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THE WHITE HOUSE
WASHINGTON

August 28, 1975

MR PRESIDENT:

Attached is a memorandum to you from Jim Lynn on the proposed budget commitments to be made in the upcoming UN Special Session and other International meetings. He requests decisions from you on contributions to International Fund for Agricultural Development (Tab A) and contributions to the International Finance Corporation (Tab B).

Secretary Kissinger has submitted, through Brent Scowcroft, a separate memorandum (Tab C) supporting the State Department's position on both issues.

The proposal was staffed to Jack Marsh and Bill Seidman who support the OMB position on the International Fund for Agricultural Development and the State Department's position on contributions to the International Finance Corporation.

Jack Marsh added the following comments: "The major problem I have with all these proposals is consistency for the President on his announced policy of no new spending programs for FY 76. It appears to me that the IFC proposal is more consistent with Presidential policy than the IFAD proposal and consequently, if I am correct, it will be easier to present on the Hill".

Jim Connor

~~SECRET~~
Jim -

Thought this was the best way to handle notifying both of them. Agree?

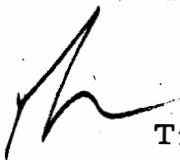
Also I question --
Kissinger's memo is
SECRET --- does your
memo have to be anything
more than Administratively
Confidential?

Trudy

Jim -

Mr. Ogilvie called
you -- wanted to know
decision ---I told him

I also called
Bud McFarlane after
this so they would
not feel slighted.



Trudy

THE WHITE HOUSE
WASHINGTON

August 29, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

HENRY KISSINGER
JAMES T. LYNN

FROM:

JAMES E. CONNOR

SUBJECT:

Budget Commitments in Upcoming UN
Special Session and IMB/IBRD Meetings

The President has reviewed the memorandums dated August 27th submitted by both of you on the above subject and approved the following:

Contribution to International Fund for Agricultural Development

Authorize the State Department to announce that the U.S. is willing to make a direct contribution depending on the final outcome of international discussions, leaving open the possibility of a 1976 budget request.

Contributions to the International Finance Corporation (IFC)

Announce now a U.S. commitment to an expanded IFC Program.

Please follow-up with appropriate action.

cc: Don Rumsfeld

THE PRESIDENT HAS SEEN....
 EXECUTIVE OFFICE OF THE PRESIDENT
 OFFICE OF MANAGEMENT AND BUDGET
 WASHINGTON, D.C. 20503

AUG 27 1975

MEMORANDUM FOR: THE PRESIDENT
 FROM: JAMES F. LYNN
 SUBJECT: Proposed Budget Commitments in Upcoming
 UN Special Session and IMF/IBRD Meetings

As the result of discussions between State, Treasury, AID, OMB, NSC, and CIEP, the attached papers present two major budget issues raised by proposed initiatives in Secretary Kissinger's speech before the UN General Assembly Special Session and Secretary Simon's speech at the IBRD annual meeting next week.

Both initiatives require further international discussion and negotiation before specific amounts and timing are fixed and formal budget requests could be transmitted. Both proposals, however, would commit the United States to seek appropriations in some amount if the negotiations are successfully concluded.

During FY 1976 and FY 1977, these proposals would require approximately \$240 million in additional budget authority distributed approximately as follows:

<u>Proposal</u>	(amounts in millions of dollars)							
	1976		1977		1978		1979	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Direct contribution to International Fund for Agricultural Development	100	5	100	30	--	50	--	50
Payments to Inter- national Finance Corporation	--	--	33-42	5	33-42	22	33-41	33
TOTAL	100	5	133-142	35	33-42	72	33-41	83

The State Department believes that these proposals are extremely significant within the context of the UN Special Session. The United States is at an important juncture in its relations with the developing world and should use the opportunity of the Session to make concrete responses to the fundamental problems which confront these countries. Because the proposals above focus on the critical areas of food production, minerals development, and increased access to private capital by the developing countries, State believes they warrant the commitment of additional U.S. funds. Treasury believes strongly that the United States must highlight the indispensable role that the private sector plays in development through an expansion of the International Finance Corporation program.

The principal arguments against these new initiatives are that:

- budget outlays in 1976 and 1977 would increase by approximately \$40 million;
- initiation of the agricultural fund contribution in 1976 would violate your no new spending policy; and
- both proposals would run counter to your vetoes of domestic spending bills which exceed the budget.

Moreover, in addition to these proposals for increased international assistance, State has proposed formal budget amendments for bilateral foreign aid programs which would add \$106 million to outlays in 1976 and \$173 million in 1977. Finally, budget increases for aid to Middle East countries may add as much as \$450 million in 1976 outlays and possibly \$1.3 billion in 1977.

In addition, State proposes to announce, in Secretary Kissinger's speech, that the United States will ratify the International Tin Agreement. OMB and GSA believe that, as a member of the Tin Council, the U.S. will be under pressure to limit planned disposal of excess tin stocks, which is currently estimated to produce budget receipts of up to \$100 million a year. State has agreed to make clear in implementing the agreement that the U.S. intends to continue its disposal program, whose objectives and procedures would remain unchanged. With this understanding, joining the Tin Council poses no budget threat.

In the speech, there are a number of other initiatives that will have minor impacts on the budget, but the agencies concerned have agreed that these will be financed within 1976 appropriations or the 1977 planning ceilings you have approved.

Attachments

Contribution to International Fund
for Agricultural Development (IFAD)

<u>Proposal</u>	<u>Budget Implications</u> (\$ in millions)							
	<u>1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
The U.S. should participate in this international fund of up to \$1.25 billion with a direct contribution of up to \$200 million	+100	+5	+100	+30	--	+50	--	+50

The establishment of an International Fund for Agricultural Development (IFAD), proposed initially by the OPEC countries, is one of the followup items to the November 1974 World Food Conference. The United States has already announced its intention to participate in the establishment of the fund. The issue now is whether the United States should make a commitment for direct contribution if others are willing to do so.

When you originally authorized U.S. support for IFAD, you indicated that the U.S. contribution would be in the form of an attribution of the planned increase in U.S. bilateral foreign aid for agriculture, which is likely to grow by about \$200 million between 1974 and 1976. However, initial international discussions on the fund indicate that, if the United States contributes by attributing its planned bilateral aid increases, the major oil exporters and other countries will do the same. On the other hand, there is a good possibility that a direct U.S. contribution of perhaps \$200 million could result in a direct OPEC contribution of \$600 million and possibly contributions from other industrialized countries of up to \$400 million. Both France and Germany, however, have indicated that they will not contribute.

There is some Congressional support for a direct IFAD contribution. In June, 28 senators and congressmen wrote to you urging a direct U.S. contribution of \$200 million. The House International Relations Committee has earmarked \$200 million for the fund in its foreign aid authorizing bill for 1976-77 in addition to the full amount requested by the Administration for bilateral aid.

State, AID, and NSC believe that the United States should be prepared to make a direct contribution of up to \$200 million, possibly starting in 1976, if the specifics are worked out to our satisfaction. This contribution and the contributions it could help elicit from other countries would be welcomed by the developing countries. Although the specifics of how the fund will operate have not been determined, the United States will insist that IFAD activities be carried out by the World Bank and the original development banks. This should ensure that the resources are effectively used without creating a new international bureaucracy. It will also draw the OPEC countries into closer cooperation with established international institutions.

OMB, Treasury, and CIEP oppose the proposal for several reasons, noting particularly that it violates your no new spending policy. Although participation in IFAD may direct OPEC aid more toward agriculture, there is no assurance that these countries will in fact provide more total assistance than they would otherwise have given. Nevertheless, because of their early identification with IFAD, the OPEC countries, rather than the United States, may receive most of the credit for it. Finally, although the Congressional authorizing committees may favor a direct IFAD contribution, the appropriations committees are likely to eliminate it. If appropriations are provided, the committees may well offset them by making deeper than usual cuts in bilateral aid to agriculture, for which the United States receives more direct credit, or in planned U.S. contributions to international institutions such as the International Development Association.

DECISION

Authorize the State Department to announce that the U.S. is willing to make a direct contribution depending on the final outcome of international discussions, leaving open the possibility of a 1976 budget request. (State recommendation)

Authorize announcement of a possible U.S. contribution depending on discussions, but not in 1976 because of budgetary pressures.

Reaffirm your earlier decision to limit U.S. participation to the attribution of already planned increases in bilateral aid and not refer to IFAD in the U.N. speech. (OMB/Treasury/CIEP recommendation)

MJ

Contributions to the International Finance Corporation (IFC)

<u>Proposal</u>	<u>Budget Implications</u>					
	(\$ in millions)					
	<u>1977</u>		<u>1978</u>		<u>1979</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
The U.S. should support a major increase and expansion of the IFC's activities to permit World Bank Group investment in the private sector including minerals production in less developed countries (LDCs); total replenishment \$400-450 million; U.S. contribution \$100-125 million	+33-42	+5	+33-42	+22	+33-41	+33

Discussion

An expansion of the International Finance Corporation (IFC) would serve the objective of strengthening the role of the private sector in contributing to the growth of developing LDCs. Within the World Bank Group, the IFC is the primary institution concerned directly with the private sector and the only one able to make equity investments and to loan without government guarantees. State and Treasury believe that in order to play a catalytic role in a substantial expansion of World Bank Group activities in this area, the IFC needs a substantial capital replenishment.

The State/Treasury proposal calls for a \$400-450 million increase in IFC's paid-in capital with a U.S. contribution of \$100-125 million. The increase is intended not only to enable the World Bank Group to expand its role in the private sector in general, but also to enable it to participate in major mineral and other types of projects with multi-national corporations in the developing countries.

Increased World Bank Group involvement in multi-national corporation projects in minerals production and in other areas can provide important benefits to LDCs while at the same time contributing to reducing confrontation by introducing an intermediary respected by both sides for its impartiality and technical competence.

The IFC expansion could also include establishment of an investment trust managed by the IFC to facilitate and increase LDC access to OPEC and private market capital. This would particularly benefit the more advanced LDCs which can rely more heavily on private capital to finance development rather than concessional development assistance. Acting like a mutual fund, the trust would invest in debt and equity of LDC development finance companies and private, public, and mixed enterprises of developing country members, thereby increasing the access of LDCs to international capital markets.

The IFC replenishment and the investment trust, together, would enable the IFC's program (which is also financed by World Bank loans) to expand from a planned level of \$275 million in 1976 to \$1,000-1,500 million by 1980.

State and Treasury believe that the announcement of an IFC replenishment should be made during the annual meeting of the World Bank and International Monetary Fund beginning the week of September 1 in order to begin a negotiating process with other major contributors. We must move now if we are to reach an agreed international position in time to provide for our contribution in the FY 1977 budget.

OMB has major reservations about many aspects of the proposals. It believes that the trust fund proposal, in particular, requires substantial additional study before its feasibility and desirability can be determined. The IFC, itself, has not yet undertaken a study of either proposal. With regard to the additional paid-in capital, OMB suggests that the IFC may be able to substantially expand and redirect its program with its existing funds supplemented by the resources of the World Bank.

Noting that there has been no particularly strong developing-country pressure for an IFC increase, OMB suggests that no commitment to the IFC be made now. Secretary Simon could, in his speech, call for a World Bank Group review of private sector support including the IFC program and the matter could be further reviewed within the U.S. government in the context of the 1977 budget review.

Decision

Announce now a U.S. commitment to an expanded IFC program
(State/Treasury/NSC recommendation) *NSC*

Consider the proposal later in the context of the 1977
budget (OMB/CIEP recommendation) _____

THE PRESIDENT HAS SEEN.....

THE SECRETARY OF STATE

WASHINGTON

~~SECRET~~

August 27, 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Budgetary Implications of the UNGA Speech

As you know, over the past several months I have concentrated on putting together the U.S. position for the Seventh Special Session of the UN General Assembly. In so doing, I have worked closely with other agencies and Congressional interests to ensure an approach which has firm support within the Administration and the country at large.

The proposals the United States makes at the Seventh Special Session will transcend the work of the Session itself and set the tone of U.S. relations with the developing world for at least the next year. A positive American approach can help ensure a constructive dialogue which is politically and economically advantageous to this country. I have therefore attempted to put together a package of proposals which will meet in a concrete fashion some of the critical problems of the developing countries and will provide a work program on which international organizations can usefully focus their time and energy over the next two or three years. This approach will demonstrate constructive U.S. leadership, take the initiative from and blunt the criticism of the developing countries, as well as point out that we expect to receive as well as to provide benefits in our relations with the developing world.

I have, of course, been very much aware of the budgetary impact of our proposals, and have discussed these measures at length with Jim Lynn. Most of the package can be implemented with little or no impact on the budget. The centerpiece -- an export earnings stabilization proposal which would mobilize as much as \$10 billion through the IMF -- requires no budgetary outlay. The proposal on U.S. food aid contributions can be accommodated within the existing budget levels for PL-480. The budgetary impact of the proposals on commodities is minimal or non-existent. The same is true of the proposals on trade and private investment.

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State Dept. Guidelines
By HR NARA, Date 8/27/12

There are two major proposals, however, which would require the commitment of U.S. funds for their implementation.

First, I would propose to announce our readiness to make a direct contribution to the International Fund for Agricultural Development (IFAD) of \$200 million, if others are prepared to make appropriate contributions. We would seek appropriations of a maximum of \$100 million in FY 76 only if the negotiations moved rapidly and such a payment were an essential element of them. IFAD is an extremely important initiative -- a major follow-up item to the World Food Conference. Since the creation of the fund was originally proposed by the OPEC countries, our support for it would be a concrete signal to the producer countries that we are prepared to respond positively to constructive ideas from them. Without a direct contribution from us, however, there is little likelihood that IFAD will get off the ground.

Second, I would propose a substantial replenishment of the resources of the International Finance Corporation (IFC). In order to be meaningful, a replenishment of \$400 - \$450 million would be required of which the U.S. share would be \$100 - \$125 million with budget outlays of \$33 - \$42 million beginning in fiscal year 1977.

This replenishment would serve two objectives.

On the one hand, it would enable the World Bank group to increase its involvement in the development of mineral resources. The traditional sources of capital for the minerals sector are not prepared to invest the amounts of money necessary to guarantee sufficient supplies of basic minerals at reasonable prices in the years to come. An imaginative program of the World Bank and its affiliate organization, the International Finance Corporation (IFC), working together to complement private investment, can make a significant contribution to more stable commodity supplies.

In addition, the replenishment would provide funds to enable the establishment of an investment trust within the IFC as a device to expand the access of enterprises in the middle-level developing countries to international capital. This proposal is designed to focus particularly on the needs of a group of developing countries of political significance to us, e. g., Brazil, Mexico, Taiwan, and Korea.

SECRET

- 3 -

Both Bill Simon and I strongly feel that the IFC proposals should be implemented because of their political impact but also because of the significant impact they would have on the private sector of the developing countries.

I realize that 1976 will be a difficult year for the budget. For that reason I have strongly emphasized the need to come up with proposals with a minimum budget impact. I think we have been successful in this regard. Our financial support for both the IFAD and IFC proposals should receive substantial Congressional support.

I request your approval to include these proposals in my speech at the Special Session.


Henry A. Kissinger

SECRET

