

Middle East conflict - Middle East Development Funds: Middle East conflict ...

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Letter to DH from Sir Humphrey Trevelyan

Enclosure: Arab Development Board

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Secretary-General

..... I enclose a copy of the International Bank's questionnaire and
..... a copy of my tentative replies. I have sent copies to Mr. Iliff and
to Mr. McCloy.

One of the most difficult points will be the related questions
of voting procedure and capital subscription. I am trying to work
out something on this.

Fransyan.

13/3/58



13 March 1958

ARAB DEVELOPMENT BOARDTentative Replies to International Bank's Questionnaire

1. It may have to start as an agency of the type described in the second half of this question, though the intention would be that it should develop into a real financial institution.
2. (a) Private and municipal enterprises should be included.
(b) Not necessarily, though, in fact, sponsorship by a Member Government and a Government guarantee would probably be the normal procedure.
(c) In theory 'yes', but in practice the policy would be that it should do so only in very exceptional cases.
(d) We agreed that the question should read: "Would it be authorized to borrow and/or guarantee loans from other sources?". The answer should be 'yes'.
3. Aden, the Aden Protectorate, Tunisia and Morocco should be excluded. It would be desirable that some, at any rate, of the Persian Gulf States should become members, particularly Kuwait. This needs further discussion in London, since the United Kingdom Government's advice to these States will be necessary.
4. (a) and (b). It is clearly desirable to start with a capital of about £20 million, to be paid up in (say) three years, if this amount can be obtained from the Arab States.
5. It would probably be better only to specify the capital which there is a reasonable prospect of raising in the first few years, and not to specify also authorized non-paid-up capital. The device of non-interest-bearing notes would, in the light of this opinion, not be required.



- ✓ 6. Probably not.
7. Public revenues, or a combination of national income and public revenues, would be a suitable criterion, but it might be necessary to fix a more even allotment for subscription of capital, in order that voting provisions should not be too out of line with the proportion of capital contributions, in view of the desirability of keeping as near as possible to the 'one member, one vote' principle. This needs further consideration.
8. It is probably unnecessary to attempt an answer to this question at this stage, but there would be serious difficulties, largely political, if a large membership could not be obtained at the outset.
- ✓ 9. In Sterling, subject to the customary restrictions with regard to transfer of Sterling.
10. Not possible and not desirable.
- ✓ 11. Does not arise, but it is hoped that at some stage, further capital additions can be made in the form of grants or loans repayable in foreign exchange. It is difficult to see much prospect of loans repayable in local currency being negotiated.
12. Security for the re-payment of loans for each individual scheme would clearly have to be considered separately in connexion with that scheme, in accordance with normal techniques.
13. This would be a matter for negotiation before grants or loans for undefined purposes are accepted, but it would be hoped that no such conditions would be attached.
14. The principle should be as nearly as possible one member, one vote, but some adjustments may be required. For instance, we might consider one vote to each constituent member of a Federation, or a joint vote for the southern Gulf States, should they join. See, however, paragraph 7 above. This must be considered with the question of capital contributions.



15. This question seems to be framed on the assumptions that there will be a permanent distinction between suppliers and recipients and that the larger proportion of the finance for schemes of development would be found from capital contributed on a fixed allotment system. A system with these features is unlikely to emerge. See also answer to paragraph 14 above.
16. (a) It is desirable to keep the organization simple. Differential votes are to be avoided as far as possible.

(b) Some compromise on these lines may be necessary, but it should be a system which does not allow for the exercise of predominant influence by one member.
17. The Board should have an international status of its own, and should be independent, subject only to general policy guidance from the Committee of Finance Ministers, meeting periodically.
18. Liaison with international associations, general guidance to the Board, and participation in help in obtaining finance for particular schemes. There is no objection to these services being provided by the International Bank and United Nations officers stationed in Beirut for other purposes, and the constitution of a separate Liaison Office may not be necessary.
19. The International Bank's criterion should be adopted. The projects should be of general economic interest, but should not necessarily be self-liquidating.

March 7, 1958

SOME POLICY ISSUES IN RELATION TO THE MEEEF PROPOSAL

Purposes and types of operations

1. Is the Fund intended to be a real financial institution, disposing of substantial resources of its own, or would it be primarily an agency for making studies, sponsoring projects and negotiating credits from other sources?
2. On the former assumption -
 - a) would its credits be limited to public investment projects or could they include private enterprises as well?
 - b) would credits to private enterprises have to be sponsored by a member government, or to have a government guarantee?
 - c) could the Fund take equity participation of as well as make loans?
 - d) would it be authorized to guarantee loans or investments from other sources?

Membership and capital

3. It is apparently intended that all Arab countries (except perhaps Tunisia and Morocco) would be invited to join. How is a "country" defined for this purpose? Assuming that the major oil-producing shekdoms should certainly be included, where is the line to be drawn? Would it include the minor states of the Trucial Coast and the Hadhramaut?
4. What is considered the minimum capitalization in order to:
 - a) have the desired impact and influence on the Arab countries' development programs and decisions?
 - b) attract other resources on a substantial scale?
5. What proportion of this capital should be subscribed at the start? What proportion might be paid in at once and how should subsequent installments be assured and scheduled? Would the device of non-interest-bearing notes, subject to call as funds are needed beyond the initial paid-in capital, be useful?

6. Should the member countries assume any liability with regard to obligations of the Fund beyond their paid-in capital?

7. Is there a practical, reasonably objective and politically acceptable formula for determining the respective countries' shares in the capital?

National income? Public revenues?

8. How many of the prospective member countries must join and what proportion of the capital needs to be subscribed as a precondition to establishment of the Fund?

9. In what currency or currencies would capital subscriptions be denominated and paid? Would they be freely convertible into hard currencies? into sterling and ECU currencies?

Additional resources

10. To what extent may it be possible to obtain advance commitments for supplementary contributions from the "have" member countries, non-member countries, oil companies, etc.?

11. To what extent might these be in the form of grants? loans repayable in local currency?

12. Assuming that most of these additional resources would be loans that must be repaid in the currency lent, how could the MEEDF resolve the creditworthiness

problem of the "have not" countries?

13. Would the countries or other entities providing additional resources retain any veto or special voice in determining their use?

Structure

14. Is it planned that the voting power in the MEEDF would be weighted in some way, to give the principal contributors a greater voice in direction of its policies and operations or would it follow the one-country-one-vote principle?

15. Would the Fund have a permanent minority in relation to recipients, and would

they be willing to delegate effective authority to an agency of which this was true? Or on the other hand, would the UAR, for example, agree that each of the petty shekdoms of the Arabian peninsula should have an equal voice with itself?

16. Should some combination of equal and weighted voting, for example, be considered -- for example:

- a) a 2-level governing body, consisting of a cabinet-level committee in which each country has one vote, that would meet infrequently to consider broad policy issues, and a "financial committee" with differential votes, exercising general supervision over operations; or
- b) the assignment of a uniform basic quota of votes to each country, plus votes in proportion to the respective capital subscription, possibly with an upper limit on the voting strength of any one country?

17. What structural safeguards are necessary and possible to assure the management primary initiative and responsibility in day to day operations, clear cut control over the staff and freedom from undue political interference?

18. What are envisaged as the functions of the Bank and the UN Liaison-offices?

19. What kinds of loans would the Fund make and what criteria would it apply in its operations? Would it lend only for genuinely productive purposes, yielding a definable economic return and would directly or indirectly strengthen the borrower's ability to service the loan?