MANILA CLEARING HOUSE ASSOCIATION
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Chairman, Juan D. Quintos
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Because the Bank I represent is an international organization, representing 45 member nations, one is apt to lose sight of the fact that it must observe principles of operation affecting all banks. Like other banks, it borrows from one set of persons and lends to another. It must have the confidence of the people from whom it derives its funds and must therefore apply strict standards of credit-worthiness to its borrowers.

The Bank is a cooperative organization, making loans in aid of projects in its member countries only. The borrower need not be the government of the member country. Political agencies or sub-divisions, or business, agricultural or industrial enterprises are eligible to receive loans, provided that the loan is guaranteed by the member or by the member's central bank or other agency acceptable to the International Bank.

The International Bank for Reconstruction and Development was established as a result of the Bretton Woods Conference of 1944, when it was realised that there would be a need for a world agency to mobilize capital for reconstructing the productive equipment destroyed by the war, as well as for assisting in the continued development of the undeveloped areas of the world.

The Articles of Agreement lay down the principles which must control the Bank's lending:

1. The Bank is to assist in the reconstruction of economies destroyed or disrupted by war and the development of the less developed countries.

2. It is to promote private investment whenever possible and supplement it where necessary.
3. It must seek to promote international trade and the raising of levels of productivity, standards of living and conditions of labor throughout the world.

Before a formal application for a loan is presented to the Bank, there are usually informal exchanges in the course of which the Bank explains what information it requires and the standards it applies. To consider a loan, the Bank receives not only full details of the reconstruction and development plans of the applicant, but also sufficient data as to economic and financial conditions in the member country concerned.

I don't need to point out that it is to the mutual interest of the Bank's Members, including the borrowers, that the Bank should insist on sound fiscal policy, a basically healthy balance of payments, and good relations with creditors. Looking after the cooperative interest of its Members, the Bank examines plans for productive use of local expenditure, for effective tax policy and tax administration, and sound methods of public borrowing.

**Tests a Loan application must satisfy**

When the Bank has reviewed the economic position and prospects of an applicant country, it must apply basic tests of the loan plan presented. It asks:

1. Is the plan one of genuine reconstruction and development?

2. Is the plan sound, both technically and economically?

3. Is the plan of top priority in the interests, not only of the country applying, but other members? The Articles of Agreement require the Bank to bear in mind the interests of its members as a whole, as well as to deal with the most urgent projects first. This implies a need constantly to view the world picture as a whole.
4. Are we sure that the applicants are not simply asking the Bank to do for them things that, with extra effort and self-discipline, they could do for themselves? Are they asking for a loan to pay for imports which they could pay for by better use of their own resources?

5. Even if the plan presented is sound, and the applicants really need help, is there any danger that the benefits of the plan may be lost through poor financial policies and administration? Where such a danger exists, the Bank may draw the attention of applicants to it.

6. Is the Bank satisfied with the prospects of repayment? These prospects will depend of course, not only upon the present balance of payments — which may be very unfavorable or may be very favorable — but upon the steps being taken to assure a sound balance of payments over the entire term of the loan.

Cooperative relationship of Bank and Borrower

The Bank's loan contracts are based on the principle that borrower and lender will remain in close cooperation.

Both the borrowing member and the Bank agree to the mutual exchange of views on subjects of common interest, including the general economic and financial policies of the borrowing country.

The borrowing member agrees to supply the Bank with full information to enable the Bank really to understand developments in the country concerned.

The borrowing member agrees to inform the Bank confidentially of
certain proposed lines of action (for example, the contraction of new external loans) in time for the Bank to be able to exchange views upon them.

Withdrawals of loan monies are carefully checked, and the end use of goods purchased with those monies is confirmed to be in accordance with the purposes for which the loan was sanctioned.

These provisions are intended to insure that the loan is applied to the approved purposes, that it is producing the anticipated benefits and that the general policies and practices of the borrower are consistent with the production of those benefits and with the payment of service charges on the loan.

Loans already made and applied for

The first applications for loans were largely from European countries. The first loan was to France: $250 million. The second was to the Netherlands: for $195 million. The third was $40 million to Denmark; and the fourth a loan of $12 million to Luxembourg.

Applications have been received from Czecho-Slovakia for the reconstruction of war damage and losses and for the restocking of raw materials; from Poland for the purchase of equipment and materials for coal-mining, iron and steel and textile industries, electricity and transport; and from Italy for purchases of equipment necessary to restore damage done to industry and transport during the war.

As for non-European countries, there has been an application from Chile for hydro-electric, forestry, harbor, transport and railway projects; one from Mexico for irrigation, hydro-electric, pipe-line, highway, railroad
and harbor projects; and one from Iran for the development of agriculture and transport.

Fact-finding missions have visited Denmark, Poland, the Ruhr, Brazil, and Italy. Invitations have been accepted to send similar missions to Mexico, Chile and the Philippines.

The urgency of the recovery of Europe does not mean that assistance to other countries may not be equally important, as in Latin America, Asia, Africa, and the Middle East. Within a few years, the financing of development projects may become the primary concern of the Bank.

**The Capital of the Bank**

The capital of the Bank has been subscribed — to the amount of just over 8 billion dollars — by the 45 shareholder nations, in proportions based on their wealth and population. To provide cash in hand, the members have paid up 20% of their subscriptions. Two percent was payable in gold or U.S. dollars. The remaining 18% was payable in currencies of the respective member countries, but those currencies could be used to make loans only if the contributing member gives specific consent. (Belgium has given such consent in respect to the equivalent of 32 million in Belgian currency.)

The 20% paid up was equivalent to about $1600 millions, but of course only about $727 millions of this was available in U.S. dollars and gold at the start of the Bank's lending operations. Since only the U.S. is in a position to supply goods on credit on a large scale to the rest of the world at present, it is the only member country which can now afford to give the required consent for the Bank to use its 18% subscription without restriction.

The 80% of the capital subscriptions which is not paid up constitutes a guarantee fund, not for lending, but to meet the Bank's obligations as and if required.
The Bank therefore requires further resources in order to make extensive loans. Last July it offered to the American investing public two bond issues totalling $250 millions -- $100 millions in ten-year 2¼% bonds and $150 millions in 25-year 3% bonds. This offering was very satisfactorily received.

Thus the total which has been available for loans to date (if we omit working expenses) is $977 millions: that is, $727 millions from subscriptions paid in dollars and gold; $2 millions in Belgian currency; and $250 millions from the public.

Of this amount, $497 millions is already covered by loan agreements entered into with France, the Netherlands, Denmark and Luxembourg.

The remainder of about $480 millions is therefore the maximum amount the Bank can now lend out of funds in hand.

Since for further funds, the Bank is largely dependent upon the readiness of investors to absorb further bonds, it is clearly necessary for it to assure itself of the credit-worthiness of candidates for loans.