BUDGET
ISSUE PAPER

International Financial Institutions: Background and Budget Options for Fiscal Year 1978

March
1977

Congressional Budget Office
Congress of the United States
Washington, D.C.

INTERNATIONAL FINANCIAL INSTITUTIONS: BACKGROUND AND BUDGET OPTIONS FOR FISCAL YEAR 1978

The Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price $1.45

PREFACE

Since 1945 the United States, in cooperation with other nations, has contributed to the support of international financial institutions (IFIs) whose primary function is to aid the economic development of the less developed countries. Now before the Congress are requests for appropriations of $2.6 billion to continue U.S. support of the IFIs in fiscal year 1978. Both the large size of the requested contributions and the fact that these requests represent a dramatic increase in funding for multilateral development assistance have generated considerable Congressional interest in the IFIs.

This Budget Issue Paper describes briefly the nature and operations of the IFIs and discusses their role in the world economy. It also presents the major options for future support of the IFIs available to the Congress and discusses their implications.

Contributions to IFIs constitute only a part of U.S. development assistance. Requests for $1.3 billion in bilateral development assistance in fiscal year 1978 are also pending before the Congress. A detailed discussion of the U.S. bilateral aid program is provided in Bilateral Development Assistance: Background and Options, published by the Congressional Budget Office in February, 1977.

This paper was prepared by Sheila K. Fifer and C. R. Neu of the National Security and International Affairs Division of the Congressional Budget Office, under the general supervision of Lawrence G. Franko and John E. Koehler. The authors wish to acknowledge the assistance of Ramon Espinosa, David Rowe, and Peggy Weeks of the Congressional Budget Office. The manuscript was edited by Patricia Johnston and typed for publication by Patricia J. Minton.

Alice M. Rivlin
Director

March, 1977

CONTENTS

TABLES

FIGURES

86-538 O - 77 - 2

ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
DAC	Development Assistance Committee of the OECD
FSO	Fund for Special Operations of the IDB
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries

SUMMARY

Before the Congress this year are requests for major increases in U.S. contributions to international financial institutions (IFIs). Along with the bilateral development program, these agencies are the major channels through which the U.S. provides assistance to developing countries. Most of the requests are for initial installments on multiple year payments and this year's budget decisions will imply commitments for further annual contributions. The Congress has, then, the opportunity to plan the level of U.S. multilateral development assistance over the next several years. Because the United States is the largest single donor to these banks, the level of this assistance will also directly affect the amount of credit that these banks will be able to provide to developing countries.

The Congress faces these decisions at a time when the requirements and resources of the less developed countries (LDCs) have changed radically. The needs of developing countries for foreign exchange have been greatly increased by higher oil prices and depressed demand for their exports. Their access to capital has, however, also increased. The United States and other donors have begun to direct more bilateral assistance towards the poorest LDCs. Commercial lenders have greatly increased the amount of credit they supply to upper- and middle-income LDCs. In view of these changes, the Congress may wish to reexamine the value and importance of IFIs before substantially increasing U.S. contributions.

The U.S. contributes to six IFIs: the International Bank for Reconstruction and Development (the IBRD or World Bank), the International Development Association (IDA), the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), and the African Development Fund (AfDF). Although their memberships vary, these banks are all international organizations composed of developed and developing countries. They receive capital subscriptions from all member countries and provide credit to their less developed members. In the most general terms, the more contributions the IFIs

receive from developed countries, the more credit they are able to provide to LDCs. Over the past fifteen years, contributions and loans have both increased dramatically. All of these IFIs have in recent years maintained at least 8 percent real growth rates in their loans outstanding and some have sustained much higher rates. If the banks are to continue to grow, however, the United States and other donors must be willing to continue to increase their contributions.

Despite their rapid growth, the IFIs still provide only a small portion of the total credit received by LDCs. In 1974, commercial banks provided $7.5 billion in net capital flows to LDCs; bilateral loans and grants provided $9.4 billion; and IFIs provided $2.7 billion. In quantitative terms, then, IFI loans are far from the most important source of credit for LDCs.

The kinds of credit extended by IFIs are not greatly different from the credit provided by these other sources. IFI conventional loans -- which compose two-thirds of their lending -- are provided at nearly the same interest rates as commercial loans. IFI conventional loans typically have much longer maturities, but commercial loans are frequently extended through refinancing. IFI conventional loans and commercial loans also go to the same groups of LDCs--those in upper- and middle-ranges of GNP per capita.

IFI concessional loans and bilateral loans are also similar. IFI concessional loans typically have very long maturities and low interest rates. The terms of bilateral loans vary widely, but average interest rates and maturities are intermediate between conventional and concessional IFI loans. Bilateral assistance goes to all LDCs, but in recent years more of these grants and loans have been directed to the poorest LDCs, the primary recipients of the IFI concessional loans.

The distinctions between bilateral assistance and IFI loans would, in fact, seem to be more diplomatic than economic. In using the IFIs as intermediaries, donors give up much of their control over development assistance. This means that multilateral assistance is less political and less subject to fluctuations in the diplomatic relations between donors and recipients. It also means, however, that donors cannot determine which LDCs will receive their aid and cannot easily use development assistance to support objectives such as promoting human rights. Any choice between these two channels for development assistance would seem, then, to be primarily a matter of preference for political neutrality or for political control.

The budgetary decisions before the Congress concern not only the level of funding for IFIs, but also what portion of total U.S. development assistance should be made through these lending agencies. Contributions to the IFIs and funding of the bilateral development program can be considered two ways of spending money for similar purposes. The U.S. bilateral program is now directed toward the poorest LDCs, which are also the primary recipients of IFI concessional loans. These concessional IFI loans represent, moreover, most of the direct cost to the U.S. Government of supporting the IFIs. While conventional loans are financed primarily through the IFIs' own borrowing and loan repayments, the concessional loans are financed almost entirely by payments from the donor governments. Because conventional and concessional IFI loan facilities carry different costs and serve different groups of LDCs, the Congress may wish to consider their contributions separately. Real increases can be made in contributions to one kind of IFI facility, while contributions to the other are held at levels which no more than offset the inflation that has occurred since the preceding payment.

Option I.

In approving the contributions negotiated and requested by the Administration, the Congress would be deciding for a predominantly multilateral development program. Substantial real increases would be made in U.S. support for both the conventional and the concessional IFI facilities. Total contributions would increase sharply to $2.6 billion and commitments would be made to continue a high level of multilateral funding through fiscal year 1980. Assuming that all other members fulfill their contribution commitments, the banks would be able to continue to increase their loan disbursements to LDCs. Bilateral assistance would presumably become, in both budgetary and functional terms, a secondary channel for U.S. assistance.

Option II.

If the Congress wishes to maintain a more even division between multilateral and bilateral development aid, it may wish to hold all contributions for concessional IFI facilities to levels of no real growth. Any increase in development assistance for the poorest LDCs would, then, be directed through the bilateral program. The requested contributions to conventional IFI facilities would be approved and they would become the primary instruments for U.S. assistance to the upper- and middle-range LDCs. Total contributions to IFIs in fiscal year 1978 would then be $2.3 billion.

Option III.

A third option would further reduce IFI funding by holding all new contributions for both conventional and concessional funds to levels of no real growth. This option would be consistent with a general Congressional preference for the greater control over development assistance provided by the bilateral program. This proposal would also be in accord with the view that the banks' growth -- particularly their very rapid growth of recent years -- does not make them more effective instruments of development. All real increases in U.S. assistance for LDCs in any income group would be provided through the bilateral program. Total U.S. contributions to the IFIs in fiscal year 1978 would be $1.9 billion.

Option IV.

A fourth option would approve no new contributions to IFIs. Under this proposal, only previously committed contributions would be made. New contributions could be delayed until the relative roles of multilateral and bilateral assistance had been evaluated; or new contributions could be indefinitely suspended while U.S. development assistance was shifted to almost exclusively bilateral channels. The total IFI funding under this option, $1.0 billion, is the minimal amount the United States can provide to the IFIs in fiscal year 1978 without disrupting its authorized commitments.

In funding IFIs at lower levels than those requested by the Administration, the Congress would be forcing renegotiations with other donors. Since the outcome of these negotiations cannot be predicted, the consequences of these lower options are uncertain. They all seem likely, however, to reduce U.S. influence in the organizations and the overall level of IFI lending.

CHAPTER I INTRODUCTION

Since 1945, a number of international financial institutions (IFIs) 1/ have been established to lend money to less developed countries (LDCs) for the purpose of promoting the economic growth of these countries. At present the United States, in cooperation with other nations, provides financial support for six of these institutions. 2/ Before the Congress now are requests for appropriations of $2.6 billion to continue--and substantially to increase--this support in fiscal year 1978. In addition, the Congress is considering a request for a half-billion dollar supplement to fiscal year 1977 contributions to these institutions.

1/ The term international financial institutions is in some ways misleading. It is usually employed to denote only a portion of the institutions that it could describe. In U.S. budget documents it refers only to those multilateral banks established to finance economic development; it is not used to refer to the International Monetary Fund. In this paper we have chosen to adopt this same nomenclature. The term multilateral development bank (MDB) is sometimes applied to these institutions. Multilateral development assistance as used in U.S. budget documents refers to U.S. contributions to these banks plus contributions to other international development organizations such as the United Nations Development Program. In recent years, contributions to those international development organizations have accounted for less than 20 percent of appropriations for multilateral development assistance.

2/ These six are the International Bank for Reconstruction and Development (IBRD or the World Bank); the International Development Association (IDA); the International Finance Corporation (IFC); the Inter-American Development Bank (IDB); the Asian Development Bank (ADB); and the African Development Fund (AfDF). The United States also provides some financial support to the Caribbean Development Fund (CDB) although it is not a member of that bank. Contributions to the CDB are administered by AID.

86-538 O - 77 - 3

The high cost of continued support for the IFIs will not be the only focus for Congressional concern. In recent years the circumstances of economic development have changed dramatically. Developing nations have been forced to accommodate their economies to higher oil prices and depressed demand for their exports. Developed nations have adopted policies aimed at aiding the poorest people in the LDCs. New sources of financial resources have become available to LDCs. The Congress may now ask if the international financial institutions still provide an appropriate instrument for aiding economic development.

As with any large financial institution, the operations of the IFIs are widely varied, and their effectiveness depends largely on the successful management of many individual financial transactions. This paper is not intended as a comprehensive guide to the workings of the IFIs or as a detailed examination of their management policies. 3/ Instead, it is meant to provide a general description of the nature and function of the IFIs and to outline the issues involved in their continued support. This paper also includes a discussion of requests for contributions now pending before the Congress and an examination of the major options available to the Congress in funding the IFIs.

Some caveats should be noted at the outset. There is no attempt in this paper to address the relative merits of different strategies of economic development or the effectiveness of IFI operations in promoting development. These are important topics but ones which are difficult to treat briefly and about which little can be said that is not highly specific to particular developing nations.

The data presented in this paper suffer from less than ideal reporting by many LDCs, and in most cases the lag in reporting is such that the last year for which complete data is available is 1974. Much of what is presented here, then, reflects the world as it was, not as it is now. When possible, we have updated this information.

3/ A more comprehensive treatment may be found in The United States and the Multilateral Development Banks, prepared for the Committee on Foreign Affairs, U.S. House of Representatives, by the Congressional Research Service of the Library of Congress, March 1974.

Finally, there is no universally accepted definition of what constitutes a less developed country. Unless otherwise noted, we have adopted the list of 86 LDCs used by the World Bank. We have done so primarily for convenience, since the World Bank provides the most comprehensive reporting of financial data relating to LDCs. The use of a different list would change details and some specific figures, but should not affect the overall conclusions of this paper. The World Bank list of LDCs may be found in Appendix A.

CHAPTER II THE INTERNATIONAL FINANCIAL INSTITUTIONS: WHAT THEY ARE AND WHAT THEY DO

THE FUNCTION OF THE IFIs

The international financial institutions are hybrids: part international organization and part bank. As international organizations, they are extranational entities created by cooperative action of individual governments for the purpose of fostering international development. Member nations subscribe the working capital of the IFIs and jointly determine the general outlines of their operating policy. Day-to-day operations are solely the responsibility of the institutions' management and are not, in general, subject to review by member nations. As banks, they utilize the capital subscribed by members and additional funds borrowed in international capital markets to make loans to their less developed members.

These loans are of two types: conventional or "hard" loans with typical maturities of 15 to 30 years and interest rates comparable with those prevailing in private capital markets, and concessionary or "soft" loans with maturities ranging up to 50 years and interest rates far below prevailing market rates. Loan activities are sometimes spoken of as being carried on through "loan windows" of the appropriate type. Loans at conventional rates of interest are said to be made through an IFI's "hard loan window" while those loans made at concessionary rates are made through the "soft loan window."

With few exceptions, the loans of the IFIs are made for specific projects important to the development of the borrowing country and not to support general unspecified development. Loans are made to the governments of developing nations or to other agencies within the country if the government will guarantee repayment. In most cases, IFI loans are intended only to finance the foreign exchange costs of a development project; borrowing countries are usually expected to supply the domestic resources required. In recent years, most of the IFIs have undertaken programs of increased lending for projects in areas such as education, health, family planning, and urban development. The resources needed for these projects tend to come from domestic rather than foreign sources, and as a result, the portion of IFI lending used to cover domestic expenses, although still small, has risen in recent years.

This much all the IFIs have in common. There are differences in membership, operations, and development philosophy among the IFIs. Some of the more important of these differences can be noted in a brief description of each of the institutions supported by the United States.

The International Bank for Reconstruction and Development (often called the World Bank or the IBRD) was organized in 1945 to finance reconstruction after World War II and to aid in the development of the less developed world. Membership in the IBRD is worldwide; at present there are 127 members, and the only major group of nations not participating are those of the Communist Bloc. 1/ The IBRD makes only hard loans. 2/ Until recently the IBRD has emphasized projects--mostly transportation and electric power generation--supporting the development of an economic infrastructure in the LDCs, but as a result of some prodding by member nations, the Bank is shifting its lending toward more "social" projects designed to improve the lot of the poorest segments of LDC populations rather than strictly to promote economic growth.

In 1956 the International Finance Corporation (IFC) was established to supply capital to private enterprise in developing countries by making loans (at conventional rates) to and investing directly in the private sector.

In 1960 the International Development Association (IDA) was organized to make loans at concessional rates to the poorest members of the IBRD. Only nations with annual

---

1/ Romania and Yugoslavia are members of the World Bank.

2/ For the fiscal years 1976 and 1977, the Bank is making special loans through the so-called "Third Window." The terms of these loans are intermediate between those of regular IBRD lending and the highly concessional rates of IDA. Third Window loans are subsidized by a special Interest Subsidy Fund provided by the Bank's wealthier members, including the United States.

per capita incomes below $375 are eligible for IDA loans. The same criteria for project selection are supposed to be used by IDA as by the IBRD, but IDA has always placed less emphasis on the financing of economic infrastructure projects than has the IBRD. This may be due in part to the different needs of IDA borrowers. In recent years, IDA has also shifted to more financing of "social" projects.

These three organizations (IBRD, IFC, and IDA) share some management and financial resources and are often spoken of collectively as the World Bank Group.

The Inter-American Development Bank (IDB) was established in 1959 to assist the development of Latin American nations. Part of the impetus for its organization was a dissatisfaction with the lending priorities of the World Bank, and initially most of the IDB's loans were for social projects of the kind then largely ignored by the IBRD. Over the years, this emphasis on social projects was reduced, and more industrial and infrastructure projects were undertaken. Today it is difficult to distinguish between the lending priorities of the IDB and the IBRD. Unlike the IBRD, the IDB does not maintain an extensive staff to evaluate the needs of borrowing countries and to aid in the identification of suitable projects. The IDB leaves to the member countries the responsibility for determining development priorities. This lack of a large analytic staff has left the IDB open to occasional charges that its project selection criteria are inadequate and that it is a "borrower's bank." 3/

In 1965, the IDB began making soft loans through the Fund for Special Operations (FSO). 4/

Until 1976, membership in the IDB was restricted to Western Hemisphere countries that are members of the Organization of American States. Charter amendments approved

---

3/ For more detail on these charges see The United States and the Multilateral Development Banks, op. cit., pp. 57, 61.

4/ The FSO existed previously, but it was a small fund to be used in exceptional cases. In 1965 it took on its present form and function.

by the Congress in 1976 will allow membership for twelve nonregional members and for the Bahamas and Guyana. Previous to this charter amendment, 24 American nations were members of the IDB.

The Asian Development Bank (ADB) was established in 1966 to foster economic development in Asia. The United States played a major role in the creation of the ADB, principally because of American involvement in the affairs of Southeast Asia in the mid-1960s. Today Japan is by far the largest contributor to the Bank.

Whereas the IDB was formed as much to serve the political interests of Latin American countries as to meet their economic needs, the ADB was established as and remains principally an economic organization. Its lending is almost all at conventional rates, and it has stressed industrial and infrastructure projects in the past. Its management is more conservative than that of the other IFIs, and when it has been criticized, it is for financing only the safest projects in the wealthier Asian LDCs.

Membership in the ADB is open to any United Nations member, and to date 41 nations from Asia, Europe, and North America have joined. In 1974 a concessionary loan facility was established as the Asian Development Fund (ADF).

The African Development Fund (AfDF) is a special fund administered by the African Development Bank (AfDB) and provides soft loans to African nations. The AfDB was established in 1964 with membership restricted to African nations. In 1973 the AfDF was established to allow the participation of non-African nations. In 1976 the Congress authorized U.S. participation in the fund. At present all OECD countries except France and Australia have joined with the African Bank in supporting the Fund.

Table 1 gives the most recent figures for the assets and loans of the IFIs. For the most part the assets of the IFIs are in the form of loans to members, investments in government bonds of developed nations, and time deposits in commercial banks. It is the normal practice for the IFIs to disburse loans to borrowing nations only as is required for the associated projects, rather than to disburse the full amount of the loan as soon as it is authorized or committed. In this way the lender retains a degree of control over a project; if the borrowing country does not adhere to the project specifications set out in the original loan agreement, the lender may stop disbursements. Because many of the projects funded by the IFIs are completed only over the course of several years, actual disbursements of loans may lag considerably behind commitments of loans. The extent of this phenomenon is illustrated in the last two columns of Table 1. 5/

5/ There are other IFIs of which the United States is not a member. For the most part, these are regional banks. The most important are the East African Development Bank, the Caribbean Development Bank, the Central American Bank for Economic Integration, and the Andean Development Corporation. A number of multilateral lending arrangements have been instituted by OPEC nations. Among these are the OPEC Special Fund, the Arab Bank for Economic Development in Africa, the Special Arab Fund for Africa, the Islamic Development Bank, and the Arab Fund for Economic and Social Development. In 1974 these multilateral arrangements of OPEC had net disbursements of $347 million and of $559 million in 1975. Concessional development assistance--bilateral and multilateral--of OPEC nations amounted to 1.35 percent of OPEC GNP in 1975. For the developed countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), total official development assistance was only 0.36 percent of GNP in the same year. The members of the DAC are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germay, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

86-538 O - 77 - 4

TABLE 1. ASSETS AND LOANS OF MAJOR IFIs, 1975/1976, IN MILLIONS OF U.S. DOLLARS

IFI	Assets	Loans Committed	Loans Disbursed
IBRD a/	30,310	22,741	13,527
IDA a/	13,299	9,726	6,159
IFC a/	524	779	523
IDB (ordinary capital) b/	2,981	3,223	1,496
IDB - FSO b/	4,591	3,522	1,755
ADB b/	2,390	1,450	617
ADF b/	1,043	519	232

Sources: Relevant Annual Reports.

a/ As of June 30, 1976.
b/ As of December 31, 1975.

FINANCING THE IFIs

The resources for IFI loans come both from contributions by member governments and from the sale of IFI bonds. The IFIs serve as a channel for these resources, directing them to particular projects in particular LDCs where (in theory at least) they will do the most good. In this way the IFIs serve as financial intermediaries between the suppliers and the recipients of capital for economic development. The conventional and concessionary loans of the IFIs differ from each other not only with respect to the terms of loans, but also with respect to the source of funds for these loans. Within the IFIs, the resources for conventional and concessional lending are kept distinct from each other, and the intermediary role of the IFIs is different in each case.

In their conventional lending the IFIs serve principally as intermediaries between LDCs and the holders of IFI bonds; 6/ the IFIs borrow in international capital markets and then relend (at slightly higher interest rates) to the LDCs. The IFIs provide a service to private lenders by providing the expertise necessary to place loans in creditworthy LDCs and a service to the LDCs by giving them access to international capital markets. Member countries contribute to the conventional lending of the IFIs in two ways: by supplying capital for the IFIs to lend and by guaranteeing that the IFIs will be able to repay their debts to bondholders.

Only a portion of the capital subscribed by each member is actually paid to the IFIs. This paid-in capital, as it is called, amounts to 10 percent of subscriptions to the IBRD. For the IDB and ADB, the amount paid in can be changed with each new capital subscription; the most recent IDB subscription called for slightly more than 7 percent to be paid in, and the pending ADB subscription will contain 10 percent paid-in capital.

The bulk of members' capital subscriptions are in the form of "callable" capital. This capital is not actually paid to the IFIs by subscribers, but the subscribers stand ready to supply the amount subscribed if this capital is ever required by the IFIs to meet their commitments to bondholders. On the basis of these guarantees from member countries, the IFIs can issue bonds at favorable interest rates and can subsequently extend loans to LDCs at favorable rates. If a situation ever arose in which an institution could not meet its obligations to bond holders, it would call in callable capital to discharge its obligation. The charters of all of the IFIs prohibit issuing bonds not fully covered by callable capital.

No IFI has ever had to call in its callable capital, and it seems unlikely that any ever will. An IFI would be unable to meet its obligations only in the event of a massive default by the bank's debtors. Table 2 gives an indication of how large a default would be required. In each case, notice that the multilateral banks maintain very large liquid assets relative to loans outstanding.

6/ The bonds of the IFIs are held by both governments and private investors. The U.S. government does not hold the bonds of any IFI.

The IBRD has the lowest ratio of liquid assets to loans outstanding, and even in this case, 44 percent of the loans outstanding would have to go into default before a call of callable capital would be required for the Bank to pay its obligations to bondholders. The only situation one can imagine leading to such massive default would be a general repudiation of debt by many LDCs--a highly unlikely situation.

TABLE 2. LIQUID ASSETS AND CONVENTIONAL LOANS OUTSTANDING OF IFIs: 1975/1976, IN MILLIONS OF U.S. DOLLARS

IFI	Liquid Assets a/	Conventional Loans Outstanding
IBRD b/	5,979	13,527
IDB c/	838	1,496
ADB c/	506	617

Sources: Relevant Annual Report.

a/ Includes obligations of governments of developed nations and time deposits in commercial banks.
b/ As of June 30, 1976.
c/ As of December 31, 1975.

In their concessionary or soft lending, the IFIs serve principally as intermediaries between governments and borrowers. The interest rates of the concessionary loans are too low to allow the IFIs to finance these loans by borrowing in private markets; the IFIs do not earn enough on concessionary loans to pay interest to private investors. As a result they must rely almost exclusively on the contributions of member governments to finance these operations. Some additional resources are supplied for each of the concessionary operations out of the earnings of the associated conventional lending institutions.

The implication of these financial arrangements is that the conventional lending of the IFIs cost member governments relatively little. Most of their contributions are in the form of callable capital that is unlikely ever to be called. The major source of financing for conventional lending is the sale of bonds. Concessionary lending, on the other hand, is quite expensive for member governments. All contributions are supplied by these governments, and the long maturities of concessionary loans mean that it will be some years before the IFIs can lend these funds for the second time. Thus, if the soft loan windows of the IFIs are to continue making loans, they will need continual replenishment from member governments.

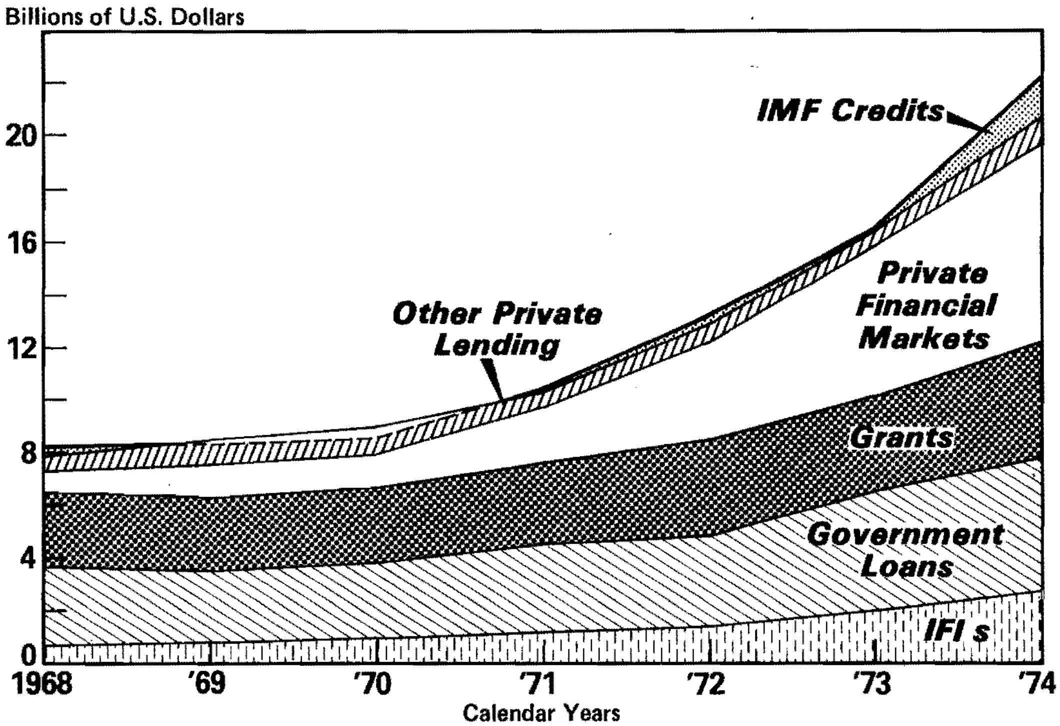
The IFIs are not the only source of capital for the developing nations. In recent years the LDCs (or at least some of them) have gained increased access to private financial markets. Multinational corporations invest directly in LDCs to take advantage of cheap labor and supplies of raw materials. Developed nations continue to offer development assistance to LDCs on a bilateral basis through both loans and grants. Even the International Monetary Fund (IMF) has undertaken activities which seem designed to benefit the LDCs: the oil facility, the compensatory finance facility, and the gold trust fund.

No one of these alternative sources of capital is an exact substitute for the IFIs, but among them they do provide most of the services provided by the IFIs. It is true that the extranational nature of the IFIs distinguishes them from other sources of capital (except for the IMF), but this characteristic can as easily become a hindrance as a help. In what follows we will see that IFIs are better suited to some tasks than are other sources, but that there are few functions of the IFIs that could not be performed by some other institution.

THE SIZE OF IFI LENDING

Among the sources of capital available to LDCs today, the IFIs are not the most important, at least in terms of the size of capital flows. Figure 1 illustrates the relative size of capital flows from various sources in recent years. Although the share of total net capital (excluding direct investment) supplied by IFIs rose slightly in the years shown, IFI loans still constituted only about 12 percent of total net capital flows in 1974. By contrast, the share of funds supplied by private financial markets (mostly commercial banks) rose from about 9 percent in 1968 to almost 34 percent in 1974. Loans from governments and grants from governments and multilateral agencies grew in absolute terms during these years, but accounted for a smaller share in 1974 than in 1968. IMF lending during this period remained small but grew noticeably in the later years.

Figure 1. Net Financial Flows to 86 LDCs, 1968-1974



Sources: IMF data from *International Financial Statistics,* International Monetary Fund, relevant issues. Grant data from *World Debt Tables,* Vol. I, Oct. 31, 1976, International Bank for Reconstruction and Development, p. 125. All other data from *World Debt Tables,* Vol. I, p. 30.

Figure 1 does not really tell the entire story. All LDCs do not participate equally in the various flows of capital. Figure 2 shows how the funds from each source are divided among LDCs with different levels of per capita income. 1/ Figure 3 shows what fraction of the capital (again excluding direct investment) coming into each group of countries is derived from each source.

Immediately striking is the fact that the private financial markets supply capital almost exclusively to the high-income LDCs and that private markets are the principal source of funds for these countries. 2/ Not so for the middle- and low-income countries. These nations depend principally on government loans and grants for their capital flows. What is interesting is that IFIs do not seem to favor one group of nations over the others. About half of IFI loans are made to the high-income countries, although this might be expected since this is the largest group of LDCs and the economies of several of these nations (Brazil

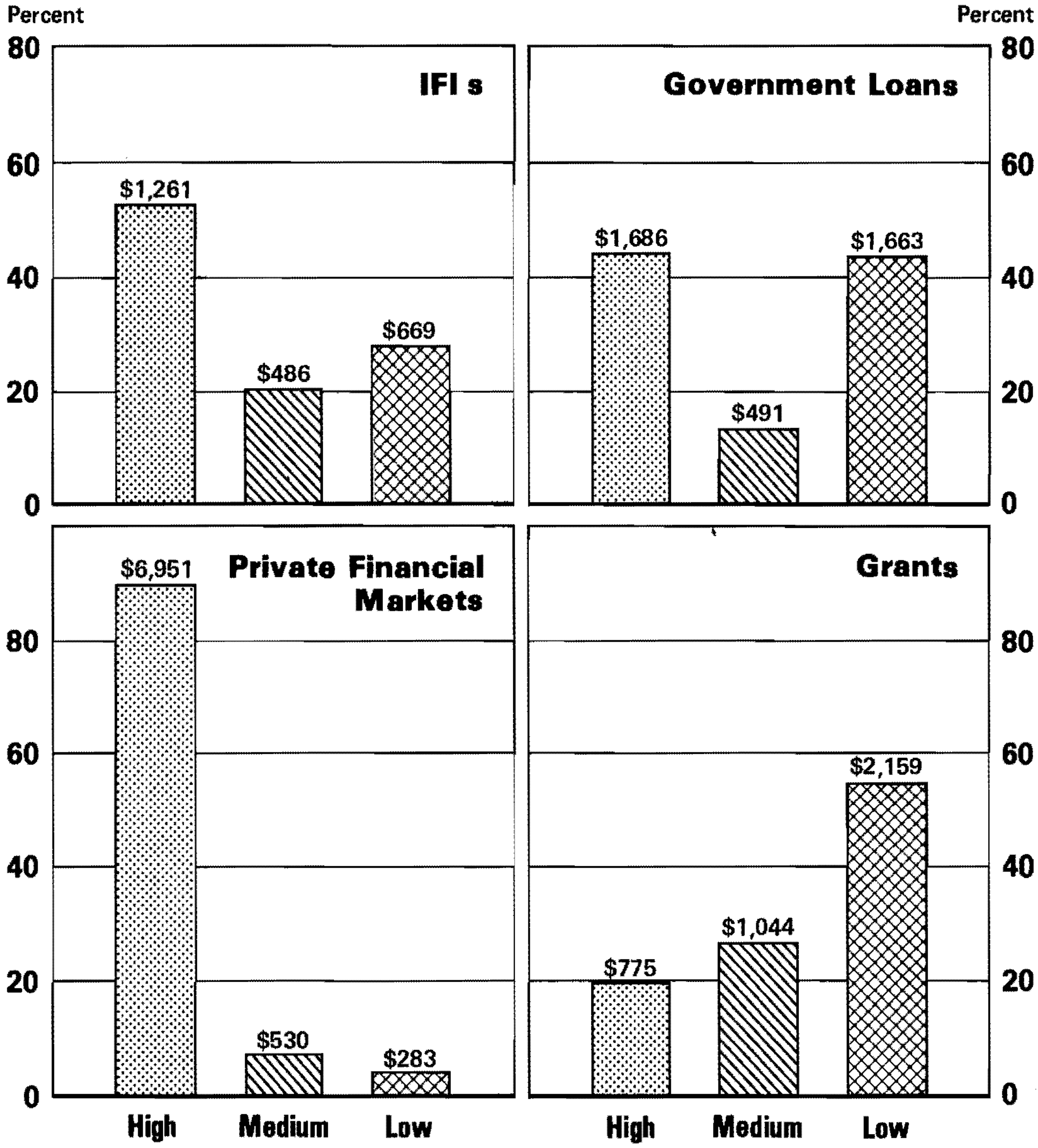
---

1/ The classes of LDCs are those used by the World Bank. The annual per capita incomes associated with each group are: High, $500 or above; Middle, $200 to $500; and Low, $200 or below.

2/ Included under the heading of financial markets are loans from commercial banks and sales in the Euro-bond market. Other private lending is mostly supplier credits--loans made to LDCs through deferred payment arrangements. (Grants include both bilateral and multilateral aid, but bilateral grants are by far the larger component.) Excluded from Figure 1 is foreign direct investment in LDCs. This direct investment represents the direct ownership of enterprises or shares of enterprises in LDCs by foreigners and it is notoriously difficult to estimate because, in general, neither investors nor host governments are required to report all such investments to a single data collection agency. Direct investment has been estimated at some $4 or $5 billion in 1974. All debt figures are from the World Bank's Debt Reporting System and represent government debts or private debts guaranteed by government. Only debt of more than one year maturity is included. The figure stops with 1974 because this is the last year for which complete data are available.

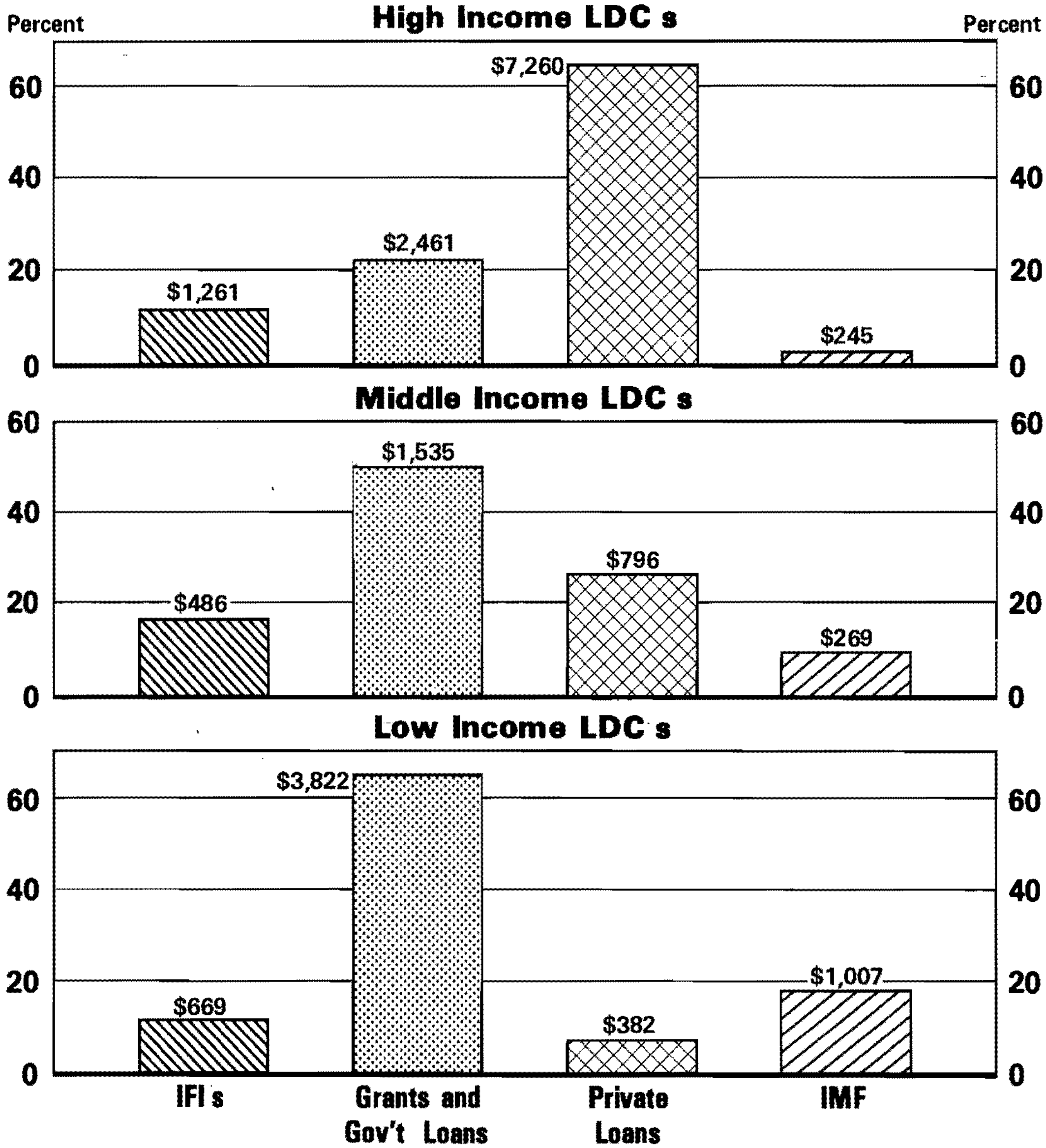
86-538 O - 77 - 5

Figure 2. Distribution of Net Flows to Non-Oil LDCs for 1974, by Source of Flow and Income of Recipients, in Millions of U.S. Dollars



Sources: IMF data from *International Financial Statistics,* International Monetary Fund, relevant issues. Grant data from *World Debt Tables,* Vol. I, Oct. 31, 1976, International Bank for Reconstruction and Development, p. 125. All other data from *World Debt Tables,* Vol. I, p. 30.

Figure 3. Sources of Net Financial Flows to Non-Oil LDCs for 1974, by Income Group, in Millions of U.S. Dollars



Sources: IMF data from *International Financial Statistics,* International Monetary Fund, relevant issues. Grant data from *World Debt Tables,* Vol. I, Oct. 31, 1976, International Bank for Reconstruction and Development, p. 125. All other data from *World Debt Tables,* Vol. I, p. 30.

and Mexico, for example) are quite large. The proportion of funds provided by IFIs is remarkably constant among the three groups of nations. For the high-income LDCs, IFIs provide about 11 percent of total net flows; for middle-income countries, 16 percent; and for the poorest, 11 percent. In no group are IFI loans the most important source of funds.

This "evenhandedness" on the part of the IFIs has some geographical and political implications. With only a few exceptions, for example, the Latin American nations are all in the high-income group, and three countries (India, Pakistan, and Bangladesh) account for more than three-quarters of the population of the poorest countries. An attempt by the IFIs to concentrate their lending in the poorest countries would require a shift of resources away from a number of countries in the one region and toward a few countries on the Indian subcontinent. Such a shift would, of course, be forbidden by the charters of some regional banks, and for others too much emphasis in one area can bring political criticism. IDA has already been criticized by some of its members (including the United States) for directing a large portion of its funds to the Indian subcontinent. Fully 60 percent of the credits approved in fiscal year 1975/1976 were for India, Pakistan, and Bangladesh.

The fact that the aggregate of IFI lending is distributed evenly among countries with different incomes does not imply that each institution's loans are so distributed. Table 3 shows how the loan commitments of each institution were distributed among developing nations in 1975/1976. Note that with the exception of the IDB's Fund for Special Operations, (FSO), 3/ concessional lending is concentrated in the poorest countries while conventional loans go mostly to the higher income LDCs.

Without the IFIs, developing nations would continue to receive substantial capital flows. Of course, the loss of any source of foreign exchange would force a reduction in the imports of LDCs, possibly resulting in slower economic

---

3/ The use of the FSO is restricted to higher and middle income countries because among the members of the IDB only Haiti has a per capita GNP below $200.

growth. But even the loss of all IFI lending would affect the LDCs as a group less than did the reductions in their foreign exchange earnings caused by falling commodity prices and world recession. In 1974, the net flow from IFIs to non-oil-producing LDCs was $2.4 billion, but in the same year export earnings of these nations were $98 billion. It seems that if IFIs have an important role in the world economy to play, it is not because of the size of their operations.

TABLE 3. DISTRIBUTION OF LOAN COMMITMENTS BY CONVENTIONAL AND CONCESSIONARY IFIs, 1975/1976
(Percent of Loan Commitments by Income Group)

IFI	Non-Oil Producing LDCs: High Income	Non-Oil Producing LDCs: Middle Income	Non-Oil Producing LDCs: Low Income	Oil-Producing LDCs
		Conventional Loan Commitments		
IBRD a/	47.1	31.9	6.2	14.7
IFC a/	53.1	34.1	10.3	2.5
IDB - Ordinary Capital b/	98.0	0.0	0.0	2.0
ADB - Ordinary Capital b/	13.7	57.7	12.8	15.8
		Concessional Loan Commitments		
IDA a/	0.0	9.3	90.6	0.0
IDB - FSO b/	71.7	21.0	7.0	0.2
ADF b/	0.0	1.4	98.6	0.0

a/ Loans approved July 1, 1975 through June 30, 1976.
b/ Loans approved January 1, 1975 through December 31, 1975.

IFIs AND COMMERCIAL LENDING

In recent years, the most rapidly growing source of credit for the LDCs has been the private financial markets. Commercial banks lending directly to LDCs have accounted for most of this growth, but LDC participation in international bond markets has also increased. As Figure 2 illustrates, private financing has been available almost exclusively for the higher income LDCs. This is in stark contrast to the concessionary lending activities of the IFIs, which are concentrated among the poorest nations. The contrast between private lending and IFI conventional operations is much less pronounced. Like commercial loans, hard IFI loans go principally to higher income LDCs, but they are somewhat more concentrated among the middle-income countries than are private loans.

The implication of the pattern of private lending is that most LDCs are unable to avail themselves of the most rapidly growing source of capital. In 1974 the high-income LDCs financed the current account deficits that resulted from higher oil prices by borrowing in commercial markets, but poorer nations were forced to turn to the IMF, governments of developed nations, or simply reduce their imports. Many observers welcomed the rapid expansion of commercial credit for LDCs as an indication that the private capital markets could successfully "recycle" even the very large sums accumulated by the oil-producing nations. The commercial banks could be depended on, some argued, to handle whatever capital flow problems might arise in the future. If the past is any guide, though, the services of the commercial banks will benefit only a fraction of the LDCs. Sources other than the private financial markets will have to meet the expanding loan requirements of the poorest nations.

Private lending to LDCs has grown rapidly during a time when recession weakened the demand for loans among traditional customers in the industrialized countries. Some have expressed fears that with the recovery of the developed economies, bank lending might revert to traditional patterns and the LDCs would be squeezed out of the market. This view is not supported by most bankers. In general, banks seem to have an excess of loanable funds and foresee no difficulty in meeting the needs of both LDCs and industrial borrowers. It is a widely held view that the private banks could not reduce their exposure in LDCs even if they wished to do so.

The size of outstanding private loans is such that the LDCs could not possibly repay them all within the maturities of the loans. More loans would be needed to meet the costs of servicing existing loans. Private banks (as a group at least) have no choice but to continue refinancing the debt of LDCs. This is not really unfortunate from the banks' point of view since substantial profits are generated by the service charges they collect for handling refinancing transactions. Most bankers seem to feel that LDCs are too dependent on access to commercial lending to risk losing that access by defaulting on a loan; they will instead simply take out a new loan and the system will continue to function. Few observers are predicting that commercial lending to LDCs will continue to grow at the high rates of the last few years, principally because LDC requirements will not continue to grow as rapidly as in the past. There seems little likelihood, though, that commercial banks will attempt any large-scale liquidation of LDC debt.

When commercial loans are extended to LDCs, they are usually at different terms and for different purposes than are IFI loans. Interest rates on commercial loans and on the conventional loans of the IFIs are roughly similar, 4/ but maturities differ markedly. Conventional IFI loans typically have maturities of 15 to 25 years, while commercial loans must be repaid in five to seven years. The soft loans of the IFIs carry interest rates as low as 0.75 percent 5/ and have maturities as long as 50 years. Few major development projects are completed and paying returns in seven

4/ A notable difference is that the IFIs charge fixed interest rates for the entire maturity of a loan, while most commercial lenders require variable interest rates that fluctuate with market conditions throughout the payback period of a loan. The present rate of IBRD loans is 8.7 percent. Commercial loan rates vary from case to case, but are usually determined by the six-month London Interbank Offer Rate (LIBOR). In 1975 and 1976, a "spread" of 0.5 to 2 percent of LIBOR was common, so rates were around 8 or 9 percent.

5/ Some of the lenders of soft funds do not consider these charges interest payments. Borrowers from IDA pay an annual "service charge" on the disbursed portions of a loan.

years, and the use of commercial financing for such a project will usually force the borrower to refinance or "roll over" the loan at some time during the life of the project. Refinancing has not proved to be a major difficulty in recent years, but the prospects are always uncertain and most LDCs would prefer to finance long-term projects with long-term loans from IFIs or foreign governments whenever possible.

IFI loans are generally made for specific projects, and the progress of these projects is monitored by the lending agency to ensure that the funds provided are used in a way the bank feels is most effective. Often the IFIs provide technical assistance in designing and implementing development programs. In addition, borrowing countries are sometimes required to take certain steps that the lender feels will aid the overall development effort. The conditions required by the IFIs are usually restricted to particular sectors of the borrower's economy. Examples of such conditions might be reforms of land tenure systems or changes in the tax treatment of particular industries. The IFIs seldom require changes in the macro-economic policies of borrowing nations. These matters--the level of government spending, the actions of central banks, etc.--are most often the concern of the IMF.

The ability of IFIs to impose conditions on borrowers is sometimes cited as a major advantage of these institutions, but on occasion the development banks have been criticized as interfering unduly in the internal affairs of the borrowing countries. Some observers feel that LDCs are often better judges of what is in their own interests than are the multilateral banks, and at times LDCs have expressed displeasure with IFI conditions. Indeed, the IDB was established in part to provide the Latin American LDCs with a bank more responsive to their needs than was the IBRD.

Like the IFIs, the commercial banks do monitor economic conditions within borrowing countries and could, presumably, stop disbursement of a loan if the terms of the loan agreement were not met. In general, though, the commercial banks find it difficult to impose conditions on borrowing nations, because to do so effectively would require agreement among all major commercial lenders. If one bank imposed conditions in isolation, the potential borrower could simply seek financing elsewhere. With a few exceptions commercial banks have shown little desire to become involved in the internal affairs of borrowers in this way.

Commercial loans are sometimes made for specific projects, but recently larger "no strings attached" loans have been extended for general support of LDCs' development programs. The commercial banks do not usually provide technical assistance in conjunction with their lending nor do they play an active role in determining what projects should be undertaken; the creditworthiness of the borrower is the principal concern of commercial banks. The relative freedom of commercial lending has led several LDCs to make extensive use of private credit for general balance-of-payments support. When a nation finds itself temporarily short of the foreign exchange necessary to maintain a general level of imports, commercial loans often provide the most readily available source of credit.

Developing nations whose major problems are likely to be fluctuations in foreign exchange earnings and consequent disruptions of development programs and general consumption will probably find commercial banks adequate to meet their needs in coming years. Other nations whose development requires large-scale programs of capital formation or the provision of social infrastructure will find long-term loans from the IFIs or foreign governments more satisfactory. Most LDCs, however, face both kinds of problems, and it is likely that commercial lending will continue to be supplemented by longer-term IFI or bilateral loans.

IFIs AND BILATERAL AID PROGRAMS

It is more difficult to distinguish between the functions of IFI loans and bilateral government loans and grants. The terms of bilateral lending may vary widely, but average interest rates and maturities are intermediate between the terms of hard and soft multilateral loans. Table 4 shows average terms for bilateral loans from selected sources. Like multilateral loans, bilateral loans and grants are usually made for specific projects and are often accompanied by technical assistance. Like the soft loans of the IFIs, bilateral grants are concentrated in the poorest LDCs, and these nations are dependent on bilateral loans and grants for some 65 percent of their net capital flows. 6/

6/ A small portion of these grants are channeled through multilateral organizations.

86-538 O - 77 - 6

TABLE 4. AVERAGE TERMS OF LOANS TO LDCs FOR 1974

	United States	Total DAC Countries a/	OPEC Members b/
Interest Rate (Percent)	2.6	2.6	2.4
Maturity (Years)	37.0	28.9	14.1
Grace Period (Years)	9.0	7.7	4.4

Source: Development Cooperation, 1976, Organization for Economic Cooperation and Development, November 1976.

a/ Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development.
b/ Includes only concessional loans.

An often noted disadvantage of bilateral loans and grants is the fact that in many cases recipient countries are required to spend the proceeds of the assistance in the donor country. Virtually all U.S. bilateral development aid is "tied" to the purchase of U.S. goods in this manner. 7/ No such conditions are placed on IFI loans; in fact, most IFI loans require the borrower to make purchases from the lowest cost source available. Tying of aid reduces its value somewhat in that sometimes the borrower might obtain cheaper imports from other sources. The size of this reduction in value varies widely depending on the donor and the recipient of aid. It has been estimated that tying can increase prices of goods needed for development by as much as 50 percent over what they would be under conditions

---

7/ Technically, recipients are permitted to make purchases from within the United States or from other LDCs. In practice, though, the goods needed for development are rarely found in LDCs, and this condition usually requires that purchases be made in the United States.

of competitive bidding. 8/ It is widely assumed that the effect of tying is to raise the average price of all aid-financed goods and services by between 20 and 25 percent. 9/ It would seem, then, that bilateral aid--at least as now handled by the United States--is a somewhat less efficient means of assisting the development of LDCs than is multilateral aid extended through the IFIs, although certain industries within donor nations--those producing goods needed by LDCs--do benefit from the tying of aid. There is no reason why foreign aid must be tied; the decision to tie aid is a unilateral one and could be reversed by the donor government at any time without the consent of other governments.

It is sometimes argued that bilateral aid more strongly emphasizes "social" projects than does multilateral lending. Social projects are generally those that directly improve the lot of the poorest segments of LDC population rather than strictly promote economic growth. Examples of social projects are those designed to promote or improve education, health care, family planning, or small-scale agriculture. Multilateral lending is sometimes characterized as emphasizing industrial and "infrastructure" projects--roads, irrigation systems, public utilities, and so on. The truth of these assertions is difficult to judge because characterizations of projects are often somewhat vague and the written descriptions of projects sometimes tend to emphasize those aspects of the project that are consonant with recent policy pronouncements and may not reflect the true nature of projects. The major IFIs and Western donor countries have all adopted policies in recent years of increasing their support of "social" projects, and most observers feel that the trends of actual assistance are in this direction. Table 5 suggests that the bilateral donors are somewhat ahead of the World Bank, at least, in implementing this new policy, although this difference is probably disappearing.

8/ Mahbub ul Haq, "Tied Credits - A Quantitative Analysis" in J. H. Adler (editor), Capital Movements and Economic Development (Macmillan, 1967).

9/ John A. White, The Politics of Foreign Aid (St. Martin's Press, 1974), p. 161.

The most often cited differences between bilateral and multilateral aid are political and institutional in nature, rather than strictly economic. It is impossible to provide a rigorous analysis of these factors, but with few economic differences apparent, they are likely to provide the basis for a choice between bilateral and multilateral aid programs.

TABLE 5. COMMITMENTS OF DEVELOPMENT ASSISTANCE TO SELECTED SECTORS FOR 1975

Sector	Percent of Allocatable Commitments			
	U.S.	DAC	IBRD a/	IDA a/
Agriculture	22.0	11.8	24.0	25.0
Education	9.0	35.5	5.0	5.0
Social Infrastructure and Welfare b/	12.9	5.4	7.5	5.9
Public Utilities c/	1.7	6.3	15.0	16.0
Industry	1.2	3.6	10.0	6.0

a/ Data are for IBRD fiscal year 1975/1976.
b/ Includes water supply and sewage, urban development, tourism, population planning, and nutrition.
c/ Includes electric power and telecommunications.

The most obvious of the political differences is the greater control donors have over bilateral programs. This control is nearly absolute, and development assistance programs can be used as tools of foreign policy. Aid can be increased or decreased to serve political or diplomatic interests, and only the types of projects held beneficial by the donor need be funded. In multilateral arrangements, donor control is exercised only through voting procedures and negotiation with other members of the organization.

The managers of the multilateral banks make day-to-day decisions and the donors themselves determine only general operating policies.

The control donors have over bilateral aid may not always be an advantage. It can be difficult to recognize what particular acts of an LDC are in the interests of a donor, and the existence of a highly visible bilateral aid program may force a donor to take very definite positions of approval or disapproval, perhaps before the full implications of a particular situation are known. Further, the extension of bilateral aid may be interpreted as a symbol of support by the donor of all actions of the recipient. Such an interpretation may prove embarrassing for a donor, as the United States has learned in recent years as a result of its aid to some governments accused of violating the civil rights of their own citizens.

Attempts to use the IFIs to advance particular foreign policy interests of the United States are likely to prove unsuccessful, particularly when these interests are not primarily economic. The current U.S. concern over human rights provides a good example. Within the legal framework of the IFIs, actions by the Congress can do no more than require the U.S. executive directors of the IFIs to cast their votes against assistance to any nation that consistently violates the rights of its citizens. (The U.S. directors of the IDB and AfDF are already required to vote in this fashion and it seems likely that this requirement will be extended to U.S. directors in other institutions.) In most cases, however, a negative vote from the U.S. director is not sufficient to deny assistance if other members are in support of the loan request. Some have argued that the only practical effect of these restrictions on the U.S. directors is to reduce U.S. influence in determining the nature of projects that will be approved anyway.

Of course, less formal methods of influencing IFI lending decisions are possible, and some have urged that the United States should press for more attention to human rights by the IFIs through discussions with other members and with IFI staff rather than through formal voting procedures. Opponents of this approach point out that the IFI management and staff were simply not designed to judge the acceptability of members' human rights policies. To require the IFIs to consider other than economic criteria would be to require them to perform political and diplomatic functions beyond their competence.

The multilateral framework is said to "depoliticize" development assistance, allowing aid to flow to the nations most in need regardless of the state of their relations with particular donors. Recipients are usually insulated from sudden shifts in the political interests of donors, and donors are spared embarrassment by the actions of recipients and potentially divisive internal debates over the appropriate disposition of limited aid budgets.

Because IFIs are not closely identified with a single particular donor, it is sometimes argued that they may more easly impose conditions for general economic reform on recipients. Conditions attached to bilateral loans can give the appearance of a powerful nation dictating to a weaker one and may, for that reason, be unacceptable to recipient nations no matter what the virtue of the reforms in question. Recipients may find it easier politically to seek aid from and to accept conditions imposed upon them by a "faceless bureaucracy" of international public servants than they would if the donor were another nation.

Participation in multilateral arrangements can also pose difficulties for donors. In recent years relations between the United States and India have deteriorated because of India's development of nuclear weapons, her criticisms of the U.S. role in Indochina, and U.S. disapproval of what some have viewed as repressive measures in India. In spite of these strained relations, the United States still gives large amounts of aid to India through its contributions to IDA. Even when an IFI acts in accordance with U.S. preferences, difficulties can arise. After the accession of the Allende government in Chile and the expropriation of the U.S.-owned copper industry, the World Bank refused to make loans to Chile. The United States was accused of violating the nonpolitical principles of the World Bank, and although such changes have been consistently denied by both the U.S. government and the Bank, some damage to the image of the United States has resulted.

The use of multilateral institutions as channels for development assistance certainly reduces Congressional and executive control over the way in which this assistance is used. But this is exactly why the United States has chosen to contribute to multilateral institutions: they provide a source of development assistance to the LDCs that is insulated to a degree from variations in policies of donor countries. If development assistance is viewed as fundamentally a humanitarian undertaking best divorced from politics, then multilateral development banks will provide an appropriate mechanism for transmitting aid from donors to recipients. If, on the other hand, aid is viewed as a means to national ends, bilateral programs will be preferable. Both of these views are represented in U.S. foreign policy, and for this reason both bilateral and multilateral programs may be expected to remain desirable policy instruments.

Among the institutional factors said to favor IFI lending, the most often cited is the supposed expertise of their staffs. Because IFIs have only one concern--development--it is sometimes said that they have a better understanding of the problems and requirements of development than do other agencies. While it is true that individual staff members of the IFIs (and the World Bank in particular) have contributed significantly to the study of economic development, it is difficult to put much faith in this argument. It is impossible to measure quality of staff in any direct manner, and most major donor governments maintain staffs of their own dedicated to development matters; there is no reason why these staffs should not be as expert as those of the IFIs. If a body of development experts is what is desired, it need not be directly associated with the source of development finance either in a national government or in an international institution. Perhaps it would be preferable for such a body to operate--under the auspices of the United Nations, say--independently, able to advise LDCs not only on what development projects to undertake but also where and how to seek financing for these projects.

THE FUNGIBILITY OF IFI LOANS

So far in this chapter we have discussed how and in what quantities the IFIs transmit capital to LDCs. We have seen that in some regards the IFIs differ from other sources of capital and in other regards there is little difference. What remains to be considered is the use to which capital from various sources is put.

The IFIs consistently stress the fact that loans are provided only for carefully selected projects that will significantly advance the development of the borrowing country. Projects are monitored to ensure that the funds provided are used for approved purposes. No IFI funds are to be used to finance military activity or consumption expenditures, and loans are generally not made for projects that could be financed by other means. From time to time critics of the IFIs cite failings in one or another of these managerial functions, but for the most part, the IFIs appear to perform these tasks in a conscientious manner. Nonetheless, all this attention to the proper use of funds is to a degree a fiction.

What the IFIs supply to developing nations is foreign exchange. Much of the physical capital needed for economic development must be imported from developed countries. The development banks provide the hard currency--the dollars, pounds, deutchemarks, francs, or whatever is needed in a particular case--to purchase this capital. LDCs also receive foreign exchange from other sources--the sale of exports, grants from foreign governments, loans from commercial banks, IMF credits, and so on. The problem is that foreign exchange can be used to buy many things besides capital for development. It can buy food or military hardware or luxury cars, and foreign exchange from one source is indistinguishable from foreign exchange from another source.

Imagine the case of a nation that desperately needs a hydroelectric facility and at the same time would like to modernize its air force if possible. This country may have some foreign exchange on hand from sources other than IFIs but not enough to carry out both projects. If left to its own devices, the country would choose to use its limited foreign exchange to complete the more necessary project, in this case the hydroelectric facility. If, on the other hand, a loan from an IFI could be arranged to finance the hydroelectric plant, then the foreign exchange derived from other sources would be freed for other uses and both projects could be carried out. In this example, the net result of IFI lending would be the modernization of the LDC air force.

It is important to stress that this result would come about without any malfeasance on the part of the LDC or dereliction of duty by the IFI. Any project worthy of IFI financing must be assumed to be sufficiently important to the borrowing country that it would receive preference over some alternative uses for foreign exchange. If IFI financing is extended, then foreign exchange is freed for less important uses. One can be sure of what was actually bought as a result of an IFI loan only if the loan is for a project that would not have been carried out in the absence of the loan. Because the IFIs often provide a package of services including design of a project, direct financing, and the arrangement of additional financing from private sources, they sometimes fund large projects that could not be undertaken by an LDC on its own. With the growing involvement of commercial banks in providing credits to LDCs, however, it is now common for private banks to organize consortia to supply large loans for LDCs. Coupled with the growing financial sophistication of LDC governments, this trend is bringing more projects within reach of LDCs even without IFI help. Of course, it is impossible to be certain about what would have happened in any particular case had a loan not been granted by an IFI. But if a project that is within the reach of an LDC is not important enough to the borrowing nation to be undertaken even without IFI financing, one might question whether it is important enough to merit financing at all.

To the extent that provision of foreign exchange for one purpose may actually result in some other project being undertaken, the foreign exchange is said to be fungible. Because foreign exchange from all sources is fungible to greater or lesser degrees, it is impossible to say that lending from one source accomplishes some goal that could not be accomplished any other way. By a suitable reshuffling of foreign exchange from other sources, an LDC could use IFI lending for almost any purpose it desired. In the extreme, it is possible to argue that any additional foreign exchange supplied to an LDC will advance only the least important projects. If we consider the final result of IFI lending, the characteristics that set IFIs apart from other sources of capital become less significant, and one is led to the conclusion that other sources of capital might be adequate alternatives to IFIs.

THE IFIs AND LDC DEBT

In the last two years much attention has been focused on the rapidly growing external debts of the developing countries. By the end of 1974, the total external debt of 86 LDCs had reached $151 billion, more than double the amount outstanding at the end of 1970. Estimates for the amounts now outstanding are in the vicinity of $200 billion. The World Bank projects that servicing this debt will cost the LDCs more than $15 billion each year through 1980. In light of this growing debt burden, some observers have questioned the wisdom of supporting institutions whose function is to add to that burden by lending more.

The burdens of debt servicing are quite real for the LDCs, but few observers see widespread default on LDC loans as likely in the next few years. A few countries might be forced to renegotiate their loans or stretch out repayments, but such rescheduling is not expected to pose serious difficulties for private lenders or the world financial system. Even if a crisis of some sort were likely, it does not seem that the actions of the IFIs could make it worse; the share of all credit extended to LDCs supplied by the IFIs is simply too small. In 1974, IFI lending amounted to only 15 percent of total net lending to LDCs and only 20 percent of LDC debt servicing costs.

If anything, increased lending by the IFIs might ease the burden on LDCs somewhat. Much of the concern over LDC debt has arisen because the rapid increase in commercial lending to LDCs has had the effect of shortening the maturities of a large fraction of LDC loans. It is sometimes feared that this will cause a "bunching" of repayments in 1978 or 1979 that the LDCs will be unable to finance. Because IFI loans are generally for much longer terms than are commercial loans, an increase in IFI lending could help spread the servicing burden of LDCs over a number of years. Even this benefit of increased IFI lending is likely to be small, however, because of the relatively small size of IFI lending, and because there seems little reason to think that LDCs will not be able to refinance their debts as they come due. Because the approval of IFI loans can take as much as two years and because even after approval these loans are disbursed slowly, IFIs cannot be looked to to provide any assistance in avoiding a crisis in the next year or so.

Private banks are by far the largest lenders to LDCs, and their loans tend to be concentrated in those countries with the largest debt burdens. This has led some to ask whether U.S. support for increased IFI lending would constitute a subsidy for private banks. By providing credit for the LDCs, they ask, are the IFIs not simply assuming risks now borne by commercial banks and allowing them to reduce their exposure in LDCs? This seems an unlikely result of increased IFI lending. Although it is true that commercial lending is concentrated in a few LDCs, these LDCs are usually thought to be the ones most capable of managing debt service payments. The countries which face the most severe economic difficulties in the coming years have just not borrowed very much from commercial sources. It seems that commercial banks have no reason to want to reduce their commitments to LDCs; even if they did, it is not likely that IFI lending would help them appreciably. In 1974 net commercial bank lending was almost three times as large as IFI lending.

It seems, then, that the debt burdens of LDCs should not really affect the decision to support IFIs one way or the other. Simply stated, there is not likely to be a crisis of any sort, and although a source of long-term credit might ease the burdens of a few LDCs, the small size of the IFIs would preclude them from doing much either to prevent or to exacerbate any crisis.

THE ROLE OF IFIs

To conclude, then, it is not easy to identify a unique role for multilateral development banks in the world economy. They supply a significant, but small part of the capital flows to developing countries, and they are not the major source of capital for any particular group of countries. In many cases results of their activities are difficult to distinguish from what would have happened if resources had come from another source. The principal characteristics that distinguish the IFIs from other sources of capital are their international nature and their ability to impose conditions on borrowers, but we have seen that these features can be liabilities as well as assets.

The conclusion one is drawn to is that the major functions served by the IFIs, providing capital and technical assistance to developing nations, could be performed in general--although not completely--by other institutions. Commercial banks could provide the credit now supplied through the hard loans of the IFIs, and bilateral aid could be expanded to meet the needs now filled by soft lending. The choice between commercial lending and conventional IFI lending is not directly in the hands of the Congress since it cannot control the actions of private lenders. This choice is not of great budgetary significance, though, because the conventional lending operations of the IFIs cost the member governments relatively little. The important choice seems to be between the support of IFI concessionary lending and bilateral aid, both of which are controlled directly by the Congress. The arguments presented here suggest that although these two channels for development assistance are not perfect substitutes, the emphasis could be shifted from one to the other with minimal, strictly economic effects as long as the total amount of aid remained roughly constant. The choice between the two would seem to be more a matter of political and diplomatic preferences than of differing economic consequences.

The IFIs give in proportion to what they receive. Over the past fifteen years, the banks have received increasing amounts of capital and credit from developed countries. They have, in turn, provided increasing quantities of loans and concessional credits to developing countries. Whether or not the banks continue to grow and to extend more credit depends on the willingness of the donors to continue enlarging their replenishments. Because the United States is the banks' single largest donor, the size of U.S. replenishment commitments will be critical in determining the volume and concessionality of future IFI loans.

In reviewing the fiscal year 1978 budget request, the Congress has the opportunity to determine if the United States will support--and bear the costs of--continued IFI growth. If approved, the requested contributions would commit the United States to three years of unprecedentedly high subscriptions to the banks. These subscriptions should not only permit the banks to maintain their positions against inflation and expansion of the LDCs' economies, but also to continue their growth. If the Congress wishes to support the continued expansion of the IFIs and to provide more loans for LDCs through them, approval of these requests would confirm that policy. If the Congress does not wish to support more official loans for LDCs, or prefers to provide such loans bilaterally rather than through the IFIs, denial of these requests would impede the further growth of the banks.

Issues before the Congress concern not only the general growth of the banks, but also their mix of conventional and concessional loans. As discussed above, these two facilities play very different roles in the kinds of credit they extend and the kinds of LDCs they serve. They also carry quite distinct price tags. The price of conventional loan facilities is paid primarily in callable capital--that is, loan guarantees which permit them to sell their bonds at improved rates on the commercial markets. Only approximately 10 percent of these are paid-in contributions that require direct transfers from the member governments. The growth of the conventional facilities has been financed largely through borrowings from private markets and repayments from their comparatively shorter-term loans. By contrast, the concessional facilities do not borrow from the capital markets and now receive very little repayments from their very long-term loans. Their growth is financed almost exclusively through the paid-in contributions of the donor governments. The concessional funds are, therefore, by far the major IFI expense for the donor governments. In recent years, more than 90 percent of U.S. paid-in contributions have gone to the concessional funds.

If the Congress wishes to limit the direct capital costs of supporting the IFIs, it can do so only by restricting the growth of these so-called soft loan windows and their low interest loans for the poorer LDCs. When these windows were established during the 1960s, the United States was their major contributor and advocate. They have been the fastest growing segments of the banks, and as a result, an increasingly high proportion of total IFI lending is done through these windows. They are also the IFI funds that are the most similar--and the most duplicative--to the U.S. bilateral development program. The question before the Congress is whether it prefers to finance the substantially greater costs of low-interest credit for the poorest LDCs through multilateral or bilateral assistance programs.

THE GROWTH OF U.S. CONTRIBUTIONS

During the period between fiscal year 1960 and fiscal year 1977, U.S. contributions to the international financial institutions grew substantially. Average annual contributions in the mid-1970s were three times as large as those of the early 1960s. Growth has been achieved, however, not through steady increases, but through a serpentine pattern of sharp jumps and moderate declines that is characteristic of this erratic account. The U.S. contributes to nine separate IFI facilities and their individual replenishment schedules tend to overlap. 1/ Total U.S. con-

---

1/ Each of the major banks has several loan facilities: the IBRD--the World Bank Ordinary Capital Fund, IDA, and the IFC; the InterAmerican Bank--the Ordinary Capital Fund and the Fund for Special Operations; the Asian Development Bank--the Ordinary Capital Fund and the Special Funds. The United States also contributes to the African Development Fund, although it is not a member of the African Development Bank.

tributions to IFIs naturally rise in those years when simultaneous replenishments are made to most of these facilities. As the replenishments are completed during the subsequent three to four years, total contributions gradually decline until a new round of replenishments is approved. Fluctuations in U.S. contributions have been further accentuated by occasional "arrearages"--payments that are not made as scheduled and accumulate with later contributions. 2/

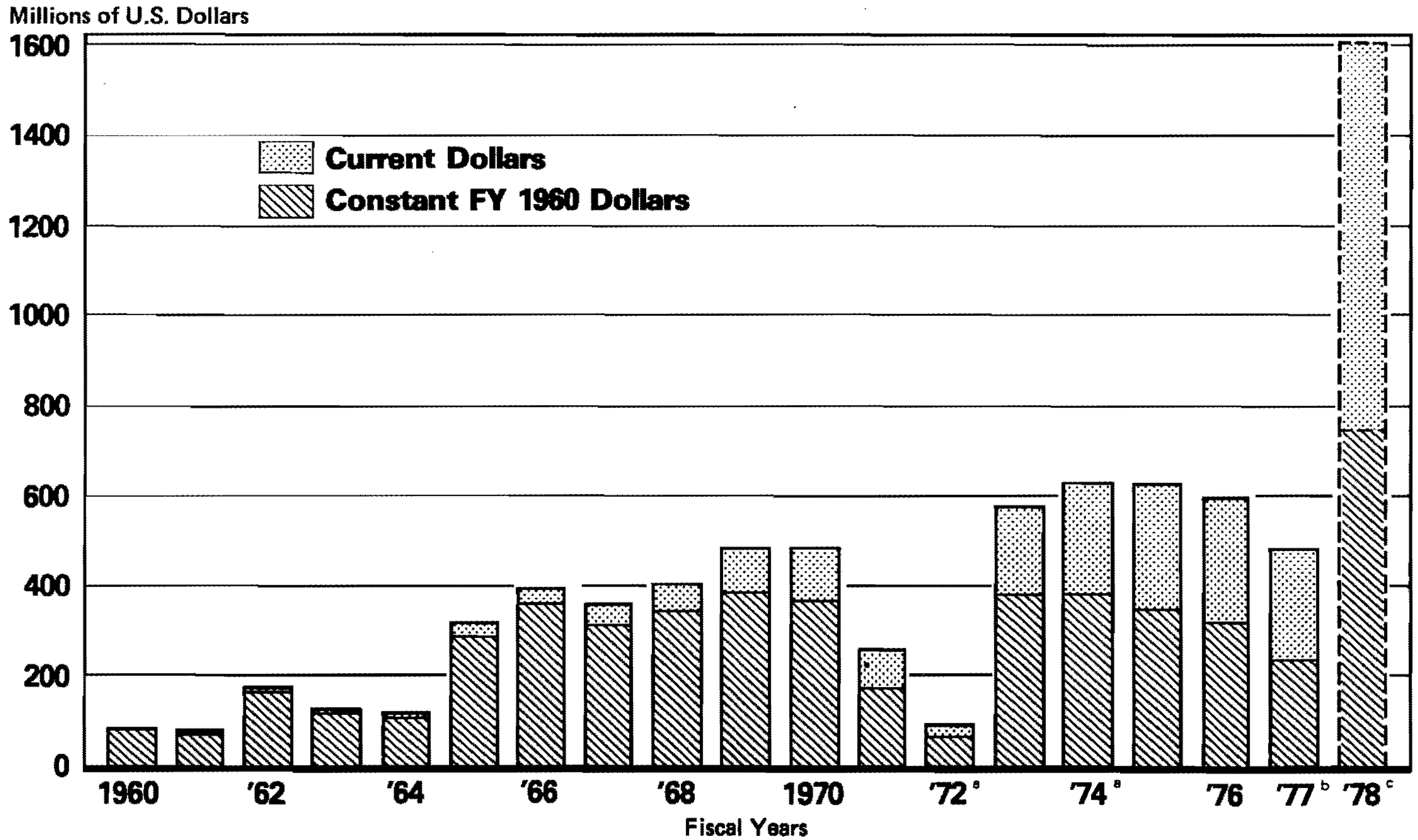
The fiscal year 1978 request is made under all of the circumstances which normally account for jumps in U.S. contributions: several new replenishments are occurring simultaneously; these new subscriptions overlap with the later installments from earlier agreements; and a large "arrearage" remains from previous delayed payments. Even allowing for these circumstances, however, this fiscal year 1978 request represents much more than the normal increase that has occurred every three to four years in U.S. contributions (see Figure 4). If approved, this request would provide substantially more than the normal growth in U.S. contributions--in both constant and current dollars--and would commit the United States to a continued high level of multilateral development assistance through fiscal year 1980.

Because total IFI contributions are so volatile, contributions averaged over a period of several replenishment cycles are the best method of tracing their growth. The average annual paid-in contribution between fiscal year 1960 and fiscal year 1965 was $145 million; between fiscal

---

2/ "Maintenance of value" payments have also added to the erratic pattern of IFI contributions. Twice since 1960, maintenance of value payments have been necessary to stabilize the value of original U.S. subscriptions against depreciations in the U.S. dollar. (In fiscal year 1972, maintenance of value payments were $459 million paid-in and $934 million callable capital. In fiscal year 1974, maintenance of value payments were $1,055 million paid-in and $1,182 million callable capital.) Their timing and amount were, of course, determined by the changes in the value of the dollar relative to other currencies. Since 1974, the United States has no longer been committed to maintenance of value payments.

Figure 4. U.S. Appropriations of Paid-In Subscription Contributions to International Financial Institutions, Fiscal Years 1960-1977 and Fiscal Year 1978 Administration Request



[a] Excludes maintenance of value payments.

[b] Excludes any supplemental appropriations.

[c] Administration request.

year 1972 and fiscal year 1977, the annual average had more than tripled to $496 million. 3/ In constant dollars, U.S. paid-in contributions doubled during this period. From fiscal year 1960 to fiscal year 1965, the average annual contribution in 1960 dollars was $140 million. From fiscal year 1972 to fiscal year 1977, the average annual contribution was $286 million. 4/ By contrast, the constant dollar funding of bilateral development assistance declined during this time. 5/

As can be seen from Figure 4, most of the real increase in these contributions occurred between fiscal year 1960 and fiscal year 1966. Except for a brief decline during fiscal year 1971 and fiscal year 1972, the real funding level after 1966 has remained fairly stable. This stabilization can be attributed in part to Congressional reductions in requested contributions. These reductions tended to maintain U.S. contributions to those funds at the nominal value of preceding replenishments, thus causing a constant dollar reduction in U.S. payments. It is also the result of the Executive's negotiation of smaller shares of total bank replenishments. The U.S. portions of IDA, ADB, and IDB subscriptions have all declined over the past ten years. In bilateral, as in multilateral development assistance, other donors have become more numerous and have slowly increased their aid relative to that of the United States.

3/ Additional paid-in contributions for maintenance of value were also made in fiscal year 1972 and 1974. These totaled $372 million and $435 million respectively. These are not included in the averages because they were not part of the regular U.S. subscriptions. Also, the estimated $480 million contribution for fiscal year 1977 does not include any supplemental appropriations; $540 million in supplemental appropriations have been requested.

4/ The U.S. GNP deflator was used for constant dollar calculations. For fiscal year 1977, no supplemental appropriations were included in the total.

5/ In fiscal year 1960, bilateral development assistance totaled slightly less than $1 billion. In fiscal year 1977, it was appropriated at approximately $1.2 billion, which was equivalent to $0.590 billion in fiscal year 1960 dollars.

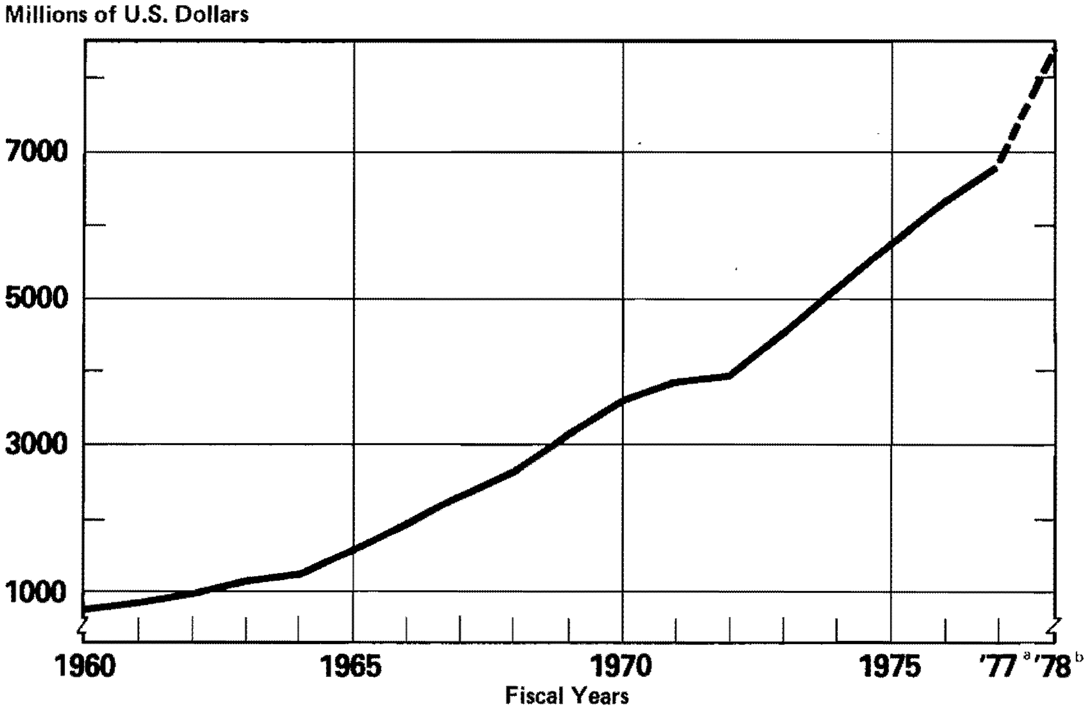
If approved, the fiscal year 1978 request would provide not only the first substantial growth in over ten years, but also one of the sharpest single jumps in U.S. subscription contributions. 6/ The proposed total paid-in contribution of $1.6 billion is nearly four times as large as the average paid-in appropriations for the mid-1970s. In constant dollars, it is a more than doubling of recent contributions (see Figure 4). Although the United States made such proportional increases in the early 1960s when simultaneous replenishments were made to several recently established banks, the overall volume of the fiscal year 1978 contributions is, of course, much greater. The requested contributions would, in fact, enlarge by one quarter the cumulative paid-in total of all U.S. contributions to the banks since fiscal year 1960 (see Figure 5).

The growth of callable capital contributions has been quite similar to the growth of the paid-in contributions. Average annual contributions for fiscal year 1972 through fiscal year 1977 were approximately three times the average annual contributions for fiscal year 1960 through fiscal year 1965. Growth in these contributions has, however, been less a matter of higher annual payments than of more frequent payments. Throughout the 1960s, callable capital contributions for each fiscal year were included in the budget. Most of these have been for the regional banks, which have required much more frequent contributions during the 1970s. The fiscal year 1978 request would make simultaneous callable contributions to each of the conventional funds. The $1 billion in requested callable obligations is the largest single such contribution. It would, like the paid-in request, increase by approximately a third the cumulative total of such contributions since fiscal year 1960. Because none of this money has ever been required by the banks and is not expected to be required, these sums do not represent direct costs to the United States

---

6/ If the requested $540 million supplemental IFI appropriation for fiscal year 1977 is approved, that year's paid-in contributions would total $820 million. In constant 1960 dollars this would be $402 million--a small real increase over the high of fiscal year 1974 paid-in subscription contributions of $620 million current dollars and $383 million in current dollars.

Figure 5. Cumulative U.S. Paid-In Contributions, Fiscal Years 1960-1977 and Fiscal Year 1978 Administration Request



[a] Excludes any supplemental appropriations.
[b] Administration request.

government. While they may generate some indirect cost through their effects on U.S. capital markets, these are presumably quite small. 7/

The appropriations of callable capital contributions have followed no consistent practice or rationale. Some of these loan guarantees have been provided to the banks

---

7/ Any assessment of the indirect costs of callable capital should also take into consideration other bank activities--such as financing of purchases of U.S. goods and services--that may also affect the U.S. economy.

with only Congressional authorizations; some have been contributed with authorizations and appropriations. Since these guarantees have never been "called"--and none now seems likely to be called--those which have been appropriated remain indefinitely in the IFI account as undisbursed budget authority.

No clear precedent exists for appropriating or not appropriating callable capital. More important, no clear rationale has been established for determining what function appropriations should serve for callable capital contributions. Appropriations may be used to indicate U.S. acceptance of the commitment to guarantee bank borrowing, or may be reserved to approve disbursements when, and if, funds are required to honor those commitments. The question of when to require appropriations is also, of course, a question of what the budget ought to record: only direct transfers to the IFIs, or those transfers plus all borrowing guarantees. At present, the budget reflects an uneven mixture of both.

THE GROWTH OF THE IFIs

Requested increases in U.S. contributions have been justified on the grounds that the banks needed expanded support in order to maintain their positions against the rising cost of goods bought with their loans and against the number and size of their clients. The contributions of the United States and other donors have, however, been sufficient for the banks not only to maintain their positions, but also to achieve real growth. The growth of the IFIs can be traced in several ways: by the banks' expansions into additional lending facilities; by the nominal increase in new loan commitments; or, most important, by the real increase in total IFI loans outstanding. By any measurement, the IFIs have expanded at rates that substantially more than compensate for increases in the prices of goods bought with their loans, increases in LDC population, or growth in LDCs' economies.

Until the late 1960s, the increasing flow of IFI credit to LDCs closely paralleled the addition of new banks and new bank funds (see Table 6). In 1960, when the World Bank was the only major IFI in full operation, it approved $659 million in new loans. This was also the first year of IDA loans. IDA approved $101 million in credit that year for an IFI total of $760 million. By 1962, the Inter-

American Bank was also advancing credit. Their new loans and the World Bank's made a total new commitment of $1.1 billion. In 1968 the Asian Bank began loan activities, and total new commitments for all three banks reached $1.4 billion. Between 1968 and 1975, new loan approvals jumped to nearly $8 billion. This increase was, however, far less the result of additional loan facilities (only one, the Asian Bank's Special Fund, was added) than of the rapid growth of the established bank funds.

TABLE 6. AMOUNTS OF NEW LOAN COMMITMENTS APPROVED IN EACH YEAR, IN MILLIONS OF DOLLARS

Bank	1960	1962	1968	1975
IBRD	659	882	847	4,977
IDA	101	134	107	1,655
IDB				
Ordinary Capital	a/	84	193	328
FSO	a/	41	210	371
ADB				
Ordinary Capital	a/	a/	42	494
SF	a/	a/	a/	166
Total	760	1,141	1,399	7,991

a/ Not in existence.

Since the late 1960s, each of the bank facilities has maintained not only substantial growth, but substantial real growth. Total commitments to borrowers and loans outstanding have in each case increased by significantly more than the annual increase in the prices of goods exported from developed countries. Since development loans are used primarily for the purchase of those goods, changes in their prices offer the best standard for measuring the real value of IFI credit. When the annual increase in loans is deflated by the annual price rises of such goods, real growth rates for the banks are found to be no lower than 8 percent and in most cases considerably higher. 8/

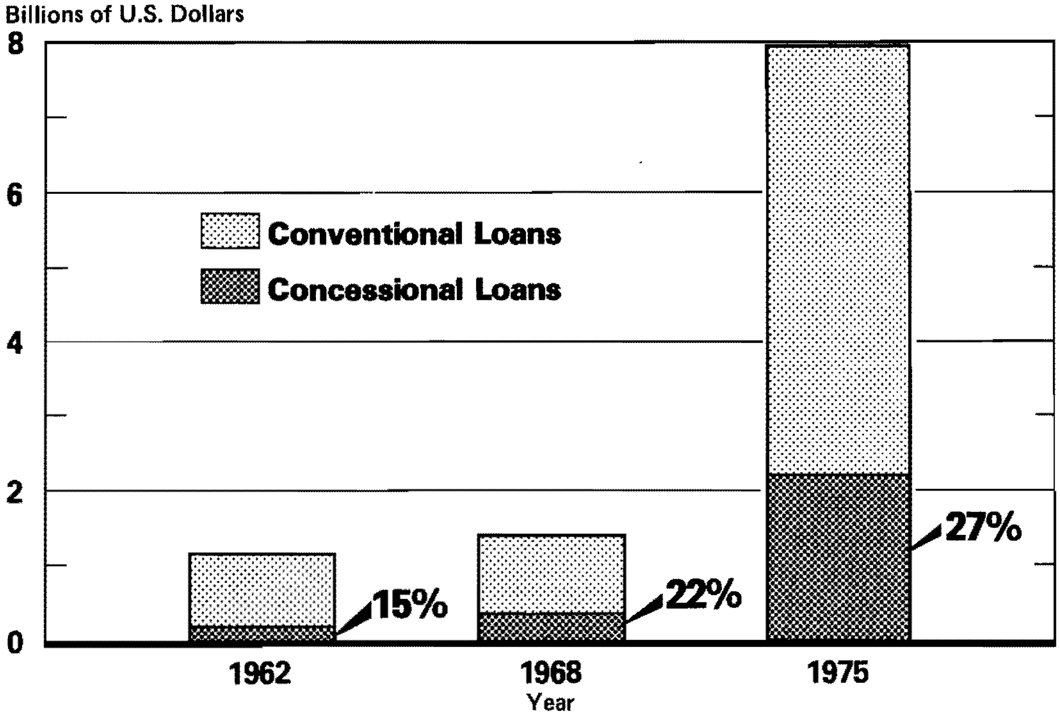
Real growth rates vary significantly among the banks. The newest bank, the Asian Development Bank's Ordinary Capital Fund, has shown the most rapid real increase in its total loan commitments--an average of 40 percent per year from 1972 to 1974. That growth rate was, of course, particularly high since the ADB began extending loans only in 1968. The ADB's rate of growth had dropped to 12 percent by 1975. Similarly, IDA showed its highest rate of real growth during its early years. From 1967 to 1976, however, IDA loan commitments have had an approximately 22 percent rate of real growth--still one of the fastest growth rates among the banks. As would be expected, its loans outstanding have grown more slowly, at 17 percent. The Inter-American Development Bank has also maintained a rapid real growth rate: an average of 15 percent annual increase in its committed loans and 11 percent in its outstanding loans between 1972 and 1975. Its concessional loan window, the Fund for Special Operations, has grown more slowly, at an average of approximately 8 percent during the same period. The World Bank, the oldest IFI, has had one of the slowest rates of real growth; it has shown an approximately 11 percent annual rise in its loan commitments since the late 1960s.

As these real growth rates demonstrate, the concessional loan facilities--particularly the largest, IDA--are growing somewhat faster than the conventional facilities. The banks have, therefore, become not only significantly larger, but also more concessional. Of their total loan activity, the banks are gradually providing a higher proportion from the soft loan windows (see Figure 6). In

---

8/ The prices of goods exported from developed countries is the index employed to estimate the rate of international inflation. These CBO estimates of the banks' real growth use the annual increases in those prices to deflate annual increases of loan commitments and loans outstanding. These loans could also be deflated by a price index of imports of LDCs. That deflator would, however, yield bank growth rates very similar to those quoted above.

Figure 6. Concessional Loans as a Portion of Total New International Financial Institution Loans Approved[a]



[a] For the International Bank for Reconstruction and Development and the International Development Association; Inter-American Development Bank; and the Asian Development Bank.

1962, concessional loans represented 15 percent; in 1968, 22 percent; and in 1975, 27 percent of total new approved loans. This, of course, means that the banks are providing significantly more credit at very low interest rates for the poorest LDCs. It also means that the banks' overall growth is financed by an increasing proportion of paid-in to callable capital contributions.

All of the banks' facilities, concessional and conventional, have clearly maintained sufficient real growth rates to keep them well ahead of growth rates for LDC economies. The annual real growth rate of developing countries' GNP has been estimated at 6 percent between 1965 and 1973. 9/ LDC populations grew during that period at annual rates of 2.4 percent. 10/ Although estimates are not yet available for 1974 and 1975, they are unlikely to have increased sufficiently to approach the real rate of growth of IFI loans. The banks' activities have grown much more than was necessary simply to "keep pace."

Despite their rapid growth, the IFIs now generate only a small portion of the total flow of credit to LDCs. Whether or not the United States should again substantially increase its contributions so that the banks can expand their disbursements is the major choice before the Congress as it considers the available budget options.

9/ World Bank, World Tables, 1976 (Baltimore: Johns Hopkins, 1976), p. 392. LDCs' real GNP growth rate between 1960 and 1965 is estimated as 5.6 percent.

10/ Ibid. For the period of 1960-1965, LDCs' population growth rate is estimated at 2.4 percent also.

CHAPTER V BUDGET OPTIONS

The basic questions before the Congress are whether it is willing to assume the costs of continued IFI growth and whether it prefers to emphasize bilateral or multilateral channels for development assistance. The Congress can support IFI growth by approving the increased contributions negotiated and requested by the Administration. The Congress can make that growth over the next several years unlikely by funding at lower than the requested levels and by forcing new replenishment negotiations. In simplest terms, the budget decisions for the IFIs are a matter of approving or disapproving the proposed increased flow of credit through the IFIs to LDCs.

The Congress can also choose to make some of that credit flow through the bilateral assistance program. Contributions to the IFIs and funds appropriated for the bilateral development program are two ways of spending money for many of the same purposes. As discussed above, the concessional loan facilities--which consume more than 90 percent of U.S. paid-in contributions--are similar to bilateral programs in credit terms and in emphasis upon the poorest LDCs. The primary distinction is between providing assistance through a channel that offers policy neutrality or one which offers policy control--a difference of means rather than of ends. If the total funds that can be directed to development assistance are viewed as limited, Congressional decisions for substantially increased or decreased paid-in contributions to the IFIs imply that the bilateral program may be funded at a respectively lower or higher level than otherwise would have been the case. One of the most important criteria for judging among these options is, then, the Congress' preference for emphasizing multilateral or bilateral assistance channels.

LIMITATIONS OF THE OPTIONS

Beyond the basic choice of more or less multilateral loans, the Congress' budget options are limited. The options are limited by the banks' small portion of the total flow of credit to LDCs and by the mechanics of the replenishment process. The level at which the IFIs are funded will not make a substantial difference in the overall availability of credit to LDCs, will not significantly affect the position of commercial banks that loan to LDCs, and will not alter the prospects for debt servicing problems. The IFI share of total capital flows from developed to developing countries is too small for decisions concerning their replenishment to have such significance.

Nor are these budget options which will determine exactly how much conventional and concessional credit the IFIs will extend over the next several years. It is clear that the more paid-in and callable capital the United States and other donors provide, the more loans the banks will be able to make. The ratio of U.S. contributions to IFI loans depends, however, on conditions beyond the immediate control of the Congress. The individual policies of the banks as they respond to LDC applications determine the rate at which the banks lend the contributed funds.

The anticipated timing and size of the next replenishment is a major consideration affecting the banks' policies on their rates of loan commitments. The shorter the length of time until the next expected replenishment, the faster the rate at which the banks are willing to authorize new loans against the previous replenishment. How much of the preceding replenishment has been committed is, of course, also a major point of consideration when the requests for new subscription agreements are presented to the donors. The banks have in the past advanced loan commitments at rates which force the donors either to provide the requested replenishments or to see the banks unable to meet their commitments.

The Congress cannot, of course, dictate the rate of new loan commitments--this is a matter of the reduced national control necessary for multilateral assistance efforts. Authorizing and appropriating legislation for the replenishment agreements could specify, however, the year in which the Congress proposed to fund the next replenishment agreement. Such language has not been included in past replenishment legislation. It would, however, be a means of expressing Congressional preference for the timing of subsequent subscriptions. It would also be an indication to the banks that they should not maintain levels of loan commitments that would necessitate earlier replenishments.

CALLABLE CAPITAL: APPROPRIATED OR UNAPPROPRIATED

As discussed above, U.S. contributions of callable capital have in the past been made both with and without appropriations. With only one exception the IFIs have been willing to accept callable contributions from the United States on the basis of Congressional authorization 1/ even though an appropriation would be required before these contributions could be paid to the IFIs in the event of a call. The fact that some U.S. callable contributions have not been appropriated seems to have had no adverse effect on the IFIs' ability to float their bonds at premium rates. Further, because the U.S. budget process is unique among the donors to IFIs, there is no question of conforming to international practice in choosing whether callable capital should be appropriated. The presumption is that the United States could continue to contribute callable capital either with or without appropriations.

The Carter Administration has chosen to seek appropriations for all callable contributions, but it has not indicated that it will refrain from subscribing callable capital if it is not appropriated. On occasion the Congress has refused appropriation requests for callable capital, and the Executive has subscribed the requested amount anyway.

Some argue that since callable capital represents a commitment on the part of the United States to make payments to the IFIs in specific circumstances, these contributions should be appropriated. Others argue that since callable capital will almost certainly never be called, no purpose would be served by appropriating it; budget authority would remain indefinitely larger than anticipated outlays. Ultimately the choice is one of how firm a commitment the Congress wishes to make to the IFIs. If callable capital is appropriated it would be available to the IFIs without any further Congressional action. If it is not appropriated, there may be some uncertainty that it will actually be paid when called. The bondholders of the IFIs appear to be content with the somewhat weaker guarantee of unappropriated callable capital, but there is no way of knowing if they will remain so in the future.

1/ The IDB's Ordinary Capital Fund, by charter, requires appropriation of callable capital. It is being replaced by the Interregional Fund, which does not.

THE OPTIONS

Four options are presented below as illustrations of the range of choices available to the Congress when it considers the fiscal year 1978 contributions to IFIs. They are examples of various possible funding levels for the development banks (see Table 7 and Appendix B).

- o Option I: Increased replenishments for both conventional and concessional funds (the Administration request). Total contributions: $2,615 million.
- o Option II: Increased replenishments for conventional funds; no real increase in concessional replenishments. Total contributions: $2,340 million.
- o Option III: No real increase in conventional or in concessional replenishments. Total contributions: $1,863 million.
- o Option IV: No new replenishments. Total contributions: $985 million.

The option with the most predictable outcome is, of course, the first. Approval of the Administration request assures conformity to negotiated replenishment agreements. If the Congress approves these U.S. contributions, other donors will presumably also fulfill their negotiated obligations. The total subscriptions received by the bank will be the negotiated amounts. If, however, the Congress provides lesser amounts, as outlined in the other three options, the consequences are less certain. The total subscriptions received by the banks will depend upon the reactions of other donors, the outcome of renegotiations, and the Congress' response to the subsequent requests.

Options II, III, and IV are also somewhat uncertain in that they propose no real increase in U.S. contributions but only revisions from previous replenishments to offset subsequent inflation. The calculations of such figures involve arbitrary statistical manipulations. The numbers provided are based on inflation in exports from developed

TABLE 7. U.S. CONTRIBUTIONS TO EACH OF THE BANKS UNDER OPTIONS I-IV IN FISCAL YEAR 1978, IN MILLIONS OF DOLLARS

Option I. Increased Replenishments for Both Conventional and Concessional Funds

IFI	Paid In	Callable Capital	Total
World Bank	1,272	470	1,742
IDB	240	360	600
ADB	80	183	263
AfDF	10	--	10
Total	1,602	1,013	2,615

Option II. Increased Replenishments for Conventional Funds; No Real Increase for Concessional Funds

IFI	Paid In	Callable Capital	Total
World Bank	997	470	1,467
IDB	240	360	600
ADB	80	183	263
AfDF	10	--	10
Total	1,327	1,013	2,340

Option III. No Real Increase in Replenishments for Conventional or Concessional Funds

IFI	Paid In	Callable Capital	Total
World Bank	892	194	1,086
IDB	240	360	600
ADB	71	96	167
AfDF	10	--	10
Total	1,213	650	1,863

Option IV. No New Replenishments

IFI	Paid In	Callable Capital	Total
World Bank	375	--	375
IDB	240	360	600
ADB	--	--	--
AfDF	10	--	10
Total	625	360	985

countries, the goods bought with IFI loans. 2/ These figures are also based on the time elapsed since initial appropriations rather than since authorizations of the preceding replenishments. Other estimates may make differing assumptions. None are definitive and any presented as such should be viewed with skepticism.

Option I: Increased Support for All IFI Funds (The Administration's Request)

In approving Option I, the Administration's request, the Congress would be deciding for a predominately multilateral development program. Multilateral development assistance would more than double and commitments would be made to continue a high level of multilateral funding through fiscal year 1980. Bilateral assistance would presumably become--in both budgetary and functional terms--a secondary channel for U.S. assistance. It could be used largely to supplement the activities of the banks, to sponsor projects such as small-scale social and rural programs that the banks do not emphasize, and to assist recipients of special interest to the United States.

Agreeing to the proposed replenishments would be consistent with supporting the banks' continued real growth. Although the banks have greatly increased their loans over the past ten years, they now represent a very small part of the total flow of credit to LDCs. Their continued expansion might be considered critical for them to preserve their roles in the development process at a time when other credit sources are rapidly expanding.

The greatest increases in LDC credit have come from the commercial banks. These banks do not, however, provide development expertise or counseling for development investments. By cooperating with other donors to increase multilateral assistance, the Congress would be assuring that a somewhat larger portion of the credit received by LDCs would be provided under specified conditions for economic planning. Although the United States can make such conditions

---

2/ Export prices were taken from relevant issues of the International Monetary Fund publication, International Financial Statistics. The increase in export prices during 1977 was assumed to be 5 percent.

in its bilateral program, such efforts in a direct donor-recipient relationship can subject the United States to negative political reactions. Another advantage of confirming these requested replenishments is that the United States would protect its position in the banks and retain the obligations of other donors to provide their shares of the agreed-upon subscriptions.

The largest single contribution under this option would go to the World Bank's concessional loan fund, IDA (see Table 8). A total paid-in contribution of $1.175 billion would complete a final payment for the fourth IDA replenishment and initiate a fifth (IDA-V). In approving the IDA-V replenishment, the Congress would be assuming obligations for two more $800 million contributions in fiscal year 1979 and fiscal year 1980. 3/ (In fiscal year 1981, an IDA-VI replenishment request is expected.) The Bank anticipates that the new IDA-V contributions from the United States and other donors should permit increases in its new loan approvals at a rate slightly in excess of the predicted annual 5 percent inflation in the prices of industrial exports. If so, that would represent a decline from IDA's previous high rate of real growth. As discussed above, however, such projections are speculative, and their accuracy will depend upon, among other things, the anticipated amount of the next IDA replenishment.

The same reservations apply to any estimates of the probable growth permitted by the requested new replenishment for the IBRD. Contributions in each of three years--

---

3/ The Congress could choose to approve the full amount requested for IDA, but to make payments on a delayed schedule. Rather than the proposed three payments of $800 million, IDA-V could be distributed over four payments; two of $400 million and two of $800 million. This schedule would reduce the fiscal year 1978 and fiscal year 1979 contributions for IDA to $775 million. It would, of course, not affect the total payments authorized for IFIs. This delayed schedule might also mean that the United States would again face overlapping contributions in fiscal year 1981, when the last IDA-V payment would be made and new replenishments for IDA and other banks are likely to begin.

TABLE 8. OPTION I. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: INCREASED REPLENISHMENTS FOR BOTH CONVENTIONAL AND CONCESSIONAL FUNDS (THE ADMINISTRATION REQUEST), IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	52	470	522
IDA	1,175	--	1,175
IFC	45	--	45
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	20	183	203
Asian Development Fund	60	--	60
African Development Fund	10	--	10
Total	1,602	1,013	2,615

fiscal years 1978, 1979, and 1980--would be $52.3 million of paid-in and $470 million of callable capital. This is substantially more than the last contribution to the IBRD: $12 million paid-in and $110 million callable in fiscal year 1972. These contributions are proposed, however, as an "interim" replenishment which would maintain the Bank's subscribed capital at a level above loans outstanding, as required by the Bank's charter.

By charter, the Bank cannot have total loan disbursements in excess of its total capital (that is, its unimpaired subscribed capital, reserves, and surplus). Loan disbursements are now reportedly beginning to approach total capital. If contributions are not provided to increase capital within the next several years, the Bank might have to suspend disbursements of new loans. If the full replenishment is provided as proposed in this option, continued disbursements at present lending levels would be assured. This interim replenishment could, then, be seen as financing the Bank's rapid past growth in loan commitments; these contributions will support the upcoming loan disbursements necessary to honor those commitments. Future growth in loan commitments will depend upon the next general capital increase. The rate of new loan commitments will, of course, be determined largely by the anticipated timing and size of that next replenishment, now planned for fiscal year 1981.

Other new replenishments are for the Asian Development Bank's (ADB) ordinary capital fund, for its concessional lending window, and for the International Finance Corporation (IFC). The ADB's ordinary capital fund will reportedly be exhausted in 1977. The proposed replenishment would involve four annual payments of $20 million paid-in and $183 million callable. Contributions to the concessional fund would be made in four annual payments of $60 million each. Both of these replenishments are reductions from earlier contributions. Established in 1967, the ADB is now reaching a stage at which it receives some flow of repaid loans and interest. Its growth is no longer totally dependent on donors' replenishments, and these proposed contributions are thought to be sufficient for continued real growth.

Contributions to the IFC have not been requested since the first payment in fiscal year 1957. A new three-year replenishment has been proposed. A proposed $44.6 million contribution for fiscal year 1978 would be followed by contributions of $33.5 million each in fiscal year 1979 and fiscal year 1980. The IFC anticipates that this replenishment will sustain a 7 percent real growth until the next replenishment which is expected in the mid 1980s.

The remaining contributions are continuations of previously approved replenishments to the Inter-American Development Bank (IDB) and the African Development Fund (AfDF). The IDB would receive a total of $240 million in paid-in contributions to the conventional and concessional funds. The conventional fund would receive another $200 million in callable capital.

A $10 million contribution to the African Development Fund would complete all authorized payments to that soft-loan facility. The African Fund is a case of authorizations exceeding requests. A total of $15 million--which has been paid--was originally requested when the United States joined the fund in 1976. The Congress chose, however, to authorize $25 million, leaving $10 million in excess budget authority.

Option II: No Real Increase in Concessional Funds' Replenishments

Option II proposes a more even division of development efforts between the multilateral and bilateral programs. U.S. assistance to the upper- and middle-income group LDCs would be directed primarily through the IFIs. The requested new replenishments would be approved for the conventional funds with the expectation that they would continue to increase the official credit available to LDCs in the upper- and middle-income groups. Any real increase in development assistance for the poorest LDCs would, however, be made through an enlarged bilateral program: U.S. replenishments to the concessional IFI funds--that serve primarily the poorest LDCs--would be adjusted only to offset the rise in prices of developed countries' exports since the previous replenishment.

The justification for this division would be that the IFIs are instruments for assisting the middle- and upper-range income LDCs. These are the countries that are capable of repaying market-rate development loans. Providing development credit to those LDCs was the original purpose of the IFIs and the one for which they are best suited.

The bilateral program is a more appropriate instrument for assisting the poorest LDCs. These developing countries cannot be expected to repay market rate loans; their development must be financed through grants and highly concessional loans. In creating concessional windows to help these countries, the IFIs have not functioned as banks borrowing and reloaning funds, but merely as intermediaries collecting capital from donors and providing it to recipients. This function could be better fulfilled by direct distribution from the donor countries without IFIs acting as intermediaries. Assisting the poorest LDCs also requires kinds of development activities distinct from those in LDCs with better established economies. Available evidence suggests that bilateral programs have made more progress than the IFIs toward the special small-scale and social development activities that are considered particularly necessary in the poorest LDCs. 4/ Assisting the poorest LDCs and poorest groups within LDCs is now the primary focus of the U.S. bilateral program. The Congress may wish to concentrate its support for the new, and essentially experimental, development efforts needed for the poorest LDCs in the bilateral program where they can be more closely monitored, adjusted, and reviewed.

In short, development problems, financing, and required programs seem to be quite distinct for upper- and middle-range LDCs and for the poorest LDCs. The IFIs seem better suited for assisting the more developed LDCs while the bilateral program seems to be more appropriate for aiding the poorest. Accordingly, the Congress may not wish to approve any real increase in the replenishments for the IFIs' concessional facilities.

Option II would make the same contributions to the banks' conventional funds as proposed in Option I (see Table 9). The growth of those funds would be supported so that they could assume most of the burdens of assisting upper- and middle-range LDCs. Contributions to the concessional funds would, however, be reduced and, in whatever proportion desired by the Congress, be redirected to the bilateral development program. The United States would continue to support the funds' replenishments along with other donors, but at no greater an increase from the preceding replenishment than would be necessary to offset the inflation in industrial exports. The effect upon the concessional funds would depend upon the response of their other donors and the outcome of new replenishment negotiations. These funds would presumably have to reduce their loans, but in the long run, the loss of assistance to their clients might in some degree be offset by increases in bilateral loans and grants.

4/ In quantitative terms, the poorest LDCs are clearly now more dependent upon assistance from bilateral than from multilateral donors. In 1974 the net financial flow from the IFIs to developing countries with per capita income of less than $200 was $669 million. Bilateral grants and loans to the same developing countries amounted to $3,822 million (see Figure 3, Chapter II).

TABLE 9. OPTION II. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: INCREASED REPLENISHMENTS FOR CONVENTIONAL FUNDS; NO REAL INCREASE IN CONCESSIONAL REPLENISHMENTS, IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	52	470	522
IDA	900	--	900
IFC	45	--	45
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	20	183	203
Asian Development Fund	60	--	60
African Development Fund	10	--	10
Total	1,327	1,013	2,340

The largest and most important difference between Option II and Option I is the reduction in IDA contributions. The United States would agree to an IDA-V replenishment for three annual payments of $525 million. This would compensate for the rise in prices for industrial exports since the first payments of the last IDA replenishment. Combined with the authorized IDA-IV payment of $375 million, the total IDA contribution in fiscal year 1978 would be $900 million. Fiscal year 1979 contributions would also be $769 million; the fiscal year 1980 contribution would drop to $394 million with the completion of IDA-IV. The major savings from this option would, of course, be over the full term of the replenishment. The U.S. would be committed to a total IDA-V subscription of $1.6 billion rather than the requested \$2.4 billion. 5/ The only other proposed concessional fund replenishment is for the Asian Development Fund. The requested three payments of \$60 million appear to be within the level necessary to offset inflation since the last replenishment; they would be approved as requested. Because the replenishment of the IDB's Fund for Special Operations has been authorized, no adjustment would be made in the requested \$200 million paid-in contribution. Its next replenishment, which is expected to begin in fiscal year 1980 or 1981, would, however, be held to whatever level was adequate to compensate for increases in export prices.

Option III: Reduced Contributions to Both Concessional and Conventional Funds

Option III would make the bilateral program the primary channel for all U.S. development assistance. This option would be consistent with Congressional preference for the greater control, oversight, and year-to-year flexibility provided by the bilateral program. Accordingly, increases in U.S. assistance for LDCs in any income range would be provided through the bilateral program; all U.S. replenishments to the IFIs--for both the concessional and the conventional funds--would be held to levels no higher than necessary to offset inflation (see Table 10).

As discussed in Option II, bilateral efforts can and do perform the same activities for the poorest LDCs as the development banks' concessional funds. Bilateral loans and grants also go to upper- and middle-range LDCs in substantially greater quantities than do IFI conventional loans. Bilateral assistance to these countries could, of course, be increased in conjunction with holding all IFI contributions at current values. Congress might determine, however, that given the availability of commercial credit no increases are necessary.

Commercial bank loans fulfill essentially the same function as the IFIs' conventional funds: they circulate

---

5/ The Congress could choose to adjust the IDA-V payments to two initial contributions of \$200 (which would be made concurrently with the IDA-IV payments of \$375 million). The subscription would then be completed with 2 payments of \$600 million.

capital from private markets in developed countries to LDCs. Without relying upon government borrowing guarantees, they are able to do this at essentially the same rates as those of the IFIs. Although commercial banks typically offer shorter terms than do IFIs, LDCs can, and frequently do, refinance their commercial loans. Thus, the IFI loans might be considered less critical than they once were for financing either short- or long-term development projects. This could be interpreted as an opportunity to limit contributions to the IFIs and reassess the overall allocation of U.S. development assistance.

Another argument for at least temporarily limiting contributions to the banks is that IFI effectiveness may not be best served by continued rapid growth. One of the most valuable functions performed by the banks is their catalytic roles in providing development expertise and in promoting key development projects. Larger IFIs will not necessarily be able to provide more or better development assistance of this nature. The growth of the banks, particularly the rapid growth of recent years, creates its own problems of overcentralization and inefficiency. One conclusion would be that until the banks have fully consolidated their recent growth and until a reassessment has been made of the relative roles of U.S. bilateral and multilateral assistance efforts, no real increases should be made in U.S. replenishment commitments to any of the IFI funds.

Option III would make the same contributions to the concessional funds as suggested in Option II. Contributions to conventional facilities would also be held to amounts sufficient to offset inflation. Since only a small portion of paid-in contributions go to the conventional facilities, the immediate reduction in government expenditures on the banks would be small. There are only two conventional funds which have replenishment agreements proposed for fiscal year 1978: the World Bank and the Asian Development Bank. Adjusted to compensate for increases in the prices of industrial export goods since the beginning of the last replenishment, these contributions would be the following: three annual payments to the IBRD of $22 million paid-in and $194 million callable; four annual payments to the Asian Bank's ordinary capital fund of $11 million paid-in and $96 million callable. The IFC's requested replenishment is within the limits of no real growth. Replenishments for the IDB's conventional loan facilities were previously authorized; the requested contributions would be made in fiscal year 1978 but the next replenishment would be held to amounts sufficient to offset inflation.

TABLE 10. OPTION III. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: NO REAL INCREASE IN REPLENISHMENTS FOR CONVENTIONAL OR CONCESSIONAL FUNDS, IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	22	194	216
IDA	825	--	825
IFC	45	--	45
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	11	96	107
Asian Development Fund	60	--	60
African Development Fund	10	--	10
Total	1,213	650	1,863

As with Option II, the ultimate effect on these funds will largely depend upon the reactions of other donors. If they are willing to continue to finance the growth of the banks, new replenishments could be negotiated that would reduce the U.S. shares as outlined and substantially increase those of other members. The United States would, of course, lose some of its votes and general influence within these organizations, but the flow of IFI credit would not necessarily be greatly reduced. If other members are not willing to increase substantially their share of the contributions, the banks would in the long run be forced to cut their rates of new loan approvals. Assuming other donors reduced their contributions in proportion to the United States', the banks would presumably be forced to maintain their new loan approvals at levels that no more than compensate for inflation. In the short run, the process of adjusting to these new replenishment policies could disrupt loan disbursements. Both the IBRD and the Asian Development Bank contend that they will require the full amounts requested in order to proceed with their scheduled loans. Contributions at levels below those anticipated by the banks at any time, however, would raise some adjustment problems. If the Congress no longer wishes to approve increased contributions to support continued bank growth, the occasion of these new replenishment agreements would seem to be the most appropriate time to indicate that change of policy.

Option IV: No New Replenishment Agreements

Given the preference for bilateral assistance channels outlined in Option III, the Congress might prefer to take more radical steps to limit U.S. support to the international financial institutions. Option IV provides only the minimal contributions the United States can make to the banks without disrupting authorized replenishment commitments. No new replenishments would be approved and only those contributions necessary to complete previously authorized replenishments would be appropriated. The new replenishment agreements could be delayed until the relative roles of multilateral and bilateral assistance had been evaluated; or the replenishments of IFIs could be indefinitely suspended so that U.S. development assistance could be shifted to almost exclusively bilateral channels. In the latter case, the United States would, in effect, be ending its active participation in the development banks and their future would depend entirely upon the actions of other donors.

Because most of the IFI requests for fiscal year 1978 are payments towards new replenishments, this option sharply limits U.S. contributions. Contributions to IDA in fiscal year 1978 would be reduced to the paid-in $375 million authorized for that bank's fourth replenishment. If no new replenishment were approved in fiscal year 1979, another $375 million contribution would be made and U.S.

commitments to IDA would be completed. Authorized contributions to the Inter-American Development Bank, $240 million paid-in and $360 million callable capital, would also be made. If these contributions continue as scheduled, all U.S. obligations to that regional bank would be completed by fiscal year 1979. A final contribution of $10 million in fiscal year 1979 would also complete all authorized payments to the African Development Fund.

TABLE 11. OPTION IV. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: NO NEW REPLENISHMENT, IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	-	-	-
IDA	375	-	375
IFC	-	-	-
Inter-American Development Bank			
Ordinary Capital	-	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	-	200
Asian Development Bank			
Ordinary Capital	-	-	-
Asian Development Fund	-	-	-
African Development Fund	10	-	10
Total	625	360	985

APPENDIX A LESS DEVELOPED COUNTRIES IDENTIFIED BY THE WORLD BANK

Higher Income Countries	Middle Income Countries	Lower Income Countries
Argentina	Bolivia	Afghanistan
Brazil	Botswana	Bangladesh
Chile	Cameroon	Benin
China (Rep. of)	Central African Rep.	Burma
Colombia	Congo (Peoples Rep. of)	Burundi
Costa Rica	Egypt (Arab Rep. of)	Chad
Cyprus	El Salvador	Ethiopia
Dominican Republic	Ghana	Gambia
Fiji	Honduras	India
Greece	Ivory Coast	Lesotho
Guatemale	Jordan	Madagascar
Guyana	Kenya	Malawi
Israel	Korea (Rep. of)	Mali
Jamaica	Liberia	Niger
Malaysia	Mauritania	Pakistan
Malta	Morocco	Rwanda
Mauritius	Philippines	Sierra Leone
Mexico	Senegal	Somalia
Nicaragua	Swaziland	South Vietnam
Panama	Thailand	Sri Lanka
Paraguay	Togo	Sudan
Peru	Uganda	Tanzania
Portugal		Upper Volta
Singapore		Zaire
Spain		
Syria		
Trinidad &Tobago		
Tunisia		
Turkey		
Uruguay		
Yugoslavia		
Zambia		

Oil Exporters

Algeria
Ecuador
Gabon
Indonesia
Iran
Iraq
Nigeria
Venezuela

APPENDIX B

OPTIONS FOR U.S. CONTRIBUTIONS
TO IFIs IN FISCAL YEAR 1978

OPTION I. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: INCREASED REPLENISHMENTS FOR BOTH CONVENTIONAL AND CONCESSIONAL FUNDS (THE ADMINISTRATION REQUEST), IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	52	470	522
IDA	1,175	--	1,175
IFC	45	--	45
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	20	183	203
Asian Development Fund	60	--	60
African Development Fund	10	--	10
Total	1,602	1,013	2,615

OPTION II. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: INCREASED REPLENISHMENTS FOR CONVENTIONAL FUNDS; NO REAL INCREASE IN CONCESSIONAL REPLENISHMENTS, IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	52	470	522
IDA	900	--	900
IFC	45	--	45
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	20	183	203
Asian Development Fund	60	--	60
African Development Fund	10	--	10
Total	1,327	1,013	2,340

OPTION III. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: NO REAL INCREASE IN REPLENISHMENTS FOR CONVENTIONAL OR CONCESSIONAL FUNDS, IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	22	194	216
IDA	825	--	825
IFC	45	--	45
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	11	96	107
Asian Development Fund	60	--	60
African Development Fund	10	--	10
Total	1,213	650	1,863

OPTION IV. U.S. CONTRIBUTIONS TO IFIs IN FISCAL YEAR 1978: NO NEW REPLENISHMENT, IN MILLIONS OF DOLLARS

IFI	Paid-in	Callable Capital	Total
World Bank			
IBRD	--	--	--
IDA	375	--	375
IFC	--	--	--
Inter-American Development Bank			
Ordinary Capital	--	200	200
Interregional Capital	40	160	200
Fund for Special Operations	200	--	200
Asian Development Bank			
Ordinary Capital	--	--	--
Asian Development Fund	--	--	--
African Development Fund	10	--	10
Total	625	360	985

U. S. GOVERNMENT PRINTING OFFICE : 1977 O - 86-538