 years with a grace period of 3 years; the interest rate is 4-1/4%. The amounts of these loans still outstanding as of March 31, 1961 were, approximately, Can. $29.5 million and Can. $2.0 million, respectively.2/

C. Export Credits and Guarantees

Until recently Canada had no institution for financing its exports although facilities for insurance of export credits have been available since 1944 when the Export Credits Insurance Act was passed. In 1961, for the first time, the following measures were taken to enable Canadian exporters to offer foreign purchasers terms comparable to those extended by their competitors.

In the first place, the Government decided to implement the legislative authority provided under Section 21 of the Export Credits Insurance Act of 1944, as amended, whereby it could authorize the Export Credits Insurance Corporation to finance as well as to insure long-term exports,

1/ The flow of financial resources to countries in course of economic development 1956-59 OEEC.

2/ Data published in the budget papers presented by the Finance Minister in connection with the budgets for 1958/59 and 1961/62.

when it is in the national interest to do so.1/ A sum of Can. $200 million paid out of the Consolidated Revenue Fund was earmarked for this purpose. It is to be used for facilitating export transactions involving the sale of capital goods on credit from 5 to 20 years.

Under this scheme, although the export business must be initiated by the exporter, the credit is established and financed by the Canadian Government without recourse to the exporter. The exporter receives payment on delivery, does not participate in the credit and requires no credit insurance as in the case of medium-term credits.2/

Under this program Canada agreed at the 1961 meeting of the Indian Consortium to extend to India a special credit of Can. $20 million for the purpose of purchasing capital equipment in Canada during the two year period commencing June 1961. Similarly, at the 1961 meeting of the Pakistan Consortium, a special credit amounting to Can. $6.5 million was made available for purchases in 1961/62. In addition, as of December 31, 1961, four agreements totalling Can. $41 million had been signed and commitments to finance four other transactions entailing a further $30.5 million had been made.

The other important development was the establishment of the Export Finance Corporation by the chartered banks of Canada. The Corporation has an authorized capital of Can. $50 million and will assist exporters through refinancing medium-term export credits of up to 5 years made by the chartered banks. The credits will be insured by the Export Credits Insurance Corporation of Canada (ECIC).3/

ECIC is a government agency operating under the Export Credits Insurance Act of 1944, as amended. It insures medium-term export credits against commercial, transfer and political risks up to 85% of the gross invoice value. Its maximum liability under contracts outstanding is limited to 10 times the aggregate of its paid up capital (Can. $10 million) and surplus.4/ This limit does not apply to obligations ECIC incurs on behalf of the Government as a result of transactions authorized under Section 21 of the Act mentioned earlier.

1/ Export Credits Insurance Corporation, Annual Report and Financial Statements, December 31, 1960, and the Statute of Export Credit Insurance Act, as amended. "Statutes of Canada"; various dates.

2/ "Foreign Trade", March 25, 1961 published by the Department of Trade and Commerce, Ottawa.

3/ "Foreign Trade", June 17, 1961 published by the Department of Trade and Commerce, Ottawa.

4/ Export Credits Insurance Act, as amended; Statutes of Canada, various dates and Canada Year Book, 1961.

CANADA: Bilateral Assistance on Public Account to Underdeveloped Countries, 1956-1960*

(in millions of U.S. dollars equivalent)

	1956	1957	1958	1959	1960
Net Official Grants	22	42	49	51	48
Official Loans					
Gross	-	-	34	-	-
Net	-	-	34	-	-
Total					
Gross	22	42	83	51	48
Net	22	42	83	51	48

* Data relate to disbursements. There were no consolidation credits in these years.

Source: OEEC: "The Flow of Financial Resources to Countries in Course of Economic Development, 1956-59", and
OECD: "The Flow of Financial Resources to Countries in Course of Economic Development in 1960".

PART II

CHAPTER VIII

INTER-AMERICAN DEVELOPMENT BANK (IDB)[1]

The Inter-American Development Bank is an international organization established in 1960 for the purpose of accelerating economic development in Latin America.

Capital Structure

The Bank has an authorized capital of $1 billion consisting of two parts: $850 million in Ordinary Capital and $150 million which constitutes a Fund for Special Operations. The U.S. contribution is $450 million: $350 million towards the Ordinary Capital and $100 million towards the Fund for Special Operations.

Whereas the whole amount ($150 million) of the subscription towards the Fund for Special Operations is callable, only $400 million of the Ordinary Capital can be called. As of October 31, 1961, 19[2] of the Latin American countries and the U.S. had paid in $227 million in Ordinary Capital subscriptions and $146 million towards the Fund for Special Operations.

Loans from Ordinary Capital

IDB loans are primarily for the financing of specific projects, including those that form part of a national or regional development plan. However, in those instances where the projects involved in any program of assistance are too small to permit direct supervision by the Bank, IDB has lent to development institutions or similar agencies; indeed, loans to such agencies form a very substantial proportion of IDB lending. For example, the largest made as of the end of November 1961 was for $15 million equivalent to a consortium of financial institutions in Argentina for the financing of small and medium projects of private enterprise in agriculture, industry and mining. The Bank has also lent for technical assistance purposes, e.g., to the Colombian Office of Planning and Technical Services for specialized studies of projects falling within the framework of the Colombian development plan.

The Bank does not lend for general balance of payments purposes, to cover budgetary deficits or to provide working capital.

1/ The Bank made its first loans from its Ordinary Capital and from the Fund for Special Operations in February 1961. Its annual report for the year ending December 31, 1960, relating to policies and procedures is, therefore, tentative in character. Data contained herein are therefore based on individual press releases and on the Statement of Approved Loans as of December 31, 1961, published by the Office of the Treasurer, IDB.

2/ Cuba has not joined the Bank; its subscription to the authorized capital had been fixed at $40.5 million: $36.8 million towards Ordinary Capital and $3.7 million towards the Fund for Special Operations.

Although IDB has on a few occasions lent wholly in dollars, the normal pattern of its lending consists of loans for financing the foreign exchange as well as local currency costs of projects. The foreign exchange made available by IDB usually consists of dollars but in a number of instances the Bank has also lent the currency of other member countries. The local currency component of a loan is, of course, made available out of the borrower-country's capital subscription; in addition to the local currency so made available, IDB has sometimes permitted the use of part of the foreign exchange proceeds of a loan to be used for local currency expenditures. Whereas dollar loans are not tied to procurement in any particular country, the use of any other member's currency for payments outside that country is conditional on the approval of the country concerned.

The proportion of the total project costs financed by IDB loans depends on the contribution that the borrower expects to make from his own resources, the capital structure of the enterprise and the nature of the project, the foreign exchange requirements of the project financed and, in the case of loans to the public sector, the government's contribution to the general development program. IDB has, in fact, lent as much as two-thirds of the total cost of a project: e.g., to Guatemala for the improvement and expansion of the water supply system of Puerto Barrios.

In processing loans, IDB applies the usual criteria for creditworthiness: it examines the debt-servicing capacity of the country in which the project is to be carried out and the ability of the borrower, whether public or private, to carry out the obligations under the loan agreement.

The average maturity of loans made by IDB so far is around 12 years; grace periods are generally from 2 to 4 years.

Repayments of principal and interest must be in the currencies in which the loans are made. The interest rate on dollar loans as well as local currency loans is the same. IDB also charges the same rate irrespective of whether the borrower is a government, government agency or a private entity. Unlike IBRD, IDB is not required by its statutes to obtain a government guarantee. The rate charged by IDB on its loans from its Ordinary Capital is in line with that charged by other international lending agencies. Loans made to date carry a uniform rate of 5.75% inclusive of the 1% commission, proceeds from which accrue to a special reserve. IDB also charges a 0.75% commitment fee.

As of December 31, 1961, IDB had lent out of its Ordinary Capital $130.0 million[1] in amounts ranging from $125,000 to $15 million. Participations by U.S. and European financial institutions in these loans amounted to some $4.5 million equivalent. Disbursements as of that date amounted to $3.2 million.

1/ "Statement of Approved Loans as of December 31, 1961, IDB."

Loans from the Fund for Special Operations

The Agreement establishing the Bank provides that loans made from the Fund for Special Operations shall be "on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects".

The Fund for Special Operations was set up primarily to finance projects which contribute only indirectly or gradually to the productive capacity of the borrower country and to meet conditions which demand greater flexibility in repayment terms.

The terms and conditions of payment for special loans made out of the Fund for Special Operations are more flexible than for a loan from Ordinary Capital resources. They may be serviced either in the currency of the country in which the project is located or in the currency loaned or in some combination of these currencies. The maturity for these loans is usually longer than that for loans from Ordinary Capital resources and depends on the nature of the project and the borrower's repayment capacity.

The Bank's interest rate for loans made from the Fund for Special Operations depends on several considerations, e.g., the type of project financed, the form in which the loan is made and the nature of the borrower. Loans repayable in local currency carry a maintenance of value clause. Where the ultimate beneficiaries of an IDB loan are commercial-type of enterprises, e.g., the loan to the Banco Nacional de Fomento del Paraquay, the rate charged is the same as that on loans made out of IDB's Ordinary Capital, viz., 5-3/4%. But where a loan is repayable either wholly or partly in foreign exchange, a lower rate may apply. For example, the $10 million loan to the Bolivian Development Corporation carries an interest rate of 4½%; the loan proceeds are to be used for financing numerous projects in agriculture, industry, mining, irrigation and electric power. About 70% of the loan will finance foreign exchange requirements; 30% is for local currency expenditures. Repayment is to be in 20 semi-annual instalments of which the first 10 will be in local currency and the final 10, proportionately in dollars and other currencies lent.

Loans made through December 31, 1961, from the Fund for Special Operations do not carry the 1% commission[1] charged on loans made out of the Bank's Ordinary Capital resources. Neither do they ordinarily carry a commitment fee but in only one instance to date IDB has, in fact, charged a 0.75% commitment fee.

IDB had lent a total of some $48.1 million in 15 loans as of December 31, 1961; of this $2.6 million had been disbursed. The smallest loan was for $150,000 and the largest was for $10 million. Maturities range from 7 to 20 years with grace periods of about 2 to 4 years. Interest rates vary from 4% to 5-3/4% p.a.

1/ The Act establishing the Bank as passed by the 86th Congress implies that "it will charge a 1% commission on all loans".

Social Progress Trust Fund

Under an agreement reached between the U.S. Government and IDB in June 1961, the latter was made the administrator of the Social Progress Trust Fund; the Fund is endowed with $394 million of the $500 million pledged by the U.S. for the "Alliance for Progress".

IDB uses these funds for assisting Latin American development in fields such as land settlement, low-income housing, advanced education, sanitation etc. Its assistance is through long-term loans which carry an option to repay in local currency and a concessional interest rate amounting generally to 2.75% plus a service charge of 0.75%.

Countries in Latin America which are "willing to initiate or expand effective institutional improvements and adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced economic growth"[1] are assisted through these loans.

As of December 31, 1961, IDB had made 18 such loans for a total of some $115.6 million: disbursements amounted to $0.9 million. The largest amounting to $22.8 million was to Peru for low-cost housing. Maturities range from 20 to 30.5 years and interest charges vary between 1-1/4% to 2-3/4% p.a. in addition to a commission charge of 3/4%.

1/ Quoted from an IDB press release.

CHAPTER IX

FONDS DE DÉVELOPPEMENT POUR LES PAYS ET LES TERRITOIRES D'OUTRE-MER (FEDOM)

Legal Authority

The Fonds de Développement pour les Pays et les Territoires d'Outre-Mer (FEDOM) is an agency of the European Economic Community established by a supplementary convention of the Treaty of Rome of March 25, 1957. The specific purpose of the Fund is to assist in the development of the Associated States and Territories of the European Economic Community through financing economic and social investments.

The Fund was established for a period of five years 1957-62; unless its life is extended beyond that date it will cease to undertake new operations after December 31, 1962, although it would continue to administer past transactions; however, indications are that its life may be extended.

Resources

The resources of the Fund are drawn exclusively from contributions made by the six members of the European Economic Community and will have aggregated $581.25 million equivalent over the five years 1957-62.[1] The share of the six in this total is as shown below; contributions are payable in five annual tranches due January 1 of each year and may be paid in local currency or in dollars; if paid in local currency, the Member State concerned must undertake to maintain the value of its contribution until such time as it is used up. All contributions have to be allocated by the end of 1962 under the Convention.

TABLE I: Contributions to the Fund by the Member States of the European Economic Community

(in millions of EPU units of account equivalent to U.S. dollars)

Percentages	1st year 10%	2nd year 12.5%	3rd year 16.5%	4th year 22.5%	5th year 38.5%	Total 100%
Contributing Countries						
Belgium	7.00	8.75	11.55	15.75	26.95	70.00
Germany	20.00	25.00	33.00	45.00	77.00	200.00
France	20.00	25.00	33.00	45.00	77.00	200.00
Italy	4.00	5.00	6.60	9.00	15.40	40.00
Luxembourg	0.12	0.16	0.21	0.28	0.48	1.25
Netherlands	7.00	8.75	11.55	15.75	26.95	70.00

1/ The Fund actually commenced operations in 1958; the fiscal year runs from January 1 through December 31.

TABLE 2: Allocation of the Fund's Resources.

(in millions of EPU units of account equivalent to U.S. dollars.)

Percentages	1st year 10%	2nd year 12.5%	3rd year 16.5%	4th year 22.5%	5th year 38.5%	Total 100%
Recipient Overseas Countries and Territories associated with:						
Belgium	3.000	3.750	4.950	6.750	11.550	30.000
France	51.120	63.910	84.360	115.030	196.830	511.250
Italy	0.500	0.625	0.825	1.125	1.925	5.000
Netherlands	3.500	4.375	5.775	7.875	13.475	35.000

The Fund's contribution to the economic development of the Associated Countries and Overseas Territories of Member States of the European Economic Community is exclusively through grant assistance extended to governments or governmental and para-governmental agencies. The Fund finances only those projects, economic as well as social, which contribute to development; it does not finance expenditures which are normally met out of ordinary budgetary appropriations.

The Fund's resources are supplemental to those available to the Associated Countries and Overseas Territories from other sources, e.g., bilateral grants and credits from other governments and international organizations. Consequently, the Fund is obligated to ensure that its efforts do not replace those which Member States of the Community having special responsibilities vis-a-vis the associated countries are already making. It also makes sure that its assistance is harmonized with any other means available locally or from abroad.

The Fund is intended to finance entire projects. However, in order to promote close collaboration between the various sources of finance it may accept projects in which the Fund's financing would be supplemental to that contributed by local budgets and/or other sources of finance.

In the selection of projects, first priority is accorded to operations which will remedy existing imbalance in the economic and social structures and eliminate bottlenecks and other obstacles to development. The Commission also makes sure that the investments financed by the Fund are not such as to imperil local finances by involving them in excessive recurrent expenditure.

The Fund's resources may be used to finance local currency expenditures as well as expenditures incurred in the currency of a Member State of the Community. The Fund insists on competitive bidding but, in keeping with its regional character, bidding is limited to Member States and the Associated Countries and Overseas Territories of the Community.

Procedure for Extending Assistance

Requests for Fund assistance may be initiated either directly by the beneficiary Associated Countries and Overseas Territories or on their behalf by Member States of the Community; in the case of countries and territories associated with France, the initiative lies exclusively with them. In any event, every application for Fund assistance has to be approved by the overseas public authorities concerned.

The mechanism whereby the Fund's resources are allocated is as follows:

The Commission of the European Economic Community which administers the Fund draws up each year a program or "prospective schedule of allocations" on the basis of the resources available to it for that year and in light of the applications received by it. The schedule indicates the proposed distribution as between economic and social projects and as between beneficiary countries and territories. The programed allocations are then submitted to the Council of the European Economic Community which has the final say; whereas the Council has the right to veto the Commission's recommendations in respect of the financing of "economic" projects, it cannot overrule the Commission on operations of a social character. The veto has to be exercised within a month and by a prescribed majority vote.

Once a project is approved, the Commission enters into a financial agreement with the beneficiary which stipulates the local financial institution through which the credits will be disbursed, the local authority which will call for bids and sign contracts, etc., and the technicians designated to supervise end-use of the credit.

Operations

As of December 31, 1961, the governing Council of FEDOM had approved a total of 221 projects involving commitments of $250.4 million. 1/ Of this $112.5 million was in respect of social projects, including $41.8 million for education and $37.2 million for public health. Economic projects accounted for $137.9 million, with transport and communications alone accounting for $91.2 million.

1/ In addition to 17 other projects for some $27 million being processed and awaiting Council action.

The regional distribution of these project commitments is summarized below (in millions of U.S. dollars):

Area	Number of Projects	Commitments		
		Social Projects	Economic Projects	Total
Countries associated with Belgium	20	3.9	8.6	12.5
Countries associated with France	191	93.9	126.7	220.6
Countries associated with Italy	4	2.2	2.6	4.8
Countries associated with Netherlands	6	12.5	-	12.5
Total	221	112.5	137.9	250.4

Source: Fonds Européen de Développement, "Documentation Statisique sur les Activités du Fond pendant les quatres premières Années (1958 à 1961)".

Actual expenditures as of the end of 1961 were only $19.1 million.

According to a report[1] of the recent Conference of the European Parliament with the Parliaments of African States and Madagascar where, among other things, FEDOM was discussed, it would appear that FEDOM will increasingly contribute to pre-investment expenditures. This is intended to relieve the recipient countries of the burden of extensive project surveys; towards this end, FEDOM will also station its technical representatives in important centers in the associated countries.

The report also indicates that after 1962, when the present arrangements for financing its activities run out, FEDOM may receive $250 million annually and that future FEDOM assistance may consist of loans as well as grants in contrast to the present procedure of making only grant assistance.

Final decisions on these questions will, however, be taken by the Council of the European Economic Community only in the course of 1962.

1/ Bulletin of the EEC, Brussels July/August 1961.

STATISTICAL APPENDIX

Representative Sample of Loans made on Public Account to Underdeveloped Countries in 1961

Borrower Country	Currency Unit	Amount (in millions)	Interest Rate %	Maturity Years	Grace Period Years	Guarantee or Security	Lending Agency/Source of Funds
			Creditor Country: FRANCE				
Algeria	NF	5.0	2½%	20 yrs.	-	none	Caisse d'equippement pour le developpement de L'Algerie.
"	NF	3.6	5¼%	"	-	"	" " "
"	NF	25.9	1%	45 yrs.	-	"	French Treasury.
"	NF	1.0	5%	15 yrs.	-	Budgetary resources (taxes)	Caisse des Dépôts et Consignations.
Gabon	NF	1.1	2½%	7 yrs.	2 yrs.	none	Caisse Centrale de Cooperation Economique.
Mali	NF	1.1	3%	15 yrs.	-	Govt. guarantee	Caisse Centrale de Cooperation Economique.
Sahara	NF	2.5	5%	15 yrs.	-	Guarantee of OCRS 1/	Caisse des Dépôts et Consignations.

1/ Abbreviation for Organisation Commune des Régions Sahariennes.

			Creditor Country: GERMANY				
Brazil	DM	128.0	6½%	2½ yrs.	-	none (Stabilization credit)	Kreditanstalt fur Wiederaufbau.
India	DM	170.0	3%	20 yrs.	8 yrs.	Govt. promissory notes	" " "
Pakistan	DM	55.0	6¼%	10 yrs.	2½ yrs.	" "	" " "
Sudan	DM	73.6	4 3/4%	20 yrs.	7 yrs	" "	" " "
Turkey	DM	200.0	3%	10 yrs.	5 yrs.	" "	" " "
			Creditor Country: ITALY				
Argentina	Lire	10,600	4%	9 yrs.	-	-	Italian Government.
Yugoslavia	$	71.0 (Consolidation credit)	3.5%	5 yrs.	-	-	" "

Representative Sample of Loans made on Public Account to Underdeveloped Countries in 1961 - contd.

Borrower Country	Currency Unit	Amount (in millions)	Interest Rate %	Maturity Years	Grace Period Years	Guarantee or Security	Lending Agency/Source of Funds
			Creditor Country: JAPAN				
India	Yen	28,800	6%	15 yrs.	5 yrs.	Govt. guarantee	Export-Import Bank of Japan in association with 12 private banks.
Philippines	Yen	992	5%	7 yrs.	-	Govt. guarantee	Guaranteed export credit.
			Creditor Country: UNITED KINGDOM				
Argentina	£	14.5	3½%	5 yrs.	-	none	Foreign Office Grants & Services Vote.
Basutoland	£	0.3	6¼%	25 yrs.	1 yr.	none	Sec. 2 of Commonwealth Development & Welfare Act.
Pakistan	£	3.0	1/	20 yrs.	5 yrs.	none	Sec. 3 of Export Credits Guarantee Department.
Federation of Rhodesia & Nyasaland	£	5.0	1/	20 yrs.	3 yrs.	-	" " "
Yugoslavia	£	3.6	1/	5 yrs.	-	Govt. promissory notes	" " "

1/ Government's borrowing rate plus ¼% service charge.

			Creditor Country: UNITED STATES				
Argentina	$	6.0	3½%	15 yrs.	-	Not yet determined	Development Loan Fund.
Brasil	$	50.0	No interest but Service Charge of 0.75%	40 yrs.	10 yrs.	-	Development loan fund of Agency for International Development.
Colombia	$	12.0	4%	20 yrs.	-	To be negotiated	Development Loan Fund.
Israel	$	13.0	5 3/4%	15 yrs.	3 yrs.	-	Eximbank.
Pakistan	$	7.5	5%	7 yrs.	-	All sub loans over $250,000 must be approved by DLF.	Development Loan Fund.
Tunisia	$	5.0	4%	15 yrs.	-	Govt. of Tunisia guaranty.	Development Loan Fund.

Representative Sample of Loans made on Public Account to Underdeveloped Countries - contd.

Borrower Country	Currency Unit	Amount (in millions)	Interest Rate %	Maturity Years	Grace Period Years	Guarantee or Security	Lending Agency/Source of Funds
		Creditor: INTER-AMERICAN DEVELOPMENT BANK (I.D.B.)					
Argentina	$ Pesos 1/	14.0) 1.0)	5 3/4% 2/	12 yrs.	4 yrs.	-	I.D.B.'s ordinary capital.
Brazil	$ Cruzeiros 1/	2.5) 2.2)	5 3/4% 2/	10 yrs.	2 yrs.	-	" " "
Colombia	$ Pesos 1/	0.3) 0.2)	5 3/4% 2/	5 yrs.	2 yrs.	-	" " "
Bolivia	$	4.5	4%	10 yrs.	3 yrs.	Central Bank	Fund for Special Operations.
Brazil	$	10.0	4½%	16 yrs.	4 yrs.	-	" " "
Paraguay	$	0.15	5 3/4% 3/	10 yrs.	2 yrs.	-	" " "
Costa Rica	$	3.5	2 3/4% 3/	25 yrs.	-	-	Social Progress Trust Fund.
Peru	$	22.8	1¼% 3/	20 yrs.	1 yr.	-	" " "

1/ Expressed in US$ equivalents.
2/ Plus commitment fee of 0.75%.
3/ Plus service charge of 0.75%.

Source: Reports to the Development Advisory Committee (D.A.C.), Organization for Economic Cooperation and Development (OECD).