EBD/85/62

February 28, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Lending by the World Bank - French Proposal

In the attached memorandum, Mr. de Maulde forwards an outline of a French proposal for the development of "country loans" by the World Bank that he believes would be of interest to Executive Directors.

Att: (2)

Other Distribution:
Department Heads

Office Memorandum

TO: The Secretary

DATE: February 26, 1985

FROM: Bruno de Maulde

SUBJECT: French proposal on lending by the World Bank

The attached paper might be of interest to my colleagues on the Executive Board of the Fund: it represents a short outline of a proposal for the development of "country loans" by the IBRD, which was referred to by my authorities at the time of the last Annual Meeting.

This paper, which I had previously communicated to the World Bank, is currently under consideration by its management and its Executive Directors.

I would be grateful to you for circulating it to our Board.

Attachment

October 1984

The French proposal for the setting up of "country loans" within the IBRD's lending programs aims to be fully consistent with the efforts of the World Bank to adapt its operations and policies to the present situation in developing countries, as well as with its current evaluation of the effectiveness of development aid (cf. the Tenth Annual Report of OED).

The "country loan" is not a new lending instrument; its purpose is to address the overall needs of a given country by putting together a series of traditional Bank loans: project loans, sector loans, structural adjustment loans, program loans...

What is new is the underlying multi-year contractual arrangement between the country and the Bank, whereby the borrower is committed to the implementation of a medium-term economic program, with periodic reviews, and the Bank is committed to deliver its loans, provided the economic program stays on track (1).

More specifically, the "country loans" could have the following features:

1. The objectives:

To be lasting and effective, the adjustment process cannot be limited to the short-term reduction of external imbalances. By restricting domestic demand, it is relatively easy to bring about a rapid recovery in the trade balance. To abstain, over a longer period, from any other action, would undermine the medium-term development potential, and ultimately lead to new disequilibria.

Parallel policies should be pursued to establish and consolidate the positive foundations for adjustment and growth, which lie in the price system, public and private investment, production and export incentives, and the general infrastructure of a country, including its institutions. This other side of the adjustment process is clearly the province of the World Bank.

2. The framework:

The "country loan" would be based upon a policy dialogue between the Bank and the borrowing country on an overall medium-term development

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(1) A similar approach has been put forward in the Bank's latest report on Sub-Saharan Africa, and in preliminary staff papers on the future role of the World Bank.

scenario. The outcome of this dialogue would be a five- to seven-year program for an agreed development strategy, which would include:

- the institutional reforms to be undertaken;

- a set of economic policy actions;

- a listing of the projects considered to be crucial to the implementation of the program;

- an "education and training" component, which should receive extremely high priority;

- the determination of the amount of indispensable general financial support (maintenance, management, essential imports).

3. The instrument:

The "country loan" aims to provide the medium-term development program with the necessary financial backing:

- it would put together various existing Bank instruments - project loans, sector loans, structural adjustment loans, program loans - combined into an overall approach;

- it would be flexible and adapted to each case: a special combination for each program;

- being set up on a contractual basis, in order to support the implementation of the agreed program over a period of five to seven years, its terms (interest rate, grace period, repayment period) would be adapted to the country's situation and needs. A periodic review of the program's implementation would take place. In view of its conclusions, the Bank could stop or delay certain disbursements. But the program could also be supplemented and extended.

4. The catalytic role:

The "country loan" can finance only part of the development program of a given country. But the very existence of this program, embodying precise commitments, should facilitate the mobilisation of additional resources: bilateral aid, loans from other multilateral institutions and commercial banks, direct investments.

5. The customers:

All countries entitled to borrow from the World Bank would be eligible for country loans. In a first stage, the focus should be put

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on the least developed countries, which often lack the institutional capacity to conduct by themselves a medium-term development strategy, and whose access to external resources, including IMF funds, is extremely limited. The support of the World Bank - with respect both to financing and institution building/technical assistance - could be particularly decisive in such cases. One should aim at extending over time the country loan process to other countries.

6. The procedures:

Speed and flexibility should be the key words.

The World Bank would take the initiative to propose a "country loan". If the borrower accepts, it can then rely on a predictable amount of financing over a certain period. If it refuses, it will continue to have access to the traditional lending instruments of the Bank.

Delays should be kept short: the period of program preparation should not exceed six to nine months, the final decision by the Board of the Bank being taken within one year of the beginning of the negotiation of the country loan.