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| ID Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|---|---|---|---|---|
| 49462 PAPER | RE IMF/WORLD BANK | 4 | ND | B1 |
| 49463 MEMO | RICHARD DARMAN TO JOHN WHITEHEAD RE IMF/WORLD BANK | 1 | 9/25/1985 | B1 |
| 49464 PAPER | RE PROPOSAL | 2 | | B1 |
| 49465 MEMO | STEPHEN DANZANSKY/HELEN SOOS TO ROBERT MCFARLANE RE AFRICAN ECONOMIC INITIATIVE<br>DOCUMENT PENDING REVIEW IN ACCORDANCE WITH E.O. 13233 | 3 | 10/4/1983 | open 4/14/10 KNW. |
| 49466 PAPER | RE IMF/WORLD BANK | 4 | ND | B1 |
| 49467 PAPER | RE PROPOSAL | 2 | ND | B1 |
| 49468 NOTES | RE MEETING W/DEAN HOFFMAN | 3 | 9/30/1982 | B1 |
| 49469 CABLE | 020610Z OCT 85 (ANNOTATED) | 2 | 10/2/1985 | B1 |

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NATIONAL SECURITY COUNCIL

Phil Ringdahl 9/30

Stephen Danzansky

Here is a copy of Treasury's proposal for Low-Income countries, e.g. Africa.

Can we meet with Treasury this week, before they go to Seoul?

Helen Soos

X3391

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| 49464 | PAPER<br>RE PROPOSAL | 2 | | B1 |

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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7955

INFORMATION

October 4, 1985

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: STEPHEN I. DANZANSKY/HELEN E. SOOS HS

SUBJECT: African Economic Initiative

Treasury plans to announce a major African Economic Initiative which, like the recent G-5 meeting, has not been cleared by the NSC or with the President. Treasury has been discussing this initiative with State and AID for several months. There was a Wall Street Journal article on it a week ago (Tab A), and State sent Helen a copy of a proposal (Tab B). Helen called Treasury and was told they could not provide a copy. Treasury advised OMB that they would not provide them a copy unless instructed by Baker who is on an airplane. Steve called Darman directly and was supplied a copy at 7:00 PM this evening.

The proposal involves a joint IMF/World Bank Facility for Economic Reform which is designed to reschedule IMF and other debt for up to 50 years on a low-interest basis. Eligible countries would be those with 1) low per capita income and reliance on concessional aid; 2) protracted balance of payments problems, and 3) willingness to undertake comprehensive economic policy reform. The funds would come from the IMF Trust Fund ($2.7 billion); existing World Bank funds ($1.8 billion); the Sub-Saharan African Facility ($1.3 billion) and donors. From the U.S. they would like to absorb the Economic Policy Initiative which the President announced 18 months ago, or scarce ESF funds. We think that would be a mistake, since the program has resulted in significant policy reform, directed in large part at reforms promoting private sector development. State, however, has agreed to the change.

While not exclusively directed at Africa, all but 6 African countries would qualify for the program, in terms of income levels. Not all African countries need the program, however.

The idea has many merits and some weak areas which should be strengthened. Encouraging the IMF and the World Bank to work together is a big plus. The IMF has dealt with stabilization without regard to growth criteria, which it considers to be outside its domain. However, how a country implements stabilization factors such as credit ceilings and imports can impact heavily on growth. This deficiency has led to a great deal of

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$1 6 b'l new order
$75 / US x 6 yrs '86-91 = $450m
w Bank
- IMF cntrl

economic stagnation, whereby countries simply cannot generate growth while achieving stabilization, thereby falling to lower income levels which have led to political instability. The World Bank could focus on these issues and improve the stabilization process.

One weakness of the proposal is that reform is limited to 2-year programs, with the option to follow up. For a 50-year loan, 2 years of reform, which always turns out to be gradual, is insufficient. Another potential weakness is that the nature of reforms is not specified. Until we focus on private sector growth, we are unlikely to see any growth. Neither the IMF nor the World Bank seem to understand this, and this program could provide a major impetus to this type of policy reform. These points are details which could be worked out later. Helen has discussed some of them with one contact at Treasury, and he seemed to be interested. But it is important that NSC play a role to ensure this happens.

State is pleased with the proposal, but fears that the IMF and World Bank staff may sabotage the plan because it would force them to change the way they do business.

Early this week Steve and Dave Wigg sought your approval to request a briefing of the debt issue from Treasury. Deputy Secretary Darman casually mentioned the matter to Steve yesterday, expressing uncertainty as to whether it would take place because of "problems at State". Steve spoke with Darman again this afternoon and was told State had signed off on a proposal. When asked what proposal Darman responded that it was incorporated in a paper which he would send over. Darman continued that the paper proposal was not what would be announced in Seoul since there was some negotiating to be done and the extent of U.S. commitment wasn't to be revealed. When asked what was to be announced in Seoul, Darman responded, "I don't know, they are working on that on the plane."

The "final" proposal that Darman sent this evening from Treasury, contains a copy of a statement supposedly to be delivered by the Secretary of the Treasury in Seoul on October 6, 1985 (Tab C). The statement indicates that the USG will use $75 million in bilateral assistance in FY86 and "seek to assure roughly equivalent amounts in direct contributions to the facility in FY87-91, provided other donors also make equitable contributions."

While we expect this to be discussed as a U.S. proposal in Seoul, we are unclear whether that means there will be a major announcement by Baker, or merely a statement read to the interim committee. Perhaps the form and content of the announcement are being massaged on the airplane. If you and Don Regan agree that the announcement should be made by the President, some contact will have to be made with the delegation on the plane to clarify what it is that can be announced and to stop any pre-conference "leaks" by Treasury here or in Seoul. Your decision.

Clearly, the NSC and the President have been left out of the process. We understand Treasury has been discussing a proposal for Latin American and other middle income countries as well, and we should insist upon participation in that process immediately.

PR

Phil Ringdahl concurs.

Attachments

| | |
|---|---|
| Tab A | Wall Street Journal article of Sep 20 |
| Tab B | Proposal |
| Tab C | "Final Proposal" and Statement by Secretary Baker |

cc:
John Poindexter

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# U.S. to Propose Lending Pool To Aid Africa

## Plan Calls for World Bank, IMF to Direct $5 Billion To Needy Countries

By ART PINE
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Reagan administration plans to propose a new international lending pool designed to channel more than $5 billion to poor countries, mainly in black Africa, over the next five years.

The proposal, in final drafting, is expected to be unveiled by Treasury Secretary James Baker at the annual meeting of the International Monetary Fund and the World Bank in Seoul, South Korea, early next month. U.S. officials have shown portions of the plan to their counterparts from industrial and developing countries. Formal IMF-World Bank approval could come as soon as the Seoul meeting.

*For other major international news, please see:*
*—House panel votes to impose quotas on some textile imports, page 51.*
*—Richardson-Vicks's planned issue of super-voting preferred stock is temporarily blocked, page 10.*

The first major U.S. initiative for developing countries in several years, the plan is designed to help grapple with two serious economic and financial problems involving African countries:

—First, how to stave off possible defaults by African nations on some $7 billion in loans that the IMF made to these countries in the early 1980s and that are coming due in the next several months. Some African countries, hard hit by drought and a continuing decline in export earnings, don't have the money to repay the IMF. A series of defaults could undermine the IMF's own finances.

—Second, how to step up aid substantially to help black African nations cope with their economic and political problems. The World Bank already has assembled a $1.1 billion special lending pool, but the money is considered inadequate to help revitalize the African economies.

The move represents a major change by the Reagan administration. Only last autumn, the U.S. declined to contribute to the World Bank's sub-Saharan Africa fund, saying it preferred to step up its own bilateral aid. The new program would be funded by major contributions from the U.S. as well as the IMF and World Bank.

### Joint Administration

The plan calls for the lending pool to be administered jointly by the IMF and the World Bank, the first time the two institutions would share responsibility for a major new program.

About 80% of the new lending would go to black African countries. The rest would go to other poor countries such as Bangladesh.

The proposal, though, isn't designed to provide relief for Latin American debtor countries. Top administration officials have said they are sympathetic to those nations' pleas for relief, but so far haven't come up with any new proposals. Washington still hasn't lifted its opposition to increasing the World Bank's general lending pool.

The money would be disbursed only after the borrowing countries formally agreed to a series of long-term policy changes designed to streamline and revitalize their economies. However, because of the special problems that the African countries are facing, the conditions wouldn't be as harsh as those the IMF typically demands from debtor countries.

### Funding From Gold Sales

At least half the money for the new lending program, some $2.7 billion over the next five years, would come from another IMF lending pool—a special trust fund established in 1976 using money from the late-1970s sales of the IMF's stock of gold.

The remainder of the package would come from a variety of sources. The Reagan administration would ask Congress for $300 million to $500 million in new money over the next five years to serve as the U.S. contribution. U.S. officials already are considering disbursing $75 million in existing bilateral U.S. aid to Africa "in conjunction with" the new fund.

The World Bank would contribute a sizable portion, both by tapping its own unused resources and by diverting part of its own sub-Saharan Africa aid program. And the U.S. would ask other major industrial countries to contribute, mainly by redirecting some of their bilateral aid.

Separately, the World Bank said it is considering stretching out repayment periods on loans to developing countries with heavy debt burdens, in an effort to ease the world debt situation. The repayment terms will be discussed at the Seoul meeting.

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Statement by Secretary of the Treasury

James A. Baker, III

at the IMF Interim Committee Meeting

on Use of Trust Fund Reflows

October 6, 1985

Mr. Chairman:

Our discussion this morning confirms that in spite of a number of positive signs in the world economic outlook, the economic conditions in most of the poorest countries which rely primarily on concessional financing have not noticeably improved. The economic facts bear witness to this situation:

- o Economic growth in the poorest countries in recent years has averaged 1.8 percent annually, and in some countries living standards are currently at the levels of 15 years ago.

- o Their trade and current account deficits have not improved despite recovery in the world economy, and are not projected to improve over the next few years.

- o Debt servicing difficulties in these countries have resulted in the imposition and intensification of trade and payments restrictions and in growing arrears on financial obligations, both domestic and external, including substantial arrears to the IMF, which are weakening the financial integrity and monetary character of the Fund.

The IMF has provided balance of payments financing and advice in the context of economic adjustment programs for many of these countries in recent years. The World Bank has also mounted an effort to assist these countries, through both project, sectoral and structural adjustment lending. But, these programs have met with only limited success. In part this reflects inadequate action by the countries on the fundamental reforms needed to create the conditions for sustained growth and development. It also reflects, however, an adverse external environment and natural disasters. Finally, the lack of success also reflects the fact that the problems of the poorest countries transcend the traditional role and policies of the Bank and Fund and the need for closer cooperation between the institutions.

We now have before us an important opportunity to develop a new approach to reverse the economic decline facing the poorest countries. The United States proposes that a new joint IMF/World Bank facility be created that would combine the resources and expertise of both institutions in coordinated, comprehensive economic programs that would promote structural adjustment and growth.

The basic features of the new facility would involve the following elements:

- <u>Eligibility</u> would be based solely on low per capita income, perhaps the $550 level used by the World Bank to determine IDA participation. Actual use of the facility, however, would be based on an eligible country having a protracted balance of payments problem and being willing to implement a comprehensive economic program.

- <u>Terms</u> on loans would be concessional with low interest rates, substantial grace periods, and extended maturities.

- <u>Conditions for participation</u> would include a commitment to a multi-year economic program in which funds would be disbursed semi-annually based on satisfactory performance under the program. The programs would involve policies aimed at promoting adjustment and removing the structural impediments to growth. They would include sound monetary and fiscal policies; exchange rate, interest rate and pricing policies to provide more efficient use of resources and to help eliminate domestic and external imbalances; measures to encourage savings and investment, such as tax reform and economically efficient investment programs; and greater openness to foreign investment and trade liberalization.

- Operations would be undertaken jointly by the IMF and World Bank, including joint teams and a single document detailing the program that would be submitted to both Executive Boards. Such a joint operation is particularly important as it will facilitate the close cooperation and coordination needed to achieve the consistent policy advice and approach essential for success.

The United States believes that a joint IMF/World Bank facility could provide the framework for channeling up to approximately $5 billion in resources to support reform efforts in the poorest countries. We believe that the full $2.7 billion in resources arising from the Trust Fund reflows should be used for this purpose. In addition, the World Bank could provide a comparable amount to support the operations of the facility.

The United States is convinced that such a facility could make a real contribution in addressing the severe economic problems of the poorest countries. We are prepared to seek to use $75 million in bilateral assistance in close cooperation with the operations of the facility in fiscal 1986, and to seek to assure roughly equivalent amounts in direct contributions to the facility in fiscal 1987-91, provided other donors also make equitable contributions.

In our view, an effective response by all major donors could result in direct new donar contributions for the full period in excess of $1 billion, which could be supplemented by other World Bank funding sources. Mr. Chairman, a joint facility combining the resources and expertise of the Bank and Fund would introduce a new element in our efforts to overcome poverty in the poorest countries. It provides a mechanism to obtain more consistent and effective policy advice by improving coordination and strengthening cooperation between the Fund and Bank. It would initiate mutually reinforcing policies that could break the cycle of failure of recent years and create the conditions for sustained growth and development. And, most important, it would provide tangible evidence that the world community is responding in a constructive, cooperative manner and on a significant scale to assist the poorest countries, thus providing renewed hope to these countries.

I hope you will join me in this initiative and give your strong support to the proposal.

# Easing Mexico's Money Problems

Mexico, still reeling after a series of devastating earthquakes, got some respite from its debt problems last week and an offer of disaster relief. Its largest creditors agreed to a six-month delay on interest payments of $950 million. The move by leading commercial banks coincided with efforts by the Reagan Administration to encourage more help to foster growth in the third world. The International Monetary Fund said it was ready to extend $300 million in credits to help cover the costs of the earthquake emergency.

Mexican officials said they could not have made the loan payments because of the earthquake damage, falling oil revenues and low foreign currency reserves. The admission, and the action that followed, indicated a worsening situation for Mexico since September 1984, when $49 billion in loans out of a total debt of $96 billion were restructured.

Nor are things that rosy for such other big debtors as Brazil and Argentina. The Administration's concern was indicated by an unusual Washington meeting last week among leading American bankers, Secretary of the Treasury James A. Baker 3d and Paul A. Volker, chairman of the Federal Reserve Board. Mr. Baker was believed to have sought support for proposals he plans to put to the annual meeting of the I.M.F. in Seoul, South Korea, this week. Yesterday, at a meeting in Seoul with leaders of four other industrialized nations, he urged the creation of a $5 billion dollar lending pool to be made available to the poorest nations. He is also expected to propose measures to meet the debt crisis, possibly in the form of guarantees by the World Bank that would encourage new private loans.

Several Latin American leaders warned the United Nations General Assembly recently against lending conditions so harsh that they imperiled political stability. The Administration appears to have reacted by moving toward a policy of longer-term help that would emphasize economic growth rather than austerity.

Henry Giniger,
Richard Levine
and Milt Freudenheim

N-Y Times
10/6/85

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Steve,

I don't know if you have this summary of Treasury's $5 billion proposal.

The table on the second page shows the funding sources. We tried to show our displeasure on the process during the IMG meeting on Monday, but Treasury is not interested.

Gary Moss

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VIII (C)

MAGAZINE

Weather: Partly sunny, breezy and cool today, light southwesterly winds; clear tonight. Mostly sunny, cool tomorrow. Temperatures: today 60-65, tonight 48-52; yesterday 61-70. Details on page 45.

NY Times 10/6/85

$1.50 beyond 75 miles from New York City except on Long Island $1.25

# U.S. SAID TO URGE MORE ASSISTANCE FOR THIRD WORLD

## A $5 BILLION LENDING POOL

### Treasury Secretary, at Seoul I.M.F.-World Bank Session, Pushes for Aid to Poor

By CLYDE H. FARNSWORTH

Special to The New York Times

SEOUL, South Korea, Oct. 5 — The United States today reportedly urged the creation of a $5 billion lending pool to help third world countries. The proposal came at a meeting here of representatives of five major industrialized nations.

While the results of today's meeting were not made public, Reagan Administration officials have said that Treasury Secretary James A. Baker 3d would urge creation of the fund from existing resources of both the International Monetary Fund and the World Bank — although they have not specified which projects would have to be

PRES

# Tokyo Steps Up Efforts to Placate Congress

Special to The New York Times

TOKYO, Oct. 5 — A delegation of senior ruling-party members left for the United States this weekend carrying the latest list of proposed Japanese actions intended to fend off protectionist legislation in Washington.

The package includes "emergency measures" to stimulate domestic demand and to promote housing and other public works in hopes of both increasing imports and reducing the flow of Japanese capital overseas.

One of the more dramatic suggestions, although not officially endorsed, is to create what sponsors labeled a "Japanese version of the Marshall Plan." It calls on Japan to buy surplus grain from American farmers and then give it free of charge to African countries.

These ideas reflect a continuing debate among politicians and bureaucrats that may be translated before long into a program of tax cuts and other spurs to domestic spending.

**Awaiting Tokyo's Blessing**

But none of the proposals have received full Government approval, and many remain vague. Even if they are enacted, their immediate impact on Japan's huge trade surpluses are expected to be slight.

As a result, the nine-member delegation, representing the long-governing Liberal Democratic Party, did not depart Friday evening with high hopes.

"I don't think we will be able to calm down the atmospherics in the U.S. Congress at one stroke," Susumu Nikaido, the group's leader and the party's vice president, said at a news conference held for the Japanese press. The dollar's sharp drop against the yen in the last 11 days may have changed some American lawmakers' moods, but the situation remains "severe," Mr. Nikaido was quoted as saying.

His group turned aside repeated requests from foreigners for interviews about the trip, whose main purpose, according to newspaper reports, is to show Congress that Japan is now an open market.

"There is a conti
frustration about not
isfy the Americans,"
official said.

The two-week Ni
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maneuvers Japanes
performed lately in
that might persuad
Japan is doing its

Most conspicuous
forts of Prime
Nakasone, who plan
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