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THE WHITE HOUSE  
WASHINGTON

May 3, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN  
FROM: JAMES E. CONNOR *JEB*  
SUBJECT: 1978 International Development Assistance Issues

The President reviewed your memorandum of April 22 on the above subject and approved the following:

Item 1 - World Bank capital increase

ADB ordinary capital contribution - OMB Level

Asian Fund contribution - OMB Level

Item 2 - Concerning proposals to be announced on Secretary Kissinger's African trip:

Option 1 - Recommended by State, Treasury and AID was approved.

Please follow-up with appropriate action.

cc: Dick Cheney  
Brent Scowcroft

*also see memo  
6/2/76*

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

April 27, 1976

MR PRESIDENT:

1978 International Development  
Assistance Issues

The attached package prepared by OMB was staffed to Messrs. Friedersdorf, Greenspan, Marsh, Seidman, Scowcroft and Austin. Their recommendations are as follows:

Max Friedersdorf, Alan Greenspan, Bill Seidman support OMB recommendation.

Jack Marsh supports OMB recommendation for World Bank capital increase, ADB and Asian Fund contribution, however, concerning additional initiatives he supports the Agencies recommendation Option 1.

Tim Austin made no recommendation but commented as follows: "Control over the growth of Federal spending and a balanced budget in FY 79 are two of the President's strongest issues. No action should be taken which would seriously question the President's ability to achieve these goals unless the accompanying trade-offs are of highest priority."

Brent Scowcroft prepared an entirely new memorandum on this subject (TAB D). NSC's memorandum was reviewed by OMB and they agree to the wording used except where indicated on page 4.

Don Ogilvie believes this is much too complicated an issue to decide in the short time remaining before your departure and believes you might want to take it with you for review.

Jim Connor



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

APR 22 1976

ACTION

MEMORANDUM FOR: THE PRESIDENT  
FROM: JAMES F. LYNN  
SUBJECT: 1978 International Development Assistance Issues

This memorandum reviews a number of development assistance proposals for 1978 and 1979, at least some of which should be decided now in light of (1) certain international negotiations reaching completion, (2) Secretary Kissinger's forthcoming visit to Africa and UNCTAD Conference speech in Nairobi, and (3) the May 15 deadline in the new Congressional budget process. At this point, you need to decide:

- ° How much the U.S. should pledge this month to World Bank and Asian Development Bank (ADB) capital replenishments.
- ° Whether you wish to make decisions now on other development assistance initiatives that can be announced in Africa or delay these decisions until the fall budget review.

The Issues

Secretaries Simon and Kissinger and AID Administrator Parker are proposing that you approve for 1978 and 1979 a number of new foreign aid initiatives and increases in traditional programs (see attached letters at Tab A). The proposals raise two major problems.

- ° Together the proposals would increase the 1978 budget by as much as \$1.5 billion, or 40 percent, above the 1978 planning figures in the 1977 Budget and even more in 1979 (see table on following page). Given Congressional additions to the FY 1978 and 1979 base on domestic programs

INTERNATIONAL DEVELOPMENT AID  
(Program and Outlays in Millions of Dollars)

	1976		1977	1978		1979
	Amended Budget	Est.	Amended Budget	Planning Level	Est. request	Est. request
<b>I. PROGRAM LEVELS</b>						
<b>A. Programs at Issue</b>						
<b>1. Immediate Decisions</b>						
World Bank .....	-	-	-	-	523	523
Asian Development Bank (ADB):						
Ordinary .....	121	121	121	121	225	225
Special .....	50	25	75 <sup>4/</sup>	50	65	65
<b>2. Deferrable Decisions</b>						
International Resources Bank (IRB) .....	-	-	-	-	200	-
Sahel Development program .....	-	-	-	-	100	200
African Development Fund (AFDF) .....	15	15 <sup>2/</sup>	-	-	10	-
Functional Development Assistance (AID)...	930	760	990	966	1,273	1,476
International Organizations and Programs..	230	202	178	178	240	270
International Development Association (IDA)	375	320	430 <sup>4/</sup>	375	1,075	1,075
American Schools and Hospitals (AID) .....	20	20	8	8	25	25
Total - Items at Issue .....	1,741	1,463	1,802	1,698	3,736	3,859
(Excluding Callable Capital) <sup>1/</sup> .....	(1,644)	(1,366)	(1,705)	(1,601)	(3,074)	(3,197)
<b>B. Other Programs Not at Issue</b> <sup>3/</sup> .....	2,850 <sup>2/</sup>	2,805 <sup>2/</sup>	2,377 <sup>4/</sup>	2,334	2,326	2,388
(Excluding Callable Capital) <sup>1/</sup> .....	(2,450)	(2,405)	(2,017)	(1,974)	(1,974)	(1,938)
<b>C. Total - Development Assistance Programs</b> ....	4,592	4,268	4,179	4,032	6,062	6,247
(Excluding Callable Capital) <sup>1/</sup> .....	(4,094)	(3,771)	(3,722)	(3,575)	(5,048)	(5,135)
<b>II. OUTLAYS</b> .....	3,814	3,792	3,410	3,298	3,736	3,975

<sup>1/</sup> Callable capital consists of borrowing guarantees and does not lead to outlays; the \$1.5 billion 1978 budget increase pointed out on page 1 refers to total development assistance excluding callable capital.

<sup>2/</sup> Assumes 1976 supplemental appropriation requests are acted upon favorably.

<sup>3/</sup> Includes P.L. 480 and additional IFI and bilateral assistance programs.

<sup>4/</sup> Includes budget increases for restoration of 1976 appropriation cuts.

by virtue of rejection of many of your FY 1977 cost-savings proposals, and given the prospect of lessened tax receipt growth by reason of lower-than-expected inflation, it is going to be increasingly difficult to put together an FY 1978 Budget that shows only a small deficit and, by FY 1979, a balanced budget.

- Given the lack of Congressional support for foreign aid, an extraordinary effort would be required to obtain the proposed appropriations.

### Timing of Decisions

The proposals are presented to you now for several reasons:

1. International negotiations on the World Bank and ADB capital increases are nearing completion and the United States is expected to make specific pledges of support. Thus, Secretary Simon proposes a \$1.5 billion subscription to a World Bank selective capital increase for 1978-1980 and a \$1.1 billion replenishment of ADB ordinary and special fund resources.
2. Secretary Kissinger wishes to announce several initiatives during his upcoming trip to Africa and the UNCTAD Conference in Nairobi. The initiatives include:
  - Proposing a new International Resources Bank to finance raw materials extraction, with a United States commitment to contribute up to \$200 million in paid-in funds and \$1 billion in loan guarantees.
  - Support for a multinational program for the development of the Sahelian African countries calling for up to \$100 million from the United States in 1978 and up to \$200 million in 1979.
  - An additional \$10 million U.S. contribution to the African Development Bank's special fund.

3. Because of the May 15 Congressional deadline for 1978 authorizing legislation, AID and State have submitted proposals for:
  - A 1978 bilateral development aid program which would be \$300 million above the budget planning level for 1978 and \$500 million above the planning level for 1979.
  - Voluntary UN contributions which are \$60 million over the 1978 planning level and \$90 million over the 1979 level.

In addition, Secretary Simon has pointed out that international negotiations are now under way on a critical fifth replenishment of the International Development Association (IDA V) aiming toward a decision among donor countries late in the fall or early next year. This could call for an increase in budget authority of as much as \$700 million each year over the planning levels for 1978-1980, and raises the question of whether authorizing legislation should be transmitted now for 1978.

While the agencies present good arguments for deciding now on some of the proposals, the magnitude of the budget and Congressional difficulties argue that all should be carefully reviewed as a group in the overall 1978 Budget context. Given likely 1978 Budget stringency, decisions on the programs raise a number of basic issues and choices:

- Between foreign aid and other Government programs.
- Within foreign aid, between security assistance (which is likely to increase above 1978 targets) and the development aid programs.
- Within development aid, between:
  - Multilateral and bilateral programs.
  - New initiatives and ongoing activities.
- Between Presidential proposals that have a reasonable chance of being approved by Congress and the international repercussions of making commitments that are broken through Congressional rejection.

Because of the complexity and importance of these choices and because many of the above proposals have not been completely developed, a full-scale review cannot be undertaken in the next few weeks.

### Recommendations

In the absence of such a review, you should consider the proposals in two groups:

1. Because of international negotiating deadlines, all agencies agree that you should make decisions now on:
  - ° The proposed \$1.5 billion U.S. contribution to the World Bank's selective capital increase. All agencies recommend approval. Outlays would increase by \$52 million in 1978 and in 1979.
  - ° A U.S. contribution to an increase in the Asian Development Bank's ordinary capital resources, which lends to the economically stronger Asian LDCs (OMB recommends no paid-in funds, all other agencies support up to \$135 million paid-in). Outlays would increase by \$34 million in 1978 and in 1979 over the OMB recommendation.
  - ° A contribution to an Asian Development Fund replenishment for soft loans to the poorer LDCs (OMB recommends \$150 million during 1977-1979, all other agencies recommend \$180 million). Outlays would increase by \$1 million in 1978 and in 1979.

DECISION: See attached issue papers at Tab B.

- ° Approve World Bank capital increase. NR7
- ° Approve ADB ordinary capital contribution
  - OMB level NR7
  - Agency request NR7
- ° Approve Asian Fund contribution
  - OMB level NR7
  - Agency request NR7



2. Interagency disagreement centers on the three proposals to be announced on Secretary Kissinger's African trip.

### Option 1

State sees major foreign policy benefits in Africa resulting from proposals for the Sahelian initiative and the African Development Fund. They believe that announcement of the International Resources Bank will further help improve the North-South dialogue at UNCTAD and at the Paris Conference on International Economic Cooperation. State does not recommend announcing a specific figure for a U.S. contribution to the Sahel initiative at this time, pending the results of further study and international negotiations. They feel very strongly, however, that the U.S. must announce its intentions to contribute \$200 million to the International Resources Bank, if this initiative is to attain its foreign policy objectives. For bilateral aid, UN programs and IDA, State, Treasury, and AID would propose that indefinite rather than specific authorizing legislation be transmitted by May 15.

Treasury is formally requesting the additional resources for the African Fund. Treasury also concurs in Secretary Kissinger's proposing the idea of an International Resources Bank, but Treasury places a higher priority on contributions to the development banks than to IRB.

Although not explicitly stated, the Option 1 approach assumes that priority will be found in the budget this fall to permit these initiatives as well as any increases you subsequently approve for AID, UN contributions, and a subscription to IDA V.

### Option 2

OMB believes that the United States should propose no additional initiatives now. Even without specific funding commitments, U.S. sponsorship of new programs will ultimately call for our financial support, probably at or near the levels the agencies have proposed. OMB also questions why, after the many initiatives the United States proposed at the September 1975 UN Seventh Special Session, additional programs must be proposed only seven months later.

Given the tight 1978 budget situation, it is unlikely that foreign aid spending can be increased in the amounts proposed by the agencies for development aid plus the probable

increases in security assistance. If this is so, the new programs will preempt increases, and possibly even force cutbacks, in ongoing bilateral programs and in U.S. support for IDA. This would undercut the foreign policy benefits which might accrue from the new programs, and would result in increasing programs of unknown usefulness at the expense of programs whose effectiveness has been more clearly established. OMB, therefore, recommends that all of the proposed initiatives and program increases be deferred for consideration in the fall budget review, at which time we should have a much better understanding of the major proposals (especially the IRB, the Sahelian initiative, and the options for IDA V). For the interim, OMB recommends transmitting indefinite authorizing legislation only for bilateral aid and UN programs.

DECISION: See attached issue papers at Tab C.


- ° Approve Option 1 (State, Treasury, AID)
- ° Approve Option 2 (OMB)

MR4

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Attachments





THE SECRETARY OF THE TREASURY

WASHINGTON

APR 8 1976

Dear Mr. President:

In order to conclude international burdensharing negotiations and to comply with the new Congressional budget schedule, I am requesting your approval of several positions on replenishment of the international development banks. The proposed positions have been developed in the NAC (National Advisory Council) and are supported by all the voting agencies (State, Treasury, Commerce, Federal Reserve and Ex-Im); on two cases OMB recommends lower amounts.

Asian Development Fund. We requested Congress to provide \$150 million for the first three years of this Fund which lends to the poorest countries in Asia. Appropriations have been delayed and for FY 76, Congress is cutting our \$50 million request in half. Other donors have agreed on a replenishment for 1976-78 at 150 percent of the initial contributions -- \$231 million for the United States. State points out the immense importance of an adequate U.S. contribution to show our continued support for the Asian region. The NAC agencies believe a modest increase to \$180 million would show such U.S. support. OMB believes we should stick at the previous \$150 million level. We need to inform the Asian Development Bank of our decision by April 9 to permit approval of the burdensharing arrangement at the annual meeting starting April 22.

Asian Development Bank Capital. In negotiations on a replenishment of the capital of the Asian Development Bank, we are pressing for measures to improve its financial condition. If these measures are agreed, the NAC agencies recommend approval of a new U.S. capital subscription between \$600 and \$900 million over the four years FY 78-FY 81. Of this, only 10-15 percent would be paid-in capital requiring budget outlays; the remainder is callable capital to back ADB borrowing in world capital markets. OMB believes the paid-in contribution should be smaller than 10 percent.

World Bank Capital. Similarly, we are seeking improvements in the financial structure of the World Bank in connection with negotiations on a capital increase. If the necessary financial steps are taken, all NAC agencies recommend the U.S. take up its share of about \$1.5 billion, of which 10 percent or about \$150 million would be paid-in with appropriations over the three years FY 78 to FY 80.

African Development Fund. The Congress has raised our authorization request from \$15 million to \$25 million. State believes it is important for our relations with Africa that we announce promptly that we plan to seek appropriation of the additional \$10 million in FY 78 to avoid a situation where the Administration appears to be refusing modest assistance urged by the Congress. All NAC voting agencies concur.

The total budgetary requests required by the foregoing would be relatively small -- altogether about \$155 million -- and actual budget outlays would be spread well into the 1980s. The U.S. share of contributions to these banks would be reduced, but the amount of U.S. contributions tends to increase modestly as the banks increase their scale of operations partly to keep up with inflation.

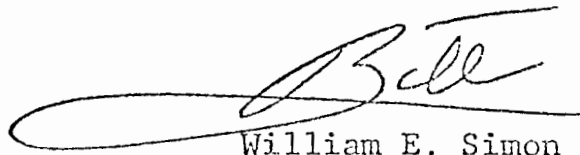
The above covers all the development bank decisions I believe you should make in 1976. However, you should be aware that the largest and most difficult decision will soon be pending -- the size and nature of the U.S. contribution to the next IDA replenishment. The IDA is now committing \$500 million annually of U.S. funds; by agreement with other donors we started seeking appropriations a year late; and by spreading our appropriations over four years we seek \$375 million a year. Thus, the IDA is making firm commitments of U.S. funds faster than we are seeking (or getting) appropriations. For our first contribution to IDA IV (FY 76) it now appears Congress will give us only \$320 million because of Congressional concern that India does not use its 40 percent of these funds well and that salaries in the World Bank are too high.

Although we are committed to U.S. contributions to IDA IV through FY 79, negotiations for IDA V are already underway with a target of completion this fall to permit IDA to continue

making credits after June 1977. Most other countries are prepared to increase their IDA contributions substantially. Even if we can negotiate a reduction in our share, we may be under great pressure to double our annual contribution level. We may also have to double up, i.e., ask for appropriations for IDA IV and V in the same year in FY 78 or FY 79. I do not believe that you should make an IDA V decision on the proposed schedule. Instead, this issue should be addressed early in 1977. In the meantime, you will want to keep this large potential requirement in mind when making other aid decisions. The amount of potential flexibility on the four decisions recommended in this letter is marginal in relation to IDA requirements.

I strongly recommend that you approve the four budget decisions above. Failure to play our part in the international development banks would have an immense impact on our stature in the world and the modest increases in budget outlays will not interfere with our overall budget targets.

Faithfully yours,



William E. Simon

The President

The White House

THE SECRETARY OF STATE  
WASHINGTON

March 16, 1976

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*Jimm*  
Dear ~~Mr.~~ Lynn:

This letter transmits legislative funding proposals for foreign economic assistance for FY 1978 pursuant to requirements in the new budget act. Because the development assistance portion of the A.I.D. program has been on a two-year legislative cycle, our proposals for those accounts cover both fiscal years 1978 and 1979.

The State/AID recommendations are based on a careful review of development assistance requirements and reflect the importance of the foreign aid program in the implementation of the President's foreign policy. In brief summary, I recommend that the authorization request for FY 1978/79, to be transmitted by May 15 of this year, contain amounts sufficient for a program at the levels shown on enclosure 1.

I am not at this time proposing a level for the FY 1978 Security Supporting Assistance program, the bulk of which is for Middle Eastern countries. We shall submit our recommendations as soon as we are better able to assess the status of the negotiating process and forecast with more accuracy the economic situation in the countries concerned in FY 1978.

I have proposed substantial increases for bilateral Development Assistance and International Organizations; I recognize that this involves major policy choices and decisions for the President. The details of the Development Assistance program are at enclosure 2.

The Honorable  
James T. Lynn, Director,  
Office of Management and Budget.

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~~CDS~~

*Classification markings  
lined through prior  
to review. kse shc/88*

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In real terms the effective size of the bilateral Development Assistance program has been on the decline for some years. I believe that a major increase is warranted at this time for the following important reasons:

- If we are to avoid corrosive and bitter confrontation between rich and poor countries, it is essential that the United States take an active leadership role in stimulating international economic cooperation. A constructive North-South dialogue requires that we increase both bilateral and multilateral levels of assistance.
- The LDCs--particularly the poorest--will continue to press for comprehensive debt relief and a greater allocation of SDRs, both of which we oppose. We need a positive alternative which a substantial increase in the bilateral program would provide.
- The U.S. contributes less to development aid--relative to GNP--than do most donors and our performance is getting worse. We cannot expect to exercise effective leverage on OPEC countries to increase their assistance levels unless we improve our performance.
- The Congress will be evaluating our progress against the reform legislation of 1973 as amended in 1974 and 1975. The FY 1975-77 period has been a time of transition and consolidation. U.S. bilateral aid levels have remained roughly constant and our energies have been directed to changing the focus of the program. But the basic groundwork has been laid for a substantial increase in the level of development aid. Congressional support has grown--the margin of victory for this year's foreign aid bill was unprecedented--and we have carried out a number of internal reforms to insure that we can effectively manage an increase of the magnitude proposed.

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The proposals contained in this letter do not include funds for the International Fund for Agriculture Development (IFAD) or for a major development program that we are designing for the Sahel.

Negotiations with other donors--mainly the OPEC countries--on IFAD are not yet complete. The FY 1977 budget includes a first \$200 million tranche in FY 1976, subject to donor agreement. If and when these negotiations bear fruit, we may decide to propose a second follow-on tranche for IFAD in 1978 or 1979.

In regard to the Sahel, we have been working for some months on a multidonor, multiyear development concept. The Congress has expressed a strong interest in this area and has asked that we develop a comprehensive development program and forward a report together with funding recommendations to the Congress by April 30. The basic proposal should be available for review by mid-March.

Finally, the proposals contained in this letter exclude funding for U.S. contributions to the International Financial Institutions (IFIs). These activities will be covered in a similar submission from the Treasury Department.

In this connection, while growth in both bilateral and multilateral assistance is needed and appropriate, it is important that overall budget constraints not force a trade-off that would undercut the bilateral programs. The United States has a variety of means within the general category of foreign assistance by which it can inject national interests and objectives into the process of international economic development. The instrument which is most immediately responsive to Executive Branch decision making and is directly representative of U.S. technology and institutions is the bilateral aid program.

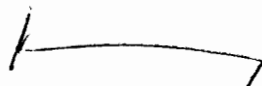
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Please let me know if you need further information in support of these programs.

Best regards,

  
Henry A. Kissinger

Enclosures

1. A.I.D. Program Levels
2. Development Assistance Program

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CONFIDENTIALA.I.D. Program Levels - \$ millions

	<u>1977 Budget Request</u>	<u>1978</u>		<u>1979</u>	
		<u>Proposed</u>	<u>% increase over 1977</u>	<u>Proposed</u>	<u>% increase over 1978</u>
Bilateral Development Assistance	1,225	1,525	+24%	1,733	+14%
International Organizations	178	240	+35%	270	+12%
Security Assistance	<u>1,841</u>	"Amounts as may be necessary" <u>-</u>			<u>N/A</u>
Total, AID	3,245	1,765	N/A	2,003	N/A

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Agency for International Development

1978/79 Authorization Levels

Budget Authority

	<u>1978</u>	<u>1979</u>
Functional Development Accounts	1,400	1,600
International Organizations and Programs	240	270
International Disaster Assistance	25	25
Contingency Fund	10	10
American Schools and Hospitals Abroad	25	25
Foreign Service Retirement Fund	<u>17</u>	<u>17</u>
Total, A.I.D.	1,717	1,947

## Agency for International Development

Program Level by Regional Bureau  
(\$ millions)

	FY 1976 <u>Proposed</u>	FY 1977 <u>Budget</u>	<u>Proposed</u>	
			<u>FY 1978</u>	<u>FY 1979</u>
Africa	<u>157</u>	<u>200</u>	<u>265</u>	<u>300</u>
Grants	<u>87</u>	<u>125</u>	<u>140</u>	<u>155</u>
Loans	<u>70</u>	<u>75</u>	<u>125</u>	<u>145</u>
Asia	<u>322</u>	<u>336</u>	<u>435</u>	<u>535</u>
Grants	<u>62</u>	<u>67</u>	<u>70</u>	<u>100</u>
Loans	<u>260</u>	<u>269</u>	<u>365</u>	<u>435</u>
Latin America	<u>233</u>	<u>201</u>	<u>230</u>	<u>230</u>
Grants	<u>46</u>	<u>50</u>	<u>50</u>	<u>55</u>
Loans	<u>187</u>	<u>151</u>	<u>180</u>	<u>175</u>
Near East	<u>31</u>	<u>43</u>	<u>50</u>	<u>47</u>
Grants	<u>20</u>	<u>20</u>	<u>25</u>	<u>25</u>
Loans	<u>11</u>	<u>23</u>	<u>25</u>	<u>22</u>
Centrally funded Technical Assistance	<u>62</u>	<u>77</u>	<u>100</u>	<u>125</u>
Centrally funded population programs and assistance to Private Voluntary Organizations (UNFPA)	<u>118</u> <u>(21)</u>	<u>125</u> <u>(25)</u>	<u>180</u> <u>(42)</u>	<u>225</u> <u>(46)</u>
Other	<u>8</u>	<u>9</u>	<u>13</u>	<u>14</u>
Operating Expenses	<u>175</u>	<u>176</u>	<u>175</u>	<u>180</u>
Total	<u>1,104</u>	<u>1,166</u>	<u>1,448</u>	<u>1,656</u>
Grants	<u>403</u>	<u>472</u>	<u>578</u>	<u>699</u>
Loans	<u>527</u>	<u>518</u>	<u>695</u>	<u>777</u>
Operating Expenses	<u>175</u>	<u>176</u>	<u>175</u>	<u>180</u>

Agency for International Development  
Summary of Program Levels - FY 1978/79

	<u>FY 1976</u> <u>Request</u>	<u>FY 1977</u> <u>Budget</u>	<u>1978</u>	<u>1979</u>
Functional Account	1,104	1,166	1,448	1,656
Other	<u>138</u>	<u>59</u>	<u>77<sup>1/</sup></u>	<u>77<sup>1/</sup></u>
Bilateral Development Assistance	1,242	1,225	1,525	1,733
International Organizations	197	178	240	270
Security Assistance	1,882	1,806	Amounts	-
Middle East Special Requirements Fund	<u>50</u>	<u>45</u>	as may be necessary	<u>-</u>
Total A.I.D.	3,371	3,245	1,765	2,003

1/ Composed of: \$25 million for International Disaster Assistance; \$10 million for the Contingency Fund; \$25 million for American Schools and Hospitals Abroad; \$17 million for Foreign Service Retirement Fund.

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT RECEIVED  
WASHINGTON

MAR 15 10 10 AM '76  
OFFICE OF  
MANAGEMENT AND BUDGET

APR 15 1976

THE ADMINISTRATOR

Honorable James T. Lynn  
Director  
Office of Management and Budget  
Washington, D. C. 20503

Dear Jim:

In his March 16, 1976 budget letter to OMB, the Secretary of State indicated he would be submitting proposed FY 1978 legislation for U.S. participation in a long-term, multi-donor, international development investment program for the African Sahel. The proposed legislation which reflects the program approved by the Secretary is at Tab A.

A.I.D. has been working with other donors and affected African states for the past year on the development of this program. A major step forward was taken at the March 29-31 Dakar meeting of the Club des Amis du Sahel. The Club, representing a broad spectrum of bilateral and multilateral donors and all the Sahelian states, unanimously agreed that a long-term Sahel development program was both feasible and necessary. The donors and Sahel states agreed to support such an effort.

The Club established working groups to develop a specific development strategy based on World Bank, FAO and other donor reports and recommendations already available. The working groups are scheduled to have their reports ready by the end of the year.

If we are to secure the necessary Congressional authority in sufficient time for the United States to meet the Club des Amis schedule, we must make a formal presentation of the new program to the Congress as part of our FY 1978 budget presentation.

We believe this new program is strongly justified on grounds of U.S. foreign policy interests, as an expression of American humanitarian principles, on its long-term cost effectiveness, and its technological feasibility.

Among the foreign policy factors which lie behind this proposal are:

- The top priority for all African countries is economic development. A significant demonstration of interest in Sahelian development would be highly visible well beyond the directly-benefitted nations and thus serve to enhance our position in the entire continent.

- Concrete steps are needed to help assure U.S. access to African raw materials and to trade and investment opportunities as Africa becomes increasingly important to us in economic terms.
- Greater U.S. support for the Sahel will contribute to progress in the overall North-South dialogue which, inter alia, calls for greater concentration on the needs of the poorest nations.

Major U.S. humanitarian responses to African drought disasters have been appreciated as has A.I.D.'s increased regular bilateral development assistance to the area. It would, however, be prohibitively costly to repeat in future years the recent drought relief effort; moreover, continuing welfare costs will be enormous if there are no substantial increases in production and incomes. What is needed is a new program for accelerated growth and permanent development for the Sahel.

Attached at Tab B are further details of the development problem of the Sahel and the proposed post-drought initiative. An important distinction must be made between the regular A.I.D. bilateral programs to the area (e.g. \$65 million proposed for FY 1977) and the special Sahel investment program. While the levels of funding anticipated for our ongoing programs will contribute to a gradual improvement in the quality of life, these programs will never be sufficiently large to permit major breakthroughs to achieve permanent transformation of the area.

The special Sahel investment program will build upon the technology and human resources developed under the regular program but, with a critical mass of funds, will apply these technologies to significant infrastructure and other programs on a broader more systematic basis throughout the region. While coordination and integration must be achieved between these two levels of the aid program to the area, their uniqueness should be maintained, at least in the medium term.

The financial and budgetary implications of this new legislation are as follows:

1. Total contributions from all sources will be substantial over the coming two decades. In the first seven to ten years a total of \$7-8 billion is anticipated of which the foreign donor share is projected at \$5 billion.
2. U.S. contributions of approximately one billion dollars are proposed to this special program in addition to somewhat decreasing levels of regular assistance for short and medium-term programs.
3. The proposed legislation authorizes U.S. participation in the Sahel investment program on the basis of equitable burden sharing with other donors, with the U.S. share not to exceed 20 per cent of total external contributions. The legislation



authorizes A.I.D. to commit up to \$300 million at this time.

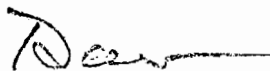
4. Because of the long-term nature of the program to be financed under this authorization, actual expenditures against these commitments would run over several years. Outlays in FY 1978, the first year of the program, would be about \$20 million.

We believe the Congress is prepared (as indicated in FAA Section 494b) to support this initiative based on its strong and continuing interest in a new assistance approach for the Sahel. Moreover, the President's decision to seek Congressional approval now would galvanize African and other donor efforts to assure that the long-term Sahel development program becomes a reality.

As you are aware, the Secretary is planning a trip to Africa the end of this month. Announcement of Administration determination to seek this Congressional authority could provide a critically important element for the Secretary's forthcoming African trip. It is urgent, therefore, that immediate consideration be given to this proposal.

I would be pleased to meet with you to discuss this proposal in more detail.

Sincerely yours,



Daniel Parker

Attachments

The draft 1978-1979 authorization bill transmitted on March 4, 1976 is amended by inserting immediately after line 25 on page 6 a new section 7 and by renumbering the following sections accordingly:

SAHEL DEVELOPMENT PROGRAM

SEC. 7. Chapter 9 of Part I of the Foreign Assistance Act of 1961 is amended -

(1) in section 494B by amending the caption to read "African Development Program - Planning";

(2) by inserting immediately after section 494B, the following new section:

"Section 494C - AFRICAN DEVELOPMENT PROGRAM -

NEGOTIATION AND IMPLEMENTATION

(a) In order to demonstrate the commitment of the United States Government to a comprehensive, multi-donor, long-term development program for the Sahel, the President is authorized (1) to enter into negotiations, based upon the proposal furnished to the Congress pursuant to section 494B(d), with members of the Club des Amis du Sahel to establish a strategy, program and international coordinating mechanism for the development of the Sahelian region and (2) to participate in and contribute to the implementation of the resulting long-term development plan by furnishing assistance on such terms and conditions as he may determine on the basis of equitable burden sharing with other donors; provided, however, that United States contributions pursuant to this authorization shall not exceed 20 per cent of the total external contributions to this long-term Sahel development program.

(b) There is authorized to be appropriated to the President for the purposes of this section, in addition to funds otherwise available for such purposes, \$100,000,000 for fiscal year 1978, and \$200,000,000 for fiscal year 1979 which amounts are authorized to remain available until expended.

(c) The President shall submit to the Congress full and complete data concerning United States participation in and operation of the long-term development program for the Sahel, together with proposals for further contributions to such program in the annual presentation materials on proposed economic assistance programs.

## Post-Drought U.S. Initiatives in the African Sahel

### A Proposal for an Assistance Program for the Sahel

#### The Problem

The drought in the Sahel has been a dramatic demonstration of the seriously deteriorating ecological condition of this region. The drought has made clear several phenomena which are underway:

- Desertification is occurring on a large scale.
- Food production capacity in West Africa is seriously threatened. It is estimated, on the basis of present trends, that in ten years the Sahel will have the requirement to import one million tons of cereal in a normal year, equal to the largest imports made at the height of the drought.
- A repetition of the recent disaster, at much higher financial cost to the international donor community, is probable.

Further degradation of this region will occur unless dramatic new steps are taken. This degradation will affect much more than just the Sahel:

- There will be increased population pressures on reduced arable land, causing movements into other areas and subjecting them to deterioration.
- Widespread desertification can affect worldwide climate adversely -- dust from the Sahel drought affected climatic conditions in the Caribbean in 1973.

#### The Proposed Solution

The Africans and a number of other bilateral and multilateral donors are agreed that a major attack should be made on the ecological, economic and food production problems of the Sahel. This will be a difficult, time-consuming and complex task. One will be dealing with fundamental economic and social issues in an area approximately two-thirds the size of the United States.

Traditional aid levels and methods in the Sahel have not been able to bring about the necessary growth. Thus, AID has developed a proposal for a comprehensive multi-donor program -- the International Development Investment Program for the Sahel.

This program which we propose for the Sahel -- like the recent IFAD initiative -- will attack the multifaceted problems of development in terms of a comprehensive strategy which interrelates planning and financial justification of required programs in a broad methodological way. It is planned so that each of the parts contributes to a definable end product -- eventual self-sufficiency of the Sahel region.

This program:

- Can provide mechanisms for donors and Africans to reach agreement on program priorities and appropriate technologies to be applied.
- Is aimed at regional needs but allows the African states to participate either on a national basis or through strengthened regional institutions.
- Provides the means through which donors can work in concert even though many of their contributions may, in fact, be made on a bilateral basis.
- Can build on the planning, organizing and coordinative capacity of existing multilateral organizations while permitting national donors to retain technological control and obtain appropriate credit for their participation.

A forum exists in which this comprehensive program strategy can now be elaborated. Through the efforts of the Chairman of the Development Assistance Committee, the Africans have welcomed the formulation of a new international coordinative mechanism -- the Club de Amis du Sahel.

#### U.S. Participation

AID has estimated that if the international community were to organize effectively for a systematic and comprehensive attack on the Sahel's development problems, foreign and local investment could be mobilized and permit substantial movement toward regional self-sufficiency. Investment would be devoted to:

- Initiating the development of major river basins -- the Senegal, Gambia, Niger and Volta, as well as the Lake Chad Basin -- to reduce dependence on annual rainfall and promote food production.
- Developing broader and more comprehensive programs for utilization and conservation of groundwater.
- Undertaking a major broad-scaled effort to improve use of dry land areas for crop and livestock, particularly in the period until comprehensive water resources development can have an effect.
- Developing transportation industries related to improved agriculture.

- Undertaking major reforestation programs.
- Developing basic infrastructure, especially transportation and communications.
- Mounting a concerted, massive attack on the problems of disease and inadequately trained human resources.



## International Financial Institutions

### Issue #1: World Bank Selective Capital Increase

#### Statement of Issue

Should the United States approve and contribute to the World Bank's selective capital increase?

#### Background

The World Bank has proposed a selective increase of \$8.3 billion in its ordinary capital or 33 percent. This would adjust members' shares in the Bank to parallel their new IMF quotas. The increased U.S. share, \$1,569 million with \$157 million paid-in and \$1,412 million callable, would be payable in three equal annual installments from 1978 to 1980. Outlays would be \$52 million each year.

Although based on adjustments in members' shares in the IMF, the Bank's proposal also reflects its need for capital. The Bank's review of the financial implications of its projected lending program -- rising from \$5.0 billion in 1976 to \$7.7 billion in 1978 and \$9.8 billion by 1985 -- indicated a need to double its current capital from \$30 billion to \$60 billion. The Bank has recommended a two-step approach: 1) the proposed selective capital increase; and 2) a general capital increase in the early 1980's on which negotiations would commence in 1977 or 1978.

Treasury has questioned the Bank on two issues: 1) the present size and growth of the Bank's lending program; and 2) the soundness of the Bank's financial policies. The first issue arose because the Bank's annual lending program exceeded levels that could be sustained without a further capital increase (by its charter, total Bank loans cannot exceed member subscriptions plus retained earnings). The Bank has, thereby, in the past forced donors either to support additional capital increases or allow its lending program to decline sharply. In the current negotiations, Treasury has forced Bank management to agree to limit future lending to levels that can be maintained without further capital increases. As a result, the Bank's lending will not increase significantly above the planned level for 1977, \$5.8 billion, until a general capital increase is agreed upon.

The second issue involves the financial objectives of the Bank and remains in some dispute, although the Bank is not seeking the endorsement of future increases in its lending or financial programs at this time.



## Alternatives

- #1. Approve the proposed increase and subscribe to the full U.S. share if the Bank adopts financial objectives satisfactory to Treasury (Treasury and OMB).
- #2. Delay a U.S. commitment to the selective capital increase pending an overall review of the future role and mission of the Bank.

## Analysis

### Program(P) and Outlays(O) (In millions of dollars)

<u>World Bank: Selective</u> <u>Capital Increase</u>	1977		1978		1979		1980		1981	
	P	O	P	O	P	O	P	O	P	O
Alt. #1	xxx	xxx	523	52	523	52	523	52	xxx	xxx
Alt. #2	xxx	xxx	0	0	0	0	0	0	xxx	xxx

In negotiating with Bank management, Treasury has concentrated on the immediate financial concerns, leaving basic issues for later. In Treasury's view, the immediate concern is the Bank's need to arrest the decline in its financial indicators in order to assure the confidence of investors in the Bank's bonds and avoid a liquidity crisis which could trigger calls on members' callable capital. Specifically, Treasury argues that the decline in the Bank's ratio of reserves to outstanding loans must be more quickly reversed than will occur with current financial policies and that reserves must grow congruent with increases in risk in the loan portfolio. To accomplish this, Treasury has pressured the Bank very hard, and has effectively committed the United States to support the selective capital increase if our requests were accepted. OMB believes these initiatives have been timely and that the United States now has no choice except to support the increase. The increase has the approval of the National Advisory Council (NAC) which is composed of Treasury, State, Commerce, Federal Reserve Board and EXIM.

OMB also believes, however, that it is important that the Bank's future role and financial structure be analyzed further. In fact, if it were not for the degree of the U.S. commitment to the selective capital increase, OMB would argue for a full scale review prior to any capital increase.

International Financial Institutions

Issue #2: Asian Development Bank Ordinary Capital

Statement of Issue

Should the U.S. continue to provide paid-in capital for the Asian Development Bank's ordinary lending?

Background

The Bank's proposal for the 1977-1981 replenishment of ordinary capital is for a \$5 billion, 135 percent, capital increase with 15 percent, \$744 million, paid-in. A proportional U.S. share would be \$814 million with \$122 million paid-in, or 16 percent of the total increase. Subscriptions would be made in four annual installments of \$204 million with an outlay impact of \$30 million a year from 1978-1981.

Under the proposal, the Bank's annual lending could rise from \$494 million in 1975 to \$925 million in 1981. The major recipients of the Asian Development Bank's (ADB) ordinary capital loans are countries of special interest to the United States--Korea, Indonesia, Pakistan, Philippines, and Thailand. Loans are also planned for Malaysia, the relatively wealthy enclaves of Hong Kong and Singapore, and a few smaller recipients.

Alternatives

- #1. Support a capital increase of up to 150 percent of the Bank's capital with up to 15 percent paid-in, U.S. contribution up to \$900 million with \$135 million paid-in (Treasury req.).
- #2. Limit the U.S. contribution to callable capital with no budgetary impact (OMB rec.).

Analysis

Program (P) and Outlays (O)  
(In millions of dollars)

Asian Development Bank Ordinary Capital	1975		1976		1977		1978		1979		1980		1981	
	P	O	P	O	P	O	P	O	P	O	P	O	P	O
Alt. #1 (Treasury req.)	121	20	121	44	121	24	225	48	225	34	225	34	225	34
Alt. #2 (OMB rec.)	121	20	121	44	121	24	225	14	225	0	225	0	225	0

Treasury, with NAC approval, wants to negotiate a replenishment of ADB capital of 100-150 percent with 10-15 percent paid-in. Treasury proposes to agree to a proportionate U.S. share in the capital increase in exchange for agreement by ADB management to increase interest rates and loan charges and to reduce grant technical assistance in order to strengthen the Bank's income position. Treasury believes that a capital increase with paid-in subscriptions is necessary to get management to agree to these internal policy changes. Without the policy changes, Treasury believes the Bank will not be on a sound financial footing.

- They believe that the ADB requires further paid-in capital to be able to borrow from the private market at reasonable costs. (The ADB currently pays a slight premium compared to the older and more established banks.) Additional paid-in capital would reduce the Bank's borrowing requirements (by about 10 percent) and enable the ADB to maintain financial indicators substantially better than the other banks.
- They believe the Bank's concentration in a relatively small number of countries increases the risk of defaults, and indicates the need to maintain superior financial indicators.
- Treasury is also concerned that the Bank's borrowings are relatively short term, while its lending is long term. This exposes the ADB to sudden increases in interest rates which could reduce earnings and affect financial indicators. Treasury believes that the Bank must, therefore, receive additional paid-in capital as well as tighten its own financial policies.
- In addition, State believes that a paid-in contribution is necessary to show political support for the Bank, particularly given the recommendation to reduce the indicated U.S. share in the soft-loan replenishment (see Issue #3).

OMB also believes that the Bank needs to develop lender confidence--the Bank has only recently entered capital markets to raise sizable sums--and shares this concern over financial

soundness. However, OMB believes the ADB's current financial position is strong and can remain so without further injections of cost-free paid-in capital. The OMB position is based on the belief that the hard-loan windows are already sufficiently subsidized through paid-in capital and accumulated reserves; and in the absence of compelling arguments to the contrary, OMB believes the Bank should be encouraged to move toward a position of greater financial self-sufficiency. Moreover, the ADB is unlikely to make needed financial policy changes if the expectation of further infusions of paid-in capital makes them unnecessary.

- The ADB presently has 32% of its capital paid-in, compared to 16 and 10% for the Inter-American and World Banks. The ADB's paid-in capital as a share of total would remain the highest of all major IFIs without any additional paid-in capital.
- Comparisons of projections show that the ADB's financial indicators will be twice as strong as the World Bank's by 1981, without any paid-in capital contributions or financial policy changes.
- Even if the ADB's target financial indicators were accepted as appropriate, the Bank can attain its desired financial ratios by bringing its financial policies into line with those of the other development banks.
- The Bank has not yet submitted the requested analysis of the possible financial impact of a sudden rise in interest rates. OMB's tentative analysis indicates that the problem is not significant.
- Finally, if the ADB continues to require proportionately two to three times the equity capital of other banks, then investment by the U.S. in this Bank is inefficient and the U.S. should rely on the World Bank instead.

Agency Request: Alternative #1. Treasury requests Secretary Simon be permitted to commit the United States to an increase in our contribution to the ADB's ordinary capital of up to 150 percent or \$900 million with up to \$135 million paid-in.

OMB Recommendation: Alternative #2. OMB recommends that Secretary Simon be instructed to negotiate a capital increase consisting entirely of callable capital.

Decision:

Approve Treasury request (State and NSC concur). \_\_\_\_\_

Approve OMB recommendation. \_\_\_\_\_

## International Financial Institutions

### Issue #3: Asian Development Fund

#### Statement of Issue

What total contribution should the U.S. agree to provide to the replenishment of the Asian Development Fund (ADF)?

#### Background

A replenishment resolution was adopted by the Bank in December 1975 calling for total contributions of \$830 million, 150 percent of current resources, with an implied U.S. share of \$231 million or \$77 million a year. Because of past congressional delays and budget cuts, Treasury did not commit the U.S. to provide a specific amount for the replenishment. Subsequently, Congress cut \$25 million from the \$50 million request in 1976 for the last installment on the previous replenishment. The 1977 budget includes \$50 million for the first U.S. installment, to which the \$25 million reduction in 1976 will be added.

#### Alternatives

- #1. Increase annual contribution to \$77 million per year, (ADB resolution).
- #2. Increase annual contributions to \$65 million, for a \$180 million three-year level (Treasury req.).
- #3. Maintain past contribution levels in 1978 and 1979 at \$50 million, for a \$150 million three-year total (OMB rec.).

#### Analysis

##### Program (P) and Outlays (O) (In millions of dollars)

Asian Development Bank Development Fund	1975		1976		1977		1978		1979		1980		1981	
	Actual		Budget		Budget		Est.		Est.		Est.		Est.	
	P	O	P	O	P	O	P	O	P	O	P	O	P	O
Alt. #1 (ADB res.)	50	--	50	10	77	18	77	37	77	56	xx	61	xx	63
Alt. #2 (Treas.rec.)	50	--	50	10	50	17	65	35	65	51	xx	54	xx	55
Alt. #3 (OMB rec.)	50	--	50	10	50	17	50	34	50	50	xx	50	xx	50

If fully subscribed, the replenishment would support a \$300 million annual lending level up from \$166 million in 1975. The major recipients will be Bangladesh, Pakistan, Afghanistan, Burma, and Sri Lanka (India is excluded by its own request).

Agency Request: Alternative #2. While assigning the ADF low priority, Treasury, with NAC approval, requests funding of \$65 million in 1978 and in 1979. Treasury and State believe a lower level might unravel the entire replenishment (as other countries would then cut their contributions) and would show a lack of U.S. support for the Bank and the Asian region.

OMB Recommendation: Alternative #3. OMB believes that the increase is unnecessary in view of the substantial portion of IDA, AID, and P.L. 480 funds which the South Asian countries will receive; and that U.S. support for the Bank and the East Asian countries would be demonstrated by the ADB ordinary capital increase. The Bank will be disappointed by a U.S. failure to provide the full amount it is seeking; the reduction being proposed by Treasury does not have any particular programmatic basis.

A \$150 million total U.S. contribution would equal pledged U.S. subscriptions to date -- subscriptions which have not been fully paid-in. While the proposed increase is relatively small, it is only one of many proposed 1978 initiatives which together represent substantial budgetary and legislative competition for the potentially higher priority U.S. aid initiatives such as IDA, the IRB, and the Sahel proposal.





## Issue #4: Establishment of an International Resource Bank

### Statement of Issue

Should the U.S. propose the establishment of an international Resource Bank (IRB)?

### Background

The State Department with Treasury and NSC concurrence proposes that Secretary Kissinger in his speech at UNCTAD IV announce U.S. support for the establishment of an IRB under World Bank auspices. The objective would be to help reduce political risk in foreign investment in raw materials production in less developed countries. The IRB would have an initial paid-in capital of as much as \$1 billion with possibly another \$5 billion in borrowing guarantees, or a total of up to \$6 billion as a loss reserve. The Secretary would offer a U.S. contribution of \$200 million to the paid-in capital and \$1 billion in borrowing guarantees in 1978.

### Analysis

Many of the specific elements of IRB operations have not yet been determined by State and are to be resolved in international negotiations, probably under CIEC auspices. Under the broad principles outlined by State, the IRB would support consortia of LDC governments and foreign firms which would enter into production agreements protecting both parties. The main IRB role would lie in providing non-equity financing by issuing bonds, backed by liens on the commodity output of the consortia. The bonds would also be backed by guarantees against commercial failure from both the LDC governments and the participating private firms. IRB guarantees of the bonds, backed by its paid-in capital and borrowing guarantees, would cover only political risks. State anticipates that the bonds would offer participating private firms a secure means of investment, and other investors could also purchase the bonds.

In addition to providing investment capital, State is also proposing that IRB could provide supplementary financing for commodity buffer stocks.

State foresees a number of potential benefits from the IRB:

- Tactically, it offers an alternative to the LDC-proposed \$6 billion common fund for an integrated commodity program, which is unacceptable to the United States.
- Politically, it is the only major new U.S. concession to the LDC's which will be offered in Secretary Kissinger's UNCTAD speech and may be the minimum necessary to maintain a positive dialogue with the LDC's.
- Economically, it is expected to encourage a more efficient worldwide allocation of investment in raw materials by reducing the political risks of expropriation.
- Finally, State also believes that the IRB might encourage additional investment in oil and gas, thereby putting downward pressure on OPEC prices.

OMB has reviewed the State proposal and agrees that there are potential benefits, especially in the area of encouraging new institutional means for financing investment in extractive industries. However, the proposal is still tentative and OMB has serious reservations about its feasibility for several reasons:

- OMB questions the strategy of continuing to undertake new policy initiatives at successive international conferences in order to avoid a confrontation with LDC's. The long-term cost of this policy could be high in budgetary terms and is already resulting in a proliferation of international programs.
- The proposal may not be politically attractive to the LDC's since they have traditionally resisted proposals to provide political-risk insurance on a multilateral basis.
- The proposal has a number of features which make its economic effectiveness questionable:
  - The market for commodity bonds is untested.

- There is no political risk insurance against expropriation of private equity investment (the main foreign investment problem). At the same time firms would have to bear the full commercial risk of a highly leveraged project.
- Using IRB paid-in capital to finance buffer stocks would preempt its use as political risk backing. Any significant buffer stock operations would probably require additional infusions of paid-in funds.
- The proposal is contingent on OPEC's matching developed country contributions. However, OPEC participation is highly uncertain, as evidenced by their inability to date to provide any funds to the International Fund for Agricultural Development, which they initiated with a similar matching formula.
- OPEC countries if they participate, would resist having the IRB finance oil and gas investment. Without such financing one of the purported benefits of the Bank would be eliminated.

In short, there are a number of major questions on the IRB which need to be resolved. A decision to go ahead with the initiative now runs the serious risk of competing with the pending U.S. efforts to increase World Bank and International Finance Corporation funding (which will also support raw materials investment); and it might also compete with efforts to secure adequate funding for the fourth and fifth IDA replenishments.

#### Agency Request

State, Treasury, and NSC staff believe that the IRB proposal should be announced now to help improve the North/South dialogue at UNCTAD. They believe that IRB would improve the climate for resources investment.

#### OMB Recommendation

The agencies have provided only the broadest description of how IRB will operate, and of how it will achieve its objectives. OMB has serious reservations about the ability of an IRB to achieve its economic and political objectives and on the feasibility of its operations.

## Bilateral Development Assistance

### Issue #5: Sahel Development Program

#### Issue

Should the Administration propose a major multidonor program to promote economic self-sufficiency for the countries of Sahelian Africa?

#### Background

Since the disastrous drought in 1969-1973, potential donors have been developing a plan that would reduce or eliminate the impact of another drought by fostering agricultural self-sufficiency in the Sahel. The U.S. has encouraged this planning and the Congress has earmarked funds for the development of a long-term Sahel development plan.

A joint donor-recipient group of countries, called the "Club des Amis du Sahel" has recently been established, and met last month in Senegal and established working groups to devise a mutually-agreeable Sahel development plan. AID, with the approval of the Secretary of State, is now requesting authorizing legislation that would permit a U.S. "commitment" of up to \$300 million in the 1978-1979 period to the program they anticipate will emerge from the working groups.

#### Alternatives

- #1. Announce now U.S. support of a Sahelian program without a specific funding commitment but anticipating a \$100 million in 1978 and \$200 million in 1979 (Agency req.).
- #2. Defer any decision until the fall budget review.

#### Analysis

State/AID argue that this initiative is appropriate for foreign policy, development and humanitarian reasons.

- Africa has become more important to the U.S. recently, and a new initiative would give evidence of America's concern.

- The Sahelian countries are among the poorest in the world, and there is an international consensus for a Sahel development program; and,
- The recent drought caused widespread human suffering, and unless major action is taken, there will be periodic tragedies in the future.

OMB believes that there is not sufficient basis for a decision on this initiative now:

- Special international assistance funds and programs have been proliferating (e.g., the IFAD) and they should be given a chance to operate before additional mechanisms are set up;
- The U.S. already contributes to the Sahel bilaterally, and multilaterally through the UN, the World Bank and IDA, the African Development Fund and, prospectively through IFAD. The amounts of funding already going into the Sahel from these and other sources may be more appropriate than a massive new international effort (\$7-10 billion over 10 years, in the State/AID estimate);
- The total population of the Sahel is less than 30 million and the countries are not of major political importance. By contrast, the combined population of Pakistan and Bangladesh, also needy countries, is five times that of the Sahelian states; and,
- While the indication of U.S. involvement would probably be timely, the funds are not yet needed and the magnitude of the appropriate U.S. contribution is not yet known.

Agency Recommendation - Alternative #1, announce U.S. support for the Sahelian program.

OMB Recommendation - Alternative #2, defer a decision until the fall budget review.

## International Financial Institutions

### Issue #6: African Development Fund

#### Statement of Issue

Should the United States contribute an additional \$10 million in 1978 for its initial subscription to the African Development Fund (AFDF)?

#### Background

The AFDF began operations in 1973 with a capitalization of \$106 million and a proposed U.S. share of \$15 million. Total contributions now equal \$152 million and negotiations have been underway for sometime on a replenishment, with pledges from most current members now totaling \$114 million.

A \$15 million 1976 supplemental for the initial U.S. contribution is pending before Congress. It is to be paid to the Fund in three annual \$5 million installments during 1976-78. Authorizing legislation for the AFDF, awaiting final congressional action, provides for a U.S. contribution of \$25 million.

#### Alternatives

- #1. Seek an additional \$10 million appropriation in the 1978 budget for the initial subscription, adding \$2 million to 1978 outlays and \$4 million to outlays in 1979 and 1980 (Treasury req.).
- #2. Seek no additional funding in 1978 for the initial subscription (OMB rec.).

Agency Request: Alternative #1. Treasury, with NAC concurrence, recommends seeking the additional \$10 million in 1978 to match a \$25 million Canadian replenishment pledge. State believes that failure to seek the additional funds would antagonize Congress and the Africans. The agencies wish to announce the U.S. contribution at the Bank's annual meeting in May.

OMB Recommendation: Alternative #2. The AFDF is making a relatively minor contribution to African development as compared with the higher-quality lending of IDA, which provided \$413 million in loans to sub-Saharan countries last year. OMB recommends

deferring decision on this issue until the fall 1978 budget review and that the additional \$10 million could be applied to a future replenishment rather than increasing the size of the initial contribution. This constitutes one of a number of items in budgetary competition with the higher priority IDA contribution.

## Bilateral Development Assistance

### Issue # 7: AID Development Assistance

#### Statement of Issue

Should a decision be made now to make major increases in the regular AID bilateral development assistance program in 1978 and 1979?

#### Background

AID with State concurrence proposes program levels for its ongoing bilateral assistance activities of \$1,273 million in 1978 and \$1,476 million in 1979. The 1978 level is a 29 percent increase over the amount requested in the 1977, which was used as the budget planning level for 1978 in the 1977 budget. The 1979 request, which AID proposes now in order to continue the recent practice of seeking two-year authorizations, is 50 percent above the planning level.

The proposal projects two program trends:

- Almost all of the increase in country program funding would be provided to the poorer countries of Africa and South Asia (India, Pakistan, Bangladesh); and,
- There is a heavy emphasis on centrally-administered grants which are allocated primarily to U.S. or international institutions rather than directly to developing countries.

Specific supporting country and program details, however, are not yet available.

#### Alternatives

- #1. Transmit authorizing legislation by May 15 providing for a \$307 million increase in functional development assistance programs in 1978 and a \$510 million increase in 1979 (Agency req.).
- #2. Do not specify a definite amount in the authorizing legislation and defer a decision on this program until the fall budget review.



## Analysis

Despite the fact that the appropriations committees have held the functional program at a constant level for the past three years, AID believes that it is important to seek an increase in functional assistance. They point out that this is in line with the mandate of the authorizing committees to provide more aid to the poorest countries and peoples. AID believes that increased bilateral assistance is an important adjunct to the new multilateral aid initiatives which the United States has proposed in the course of the North/South dialogue. They believe that increased central funding for U.S. initiatives will help obtain greater U.S. private sector support for bilateral aid.

OMB has reservations about the direction and extent of AID's proposed program growth. Taking into account the new Sahelian Africa program which AID is proposing separately, Africa would receive as much as \$500 million by 1979, nearly five times the levels of recent years. In addition to the foreign policy issue of regional priorities, OMB believes there may be absorptive problems, particularly in the Sahelian countries. Because India is not currently receiving aid and may not be a recipient in the future, the increases proposed for South Asia may be provided primarily to Pakistan and Bangladesh, and AID does not have a well thought out plan for maximizing the development impact of these potentially large programs.

OMB believes that some of the centrally-funded programs may be relatively ineffective in achieving developmental and foreign policy objectives. OMB also questions the heavy emphasis on commodities in AID's family planning programs, which receive substantial central funding.

Even with these reservations, OMB believes that the bilateral aid program may be a significantly more effective U.S. policy instrument than several of the new multilateral initiatives. This argues for a full-scale review of all proposed and ongoing foreign aid programs in the context of the 1978 budget.

Agency request: Option 1. AID requests substantial program increases in 1978 and 1979.

OMB Recommendation: Option 2. OMB recommends deferring bilateral program level decision.

Decision:

AID request	_____
OMB recommendation	_____

## Multilateral Assistance

### Issue #8 : International Organizations and Programs

#### Statement of Issue

Should a decision be made now to make major increases in the 1978 and 1979 budget levels for U.S. voluntary contributions to international organizations above the 1977 level?

#### Background

The United States provides voluntary contributions to ten international organizations and programs primarily to support economic development and provide humanitarian relief. The bulk of the contributions goes to the UN Development Program, the UN Children's Fund, the UN Relief and Works Agency for Palestinian Refugees, and development assistance activities of the Organizations of American States.

#### Alternatives

- #1. Transmit authorizing legislation by May 15 specifying \$240M in 1978 and \$270M in 1979 for voluntary contributions. (Agency req.).
- #2. Do not specify a definite amount in the 1978 and 1979 authorizing legislation. (OMB rec.).

#### Analysis

(in millions of dollars)

1977		1978		1979		1980		1981	
<u>Budget</u>		<u>Est.</u>		<u>Est.</u>		<u>Est.</u>		<u>Est.</u>	
<u>BA</u>	<u>OL</u>	<u>BA</u>	<u>OL</u>	<u>BA</u>	<u>OL</u>	<u>BA</u>	<u>OL</u>	<u>BA</u>	<u>OL</u>

IOP; Agency request:      178 175    240 230 270 255 270 255 270 255

Agency request: State's requests for FY 1978 and 1979 represent substantial increases over the relatively tight \$178 million 1977 budget request, which was used as the budget planning level for 1978 and 1979. State contends that these increases are needed to supplement the U.S. initiatives presented at last fall's Seventh UN Special Session as a demonstration of U.S. concern for the developing countries. Most of the proposed increases are justified in terms of U.S. political objectives in the UN and the OAS rather than developmental objectives.

OMB Recommendation: Given the large number and relatively high budget cost of the U.S. special session initiatives, OMB questions whether increases in voluntary contributions are necessary for a further improvement of the North/South dialogue. Moreover, OMB has reservations about the relative effectiveness of some of these programs in achieving U.S. developmental objectives and is undertaking a longer-term review of several of them. If a decision on specific amounts is to be made now, OMB finds no strong justification for any increase over the planning targets. In line with its overall strategy of delaying most 1978 decisions to the fall, OMB recommends that an indefinite amount be transmitted in the next month's authorizing legislation.

## International Financial Institutions

### Issue # 9 : Fifth Replenishment of the International Development Association (IDA V)

#### Statement of Issue

Should the Administration "double-up" on payments to IDA in 1978 in order to get back on schedule for the fifth replenishment?

#### The Problem

The United States is committed to a \$1.5 billion contribution to the fourth replenishment of IDA which is being obligated at a rate of \$500 million a year for the period 1975 to 1977. By June 30, 1977, IDA will have exhausted its commitment authority. International negotiations began in November 1975 on the fifth replenishment of IDA for the period 1978-1980.

Past congressional opposition has resulted in U.S. payments to IDA IV being stretched out over the four years, 1976 to 1979 (versus the commitment period 1975 to 1977). The cut in the first IDA IV appropriation request from \$375 to \$320 million this year may result in U.S. payments to IDA IV being delayed still further. As a result, unless requests for IDA IV and IDA V appropriations are doubled-up in 1978 and 1979, the Administration would not be able to seek funds for IDA V until 1980 or 1981, by which time the IDA V replenishment and commitment period will be over.

U.S. agencies have been examining how to permit the U.S. to participate in a substantial replenishment of IDA V, as pledged by Secretaries Kissinger and Simon, given the difficulties outlined above. The three basic alternatives all present major problems.

#### Alternative Approaches to IDA Funding

(1) The U.S. could attempt to get IDA and the other major donors to agree to U.S. participation in IDA V with U.S. payments delayed until 1980 or 1981. This would require that IDA commit loans against U.S. pledges up to three years before funding is obtained from the Congress. Further, it would require other donors to put up funds to cover both their pledges and those of the United States (up to \$800 million to cover outlays on U.S. pledges) until U.S. appropriations are obtained. Unless the Congress can be prevailed upon to agree to provide specific levels of funding for IDA V in the 96th and 97th Congress, IDA and the other donors are unlikely to accept U.S. participation under these circumstances. In that event, the U.S. and possibly other donors would drop out

of IDA V and IDA would have to sharply reduce its lending activity until IDA VI in 1981-83, when the U.S. might again be in a position to participate.


(2) The Administration could request that additional special payments arrangements for the U.S. be provided by IDA, and accepted by other donors. This would entail an explicit shifting from a basis of seeking appropriations prior to entering into obligations to requesting appropriations on the basis of disbursement requirements. In this case, the U.S. would, within a few years, have billions in unfunded international obligations. The Administration would have difficulty getting IDA and other donors to accept this arrangement and would find itself in the position of seeking IDA appropriations well in excess of those obtained recently. Finally, given the past record of the appropriations committees in providing funds under the above circumstances, there is the strong likelihood that the U.S. would put itself in the position of being unable to meet its obligations. OMB strongly objects to this approach as being fiscally unsound and probably illegal under the Budget Reform Act, although Treasury believes it should be explored further.

(3) Finally, the Administration could make a strong and concerted effort to reverse past actions on IDA appropriations and obtain funding for IDA V on schedule, three equal annual payments in fiscal years 1978-1980. This would require the Administration to seek total IDA appropriations (for IDA IV and V combined) in 1978 and 1979 at \$875-1075 million a year, compared to actual appropriations of \$320 million a year in the last four years. Outlays, however, would be less sharply affected, rising by \$100-150 million in 1978 and \$250-300 million in 1979. If successful, this approach would eliminate international difficulties but would create budget pressures, be difficult to sell to the Congress, and would probably pre-empt at least some of the other aid initiatives.

*D*

THE WHITE HOUSE  
WASHINGTONACTIONCONFIDENTIAL - GDS

April 26, 1976

MEMORANDUM FOR: THE PRESIDENT  
FROM: BRENT SCOWCROFT   
SUBJECT: Pending Economic Assistance Issues

Jim Lynn's memorandum to you on 1978 International Economic Assistance Issues discusses a number of development assistance initiatives which are important to the North-South dialogue and to our overall strategy of increasing the commitment of the developing countries to the existing global economic system.

The issues discussed in the OMB memorandum fall into three categories:

I. Those requiring immediate action because of pending international negotiations.

II. A second group for which an early decision would permit a timely initiative by Secretary Kissinger in his speech before the UNCTAD meeting in Nairobi.

III. The balance of our economic assistance program, which need not be decided prior to the regular fall budget review.

Intense interagency discussions have continued since the OMB memo was written and have resulted in substantial progress being made on the issues reported as contentious in the OMB memo. Agency recommendations are now unanimous on all but three initiatives.

Category I

The first category involves U.S. contributions to two international financial institutions.

-- World Bank. State and Treasury propose that the United States pledge \$1.5 billion, of which \$157 million would be paid-in (appropriated), to the World Bank's 1978-80 selective capital increase. Both Jim Lynn and I support this proposal.

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-- Asian Development Bank. State and Treasury propose that we pledge up to \$900 million to the 1977-81 capital increase, with \$135 million paid-in. OMB agrees with the level of the pledge, but argues that we should limit our contributions to callable capital and make no paid-in contribution. I agree with State and Treasury. It is important for political reasons that we show maximum support for a financially sound ADB by making a direct contribution -- especially since our ADF contribution (below) will fall short of the expectations of other members.

-- Asian Development Fund. State and Treasury propose a contribution of \$180 million over three years to the ADF, which is the soft window of the ADB. OMB recommends a contribution of \$150 million. The ADF provides more concessional assistance to Asian countries than is available from the ADB itself. I support \$180 million; even that number is \$51 million short of the 150% replenishment resolution which Bank members voted.

Category II.

The second category includes programs from which the U.S. can reap substantial political gains if announced during Kissinger's speech before the UNCTAD meeting in Nairobi.

-- International Resources Bank (IRB). This is the centerpiece of the Secretary's counterproposal to the UNCTAD commodity program. The IRB would increase investment in raw materials production in developing countries by reducing political risk through the involvement of an international institution. It will provide the developing countries with additional capital, jobs, technology, and income; provide the international private sector with more secure investment opportunities; and provide the global economy with new sources of raw materials. The Secretary will propose a total capitalization of \$1 billion, but would announce no specific U.S. contribution. Depending on negotiations, the U.S. contribution could be up to \$200 million, probably in FY 1978. Treasury supports the proposal. Since the Lynn memo was written, OMB has also agreed.



-- Sahelian Fund. Announcement that the U.S. is willing to participate in this Fund, for which negotiations have been underway for some time, gives credence to our expressed concern about the humanitarian and development problems of the Sahel region. Successful negotiations could lead to a U.S. commitment of up to \$200 million in 1978 and \$100 million in 1979.

-- African Development Bank. State and Treasury propose that the Secretary announce an additional U.S. contribution of \$10 million to the African Development Bank. OMB is opposed. I strongly support this contribution which will give substance to our claims of commitment to assist in African development plans. Such an increase would receive strong Congressional support.

Category III

There is no disagreement on how you should treat the balance of our economic assistance programs. State, Treasury, AID, OMB and I agree that you should consider all other programs in the context of the fall budget review, when we will have additional information on the requirements of our various new proposals and of our traditional programs and can weigh their relative priorities. Only in those cases discussed above are early decisions needed.

DECISIONS

World Bank. \$1.5 billion contribution, \$157 million paid-in. (State, Treasury, OMB, and NSC recommend.)

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

International Resources Bank. Propose creation, with \$1 billion capitalization, but mention no specific U.S. contribution. (State, Treasury, OMB, and NSC recommend.)

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

Sahelian Fund. Announce U.S. willingness to participate,  
but mention no specific U.S. contribution. (All recommend.\*\*\*

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

OMB do not  
recommend.

Interagency Disagreement - OMB recommends disapproval.

Asian Development Bank. All agree on contribution of up  
to \$900 million.

Up to \$135 million paid-in (Treasury, State, NSC)

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

No paid-in contribution (OMB)

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

Asian Development Fund.

\$180 million contribution (Treasury, State, NSC)

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

\$150 million contribution (OMB)

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

African Development Bank.

\$10 million contribution (Treasury, State, NSC)

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_

No contribution (OMB)

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_