REPORT BY THE

Comptroller General

OF THE UNITED STATES

A Summary Of Lending By International Financing Institutions To Selected Coffee-Growing Developing Countries

This report summarizes GAO's responses to questions raised by the Chairman, Subcommittee on Domestic Marketing, Consumer Relations and Nutrition, House Committee on Agriculture, on loans and assistance to coffee-producing countries by international financing institutions.

U.S. participation in international financing institutions is coordinated with other U.S. foreign financial assistance and monetary activities and is managed through the National Advisory Council on International Monetary and Financial Policies, chaired by the Secretary of the Treasury.

Most of the information in this report was provided by Treasury officials.

UNITED STATES GENERAL ACCOUNTING OFFICE

U66102

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APRIL 25, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-161470

The Honorable Frederick W. Richmond, Chairman
Subcommittee on Domestic Marketing,
Consumer Relations, and Nutrition
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

This report summarizes our responses to the questions raised in your letter of June 7, 1977, on loans and assistance to coffee-producing countries. Chapters one through five correspond to the sequence of your questions. These chapters also include comprehensive statistical data on loans made by international financing institutions to 23 of these developing countries. The appendixes contain supplemental information pertaining to lending criteria, supplemental financing, and proposed lending limitations for commercial banks.

U.S. participation in international financing institutions is coordinated with other U.S. foreign financial assistance activities and managed through the National Advisory Council on International Monetary and Financial Policies. The Secretary of the Treasury is chairman of the Council and members include the Secretaries of State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the President and Chairman of the Board of Directors of the Export-Import Bank of the United States.

The Treasury Department plays the central role in overseeing U.S. policy interests in these international financing institutions and in the International Monetary Fund. The Secretary of the Treasury is the U.S. Governor on the institutions' boards of governors, and he instructs U.S. directors on the institutions' boards of executive directors. Therefore, most of of the information in this report was provided by Treasury officials. We also relied on the National Advisory Council's annual reports to the President and the Congress and on information we developed earlier this year for the Senate Committee on Appropriations.

ID-78-23

We trust that this material is responsive to your request. If we can be of further assistance, please let us know.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

GAO General Accounting Office

IBRD International Bank for Reconstruction and Development

IDA International Development Association

IFI International financing institutions

IMF International Monetary Fund

CHAPTER 1

LENDING CRITERIA OF INTERNATIONAL FINANCING INSTITUTIONS

Information in this chapter is keyed to the request letter's first question.

--What criteria are used by these institutions to grant loans and how are U.S. policy considerations included in this decisionmaking process?

LENDING CRITERIA

The following lending criteria provided by the Treasury Department includes comments on the International Monetary Fund, which is not considered an international financing institution. We are also including additional comments on lending policies and criteria taken from pages 89 through 100 and 259 through 263 of hearings before the Senate Committee on Appropriations on foreign assistance and related programs, fiscal year 1978 (H.R. 7797). (See app. II.)

International Monetary Fund

The Fund's operations involve foreign exchange transactions with member countries. A member, in drawing from the Fund, uses its own currency to "purchase" foreign exchange and then uses the foreign exchange to meet its balance-of-payments financing needs. The amount of foreign exchange resources available to the Fund to finance purchases at any time--the "liquidity" of the Fund--depends on the size of quotas and composition of its currency holdings and also on whether the balance-of-payments positions of the countries issuing the currencies are strong enough to allow their currencies to be used for credit to other members. When the Fund uses a member's currency subscription to finance purchases by other countries, it creates an interest-earning "reserve position" for that member upon which the member can draw if it subsequently encounters balance-of-payments difficulties. The use of Fund resources is temporary. A member is expected to "repurchase" within 3 to 5 years Fund holdings of its currency in excess of its currency subscription. At present, repurchases are made with Special Drawing Rights, gold, or foreign exchange. Thus, the Fund's financing is

(1) revolving in character, (2) available only to help meet members' balance-of-payments needs, and (3) provided only on a short to medium-term basis.

Purchases from the Fund's regular facilities are subject to graduated charges and to policy conditions which become more stringent as the amount purchased becomes larger. Purchases which raise the Fund's holdings of a member's currency above its currency subscription (presently 75 percent of quota) but not above 100 percent of quota (i.e., purchases in the so called "gold tranche"1/ or "reserve tranche") are interest-free and available automatically, provided the member represents that it has a balance-of-payments need. Purchases that raise Fund holdings above 100 percent of quota ("credit tranche" purchases) require substantial justification and the acceptance of policy conditions. Such purchases presently carry interest charges which rise from 4-3/8 to 6-3/8 percent as the purchase remains outstanding.

World Bank

The World Bank includes both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Criteria for approving loans is the same for each.

Whether a project proposed for financing is approved for an IBRD loan or IDA credit depends upon the applying country's (1) per capita income level, (2) balance-of-payments position, and (3) debt-service situation.

IDA assistance focuses on the poorest of the Bank's developing member countries, mainly those with a per capita gross national product of less than $520 (1975 dollars), while IBRD channels its lending to the more advanced developing members that are able to repay on more conventional terms.

Except in special circumstances, World Bank financing will be provided for specific projects in member countries or in territories under the administration of a member country.

Each project must be technically and economically sound and of a high priority for the economic development of the country. The Bank must be satisfied that the project

1/ "Tranche" indicates the share or portion of a given country's quota in the Fund; quotas refer to each member country's share or fraction of total subscriptions to the Fund's resources.

will be well managed during implementation and after completion. There must be reasonable assurances that the loan will be repaid, and the loan must not impose an undue burden on the economy of the borrower. The Bank also ascertains that the prospective borrower cannot obtain financing on reasonable terms from alternative sources.

An analysis of a country's economy provides the general framework within which a particular project is assessed. The appraisal of the project itself usually involves investigation of all its aspects as shown below. The economic aspects logically precede all others, since the Bank will not finance a project unless it is shown to be in a sector of priority for the economic development of the recipient and represents a high-priority use of a country's resources.

1. Economic aspects, including the demand for the goods or services the project will provide, extent to which it will employ domestic resources (including labor) which otherwise would not be used, balance-of-payments effects, and relative merits of different ways of producing the goods and services required. A comparative analysis is made of the likely economic costs and benefits.

2. Technical aspects, including examination of the detailed plans for project construction and operation, location, scale, layout, and design, types of process and equipment to be used, and availability of production factors and technical staff. Cost estimates are also examined in detail, and provision for general cost increases and contingency allowances are checked.

3. Institutional, managerial and organizational aspects, including availability and/or training of qualified local management, possible need for providing outside management or advice in the early stages of the project, project's staff structure, and the freedom of management from undue external pressures.

4. Procurement and commercial aspects, including all arrangements for buying and selling materials needed during project implementation and inputs required and output expected after completion. The Bank normally requires

international competitive bidding for construction and equipment because the best interests of the borrower are usually served by such bidding. A margin of preference is allowed to local suppliers for all but construction works.

5. Financial aspects, including assessment of the funds needed during project implementation and their source and of project operating costs, revenues, and prospective liquidity after completion. The Bank usually provides the foreign exchange component of a project's total cost and examines arrangements for the provision of the project's remaining financing.

In most cases, project costs and benefits can be quantified and an economic rate of return estimated based on streams of future costs and benefits. The economic rate of return is then compared with the minimum earning power of the capital judged appropriate for each country. This is the lowest acceptable return that capital should be expected to earn in the recipient country and is therefore the cut-off test for investment decisions by the government, the Bank and private investors. In most countries, this minimum earning power ranges between 8 to 14 percent. The rate of return is a necessary confirming test of the desirability of projects which have to be justified within a much wider frame of reference, in which basic project objectives and the nature of project benefits (e.g., foreign exchange savings, increased employment and improved income distribution) play major roles.

International Finance Corporation

The Secretary of the Treasury told the Senate Committee on Appropriations in February 1977 that the International Finance Corporation, which is designed exclusively to promote private investment, has two overriding criteria for making loans and stock investments--promise of a reasonable rate of return and expected benefits to the host country. Other stated criteria included

--non-availability of alternative financing,

--a sound financial plan,

--local participation,

--a substantial stake in the project by the sponsor,

--a market for the company's product,

--sound management,

--number of people affected by the project,

--impact on the debt structure of the borrowing country, and

--acceptance of the project by the host government.

Inter-American Development Bank

The Bank's policy sets forth the basic considerations concerning project preparation and analysis and these standards generally apply to all loan applications.

Projects financed by the Bank should be designed to contribute effectively to member countries' development and conform to the principles set forth in the Agreement establishing the Bank with regard to the use of Bank resources. They should be technically and economically sound, financially secure, and provide an adequate institutional framework.

To ensure that these purposes are fulfilled, the Bank examines the project's capacity for attaining reasonable levels of economic impact efficiently and pursuant to Bank policies and procedures.

Projects are analyzed and evaluated by multidisciplinary working groups, which are composed of Bank personnel and responsible for full execution of the project.

Asian Development Bank

Criteria for loans and grants are contained in subsections of Article 14 of the Bank's charter, as listed below.

"(i) The operations of the Bank shall provide principally for the financing of specific projects, including those forming part of a national, sub-regional or regional development program. They may, however, include loans to, or guarantees of loans made to national development banks or other suitable entities, in order that the latter may finance specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank;

"(ii) In selecting suitable projects, the Bank shall always be guided by the provisions of sub-paragraph (ii) of Article 2 of this Agreement; 1/

"(iii) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing;

"(iv) Before a loan is granted, the applicant shall have submitted an adequate loan proposal and the President of the Bank shall have presented to the Board of Directors a written report regarding the proposal together with his recommendations, on the basis of a staff study;

"(v) In considering an application for a loan or guarantee, the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors;

"(vi) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract;

1/ "Article 2 (ii) to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programs which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region."

"(xii) The Bank shall pay due regard to the desirability of avoiding a disproportionate amount of its resources being used for the benefit of any member;

"(xiv) The Bank shall be guided by sound banking principles in its operations."

African Development Fund

The African Development Fund concentrates its development efforts on the poorest African countries, generally those having a per capita gross national product of less than $200. Loans are extended to countries with higher per capita gross national products where the project being financed directly benefits the poorest segment of the population; however, loans are not extended to countries with per capita gross national products in excess of $400 except under the most unusual circumstances.

Lending criteria favors the poorest landlocked countries, those affected by natural disaster and having high ratios of indebtedness or chronic balance-of-payments difficulties due to adverse economic conditions. The Fund is pursuing its development goals principally by financing projects involving integrated rural development, health, education, public utilities, and infrastructure.

U.S. POLICY CONSIDERATIONS

An instructed U.S. appointee is a member of each international financing institution's board of executive directors. This provides the opportunity for including U.S. policy considerations in lending decisions.

Documentation supporting each loan proposal is reviewed by the National Advisory Council on International Monetary and Financial Policies staff committee (including the U.S. Executive Director) charged with reviewing proposed international monetary and financial policies, issues, and transactions. The committee meets at least once weekly and is composed of economists, lawyers, technicians, and other professional staff of the Council's member agencies. Representatives of other U.S. Government agencies, such as the Departments of Defense, Transportation, and Agriculture, and the Office of Management and Budget also participate in documentation reviews and Council deliberations when appropriate.

Loan proposals are evaluated from the standpoint of

1. priority of the project to be financed in the development process,

2. technical feasibility,

3. capacity of the loan recipient's local institutions to implement the project,

4. soundness of the financial plan, and

5. expected benefits.

Three special policy considerations are also applied to the proposals: (1) the recipient country's debt arrearages, if any, to the U.S. Government, (2) expropriations or investment disputes with U.S. investors, and (3) the country's cooperation in international narcotics control efforts.

CHAPTER 2

NUMBER AND MAGNITUDE OF LOANS MADE OR BEING MADE TO DEVELOPING COUNTRIES

Tables and statistical information in this chapter are keyed to the request letter's second question:

--How many loans and in what amounts are being made or have been made to one-crop, less developed countries? Use the year 1973 as a starting point.

SELECTION OF COUNTRIES

In responding to this question, we selected the following 23 developing countries, which realize a significant portion of their foreign exchange earnings from coffee exports. Although all are in the developing stage, they range from the poorest to the more industrialized and resource-rich countries on the verge of graduating from less developed status.

Costa Rica
Dominican Republic
El Salvador
Guatemala
Honduras
Mexico
Nicaragua
Brazil
Colombia
Ecuador
Cameroon
Ethiopia
Ivory Coast
Kenya
Uganda
Zaire
India
Indonesia
Peru
Venezuela
Angola
Malagasy Republic
Philippines

Loan statistics and selected U.S. bilateral assistance programs for these 23 countries are summarized in tables 1 through 4.

Table 1

Lending by International Development Banks to 23 Selected Countries
for 5 Fiscal Years 1973 through 1977

(amounts in millions)

	1973		1974		1975		1976		1977		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Latin America:												
Brazil	16	$ 375.2	12	$ 624.1	11	$ 572.7	19	$ 774.5	15	$ 695.1	73	$ 3,041.6
Columbia	12	218.6	9	122.2	7	91.7	5	161.8	11	407.4	44	1,001.7
Costa Rica	3	9.9	2	39.5	4	105.4	5	80.5	5	56.4	19	291.7
Dominican Republic	4	36.2	3	44.8	4	101.2	1	7.0	4	33.4	16	222.6
Ecuador	5	57.1	6	84.4	8	62.5	6	67.1	8	115.7	33	386.8
El Salvador	2	65.4	4	57.2	4	51.5	1	39.0	5	32.7	16	245.8
Guatemala	1	10.0	4	46.8	3	40.4	8	135.1	3	106.5	19	338.8
Honduras	3	27.5	4	21.0	3	62.3	3	43.2	8	167.0	21	321.0
Mexico	7	299.1	11	457.9	12	534.0	13	542.8	7	346.0	50	2,179.8
Nicaragua	5	62.3	3	18.3	1	9.0	4	39.9	5	71.8	18	201.3
Peru	5	7.8	8	121.3	3	46.6	6	244.0	5	101.7	27	521.4
Venezuela	4	54.0	2	32.6	-	-	-	-	-	-	6	86.6
Africa:												
Angola	-	-	-	-	-	-	-	-	-	-	-	-
Cameroon	1	1.7	3	75.6	3	26.2	4	37.3	8	84.3	19	225.1
Ivory Coast	2	15.9	2	27.6	5	76.9	3	56.6	2	44.9	14	221.9
Kenya	2	8.8	6	80.8	5	101.0	5	127.1	13	158.8	31	476.5
Malagasy Republic	2	30.0	1	7.8	2	23.2	1	27.6	3	35.3	9	123.9
Uganda	-	-	-	-	-	-	-	-	-	-	-	-
Zaire	1	8.5	1	10.0	3	152.0	2	42.5	2	18.0	9	231.0
Ethiopia	5	54.7	3	43.4	4	80.5	1	27.0	2	57.0	15	262.6
Asia:												
India	11	564.0	8	442.0	13	849.6	12	900.6	14	750.0	58	3,506.2
Indonesia	15	180.5	18	178.5	13	423.3	18	642.9	15	491.2	79	1,916.4
Philippines	10	104.6	12	228.6	11	273.1	16	401.0	13	391.8	62	1,399.1
Total	116	$2,191.8	122	$2,764.4	119	$3,683.1	133	$4,397.5	148	$4,165.0	638	$17,201.8

Notes to table 1.

1. Institutions include International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Inter-American Development Bank, and Asian Development Bank.

2. "Number of loans" denotes number of loan approvals.

3. African Development Fund loans of $16.6 million to Ethiopia and $4.1 million to Madagascar are not included.

4. Totals may not agree with loans listed in app. II because (1) of conversion to fiscal year statistics and (2) Social Progress Trust Fund loans of the Inter-American Development Bank are not included.

Source: Loan statements and annual reports of institutions identified in note 1.

Table 2

Net Use of International Monetary Fund Credit

(U.S. $ millions)

	1973	1974	1975	1976	1977	Total
Costa Rica	-	22.9	13.3	2.3	-	38.5
Dominican Republic	-	-	-	25.4	-	25.4
El Salvador	-	21.6	-	-	-	21.6
Guatemala	-	-	-	-	-	-
Honduras	-	20.4	-	-	-	20.4
Mexico	-	-	-	368.3	115.8	484.1
Nicaragua	4.7	-	7.3	-	-	12.0
Brazil	-	-	-	-	-	-
Colombia	-	-	-	-	-	-
Ecuador	-	-	-	-	-	-
Cameroon	-	6.0	8.5	25.4	-	39.9
Ethiopia	-	-	-	-	-	-
Ivory Coast	-	13.2	-	13.9	-	27.1
Kenya	-	38.5	44.9	18.5	-	101.9
Uganda	-	6.0	10.9	10.4	-	27.3
Zaire	-	-	54.6	124.7	-	179.3
India	-	597.7	244.0	-	-	841.7
Indonesia	-	-	-	-	-	-
Peru	-	-	-	183.6	-	183.6
Venezuela	-	-	-	-	-	-
Angola	-	-	-	-	-	-
Malagasy Republic	-	3.6	13.3	-	-	16.9
Philippines	-	-	117.8	211.3	-	329.1
Total	4.7	729.9	514.6	983.8	115.8	2,348.8

Source: "International Financial Statistics," May 1977

Table 3

Loans of Selected U.S. Agencies to 23 Developing Countries for 5 Fiscal Years 1973 through 1977 (note a)

(amounts in thousands)

	1973		1974		1975		1976		1977		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Latin America:												
Brazil:	-	$149,455	-	$367,866	-	$ 291,801	-	$ 132,501	-	$ 42,596	-	$ 984,219
Eximbank (note b)	542	149,455	721	367,866	253	291,201	146	132,501	66	42,596	1,728	983,619
OPIC (note c)	-	-	-	-	1	600	-	-	-	-	1	600
CCC (note d)	-	-	-	-	-	-	-	-	-	-	-	-
Columbia:	-	12,475	-	19,468	-	4,292		6,230	-	33	-	42,498
Eximbank	4	375	12	19,268	7	4,292	5	6,230	1	33	29	30,198
OPIC	-	-	-	-	-	-	-	-	-	-	1	-
CCC	-	12,100	-	200	-	-	-	-	-	-	-	12,300
Costa Rica:	-	999	-	3,526	-	5,358	-	1,140	-	128	-	11,151
Eximbank	14	999	22	3,526	18	3,856	11	1,140	1	46	66	9,567
OPIC	-	-	-	-	1	1,502	-	-	-	-	1	1,502
CCC	-	-	-	-	-	-	-	-	-	82	-	82
Dominican Republic:	-	28,625	-	30,714	-	12,876	-	37,650	-	501	-	110,366
Eximbank	6	10,365	6	30,714	1	7,274	5	23,750	7	501	25	72,604
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	18,260	-	-	-	5,602	-	13,900	-	-	-	37,762
Ecuador:	-	$ 1,454	-	$ 3,320	-	$ 6,484	-	$ 1,240	-	$ 619	-	$ 13,117
Eximbank	7	143	3	3,320	5	6,484	1	1,240	-	-	16	11,187
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	1,311	-	-	-	-	-	-	-	619	-	1,930
El Salvador:	-	88	-	432	-	604	-	6,615	-	185	-	7,924
Eximbank	4	88	7	432	5	604	10	6,615	5	185	31	7,924
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-

Table 3 (continued)

	1973 No. of loans	1973 Amount	1974 No. of loans	1974 Amount	1975 No. of loans	1975 Amount	1976 No. of loans	1976 Amount	1977 No. of loans	1977 Amount	Total No. of loans	Total Amount
Guatemala:	-	14,640	-	570	-	816	-	786	-	6,200	-	23,012
Eximbank	1	13,500	2	570	1	816	1	304	1	6,200	6	21,390
OPIC	-	-	-	-	-	-	1	200	-	-	1	200
CCC	-	1,140	-	-	-	-	-	282	-	-	-	1,422
Honduras:	-	7,541	-	6,543	-	6,968	-	6,875	-	283	-	28,210
Eximbank	68	7,541	51	6,543	16	1,268	25	4,475	6	283	166	20,110
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	5,700	-	2,400	-	-	-	8,100
Mexico:	-	176,060	-	163,444	-	197,053	-	175,426	-	8,575	-	720,558
Eximbank	48	176,060	87	163,444	95	197,053	56	175,426	4	8,575	290	720,558
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Nicaragua:	-	$ 1,723	-	$ 4,266	-	$ 7	-	$ 12,377	-	$ 3,848	-	$ 22,181
Eximbank	-	-	2	3,386	1	7	12	12,377	9	3,848	24	19,618
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	1,723	-	840	-	-	-	-	-	-	-	2,563
Peru:	-	51,443	-	70,285	-	48,810	-	61,207	-	60,511	-	292,256
Eximbank	-	-	3	55,285	52	19,262	44	34,176	17	2,721	116	111,444
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	51,443	-	15,000	-	29,548	-	27,031	-	57,790	-	180,812
Venezuela:	-	14,513	-	24,274	-	14,117	-	19,277	-	-	-	72,181
Eximbank	7	14,513	16	24,274	8	14,117	2	19,277	-	-	33	72,181
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Africa:												
Angola:	-	-	-	2,100	-	1,575	-	-	-	-	-	3,675
Eximbank	-	-	1	2,100	1	1,575	-	-	-	-	2	3,675
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-

Table 3 (continued)

	1973		1974		1975		1976		1977		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Cameroon:	-	$ 2,025	-	$ -	-	$ -	-	$ 3,521	-	$ -	-	$ 5,546
Eximbank	1	2,025	-	-	-	-	1	3,521	-	-	2	5,546
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Ethiopia:	-	-	-	-	-	-	-	3,900	-	-	-	$ 3,900
Eximbank	-	-	-	-	-	-	-	-	-	-	-	-
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	3,900	-	-	-	3,900
Ivory Coast:	-	1,958	-	32,300	-	1,380	-	2,492	-	2,074	-	40,204
Eximbank	1	1,958	2	32,300	1	1,380	2	2,492	1	2,074	7	40,204
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Kenya:	-	810	-	990	-	65	-	-	-	10,700		12,565
Eximbank	1	810	1	990	-	-	-	-	2	10,700	4	12,500
OPIC	-	-	-	-	1	65	-	-	-	-	1	65
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Malagasy Republic:	-	-	-	-	-	-	-		-	-	-	-
Eximbank	-	-	-	-	-	-	-	-	-	-	-	-
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Uganda:	-	-	-	-	-	-	-	-	-	-	-	-
Eximbank	-	-	-	-	-	-	-	-	-	-	-	-
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Zaire:	-	51,328	-	115,895	-	56,358	-	73,234	-	41,367	-	338,182
Eximbank	9	42,499	13	113,303	3	56,358	1	45,346	1	e/26,267	27	283,773
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	8,829	-	2,592	-	-	-	27,888	-	15,100	-	54,409

Table 3 (continued)

	1973		1974		1975		1976		1977		Total	
	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount	No. of loans	Amount
Asia:												
India:	-	2,700	-	8,640	-	150,935	-	91,460	-	26,900	-	280,635
Eximbank	1	2,700	1	8,640	3	22,935	1	1,260	-	-	6	35,535
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	128,000	-	90,200	-	26,900	-	245,100
Indonesia:	-	135,369	-	41,642	-	252,119	-	280,139	-	65,003	-	774,272
Eximbank	3	71,669	2	41,642	15	211,219	4	71,909	1	4,576	25	401,015
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	63,700	-	-	-	40,900	-	208,230	-	60,427	-	373,257
Philippines:	-	$ 62,614	-	$ 17,781	-	$ 39,426	-	$323,359	-	$ 51,096	-	$494,276
Eximbank	16	23,531	19	10,209	17	10,030	9	295,883	1	33	62	339,686
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
CCC	-	39,083	-	7,572	-	29,396	-	27,476	-	51,063	-	154,590
Total	-	$715,820	-	$914,016	-	$1,091,044	-	$1,239,429	-	$320,619	-	$4,280,928
Eximbank	733	518,231	971	887,812	502	849,731	336	837,922	123	108,638	2,665	3,202,334
OPIC	-	-	-	-	3	2,167	1	200	-	-	4	2,367
CCC	-	197,589	-	26,204	-	239,146	-	401,307	-	211,981	-	1,076,227

a/Statistics for Commodity Credit Corporation (CCC) and Public Law 480, Title I agreements are on a calendar year basis, and the 1977 fiscal year statistics for Eximbank include the month of July 1977.

b/Export-Import Bank.

c/Overseas Private Investment Corporation.

d/CCC statistics include Public Law 480, Title I agreements.

e/Entire amount relates to rescheduling of earlier authorizations.

Source: Export-Import Bank, Overseas Private Investment Corporation, and U.S. Department of Agriculture

Table 4

Loan Guarantees and Insurance of Selected U.S. Government Programs
For 5 Fiscal Years 1973 through 1977

(amounts in thousands)

	1973		1974		1975		1976		1977		Total	
	No. of Contracts	Amount	No. of Contracts	Amount	No. of Contracts	Amount	No. of Contracts	Amount	No. of Contracts	Amount	No. of Contracts	Amount
Latin America:												
Brazil:		$ 263,588		$ 543,249		$ 463,585		$ 435,976		$ 143,710		$1,550,108
Eximbank (note a)	522	254,318	144	177,220	59	343,422	88	273,579	44	126,535	857	1,175,075
OPIC (note b)	-	9,270	-	366,029	-	120,162	-	162,397	-	17,175	-	675,033
Colombia:		63,153		81,311		64,789		109,819		44,616		363,688
Eximbank	102	63,153	70	81,311	37	64,789	53	109,819	28	44,616	290	363,688
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
Costa Rica:		33,495		33,714		51,339		66,803		28,753		214,105
Eximbank	69	33,496	89	31,582	61	36,527	47	56,649	23	28,753	289	187,007
OPIC	-	-	-	2,132	-	14,812	-	10,154	-	-	-	27,098
Dominican Republic		21,599		69,037		117,413		73,533		17,987		299,569
Eximbank	43	21,599	21	32,623	23	22,398	24	48,294	9	15,827	120	140,741
OPIC	-	-	-	36,414	-	95,015	-	25,239	-	2,160	-	158,828
Ecuador:		27,882		36,394		67,168		97,085		108,361		336,889
Eximbank	74	27,882	99	36,394	72	67,168	85	97,085	85	107,860	415	336,389
OPIC	-	-	-	-	-	-	-	-	-	500	-	500
El Salvador:		$ 16,304		$ 14,689		$ 24,788		$ 39,950		$ 13,334		$ 109,065
Eximbank	35	13,804	49	14,689	32	24,788	26	35,350	21	13,334	163	101,965
OPIC	-	2,500	-	-	-	-	-	4,600	-	-	-	7,100
Guatemala:		39,713		27,755		37,252		40,187		36,182		181,090
Eximbank	64	36,023	78	27,755	43	37,252	52	39,387	48	36,183	285	176,600
OPIC	-	3,690	-	-	-	-	-	800	-	-	-	4,490
Honduras:		21,235		21,476		20,633		38,809		25,102		127,255
Eximbank	85	21,235	79	20,394	48	20,633	71	34,321	31	24,527	314	121,110
OPIC	-	-	-	1,082	-	-	-	4,488	-	575	-	6,145
Mexico:		278,007		285,266		435,307		570,839		170,509		1,739,928
Eximbank	631	278,007	619	285,266	449	435,307	490	570,838	119	170,509	2,308	1,739,928
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
Nicaragua:		20,340		26,193		30,755		34,987		26,473		138,748
Eximbank	38	12,340	63	26,193	39	29,555	23	27,981	28	26,473	191	122,542
OPIC	-	8,000	-	-	-	1,200	-	7,006	-	-	-	16,206
Peru:		42,645		54,973		71,895		116,862		112,103		398,477
Eximbank	100	42,645	98	54,973	43	71,894	72	116,862	64	112,103	377	398,477
OPIC	-	-	-	-	-	-	-	-	-	-	-	-

Table 4 (continued)

	1973 No. of Contracts	1973 Amount	1974 No. of Contracts	1974 Amount	1975 No. of Contracts	1975 Amount	1976 No. of Contracts	1976 Amount	1977 No. of Contracts	1977 Amount	Total No. of Contracts	Total Amount
Venezuela:		$ 164,091		$ 199,623		$ 168,748		$ 374,335		$ 227,365		$1,134,162
Eximbank	305	143,443	258	175,253	196	168,748	218	374,335	159	227,365	1,136	1,059,144
OPIC	-	20,648	-	24,370	-	-	-	-	-	-	-	45,018
Africa:												
Angola:		8,820		12,068		13,058		2,303		1,508		37,757
Eximbank	9	8,820	6	12,068	3	13,058	-	2,303	-	1,508	18	37,757
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
Cameroon:		4,037		2,222		1,891		5,261		1,062		14,474
Eximbank	4	3,951	2	2,222	1	1,643	2	5,261	1	1,063	10	14,140
OPIC	-	86	-	-	-	248	-	-	-	-	-	334
Ethiopia:		148		1,274		311		-149		32		1,616
Eximbank	-	148	7	1,274	2	311	-	-149	-	32	9	1,616
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
Ivory Coast:		4,244		45,927		11,928		9,142		13,155		84,396
Eximbank	1	4,244	3	45,927	2	4,509	4	6,262	5	13,155	15	74,097
OPIC	-	-	-	-	-	7,419	-	2,880	-	-	-	10,299
Kenya:		62,365		54,073		11,565		5,967		8,742		142,712
Eximbank	4	2,383	3	4,708	5	4,351	2	2,565	1	3,093	15	17,100
OPIC	-	59,982	-	49,365	-	7,214	-	3,402	-	5,649	-	125,612
Malagasy Republic:		$ 1,100		$ 1,900		$ 2,727		$ 2,267		$ 1,766		$ 9,760
Eximbank	1	1,100	4	1,900	-	2,727	-	2,267	-	1,766	5	9,760
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
Uganda:		57		817		5		9		-		888
Eximbank	-	57	1	817	-	5	-	9	-	-	1	888
OPIC	-	-	-	-	-	-	-	-	-	-	-	-
Zaire:		47,399		169,097		84,217		56,068		5,038		361,819
Eximbank	13	45,629	20	154,746	4	84,217	1	56,068	-	5,038	38	345,698
OPIC	-	1,770	-	14,351	-	-	-	-	-	-	-	16,121
Asia:												
India:		3,984		7,641		31,592		9,802		15,412		68,431
Eximbank	7	3,900	8	7,134	1	12,338	1	2,055	1	14,942	18	40,369
OPIC	-	84	-	507	-	19,254	-	7,747	-	470	-	28,062
Indonesia:		239,130		94,926		122,927		67,481		73,214		667,678
Eximbank	4	90,867	3	4,274	6	76,887	3	22,731	9	60,992	25	255,751
OPIC	-	148,263	-	90,652	-	116,040	-	44,750	-	12,222	-	411,927
Philippines:		48,344		165,138		224,796		429,822		18,811		886,911
Eximbank	34	37,662	24	30,227	15	23,813	18	407,698	8	9,114	99	508,514
OPIC	-	10,682	-	134,911	-	200,983	-	22,124	-	9,697	-	378,397
Total:		$1,411,681		$1,948,763		$2,128,688		$2,587,158		$1,093,236		$9,169,526
Eximbank	2,145	1,146,706	1,748	1,228,950	1,141	1,546,341	1,280	2,291,571	684	1,044,788	6,998	7,258,356
OPIC	-	264,975	-	719,813	-	582,347	-	295,587	-	48,448	-	1,911,170

a/Export-Import Bank.
b/Overseas Private Investment Corporation.

Source: Export-Import Bank and Overseas Private Investment Corporation

CHAPTER 3

MAGNITUDE OF INTERNATIONAL FINANCING INSTITUTIONS' LOANS TO COFFEE-PRODUCING COUNTRIES

Numerical data in this chapter is responsive to the request letter's third question:

--How many and what percentage of these loans have gone to the coffee-producing countries, including Brazil?

LOAN RECIPIENTS

As table 5 shows, the 23 selected coffee-exporting countries received 47.5 percent of total loan amounts approved by the international financing institutions during the last 5 fiscal years.

Principal loan recipients, in order of magnitude, were India (9.7 percent), Brazil (8.4 percent), Mexico (6 percent), and Indonesia (5.3 percent).

Table 5

Percent of International Development Bank Loans Made to 23 Selected Countries for 5 Fiscal Years 1973 through 1977

(amounts in millions)

	International Development Bank for Reconstruction and Development			International Development Association			International Finance Corporation			Inter-American Development Bank			Asian Development Bank			Total		
	No. of loans	Amount	Percent	No. of loans	Amount	Percent	No. of loans	Amount	Percent	No. of loans	Amount	Percent	No. of loans	Amount	Percent	No. of loans	Amount	Percent
Latin America:																		
Brazil	31	$1,779.2	8.8	-	-	-	15	$ 230.6	21.6	27	$1,031.8	19.6	-	-	-	73	$ 3,041.6	8.4
Colombia	17	628.3	3.1	-	-	-	10	34.0	3.2	17	339.4	6.5	-	-	-	44	1,001.7	2.8
Costa Rica	6	129.1	.6	-	-	-	-	-	-	13	162.6	3.1	-	-	-	19	291.7	.8
Dominican Republic	4	39.0	.2	1	13.0	.2	1	7.4	.7	10	163.2	3.1	-	-	-	16	222.6	.6
Ecuador	10	156.2	.8	1	5.5	.1	4	5.2	.5	18	219.9	4.2	-	-	-	33	386.8	1.1
El Salvador	5	92.5	.5	2	12.0	.2	-	-	-	9	141.3	2.7	-	-	-	16	245.8	.7
Guatemala	4	122.0	.6	-	-	-	1	15.0	1.4	14	201.8	3.8	-	-	-	19	338.8	.9
Honduras	5	106.8	.5	3	28.6	.4	-	-	-	13	185.6	3.5	-	-	-	21	321.0	.9
Mexico	18	1,441.0	7.1	-	-	-	3	27.3	2.6	29	711.5	13.5	-	-	-	50	2,179.8	6.0
Nicaragua	4	57.5	.3	1	20.0	.3	2	7.4	.7	11	116.4	2.2	-	-	-	18	201.3	.6
Peru	9	309.1	1.5	-	-	-	1	15.0	1.4	17	197.3	3.8	-	-	-	27	521.4	1.4
Venezuela	1	22.0	.1	-	-	-	1	3.0	.3	4	61.6	1.2	-	-	-	6	86.6	.2
Africa:																		
Angola	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cameroon	10	140	.6	7	83.7	1.2	2	1.3	.1	-	-	-	-	-	-	19	225.1	.6
Ivory Coast	12	213.5	1.1	1	7.5	.1	1	.9	.1	-	-	-	-	-	-	14	221.9	.6
Kenya	19	352.9	1.7	7	105.0	1.5	5	18.6	1.7	-	-	-	-	-	-	31	476.5	1.3
Malagasy Republic	2	21.8	.1	6	90.8	1.3	1	11.3	1.1	-	-	-	-	-	-	9	123.9	.3
Uganda	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zaire	1	100.0	.5	8	131.0	1.9	-	-	-	-	-	-	-	-	-	9	231.0	.6
Ethiopia	-	-	-	14	260.9	3.7	1	1.7	.2	-	-	-	-	-	-	15	262.6	7
Asia:																		
India	11	810.0	4.0	45	2,680.1	38.3	2	16.1	1.5	-	-	-	-	-	-	58	3,506.2	9.7
Indonesia	28	1,337.0	6.6	14	228.9	3.3	9	32.9	3.1	-	-	-	28	317.6	12.3	79	1,916.4	5.3
Philippines	29	960.7	4.7	2	22.2	.3	10	39.0	3.7	-	-	-	21	377.2	14.6	62	1,399.1	3.9
Total	226	$8,818.7	43.4	112	$3,689.2	52.8	69	$ 466.7	43.8	182	$3,532.4	67.2	49	$ 694.8	26.9	638	$17,201.8	47.5
Total Bank lending for 5-year period		$20,326.5			$6,990.9			$1,065.9			$5,255.3			$2,578.7			$36,217.3	

Notes to Table 5:

1. "No. of loans" represents total number of loan approvals.

2. African Development Fund loans of $16.6 million to Ethiopia and $4.1 million Madagascar are not included.

3. Totals may not agree with loans listed in app. II because (1) of conversion to fiscal year statistics and (2) Social Progress Trust Fund loans of the Inter-American Development Bank are not included.

4. Percentages do not add in all cases due to rounding.

5. Percent column was computed on each country's loan amount in relation to total bank lending for 5-year period.

Source: Loan statements and annual reports of the respective institutions.

CHAPTER 4

BAD DEBT EXPERIENCE OF INTERNATIONAL FINANCING INSTITUTIONS

Material in this chapter is keyed to questions 4 and 5 in the request letter.

--What is the current rate of default on these loans?

--Do further defaults seem imminent; if so, please detail the situation, with specifics on the coffee producers.

DEFAULTS ON RECENT LOANS

Information furnished to us by the Treasury Department shows that there have been no defaults on any loans made by international financing institutions (IFIs) over the 1973-77 period, nor are any expected. These loans are relatively recent, of course, and the grace periods for most of them have not yet expired.

HISTORICAL RECORD OF THE INSTITUTIONS

Since their inception, the IFIs have sustained a loss of only $1.8 million out of a total $60 billion in loans. This loss occurred during the Inter-American Development Bank's early years, before the requirement was adopted that such loans must be guaranteed by the borrowers' government or by institutions, such as a central bank, engaging the full faith and credit of the government.

The $1.8 million loss involved two separate experiences as summarized in the following paragraphs.

1. The borrower, a private enterprise producing prefabricated housing in Argentina, went bankrupt and defaulted on interest and principal payments due in 1966. The Bank instituted foreclosure proceedings on the mortgage and was adjudicated legal owner of the property. In 1968, the Bank sold the property at public auction for the equivalent of

$954,000, which was applied against the outstanding amounts owned by the borrower. The outstanding balance of approximately $1.8 million was charged against the general reserve of the Bank's Ordinary Capital account.

2. Another borrower, a private pulp and paper plant in Brazil, defaulted on interest and principal on two loans in June 1966. The total amount owing at the time of default was the equivalent of about $8 million, and the Bank instituted foreclosure proceedings. Following a lengthy legal procedure--in both the United States and Brazil--the Bank entered into an arrangement with the borrower whereby the Bank assumed the management of the property. Over the following years, the Bank has recovered all of the principal, interest, and administrative expenses. Before the end of 1977, the Bank expected to be totally repaid and planned to turn the property over to the original owner.

International Finance Corporation

The Corporation, which makes loans and participates in equity funding, to date has lost a total of $6,197,793 due to writeoffs or losses on sales of investments. According to Treasury sources, this loss amounts to 0.4 percent of the Corporation's accumulated historical gross original commitments and 0.5 percent of accumulated historical disbursements. The Corporation's reserve against losses (net of the above losses) on December 31, 1976, was $33.7 million against a disbursed portfolio of $600.9 million. An additional $82.0 million represents retained earnings. Moreover, it should be noted that the Corporation has operated profitably since its inception.

Summarized below are three cases for which the Corporation wrote off more than $250,000 in its investments. A total of approximately 275 cases have been financed, and these 3 cases account for 81 percent of the Corporation's total losses to date.

1. <u>ARGENTINA: Editorial Codex Sociedad Anonima</u>

Original commitment was made in 1969 for:	Loan	- $5 million
	Equity	- $2 million
Sold to eight participants:	Loan	- $2,483,000
	Equity	- 400,000
Writeoff on June 30, 1973:	Loan	- $ 245,000
	Equity	- 1,600,000

This project involved an expansion of printing facilities and publishing operations. Coinvestors in the company included about 40 international and local financial institutions.

2. <u>COLOMBIA: Forjas de Colombia S.A.</u>

Orginal commitments were made in 1964 and 1968 for:	Equity	- $1,267,502
Writeoff on June 26, 1973:	Equity	- $1,091,517

This project's purpose was the construction and operation of a forge plant to produce tractor parts. Coinvestors in the company included six major international and local financial institutions. The Colombian sponsor of the project was, in turn, owned by over 30 financial institutions.

3. <u>MAURITANIA: Societe Miniere de Mauritanie (SOMIMA)</u>

The original commitment was made in 1968 for:	Loan	- $18,800,000
	Equity	- 1,206,515
Net commitment after participations and sales:		
Subordinated B debentures		$1,350,000
Guaranteed loan		1,525,000
Unsecured loan		6,850,000
Equity		723,909
Writeoff on June 20, 1975:	Loan	- $1,350,000
	Equity	- 723,909

This project's purpose was the exploitation of copper ore deposits and installation and operation of a treatment and flotation plant to produce copper concentrate. A new process was used to exploit the unusual oxide ore body.

Financing for this project was provided by the sponsors (the Charter Group); The European Investment Bank; and four French companies, including two major financial institutions. Additional funding was provided by a syndicate of five large European commercial banks.

Asian Development Bank

The Asian Development Bank has had no defaults. Interest payments occasionally have been delayed, but these arrearages have always been eliminated. Most recently, Cambodia and Vietnam were late in interest payments totaling less than $100,000.

REFINANCING AND RESCHEDULING OF DEBT REPAYMENTS

Treasury officials told us that the World Bank has a firm policy not to renegotiate or reschedule the terms of its loans. Changes in scope of some projects are occasionally agreed upon subsequent to loan signature; a substantial change or one that requires supplementing the original loan amount can be made only with approval of the Bank's Board of Directors.

Information received from the Treasury shows that the Bank made two exceptions to its policy of non-participation in debt rescheduling. These exceptions were motivated by special considerations--to assist Haiti and India in dealing with their extreme balance-of-payments difficulties. For Haiti, the amortization schedule for a $2.6 million loan was amended on three separate occasions. For India, the Bank adjusted the amortization schedule for 12 loans by postponing maturities totaling $45 million for 10 years from the original maturity dates. In both cases, however, interest payments continued to be made on schedule.

POTENTIAL MULTILATERAL DEBT RESCHEDULING IN NEAR FUTURE

Treasury officials told us that it is extremely difficult to predict even 6 months in advance whether a country will be facing imminent default and request a rescheduling of its debts. However, a few countries, including Argentina, Chile, Peru, Zaire, and Zambia, have high debt-service ratios and special problems, and their economic and financial situations must be closely watched.

For example, as of December 1977, Zaire was having severe difficulties with its estimated $2 billion international debt. Faced with declining copper prices and internal management problems, Zaire has been unable to make timely repayments on much of this debt. Official government creditors, including the Export-Import Bank of the United States, have had to reschedule some of their interest and amortization payments due in 1976 and 1977. Such payments, including 1975 arrearages, total almost $500 million. The IFIs did not participate in the reschedulings nor were any of their loans rescheduled.

It is expected that the International Monetary Fund (IMF) will send a team to Zaire early in 1978 to negotiate a new economic stabilization program. If such a program is implemented, the IMF may possibly extend additional, longer term credits in addition to the $235 million it has loaned to Zaire since 1975.

With respect to 1977 debt reschedulings by the IFIs, it should be noted that many less developed countries are in a relatively sound financial condition. Moreover, there are three major factors which should be considered:

--The countries have not made massive drawdowns of their international reserves; very few, in fact, have drawn more than their first credit tranche in the IMF.

--Liberalized access to IMF ordinary credits and the Compensatory Financing Facility, together with establishment of the Trust Fund, is expected to facilitate additional private borrowing by many of the countries; this would eliminate the need for debt reschedulings.

--The countries' exports are expected to expand vis-a-vis OECD1/ countries; rising rates of export growth should reduce debt service burdens for many less developed countries and ease their debt-management situations.

DEBT EXPERIENCE OF U.S. GOVERNMENT AGENCIES

According to available information, there have been no defaults on Export-Import Bank loans nor are any expected. There were, however, debt reschedulings totaling $17.1 million in 1973 for Ethiopia, Zaire, Philippines, Mexico, and Venezuela. Moreover, in mid-August 1977, loans of $13.8 million were 90 days or more in arrears, including $7.2 million in Zaire, $0.5 million in Brazil, $0.1 million in Colombia and $6.0 million in Mexico.

The Overseas Private Investment Corporation has had one default and one rescheduling in its loan program and one rescheduling in its guaranty program.

The Department of Agriculture had no defaults in the Commodity Credit Corporation's Export Credit Sales Program, although Zaire was some $6.9 million in arrears as of mid-August 1977.

1/ Organization for Economic Cooperation and Development.

CHAPTER 5

THE INTERNATIONAL FINANCING INSTITUTIONS AND PRIVATE COMMERCIAL BANKS

Information in this chapter is keyed to the request letter's question 6:

--How do these loans compare to loans made by U.S. banks?

--What relationship is maintained by U.S. banks to the international lending organizations?

COMPARISON OF IFI LENDING TO PRIVATE LENDING

There is little comparability between the terms of private commercial bank lending and the credits granted by the IDA. As the World Bank's "soft-loan window," IDA provides financing repayable in 50 years, 10-year grace periods, and three-fourths of one percent interest. Loans made from the soft loan windows of the regional development banks are also concessional in nature. For example, loans from the Inter-American Development Bank's Fund for Special Operations, may have maturities up to 40 years, depending on the economic situation of the borrowing country, 10-year grace periods, and interest at 1 to 2 percent plus one-half of one percent commitment fee. Soft loan funds are also available for members of the Asian Development Bank at similar terms.

Loans from the IBRD and from the Ordinary Capital accounts of the Regional Development Banks are made on harder terms, with interest currently at 8 to 9 percent, and maturities of 20 years. In contrast, private commercial loans carry higher interest rates and shorter maturities, typically 5 to 7 years. However, it is through the harder term loans of the development banks that joint financing occurs with private lenders. A Treasury official, responding to our inquiry, told us that:

"Only a relative few of the loans, mostly in the industrial sector and limited to the "hard" windows of the IFIs, are comparable. One measure of the comparability is the degree to which the commercial banks are willing to buy participations (early maturities) in IFI loans. For example, the participations sold by IDB-OC totaled $69 million in calendar year 1976 and IBRD sold $44 million in fiscal year 1976, the latest period available. These amounts are small when compared to total lending from the IDB-OC of $0.7 billion and the IBRD of $5.8 billion, respectively.

"Participations or co-financing with the "soft", or concessional funds of the IFIs are generally limited to other official aid institutions. For example, co-financing in the African Development Fund is limited to the recently established lending institutions of the Arab world, i.e. the Kuwait Fund or the Islamic Development Bank, and IDA of the World Bank. Similarly, the Inter-American Development Bank utilizes the Social Progress Trust Fund to finance participations in loans from the Fund for Special Operations."

RELATIONSHIP OF U.S. BANKS TO IFIs

Information on this question was provided by the Treasury concerning the World Bank and Asian Development Bank.

World Bank

The objectives of co-financing are to (1) increase the flow of capital to developing countries and (2) promote the more effective use of available assistance. If we can assume that the Bank's overall strategy for assisting a borrowing country is appropriate and that its lending is directed toward high priority projects, then there is a valid case for marshalling available resources through co-financing.

Co-financing permits the dissemination of the Bank's own funds over a significantly larger number of projects and promotes more efficient and economic use of total available external resources. By using these other sources of funds, the Bank is able to expand its developing country programs despite resource constraints and its strategy of encouraging development of the productive and social sectors does not cause it to forego its important institution-building role in the more traditional infrastructure sectors. In the higher-income developing countries, co-financing helps the borrower to establish credit with private institutions and export credit agencies and to reduce reliance on Bank assistance. In the poorer countries, where the Bank's programs emphasize the rural and social sectors, co-financing can bring other official donors into more active participation in these sectors.

Export credits and private institutions

Most export credit agencies have some system for rating country creditworthiness, from which they set quotas on the total amount they will lend or insure in particular countries. It is understood that these quotas are quite flexible and are usually reexamined whenever new possibilities for exports to a country arise. Since, as noted earlier, many export credit agencies rely considerably on the Bank's involvment in a project in deciding whether a borrower is creditworthy and its project is sound, these agencies may well tend to enlarge their quotas for projects co-financed with the Bank. Thus, the co-financing of a Bank project through export credits may often provide additional resources as well as more favorable financing terms than have been available to a borrowing country without Bank support.

This conclusion would appear even more valid when countries with more limited creditworthiness attempt to use this source of funds. For example, within the past few years, borrowers in Kenya have succeeded in obtaining export credits of more than $70 million on attractive terms for two projects the Bank also assisted. This amount of financing on comparable terms probably would not have been available except through co-financing.

Commercial banks also have investment quotas for the countries in which they do business. Although our experience with this source of co-financing has been limited, some bankers have expressed the view that, with World Bank cofinancing, they might be able to make additional funds available to a country even where their lending quotas for the country were virtually exhausted. In the opinion of most investment bankers and insurance companies we consulted, the efforts of the higher-income developing countries to tap the U.S. longer term, private institutional market are likely to be greatly enhanced through co-financing with the World Bank.

Co-financing with private institutions

The Bank has long encouraged co-financing with private sources of funds. In the 1950s and 1960s, bank project-financing was occasionally linked to public issues by borrowing countries in the U.S. market. Also Bank lending occasionally has been coordinated with private placements by institutional investors. Recently, the Bank has been pursuing a program to increase private participation in its operations, and, in December 1975 it entered into a co-financing arrangement (containing certain special features described below) with 16 private banks under the leadership of the Bank of America to finance an expansion program of a major steel company in Brazil. The private banks' medium-term Eurocurrency loan of $55 million was associated with a World Bank loan of $95 million equivalent, the Inter-American Development Bank loaned $63 million, and about $490 million was obtained from export credits. The terms of the private loan from the Bank of America group were believed to be significantly better than the Brazilian steel company could have obtained at the time without co-financing.

No rigid formula governs private co-financing with the Bank, but it is envisaged that, as in the Brazil company's case, private institutions will negotiate and enter into separate loan contracts, setting out loan terms and conditions, with the borrowers. Whether or not the private loan will be guaranteed by the government of the country concerned is a matter for negotiation in each case.

To encourage the participation of private institutions, the Bank, with the consent of the borrower, provides them with information on the country and the project. This aspect of the co-financing relationship is very important for private investors who are not usually in a position to make such comprehensive analyses of projects for which they make loans. They will also benefit from the regular supervision of the project by the Bank's staff.

The Bank may also assume certain administrative responsibilities for the private loan, such as assisting in its disbursement and acting as a channel for service payments by the borrower. In addition, the Bank may include in its own loan agreement a "cross default" clause giving it the option to suspend disbursement or to accelerate repayment on its loan in the event that, for good cause (e.g., default on service payments), the private banks suspend or accelerate their loan. The Bank will consider undertaking these commitments in co-financing with private institutions when

(1) the terms of the private loan, particularly with regard to the maturities, are considered to be more favorable than the borrower could obtain without the Bank's intervention and (2) the Bank judges the terms and conditions of the private loan to be appropriate and compatible with the project's capacity for debt servicing.

The reactions of the commercial banks and other financial institutions to the World Bank's renewed efforts to promote co-financing generally have been favorable. It must be recognized, however, that while private funds are available chiefly at medium-term (5-8 years), there will be a limit to the amount which the Bank itself would advocate as appropriate for the poorer developing countries or for particular projects. Possibilities for longer term (10-15 years) private co-financing are also being actively pursued, although at the present time the only significant source of such funds seems to be the large U.S. insurance companies, which have a very cautious attitude about investment in developing countries as well as being subject to severe legal restrictions on the amounts they can invest outside the United States and Canada. The effect upon the borrower of relatively short co-lender's terms may be mitigated to the extent that the Bank is prepared to forego short maturities on loans and skew its own amortization schedule toward the later maturities. The Bank pays a price for this in cash flow but, in the interests of promoting co-financing, may accept this price if the co-lender's terms are as long as may reasonably be expected in the current state of the financial markets.

Most co-financing with private sources over the next few years will probably be concentrated on the more highly developed among the Bank's borrowing members and confined largely to co-financing of self-liquidating projects with autonomous borrowers in such traditional sectors as industry, public utilities, and transportation. However, even in lower income countries, projects with very high returns may on occasion prove attractive to private capital markets, and may provide opportunities for co-financing.

Other co-financing by private sources

From time-to-time, World Bank projects have been co-financed by private or semi-commercial sources with little Bank participation, although generally the fact of the Bank's participation has helped to give assurance that the project is of high priority and was properly studied and appraised. In some cases, the borrower will obtain assistance from (1) foreign banks which do business in the borrowing country and are requested by the country to participate in the financing, (2) banks in a country where a substantial number of orders are placed for export credit financing in order to help the borrower meet down-payment requirements and otherwise fill gaps in the finance available, and (3) financial institutions and commercial or marketing organizations in another country which are likely to benefit from a project in the borrowing country.

Asian Development Bank

The U.S. banks are maintaining relationships with the Asian Development Bank in several ways, including

--functioning as depositories of the funds of the Bank,

--underwriting the Bank's bonds,

--co-financing the Bank's projects,

--participating in loans, and

--exchanging information and views.

The Bank of America co-financed Singapore's Second Water Supply Project for $5 million, and the First California Bank co-financed the Philippines' Fourth Mindanao Power Project for $8 million.

As of August 1977, 25 U.S. banks have participated in Asian Development Bank loans for a total sum of $9,733,600.

EMERGING LINKS BETWEEN PRIVATE BANKS AND OFFICIAL LENDING INSTITUTIONS

In July 1977, the "OECD Observer" predicted that non-oil less developed country current account (balance of payments) deficits would continue to worsen, from approximately $23 billion in 1976 and 1977 to almost $29 billion in 1978. It also predicted 1977 current account deficits of about $35 billion for OECD-member countries, a decidedly conservative estimate.

Over the past 3 years, the private financial market --the Western commercial banks--has furnished about 75 percent, or $170 billion, of the approximately $225 billion deficits financed worldwide. Simultaneously, bilateral and multilateral official lending sources accounted for about 25 percent, or roughly $55 billion. The International Monetary Fund provided about 7 percent of the total lending.

In late 1977, indications were that, even with relatively stable economic factors, the private capital market would have to furnish about 60 to 65 percent of an estimated $300 billion to $350 billion needed to finance the oil-importing countries' projected deficits over the next 5 years. Moreover, private commercial banks will have to be involved on this scale even if both the Witteveen Facility1/ and a contemplated seventh quota increase are added to the IMF's present lending resources. Private bank lending will remain crucial even if official lending sources, such as the World Bank, are strengthened and enlarged.

In addition to the expectation that the commercial banks will continue to make international loans on a large scale, U.S. Government spokesmen have indicated that it is desirable to link commercial banks' financial activities more closely and formally with international lending institutions. To a limited degree, some informal linkage of this type has already occurred. We were told that the private banks are more frequently advising their debtor countries--whose balance-of-payments accounts show little improvement--that no further private bank credit will be forthcoming until such countries work out suitable economic stabilization programs with the IMF. More recently, such advice was given for private bank loans to Britain, Mexico, Peru, and Zaire, to name only a few. In these cases, the commercial banks are adopting the IMF's conditionality as an essential part of their own lending policies.

Secretary of the Treasury Blumenthal has been the Carter administration's principal proponent of more formalized links between private banks and the IMF in dealing with debtor countries. In May 1977, Secretary Blumenthal suggested:

> "that the IMF provide staff reports and country assessments to prospective private lenders (such reports are now confidential); that IMF staff

1/ A $10.2 billion supplementary financing facility of the IMF designed to make financial resources available for nations with serious balance-of-payments problems; see app. III for details.

participate in developing policy conditions to be attached to the private loan, or, as an alternative that the private banks would require that a borrower establish eligibility with the Fund before receiving the loan; that official and private bank funds be combined in 'mixed financing' packages."

The Secretary repeatedly emphasized that the foregoing steps would be taken only with the approval of both creditor and borrower. But, according to information available to us, these proposals had not been endorsed by either the private banks or the IMF as of December 1977.

By achieving greater linkage, the private commercial banks' vast resources would be combined with the IMF's international stature, backed up by the major creditor nations' (the United States, West Germany, and Japan) political leverage. With such an arrangement, debtor nations would be unable to play one financing source off against another or to use the private and public lenders would have the advantage of a common front in working with debtor countries.

PROPOSED RULING CLARIFYING LIMITS ON U.S. BANK LOANS TO FOREIGN GOVERNMENTS OR THEIR AGENCIES

On January 5, 1978, the U.S. Comptroller of the Currency took an important step toward preventing U.S. multinational banks from overextending their lending operations in foreign countries. The Comptroller proposed a new interpretative ruling of the law concerning loans made by U.S. national banks 1/ to foreign governments or their agencies. Under existing law, a national bank generally cannot lend more than 10 percent of its total capital to any single borrower. However, banks have often viewed government agencies and state-controlled entities as separate borrowers, independent of the borrowing central or state government. Thus, some banks have been able to avoid the 10-percent lending limit.

Essentially, the 10-percent limit has been in force for national banks under an 1863 law, which was last substantively amended in 1864. But there has never been a formal regulation,

1/ As of January 1, 1978, the Comptroller's Office regulated the activities of about 4,500 national banks.

and banks have not been required to show with any great precision that individual borrowing entities have actually had their own means of repayment.

The newly proposed interpretation would, therefore, establish a "means and purpose" test for determining whether, for borrowing purposes, each foreign agency should be treated as an individual client or as part of the central government. Specifically, loans to foreign governments or their agencies would be combined by bank regulators if the borrower failed to meet either of the following tests: (1) that it had independent resources or income to service its debt obligations, and (2) that the proceeds of the loan would be used in the conduct of its business and for the specific purpose for which the loan was made. The practical effect is that a bank which is determined to have exceeded the 10-percent limit will be required to reduce its total exposure within a given country or to show that there is more than one borrower with each having the financial means to service its own debt obligations.

According to officials of the Comptroller's Office, the proposed regulation was not prompted by any crisis situation. These officials stressed that, in view of the enormous and growing volume of loans by U.S. banks to developing countries, it was necessary to anticipate possible future overextension in lending by some U.S. banks.

The proposed ruling has been published in the Federal Register, and the Comptroller's Office is in the process of receiving comments from interested parties for a period of 60 days. A copy of the text of the proposed rule is in appendix IV.

BANK REGULATORY AGENCIES' STUDY OF U.S PRIVATE BANKS' FOREIGN LENDING

On January 16, 1978, the three Federal bank regulatory agencies--the Federal Reserve Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation --issued a comprehensive study of the quality of international lending by U.S. multinational banks. The study focused on U.S. bank loans of $164.2 billion outstanding to foreigners as of June 30, 1977. Some financial analysts have indicated that the study was motivated by increasing nervousness over the banks' foreign exposure, but this concern was not confirmed by the text of the study or in our discussions with Comptroller of the Currency officials.

The survey covered 119 unidentified U.S. banks with assets exceeding $1 billion each. While these banks comprise only a small percent of the Nation's more than 14,000 banks, they make nearly all of the foreign loans and hold more than half the Nation's gross banking assets.

The survey report disclosed that U.S. banks have $37.7 billion in unguaranteed loans outstanding to non-oil-producing developing countries. Moreover, half the loans have maturities of one year or less. The unguaranteed portion of the loans was greater than many bank spokesmen had previously conceded. By way of defining what constituted a guarantee, the study's definition was the assumption of risk by a public or private credit-worthy agency, in one of the leading industrial countries.

Total overseas lending disclosed by the report was in line with previous official estimates of the regulatory agencies, but new information and fresh insights were provided on individual country exposure. For example, Spain, Venezuela, Brazil, Mexico, and South Korea were found to owe U.S. banks more than 10 percent of the aggregate capital of the lending banks involved with these countries. Mexico and Brazil accounted for half the total debt of non-oil developing countries to U.S. banks. Approximately half of the $11 billion Mexican debt was short-term, whereas about three-fourths of Brazil's $10.5 billion debt had a maturity of greater than one year.

Peru and Turkey, both now experiencing trouble with their debt service payments, were found to owe the banks about 5 percent of the banks' aggregate capital of $36 billion. Exposure in Zaire, also experiencing repayment problems, accounted for less than 1 percent of the aggregate capital. Of the oil-exporting countries, the largest debt was owed by Indonesia ($1.98 billion) and the second largest by Iran ($1.8 billion).

The three regulatory agencies will update their quality-of-lending reports every 6 months. Based on the experience of their initial survey, the agencies have instituted a semiannual "Country Exposure Report" which will begin with December 1977 data. The results of future reports are expected to be published about 4 months following the banks' reporting dates. Each year the reports will be turned over to the Bank for International Settlements in Basel, Switzerland, which will serve as a clearinghouse for information on risk exposure of banks situated in all the developed countries.

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Domestic Marketing,
Consumer Relations, and Nutrition
Room 1301, Longworth House Office Building
Washington, D.C. 20515

June 7, 1977

Honorable Elmer B. Staats
Comptroller General of the
United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Comptroller General:

Increasingly in recent years the Federal government has been investing public money in financial institutions which provide international loans or other financial assistance to developing nations. A number of foreign nations are receiving loans from these institutions underwritten by the American public. Among others, the organizations making such loans include:

1. Export-Import Bank
2. World Bank
3. International Monetary Fund
4. International Development Association

Congress is being asked to increase the amount of loans that these institutions may make, thereby increasing the liability of the Federal government. In order to make intelligent, well-informed decisions in the future, Congress should know more about the structure of these loans, who they are being made to and for what reasons. We are especially concerned with one-crop economy nations. Therefore, we would like the GAO to undertake a study of these financial arrangements, to seek answers to the following questions:

1. What criteria are used by these institutions to decide whether to grant loans? How are U.S. policy considerations included in this decision-making process?

2. How many loans and in what amounts are being made or have been made to one-crop, less developed countries? Use the year 1973 as a starting point.

APPENDIX I

Honorable Elmer B. Staats
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3. How many and what percentage of these loans have gone to the coffee producing nations, including Brazil?

4. What is the current rate of default on these loans?

5. Do further defaults seem imminent: If so, please detail the situation, with specifics on the coffee producers.

6. How do these loans compare to loans made by private U.S. banks? What relationship is maintained by U.S. banks to the international lending organizations?

We look forward to hearing from you shortly.

Yours sincerely,

Fred Richmond
Chairman

Steve Symms	Richard M. Nolan
Charles Grassley	Leon Panetta
Dan Glickman	Harold L. Volkmer
Daniel K. Akaka	Margaret M. Heckler

EXCERPTS FROM HEARINGS BEFORE SENATE COMMITTEE ON APPROPRIATIONS ON FOREIGN ASSISTANCE AND RELATED PROGRAMS, FISCAL YEAR 1978 (H.R. 7797)

Part 1 of the material on the international financing institutions' lending policies (p. 88 to 100) is taken from testimony given by GAO's International Division Director before the Senate Appropriations Committee on February 21, 1977. Part 2 consists of pages 259 to 263 relating to information provided to the Committee by the Secretary of the Treasury on March 2, 1977.

APPENDIX II
(part 1)

LENDING POLICIES

Magnitude and Country Distribution of Loans

The level of bank lending is shown in table 2. During the past 5 years, loans made by the banks amounted to $30.1 billion, about 1.3 times the level of lending through 1971. The largest increase was for the ADB--5.6 times the earlier level of lending--probably reflecting its relatively recent establishment.

The World Bank accounted for 77 percent of total loans made by the banks during the past 5 years; the IDB accounted for 15 percent; and the ADB for 8 percent.

Fifteen countries, about 14 percent of the total number of loan recipients, received loans totalling $500 million or more during this period (see table 3). Their share of total loans was 61 percent. They accounted for 68 percent of ordinary loans and 47 percent of concessional loans.

India ranked first with $3,212.3 million, followed by Brazil with $2,764.6 million, and Mexico with $2,132.2 million. All of India's loans were from the World Bank, with IDA credits accounting for the overwhelming bulk. Brazil and Mexico also obtained substantial loans from the IDB and the bulk of their loans were from the banks' ordinary resources.

APPENDIX II
(part 1)

TABLE 2

LOANS MADE BY THE INTERNATIONAL DEVELOPMENT BANKS
(millions of $ - year ending June 30)

	Through 1971	1972	1973	1974	1975	1976	1972-1976
World Bank (note a)	19408.9	2965.8	3407.7	4313.6	5895.9	6632.4	23215.4
IDB (note b)	3779.8	520.9	714.9	1036.5	1041.5	1216.0	4529.8
ADB (note c)	414.3	244.7	368.3	464.7	533.0	720.4	2331.1
Total	23603.0	3731.4	4490.9	5814.8	7470.4	8568.8	30076.3

a/ Includes loans made by IDA.

b/ Includes loans made by FSO.

c/ Includes loans made by ADF and the ADB's Multi-Purpose Special Fund.

APPENDIX II
(part 1)

TABLE 3

COUNTRIES RECEIVING LOANS OF $500 MILLION OR MORE DURING 1971-76 (note a)
(millions of $)

Country	Amount of loans	Country	Amount of loans
Indonesia	1531.4	Bangladesh	616.1
Korea	1341.2	Iran	592.0
Malaysia	648.6	Turkey	944.8
Philippines	1038.5	Yugoslavia	798.4
Thailand	751.3	Brazil	2764.6
India	3212.3	Colombia	658.9
Pakistan	832.0	Mexico	2132.2
		Egypt	574.1

a/ Includes concessional loans.

According to the Treasury, the factors which determine the geographic distribution of World Bank loans are:

1. The readiness of projects, which are economically and technically sound, of high priority to the economic development of the recipient, and which have satisfactory prospects of being successfully implemented.

2. The country's economic performance.

3. In addition, for ordinary loan recipients, creditworthiness and the lack of finance on reasonable terms from other sources.

4. In addition, for IDA borrowers, the need for concessional assistance, roughly measured by per capita GNP ($520 in 1975), and country size.

According to the ADB, the geographic distribution of ADB loans is largely determined by:

1. Charter requirements. The Bank is required to pay special attention to the needs of the smaller or less developed countries in its region and it must strive to avoid allocating a disproportionate amount of its resources to any one member.

2. Needs of countries.

3. Absorptive capacity.

4. Constraints to Bank activities such as occurred in some Indochina countries in recent years.

5. Criteria for concessional lending, i.e., generally, per capita GNP below $300 in 1972, and limited repayment ability.

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(part 1)

6. Sources of loans. Countries receiving concessional loans generally receive a smaller proportion of total ADB loans than those receiving ordinary loans.

Criteria and Terms for Loans

World Bank

According to the World Bank, loans are made mainly for projects which it considers to be technically and economically sound and of high development priority. The Bank also makes nonproject loans--in FY 1976, 6 percent of its loans were nonproject--through financing imports of materials and equipment to support existing productive facilities.

The Bank's ordinary lending rate was 8.5 percent in January 1977. The lending rate is reviewed quarterly and adjusted to the average weighted cost of borrowing during the preceding 12 months and a positive spread of 1/2 percent is added to cover administrative and liquidity costs.

The following shows the Bank's grace and maturity periods for ordinary loans:

Per Capita GNP	Period from date of loan to first repayment (years)	Final maturity (years)
Above $1075	3.5	15
$520-$1075	4.0	17
Below $520	5.0	20

To qualify for concessional loans from the World Bank's International Development Association (IDA), a member country's per capita means must have been less than $520 in 1975. The terms are .75 percent annual service charge, grace period of 10 years, and a repayment period of 40 years.

The Bank also provides loans on terms intermediate between ordinary rates and those of IDA. The intermediate financing facility, more commonly known as the "Third Window" was established in 1975. It is subsidized by a fund financed by voluntary contributions, which pays the Bank an amount equal to 4 percent per year of the outstanding loan made by the Third Window. Borrowers pay the difference between 4 percent and the current ordinary lending rate. Eligible borrowers are those

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(part 1)

with cyclical or long-term economic difficulties and countries which recently "graduated" from IDA.

"Blend lending" may be accomplished by joint ordinary, Third Window, and concessional financing of the same project or by separate ordinary, Third Window, and concessional operations in the same country. Blending is undertaken, subject to the availability of IDA and Third Window funds, on the basis of the Bank's overall assessment of a country's debt service, with the aim of easing debt service where justified. In general the higher a country's per capita GNP and the greater its capacity to service harder-term debt, the less concessional the blend will be.

World Bank loans are not renewable. The loans are made for specific projects, or in some cases in support of a specific development program, and must be repaid in accordance with the amortization schedule fixed under the loan contract.

IDB

According to the IDB, loans are only made for projects which contribute directly to the economic and social development of member countries. It also finances preinvestment studies and capital goods exports among Latin American and Carribbean member countries. Loans are principally for fixed investments. The Bank does not lend to finance budgetary or balance-of-payments deficits.

At the most recent annual meeting of the Board of Governors of the IDB, the U.S. urged that IDB management give more attention to improving the quality of loans, improving estimates and control of project costs, and increasing supervision of projects underway.

The Bank's ordinary (including inter-regional) lending rate was 8.35 percent plus a commitment fee of 1.25 percent on undisbursed loan balances in January 1977. The lending rate is based on the Bank's borrowing costs plus a spread to cover administration and liquidity costs. Typical loans mature in 20 years, but maturities range from 15 to 30 years, with grace periods from 1 to 5 years.

Terms for concessional loans from the IDB's Fund for Special

APPENDIX II
(part 1)

Operations (FSO) vary according to level of economic development.

The following are the terms:

	Maturity (Years)	Grace Period (Years)	Interest Rate (%)	Commitment Fee (%)
Category A 1/	Up to 25	Up to 5	3-4 a/	.50
Category B 2/	Up to 30	Up to 7	2	.50
Category C 3/	Up to 35	Up to 8	2	.50
Category D 4/	Up to 40	Up to 10	1-2 b/	.50

1/ Argentina, Brazil, Mexico, Venezuela.
2/ Chile, Colombia, Peru.
3/ Barbados, Costa Rica, Jamaica, Panama, Trinidad and Tobago, Uruguay.
4/ Bolivia, Dominica Republic, Ecuador, El Salvador, Guatamala, Haiti, Honduras, Nicaragua, Paraguay.

a/ 3 percent for social projects; 4 percent for economic projects.
b/ 1 percent during grace period and 2 percent thereafter.

Category A countries have borrowed substantially from FSO in the past, but did not borrow in foreign currencies in 1976. They have agreed not to request foreign exchange loans from concessional sources during the current FSO replenishment period (1976-79).

A recent (December 1975) evaluation report by IDB's Group of Controllers covered Bank processing of modifications of loan contracts and waivers of bidding requirements in technical cooperation agreements. The Group examined 94 of at least 300 actions processed by Bank headquarters during one 12-month period (March 1, 1974-February 28, 1975).

Over one-third involved extensions of loan final disbursement periods which normally also extend the date of the first loan amortization payment. Numerous other actions involved bidding waivers and changes in the scope of projects. The report shows one modification of an amortization clause to clarify that amortization payments were to include interest. None of the cases indicated any modification of interest rate charges or changes in duration of the amortization period.

ADB

According to the ADB, loans are made for priority development projects. In evaluating projects attention is given to their economic, technical, and financial feasibility.

APPENDIX II
(part 1)

The Bank's ordinary lending rate was 8.9 percent in January 1977 for countries with per capita incomes up to $850 in 1972 and 9.5 percent for borrowers with incomes above this level. There is also a commitment charge of .75 percent on the undisbursed portion of loans. Maturities range from 10 to 30 years, with grace periods from 2 to 7 years.

Concessional loans are administered through two special funds: the Multi-Purpose Special Fund, established in 1968, and the Asian Development Fund (ADF), which came into operation in 1974. The objective of establishing the ADF was to create a single concessional fund, operating under standard terms and conditions. Virtually all of the resources of the Multi-Purpose Special Fund have been transferred to the ADF.

Concessional loans are made at a 1 percent service charge. The term of such loans is 40 years, including a 10-year grace period. Eligibility is based upon a country's economic situation but in general a country may not have a per capita GNP of more than $300 in 1972 to qualify.

Blending of ordinary and concessional funds may be undertaken primarily on what the ADB calls "country considerations." Countries which are marginally eligible for concessional funds will receive the bulk of their loans from the ADB's ordinary resources; for those which are fully eligible for concessional lending, the Bank may consider requests for additional financing from ordinary resources. Since 1975, Pakistan is the only country receiving blend loans although it is fully eligible for concessional loans.

After the blend is justified on country considerations, project considerations are taken into account to the extent possible. Projects with high socio-economic value but with relatively indirect foreign exchange earnings or savings or with long gestation periods will receive concessional priority.

Except for some technical assistance loans, for project preparation which have been incorporated into subsequent project loans, there have been no loan renewals.

The ADB does not permit renegotiations of financial terms and conditions, except in very rare circumstances. The grace period of one loan (Loan 32-KHM(SF)) was extended, because of unusual delay in project implementation, without changing the whole repayment period.

The ADB reports that there have been many cases where development finance companies have made repayment in advance of the agreed upon amortization schedule. In such cases the development finance company is obligated to repay the corresponding portion to the Bank.

Lending Priorities

The Foreign Assistance Act, as amended in 1973, directed that U.S. bilateral economic development assistance be focused on critical problems in those sectors which impact on the majority of people in developing countries: food production, rural development and nutrition, population planning and health, and education, public administration and human resource development.

Treasury has stated that the international development banks should emphasize the same sectors.1/ It concluded that although there is scope for improvement, the banks' performance is adequate.

The distribution of bank loans by sectors is shown in tables 4, 5, and 6. Loans for agriculture, education, health, and population may be regarded as rough approximations of the sectors emphasized by the Congress. While loans to the traditional sectors--public utilities, and transportation and communications--still predominate, especially for the IDB and ADB, priority sectors as a whole are receiving significant emphasis. The range of bank loans falling within the priority sectors was about one-fourth to one-third of total assistance in recent years. By contrast, more than 60 percent of AID's development assistance has been allocated to the priority sectors.

Within the overall amount allocated to these sectors, the emphasis is clearly on agriculture. Relatively little has been devoted to the other sectors emphasized in the Foreign Assistance Act.

1/ Treasury has a somewhat different formulation of the target sectors--agriculture and rural development, health, nutrition, education and population.

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(part 1)

TABLE 4

SECTOR DISTRIBUTION OF LOANS
MADE BY THE WORLD BANK
(note a)

Sector	FY 1975-76 Amount (millions of $)	Percent
Agriculture	3485.2	27.8
Education	545.1	4.4
Health (note b)	-	-
Population	65.8	0.5
Subtotal	4096.1	32.7
Public utilities (note c)	1932.7	15.4
Transportation and Communications	2622.8	20.9
Industry	3610.4	28.8
Other	266.3	2.1
Total	12528.3	

a/ Includes IDA.
b/ While the World Bank has not directly financed health infrastructure, health components are included in other sectors such as population and public utilities.
c/ Includes water supply and sewerage projects.

TABLE 5

SECTOR DISTRIBUTION OF LOANS
MADE BY THE IDB 1/

Sector	1974-1975 Amount millions of $	Percent
Agriculture	560.0	22.5
Education	90.0	3.6
Health	-	-
Population	-	-
Subtotal	650.0	26.1
Public utilities 2/	906.0	36.4
Transportation and Communications	498.0	20.0
Industry	290.0	11.8
Other	142.0	5.7
TOTAL	2486.0	

1/ Includes FSO and other special funds such as the Social Progress Trust Fund and the Venezuela Trust Fund.
2/ Includes sanitation loans.

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(part 1)

TABLE 6

SECTOR DISTRIBUTION OF LOANS
MADE BY THE ADB 1/

Sector	1974-1975 Amount millions of $	Percent
Agriculture 2/	379.8	31.4
Education	14.5	1.2
Health	-	-
Population	-	-
Subtotal	394.3	32.6
Public utilities 3/	388.4	32.2
Transportation and Communications	163.1	13.5
Industry	262.2	21.7
Other	-	-
TOTAL	1208.0	

1/ Includes loans made by the ADF and the Multi-Purpose Special Fund.
2/ Includes agro-industry loans.
3/ Includes water supply and sewerage loans.

The banks allocate significant resources to development finance companies (DFC's), which lend mainly for local industrial projects. The World Bank has allocated 9 percent of its resources to DFC's during the past 5 years; in addition the World Bank's International Finance Corporation has allocated 12 percent of its resources to DFC's. ADB loans to DFC's accounted for 16 percent of its total loans during the past 5 years. We were unable to obtain information on IDB's allocation to DFC's.

The World Bank has stated that the growth of non-farm employment opportunities, central to reducing poverty, will depend heavily on small scale industrial enterprises. A key element in the World Bank's program for helping developing nations alleviate urban poverty is the DFC. Yet lending to smaller enterprises by Bank-financed DFC's has been very limited. The Bank is currently undertaking studies of how small-enterprise lending programs can be implemented.

To assure that DFC's become better oriented to small enterprise, it is important that loans made by all three banks to DFC's stress lending to small enterprises as an objective and that the sub-loans made by DFC's be monitored against this objective.

LDC Debt and Bank Loans

According to data contained in an address by the World Bank President at the most recent annual meeting of its Board of Governors, the outstanding, medium, and long-term debt of the poorest developing nations rose from $21.7 billion in 1973 to $28.5 billion in 1975. It is projected to rise to $48.9 billion by 1980. Debt service increased from $1.4 billion in 1973 to $1.6 billion in 1975 and is projected to increase to $3.5 billion by 1980. However, these increases were not considered large in relation to their exports. The debt service ratio, i.e., the ratio of debt service to exports, in 1980 is projected to remain at about the same level as it was in 1973 (12-13 percent).

The situation is markedly different for the higher income developing countries.1/ Their outstanding medium and long-term debt rose from $55.6 billion in 1973 to $88.4 billion in 1975 and is projected to rise to $178.2 billion by 1980. The bulk of these increases are from private sources. Debt service rose from $8.9 billion in 1973 to $11.3 billion in 1975 and is projected to rise to $34.5 billion by 1980. The debt service ratio2/ declined from 18 percent in 1973 to 17 percent in 1975, but is expected to rise to 25 percent by 1980.

The banks' outstanding disbursed loans amounted to $19.8 billion at the end of 1975.3/ This was 17 percent of the total outstanding debt of developing nations in 1975, shown in the Bank President's address.

Any effort to assess the implications of how the debt problems of LDC's will affect bank loans must take into account the loan default experience of the banks, the implications of default on bank loans, and the debt rescheduling policies of the banks.

There have been no defaults on loans made by the banks, with the exception of some small loans made to private enterprises by the

1/ Excludes oil exporters.

2/ Based on a sample of 25 countries that account for over 80 percent of the external debt of oil importing higher income developing nations.

3/ Excludes loans to oil exporters.

IDB before the requirement that such loans must be guaranteed by the borrower's government (or of institutions, such as a central bank, engaging the full faith and credit of the government). Defaults on bank loans by any country would seriously impair its ability to borrow anywhere. The banks have policies of not participating in debt rescheduling agreements.

FINANCIAL POLICIES

Funds borrowed by the banks are the most important source of financing for their ordinary loans, as contrasted with their concessional loans for which no debt obligations are incurred. Borrowings ranged from about 50 to 70 percent. (See table 7.) Outstanding borrowings were $16,374 million for the World Bank, $1,927 million for the IDB, and $1,064 million for the ADB on September 30, 1976. The triple A ratings of bank securities are an indication of their acceptability.

The callable portion of the banks' subscribed capital may be regarded as the mainstay of their ability to borrow. It may only be used to meet the debt obligations of the banks, should that ever become necessary--not for loan disbursements.

Another important element affecting the banks' ability to borrow is what is referred to as "the quality" of the banks' loans. What is meant by this in the financial community is primarily bank experience with loan defaults. As previously mentioned, there have been no defaults on loans made by the banks, with the exception of some small loans made by the IDB.

Last year we succeeded in having the costs of Department of Defense employees who work with Military Credit Sales or grant Military Assistance transferred to this bill (i.e., the Foreign Assistance Act).
Why not Treasury employees as well?

SECRETARY BLUMENTHAL. Treasury is examining carefully the appropriate budget treatment of all administrative expenses currently paid from the Exchange Stabilization Fund -- including the salaries of Treasury employees paid from the ESF. We hope soon to have a formal proposal on the ESF budget issue to present to the Congress after this comprehensive examination.

After preliminary consideration, in Treasury's view it is not possible or desirable to isolate personnel in the Office of the Assistant Secretary for International Affairs (OASIA) who work on the development banks and the IMF and to place their salary costs in the Foreign Assistance Act either on an interim or permanent basis.

While there are a few OASIA personnel who work full time on international development banks (e.g., - those who review and analyze loan applications for the IBRD, IDB, ADB) there are many more working in this area who have other responsibilities as well. No OASIA personnel work solely on IFI matters.

SENATOR INOUYE: Mr. Blumenthal, the Administration is seeking the appropriation of $44,597,200 in fiscal year 1978 to fund the initial portion of the United States' subscription to the capital increase of the International Finance Corporation.

Before we turn to discussion of the specifics of the request, would you explain the operations of the IFC?

SECRETARY BLUMENTHAL: The Corporation functions essentially like a private investment bank. It tries to increase the flow of private capital into productive investments by bringing together investment opportunities, domestic and foreign private capital, and experienced management. Its principal role is to provide and stimulate financing for projects which will increase the production of goods in the developing world. However, IFC enters the picture only when other funds are not available. The Corporation makes investments where sufficient private capital cannot be obtained on reasonable terms and the investment will make a useful contribution to the economic development of the country.

The Corporation invests in productive private enterprises through loans and stock ownership, or a mixture of the two. Its typical investment is a share subscription combined with a long-term loan. When sufficient equity is available, the Corporation will make a straight loan which is at near commercial terms, around ten percent, with 7-12 years repayment. Where it invests in capital stock, it remains a minority partner without management control. The form of investment, the investment mix and terms depends on the circumstances, risk and prospective return in each case.

SENATOR INOUYE. How does it promote private investment in developing countries?

SECRETARY BLUMENTHAL. By bringing together both domestic and foreign private capital, and experienced management, the IFC stimulates the flow of private capital into productive

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investments. The presence of the Corporation in an investment has been, in many cases, a determining factor in the decision of foreign investors to participate in projects in developing countries. As an international organization respected for its record of prudent, effective and imaginative management, the IFC safeguards private investment from possible nationalisation, and adds legitmacy to any project it is associated with. As a result, the IFC acts both as a catalyst in creating a sizeable multiplier effect by associating its projects with private funds, and as an umbrella for private investment.

SENATOR INOUYE: Have any IFC supported enterprises in developing countries ever been expropriated?

SECRETARY BLUMENTHAL: There are several cases in which IFC is involved, of nationalization or complusory acquisition action by governments. In each case, the local government sought or seeks to acquire control of local companies in which IFC has invested. The past cases are in Uganda and Afghanistan; the cases currently pending are in Ethiopia and Peru.

SENATOR INOUYE. How are loans and equity participations selected?

SECTETARY BLUMENTHAL. There are two overriding criteria in selecting IFC loans and equity participation: the promise of a reasonable rate of return, and the benefits to the host country economy. Other specific criteria include: non-availability of alternative financing, a sound financial plan, local participation, a substantial stake in the project by the sponsor, a market for the company's product, sound management, and acceptance by the host government of the project.

IFC operates in countries where its criteria are met by private sponsors. Essentially, the market demand determines where IFC will operate most of the time. In a small but increasing number of cases IFC will locate private sponsors and put projects together. Of course, IFC does adhere to such sound management principles as to insure sufficient diversification within its portfolio.

SENATOR INOUYE. Does the IFC use standards of development as criteria for making these determinations? For example, does the IFC target its lending and participation to countries having per capita incomes of less than $300 per year?

SECRETARY BLUMENTHAL. The IFC does apply developmental criteria in making investments, such as considering the number of people that will be affected by a particular project, the impact on the debt structure of the borrowing country, and the benefits to the member's economy. However, equally important is the promise of a reasonable rate of return.

Essentially IFC operates in countries where its developmental and market criteria are met by private sponsors. For the most part, market demand determines where IFC will operate. Because of its limited capital, IFC's operations have tended to gravitate towards such middle income LDCs as Brazil, Korea, the Philippines, and Mexico where industrialization is well under way and government attitudes toward private investment are favorable.

The IFC has not however, ignored the poorest LDCs with per capita incomes of less than $300. As of FY 76, IFC has made 11.5 percent of its commitments in "most-seriously affected" poorer countries such as Pakistan and Ethiopia. Moreover, IFC has progressively attempted to broaden the scope of its lending operations in the least developed countries. For example, in fiscal 1976, the IFC made loans for the first time in Malawi, Egypt, and Rwanda which have average per capita incomes of $180 per year. With a larger capital base provided by the capital increase, IFC will be able to further expand its lending to the poorest countries.

SENATOR INOUYE. Does the IFC concentrate on small businesses or is there a minimum size to the enterprises selected for IFC assistance? Which economic sectors are favored?

SECRETARY BLUMENTHAL. The majority of the recipients of IFC investments have been medium-sized enterprises, controlled by indigenous groups in the developing countries and with indigenous management. Net worth of the medium company was about $5 million, although there is no minimum level of investment. In fiscal 1976, IFC investments ranged from as little as $300,000 for manufacturing in Korea to $50 million for a steel plant in Yugoslavia. Approximately three enterprises out of four financed by IFC are controlled by domestic owners. Most (76 percent) of the enterprises assisted are engaged in manufacturing -- e.g., in iron and steel, paper and pulp products, cement and construction materials, or chemicals. Development finance corporations and mining enterprises each accounted for another 9 percent of IFC's activities. The remaining projects (6 percent) were in tourism, utilities, and money and capital market activities.

SENATOR INOUYE. Mr. Blumenthal, the request for fiscal year 1978 ($44,597,200) is, apparently, linked to subsequent appropriations. Will you explain the exact nature of this linkage?

SECRETARY BLUMENTHAL. When a member subscribes to the additional specified total number of shares of the Corporation it must ordinarily obligate itself to pay for these shares according to the schedule set forth in the replenishment proposal. However, where, as in the case of the U.S. legislative procedures, i.e., the necessity of obtaining appropriations, make an unqualified commitment for payment for the total number of shares inappropriate, an unqualified commitment to pay for not less than 40 percent of the total shares subscribed must be made and the member must pledge itself to seek appropriate legislative action for payment for the remaining 60 percent as soon as practicable. In order for the U.S. to be able to subscribe to additional shares pursuant to the terms of the proposed replenishment, the Administration intends to seek an appropriation in fiscal year 1978 for payment of 40 percent of the total shares subscribed.

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SENATOR INOUYE. The justification notes that the proposed U.S. subscription would reduce the U.S. share in the IFC to 25 percent, down from the present share of 32.7 percent "if other countries took up their proposed shares."

What will the U.S. share be if other countries do not follow through? Why are we leading the subscriptions? Would we not have a better idea of what we are getting into if we waited to see how much others will subscribe?

SECRETARY BLUMETNTHAL. The capital increase proposal has received widespread support from other member governments. At present, the IFC expects almost all countries will take up their shares. As of the middle of February, 1977, 59 countries representing more than 53 percent of total voting power had already approved the increase. Since a 75 percent affirmative vote is required for approval, U.S. approval, with our 26 percent voting power would make the increase effective. It is very likely, in view of the above, that the U.S. will not be among the first to subscribe to the increase. Thus we will be able to see what other countries do before we subscribe.

SENATOR INOUYE. Has the Board of Governors of the International Finance Corporation approved the $540 million increase in the authorized capital stock of the Corporation?

SECRETARY BLUMENTHAL. The proposal for the Capital Increase was negotiated in a relatively short period of time -- less than six months; it was approved by the Board of Directors of the IFC in May 1976. Formal approval by the Board of Governors of the Corporation is currently under way by means of a mail poll of member nations. As of February 15, 1977, 53 percent of the Board of Governors had approved of the Capital Increase; 75% of total voting share is necessary for ratification.

SENATOR INOUYE. Of the $540 million increase, $480 million is reserved for increased subscriptions of existing members. The remaining $60 million, according to the presentation, would be "available for new members or to increase the subscriptions in the future of existing members".

Which countries are expected to seek membership in the IFC? If these countries do not join, will the U.S. subscription be increased?

MR. BLUMENTHAL. The IFC currently has 105 members compared to 127 members in the World Bank. As countries become increasingly prosperous and their private sectors expand, more countries will undoubtedly apply for membership in the IFC, while other countries that are growing rapidly will want to increase their subscriptions in the IFC to reflect their increased economic and financial strength.

The U.S. share will not be increased even if additional countries should not apply for membership and existing members not request an increase in their subscriptions. The unsubscribed shares will be retained by the Corporation and will have no effect on the stock or voting shares held by current members.

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SENATOR INOUYE: The statement of cumulative gross commitments for the IFC shows gross commitments to Brazil of $276,316,000.

What is the current level of IFC lending and participation in Brazil?

Would you say that Brazil is an example of how the IFC promotes private investment in development countries?

SECRETARY BLUMENTHAL: In FY 1976, the IFC participated in two projects in Brazil, with a total investment of $13.5 million, of which $12.5 million was loans and $1.0 million equity. Brazil is indeed a good example of IFC operations, with differing degrees of emphasis. IFC tailors its financing operations as appropriate to the needs of each country. Because of the larger size of Brazil, IFC has had more flexibility in targeting projects. In line with the government's development strategy, IFC is making a major effort in the poorest areas, including the northeast, and in development of natural resources. In a number of other projects in Brazil, IFC's major contribution has been to mobilize foreign sources of long-term capital. This was the case in IFC's most recent commitment to Cosigna, a Brazilian steel producer, in which IFC's entire loan of $10 million was placed with five European and American financial institutions.

SENATOR INOUYE. Mr. Blumenthal, Exhibit A of your presentation on the IFC shows a $5 million loan from the State of the Netherlands. What are the particulars of this loan?

Does the IFC pay interest to the Netherlands?

Does the U.S. lend money to the IFC?

Do we get interest on our funding of the IFC?

SECRETARY BLUMENTHAL. The Netherlands made a loan to the IFC as a special contribution in 1971. Since the funds available to the IFC for equity investment are more limited than those available for lending, the Netherlands agreed to make its loan on terms which would allow the Corporation to use it for equity investments.

The loan has a maturity of 30 years with an eight-year grace period. Repayment of principal will commence in 1979. The loan provides that interest shall be equal to the rate of dividend, if any, upon IFC's capital stock. Since the IFC has not declared any dividends, the loan is effectively interest free.

In addition, the loan agreement provides that any outstanding amount of principal could be applied, at the option of the Netherlands, to subscribe to any additional shares of capital stock that may be issued by IFC. To date, the Netherlands has not chosen to do so, nor has it indicated that it will do so in the current capital increase.

The United States has not lent funds to the IFC, and therefore has not received any interest payments.

INTERNATIONAL MONETARY FUND'S SUPPLEMENTARY FINANCING FACILITY (note a)

IV. MAIN PROVISIONS OF THE SUPPLEMENTARY FINANCING FACILITY

A. PARTICIPATION AND ENTRY INTO FORCE

Initial participants in the facility and the amounts to be provided are listed in the table below, on the basis of information available in early September 1977. (Discussions are still underway with a few other countries, and it is anticipated that initial participation in the facility will total SDR 8.6 million ($10 billion) or more). Other countries would be eligible to participate at a later date, provided that they had sufficiently strong external positions, and initial participants would be able to increase the amount of resources they make available should they choose to do so. Shares in the facility have been determined largely on the basis of relative external economic positions, as indicated primarily by balance of payments and reserve positions and ability to provide financing. The U.S. share would be SDR 1,450 million (approximately $1.7 billion), about 17 percent of the overall initial total.

TABLE 2.—SUPPLEMENTARY FINANCING FACILITY PARTICIPANTS AND COMMITMENTS

	SDR (millions)	Amount [1] (millions)	As percent of total
Industrial countries:			
Belgium	150	$174	1.8
Canada	200	232	2.4
Germany	1,050	1,220	12.4
Japan	900	1,046	10.7
Netherlands	100	116	1.2
Switzerland	650	755	7.7
United States	1,450	1,685	17.2
Subtotal	4,500	5,228	53.4
Oil exporting countries:			
Iran	685	796	8.1
Qatar	100	116	1.2
Saudi Arabia	2,150	2,500	25.5
Venezuela	450	523	5.3
United Arab Emirates	150	174	1.8
Kuwait	400	465	4.7
Subtotal	3,935	4,574	46.6
Total	[2] 8,435	9,802	100.0

[1] Based on the SDR per dollar rate prevailing Sept. 1, 1977, 1 SDR=$1.16210.
[2] Expected to increase to at least SDR 8,600,000,000 ($10,000,000,000). See footnote 2 intext above.

The facility will enter into force when a total of SDR 7.75 billion (approximately $9 billion) has been effectively made available to the IMF and at least six participants have each made available SDR 500 million (approximately $580 million) or more.

a/ Also known as the Witteveen Facility in honor of the IMF Executive Director, Johannes Witteveen, who conceived the need for and composition of the new facility.

Source: Report of the National Advisory Council on International Monetary and Financial Policies, dated September 1977, on United States participation in the Supplementary Financing Facility of the International Monetary Fund.

B. TERMS RELATING TO PROVISION OF RESOURCES TO THE IMF

Period of Financing.—Commitments by participants to provide financing to the IMF will remain effective for five years from the date of the facility's entry into force. Financing actually provided to the facility will be repaid in eight semi-annual installments beginning 3½ years and ending 7 years after the date the financing is provided, equivalent to an average maturity of 5¼ years. The IMF will have the right to make early repayment in certain circumstances.

Calls for Financing.—Calls will be made in broad proportion to the unutilized commitments of participants. Upon call, funds will be transferred to the IMF for immediate use in providing financing from the facility. A participant may represent that its balance of payments and reserve position does not justify a call or any further calls. If the IMF concurs with the participant's representation, the participant will not be expected to contribute to any further calls until its balance of payments and reserve position improves sufficiently.

Interest Rates.—Participants will receive interest equal to the yield on U.S. Treasury securities of comparable maturity, rounded up to the nearest one-eighth of one percent. The interest rate that will apply until June 30, 1978, is seven percent, based on the interest rates on U.S. Treasury securities prevailing at the time the facility was agreed. For each subsequent six month period, the interest rate that will apply will be the average of the daily yield during that period on actively traded U.S. Government securities of a constant maturity of five years, rounded up to the nearest one-eighth of one percent. Such yields are calculated daily by the U.S. Treasury Department and published weekly by the Federal Reserve Board.

Liquidity of Claims.—In exchange for financing provided the IMF, a participant will receive a liquid reserve claim on the IMF which can be encashed at any time upon a representation by the participant of balance of payments need. Claims may also be transferred (sold) to other participants, other IMF members or other transferees which may be approved by the IMF.

Denomination.—All commitments to provide financing, and all financing actually provided to the facility, will be denominated in Special Drawing Rights. In the event of a change in the method of valuation of the SDR[6], a participant would have the right to immediate repayment of its claims on the IMF and to terminate any remaining commitments.

C. TERMS AND CONDITIONS OF DRAWINGS BY MEMBERS

Eligibility.—An IMF member will be eligible to use the facility if the IMF is satisfied:

that the member's balance of payments financing need is greater than the amount remaining available to it under the credit tranches (i.e., under the regular IMF resources);

that the member's balance of payments problem requires a relatively long period of adjustment and a period of repayment longer than the period of three to five years that applies to the credit tranches; and

[6] The SDR is valued on the basis of market exchange rates of a weighted "basket" of sixteen currencies The dollar's weight is roughly one-third of the total.

On the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply under a stand-by or extended arrangement, that the member's program will be adequate for the solution of its balance of payments problem and is compatible with the IMF's policies on the use of its resources in the upper credit tranches or under the Extended Fund Facility [7] (i.e., the IMF's more conditional policies).

Access and Relation to Regular Credit Tranches.—Members will be able to apply for use of the facility at any time within two years after the date the facility enters into force. This period will be reviewed in conjunction with an overall review of the facility [8], and may be extended for up to one additional year. Actual drawings by a member will be phased over a period of two to three years from the date the member enters into agreement with the IMF, and will be dependent on satisfactory compliance by the member with the economic program agreed with the IMF.[9]

The amount of IMF financing available to a member under the facility would be based on a judgment by the IMF, taking into account the size and nature of the member's payments problem, its access to alternative sources of financing, and the availability of resources in the IMF. Supplementary financing will be made available in parallel with a member's purchases of regular IMF resources under the credit tranches or the Extended Fund Facility. Initially, supplementary financing roughly equivalent to a member's quota will be available in conjunction with credit tranche drawings, and up to 140 percent of quota will be available in conjunction with extended Fund Facility drawings. Drawings on the facility will be apportioned to parallel drawings on the regular credit tranches or the Extended Fund Facility as described in Annex C. The amounts available from the facility in conjunction with drawings on the upper credit tranches or the Extended Fund Facility would be subject to review from time to time by the IMF, and could be modified in light of the availability of supplementary financing and regular resources. In special circumstances, the IMF could permit purchases of supplementary financing in amounts above that available in conjunction with parallel drawings on the regular resources.

Repayment.—Repayment of drawings ("repurchases") under the Supplementary Financing Facility will take place over a period somewhat longer than the three to five years that applies to the regular resources. Repayment will be required in equal semi-annual installments beginning not later than three and one-half years and completed not later than seven years from the date of purchase. A member will be expected to make early repayment, however, as its balance of payments and reserve position improves, and a member can be required to make early repayment if the IMF determines that an improvement in the member's position so justifies. Early repayment of

[7] Under this facility, established in September 1974, the IMF makes longer-term balance of payments financing available to countries prepared to undertake and adhere to a comprehensive program of structural reform approved by the IMF and covering a period of several years.

[8] This review will take place not later than two years after the facility enters into force or when an increase in quotas pursuant to the Seventh General Review of Quotas becomes effective.

[9] Drawings will not be permitted beyond five years after the facility enters into force, consistent with the maximum period of commitment by participants in the financing arrangements with the IMF. The effect of this limitation is that if the period for applications is lengthened beyond two years, the maximum period of drawdown must be shortened from three years to fit with the five year maximum availability of financing.

a drawing from the facility must be accompanied by early repayment of any parallel drawing from the IMF's regular resources.

Charges.—Charges to borrowers on drawings from the facility will be equal to the cost of financing provided to the facility, plus a small margin of slightly less than one-quarter of one percent per annum to cover IMF administrative costs.

V. Proposed Legislation

Prior Congressional approval for Uuited States participation in the Supplementary Financing Facility is requred by Section 5 of the Bretton Woods Agreements Act, as amended. The Council believes that legislation should be promptly enacted to authorize the Secretary of the Treasury to take the steps necessary for U.S. participation in the facility.

The bill proposed for this purpose would authorize the Secretary of the Treasury to make resources available for U.S. participation in an amount not to exceed the dollar equivalent of 1,450 million Special Drawing Rights. The terms of United States participation in the facility will be governed by the decisions of the IMF Executive Directors establishing the facility and authorizing replenishment of IMF resources for the purposes of the facility (attached as Annexes A and B).

These resources would be made available by the United States entering into an agreement with the IMF for replenishment of the IMF's resources in accordance with Executive Board Decision numbered 5509–(77/127) (Annex B). In addition, the United States could transfer (sell) to others its reserve claims on the IMF arising from participation in the facility and could purchase such claims on the IMF held by others, under the IMF Executive Board Decision. In no event would the total amount of currency made available by the Secretary of the Treasury, net of any amounts received by the U.S. with respect to its participation in the facility, exceed the equivalent of 1,450 million Special Drawing Rights.

Transactions arising from U.S. participation in the facility, like other U.S. transactions with the IMF, are exchanges of monetary assets, akin to deposits in a bank. This accounting and budgetary treatment of U.S. transactions with the IMF was adopted as a result of the recommendations in 1967 of the President's Commission on Budget Concepts. The Congress has concurred since 1975 in the application in full of the exchange of asset concept to U.S. transactions with the IMF. The Congress has considered appropriations unnecessary both for increases in the United States quota in the IMF (Congress authorized consent to the last increase in the United States quota in P.L. 94–564, without an appropriation), and for payment by the U.S. of maintenance of value obligations to the IMF.

Similarly, no appropriation is necessary for U.S. participation in the IMF Supplementary Financing Facility and none is authorized by the proposed bill. When the United States provides dollars under the terms of the facility, the U.S. in exchange will receive a monetary asset in the form of a liquid reserve claim, of equivalent SDR value, on the IMF. These claims will increase the automatic drawing rights of the United States on the IMF and will be transferable. Consequently, these claims will form part of the U.S. "reserve position" in the IMF and so will constitute part of U.S. international reserves.

Since the assets and accounts of the Treasury are denominated in dollars, while those of the IMF (including U.S. claims on the IMF acquired through participation in the facility) are denominated in SDR's, there may, as a consequence of exchange rate changes, be a net change in the dollar value of U.S. monetary assets arising from our participation in the facility. The proposed bill therefore provides for the Exchange Stabilization Fund, established by Section 10 of the Gold Reserve Act of 1934, as amended, to account for any such adjustment in the dollar value of U.S. monetary assets.

VI. Recommendation

The National Advisory Council strongly recommends to the President and to the Congress that the United States participate in the Supplementary Financing Facility of the International Monetary Fund. The proposed terms and conditions of U.S. participation are set forth in the documents annexed to this Report. While the international monetary system has been functioning well, there is a real and present need for an increase in the resources of the IMF, as provided by the proposed Supplementary Financing Facility. The facility will provide a major strengthening to the international monetary system during this period of strain, greatly reducing any risk that the system may not be able to meet the demands placed upon it. The Council believes that establishment of this facility is of critical importance to the United States, and that participation by the United States is manifestly in our national interests. It is therefore strongly recommended that legislation be promptly enacted authorizing U.S. participation in the Supplementary Financing Facility Agreement.

DEPARTMENT OF THE TREASURY

COMPTROLLER OF THE CURRENCY

[12 CFR Part 7]

LOANS TO FOREIGN GOVERNMENTS, THEIR AGENCIES, AND INSTRUMENTALITIES

Notice of Proposed Rulemaking

AGENCY: Comptroller of the Currency.

ACTION: Proposed rule.

SUMMARY: The proposed interpretive ruling summarizes principles which the Comptroller of the Currency believes applicable to the combining of loans made by national banks to foreign governments, their agencies and instrumentalities under the lending limit provision of 12 U.S.C. §84. A new interpretive ruling is necessary because existing interpretive rulings applying the combining principles of 12 U.S.C. §84 do not directly address such loans.

DATES: Written comments must be received on or before __________ (60 days from publication in the Federal Register).

ADDRESSES: Comments should be addressed to Mr. John E. Shockey, Chief Counsel, Comptroller of the Currency, Washington, D. C., 20219.

FOR FURTHER INFORMATION CONTACT:

Mr. Larry Mallinger, Staff Attorney
Office of the Comptroller of the Currency
Washington, D. C. 20219
(202) 447-1880.

SUPPLEMENTARY INFORMATION: In recent years there has been rapid growth in lending by commercial banks to foreign governments, their agencies, and instrumentalities. This growth has required national bank examiners to give increasing attention to the applicability of the statutory lending limits of 12 U.S.C. §84 to such credits. In this process, specific questions have been raised as to how such loans should be combined for purposes of applying the lending limits.

The present series of formal interpretive rulings applicable to the combining of loans under 12 U.S.C. §84 (12 CFR 7.1310 -- 7.1320) do not specifically address the types of inquiries which should be made in the case of credits related in one way or another to a foreign government. However, for some time the Comptroller's staff has advised banks making specific inquiries of two general principles. First, that foreign governments and government-related entities are regarded as "persons" under the language of 12 U.S.C. §84. Second, that loans to foreign government-related entities that have a significant degree of independence from the central government in their sources and uses of funds will not be combined with loans to the central government so long as such entities satisfactorily evidence means of repayment that are not substantially dependent upon general revenues of the central government. Implicit in these individual rulings has been the understanding that the borrowing by an individual entity is for the purpose of satisfying funding needs related to its own activities. This second principle has been expressed in staff opinions issued over the past several years in terms of the "means" and "purpose" tests.

Because of the increased number of circumstances in which examiners and bank officers must take the lending limits into account in reviewing loans to foreign governments and their instrumentalities, the Comptroller proposes to state the applicable principles and minimum documentation requirements in an interpretive ruling.

The proposed ruling addresses the following items.

First, loans to foreign governments, their agencies and instrumentalities will be combined under 12 U.S.C. §84 if they fail to meet either the "means" or "purpose" test.

Second, these tests will apply to all existing and new loans at the time each new loan is made.

Third, the borrower is required to provide a statement describing with particularity the purpose of the loan. Normally this will be sufficient to satisfy the requirements of the "purpose" test. However, the ruling makes it clear that when a bank has available to it other information suggesting a use of proceeds inconsistent with the borrower's representation, it may not, without further inquiry, accept the representation.

Fourth, certain additional documentation is required to enable the bank to carry out its responsibility of reasonable investigation and to satisfy examiner inquiry under the "means" and "purpose" tests. In part, because of the threshold need to identify properly the real borrower, the additional documentation includes a statement describing the borrowing entity's legal status and relationship to the central government. Also required are financial statements for the borrowing entity for each of the three years prior to the making of the loan (or for each year less than three that the borrower has been in existence) and for each year the loan is outstanding, and analytical opinions by management supporting their assessment of the borrowing entity's ability to service the loans.

In a number of other areas, the proposed interpretive ruling does not attempt to establish firm boundaries because the differences in function and operation of various foreign governments and their related entities cannot be so inflexibly addressed. For example, the documentation required under the proposed ruling suggests that the presence or absence of central government support for the borrowing entity is a relevant inquiry. Some central government support whether direct or in the form of a guarantee would not, without more, require combining. However, where such support approaches a relatively large percentage or a principal portion of the borrowing entity's annual revenues, such as 50 percent, or where but for the presence of a governmental guarantee the bank would not consider the borrower to have sufficient credit standing, a presumption of lack of independent means may arise.

The proposed interpretive ruling does not supplant current interpretive rulings (12 CFR 7.1310 -- 7.1320) applicable to the combining of loans to partnerships, corporations and their subsidiaries, and certain other common enterprises. Thus, 12 CFR 7.1310 remains applicable to loans to foreign entities organized as corporations whether or not they are related in some way to the central government.

While the proposed interpretive ruling states the inquiries which the Comptroller's Office for sometime has believed appropriate in applying 12 U.S.C. §84 to loans to foreign governments and their related entities, the specific terminology used in the ruling may be unfamiliar to some banks. In this connection, it should be clearly understood that the principles expressed in the ruling will not be applied by the Comptroller's Office to reverse prior examiner determinations on particular bank loan portfolios. However, because the principles expressed in the ruling are directly related to existing statutory requirements, these principles should be carefully considered in connection with any new loans made by national banks to foreign governments and their related entities during the comment period.

The Administrative Procedure Act does not require notice and solicitation of comments in connection with interpretive rules (5 U.S.C. 553(b)). However, the Comptroller has elected to afford opportunity to comment on the proposed amendment.

PROPOSED RULING

For the reasons stated above, the Comptroller proposes to amend 12 CFR Part 7 by adding a new section 7.1330 to read as follows:

§7.1330 Loans to foreign governments, their agencies, and instrumentalities

(a) Loans to foreign governments, their agencies, and instrumentalities will be combined under 12 U.S.C. §84 if they fail to meet either of the following tests:

(1) The borrowing entity must have resources or income of its own sufficient over time to service its debt obligations ("means" test);

(2) The loan proceeds must be used by the borrowing entity in the conduct of its business and for the purpose represented in the loan agreement or otherwise acknowledged in writing by the borrowing entity ("purpose" test). This does not preclude converting the loan proceeds into local currency prior to use by the borrowing entity.

These tests will be applied at the time each loan is made.

(b) In order to show that the "means" and "purpose" tests have been satisfied, a bank shall, at a minimum, assemble and retain in its files the following items:

(1) A statement and supporting documentation describing the legal status of the borrowing entity and showing its ownership and any form of control that may be exercised directly or indirectly by the central government.

(2) Financial statements for the borrowing entity for a minimum of three years prior to making

the loan or for each year less than three that the borrowing entity has been in existence.

(3) Financial statements for each year the loan is outstanding.

(4) The bank's assessment of the borrower's means of servicing the loan including specific reasons justifying that assessment. Such assessments shall include an analysis of the financial history of the borrower, the present and projected economic and financial performance of the borrower, and the significance or lack of significance of any guarantees or other financial support by third parties, including the central government.

(5) A written statement from the borrower describing with particularity the purpose of the loan. Normally, such a statement will be regarded as sufficient evidence to meet the "purpose" test requirements. However, when the bank knows or has reason to know of other information suggesting a use of proceeds inconsistent with the representation in the statement, it may not, without further inquiry, accept that representation.

John G. Heimann
Comptroller of the Currency

Dated: JAN 5 1978

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