COMMITMENT CHARGE

1. The Bank has always made a commitment charge on those portions of the loans it has made which have not been withdrawn, except on loans for development finance companies for which special arrangements have been made. In the Bank's early loans, there was a commitment charge of 1-1/2% per annum, running from the date on which the loan agreement became effective. From February 1948 to August 1950, the commitment charge of 1-1/2% was charged for a period of six months, after which time interest, including the special commission, became payable on the full amount of the loan, even if part of it had not been withdrawn, but the Bank undertook to refund an amount representing the interest earned by it on its liquid assets held against its undisbursed commitments.

2. This system was abandoned in August 1950 when the commitment charge was fixed at 3/8 of 1% and it accrued from the effective date or from a date fixed for each loan, whichever was earlier (R-367). In February 1955 the practice was changed to provide that the commitment charge would accrue from the effective date of the loan, or 60 days after the signing of the loan agreement, whichever was earlier. In February 1961 the practice was amended again to provide that the commitment charge would start to accrue 60 days after signing of the loan agreement. On June 30, 1961, the commitment charge was reduced from 3/8 of 1% to 3/8 of 1%, the basis for charging it remaining unchanged, and this has been the practice since that date.

3. The original justification for making a commitment charge was based on the fact that there is a cost to the Bank in holding money available for withdrawal. To the extent that undisbursed commitments are covered by funds raised by borrowing and temporarily invested at a lower rate of interest, the cost is represented by the difference between the cost of borrowings on the one hand and the income on short-term funds on the other. To the extent that commitments are not covered, the charge can be regarded

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
as a means of giving some protection against a rise in the interest rate which has to be paid on funds raised for disbursement against such commitments.

4. Another, and completely different, justification for a commitment charge rests on the effect it has in inducing the borrower to make withdrawals promptly. In theory, the higher the commitment charge the greater is the incentive to carry out the project promptly and to withdraw amounts promptly from the loan account. In practice many considerations bear on the speed with which a project is executed. The close supervision which the Bank gives to loans, particularly when disbursement is very slow, has not produced evidence that the low rate of commitment charge has been a perceptible factor in delaying project execution, or that a high commitment charge would accelerate project execution. On the other hand, it is probable that in some cases the low commitment charge has encouraged borrowers to use cheap interim finance and delay their requests for disbursement under our loan contracts.

5. The commitment charges made by other international lending agencies are higher than the charge made by the Bank. The Inter American Development Bank's commitment charge varies according to the source of its funds. On loans made out of ordinary capital subscriptions, borrowed U.S. dollars and funds for special operations, the commitment charge is now 1%. On loans made out of borrowed funds, other than U.S. dollars, the commitment charge has been up to 1-3/4% on loans in sterling, German marks, and Swiss francs, and up to 2% on loans in Italian lire. The African Development Bank, the Central American Bank for Economic Integration, and the European Investment Bank charge 3/4%.

6. The points made above appear to lead to two conclusions:

(a) a commitment charge is necessary in order to compensate the Bank for the cost of holding funds pending disbursement and to partially offset the effect of adverse interest rate changes on its uncovered commitments.

(b) the lower the commitment charge the greater is the theoretical incentive on the part of the borrower to delay execution of the project or delay disbursement requests.

7. I believe that there is a general feeling among Executive Directors, in which I share, that the commitment charge made by the Bank is too low under current conditions. I accordingly recommend that

(a) the Bank now raise its commitment charge on new loans from 3/8 of 1% to 3/4 of 1%, and

(b) the subject of commitment charge be included in the periodic reviews of the Bank's financial position.
8. The change recommended would have some effect on net income. Using the projection of net income in Table I dated October 17, 1967, distributed with FPC67-9 and assuming that as from January 1, 1968 the commitment charge were increased from 3/8% to 3/4% on all loans assumed to be made after that date, the increase in the Bank's receipts from commitment charge would be about $1 million in the current fiscal year 1967/8 rising to about $10 million in fiscal 1971/2.

George D. Woods
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**REMARKS**

Here with please fixed
The document to Dr. Woods
Aimed for re-loan from
State (unfavourable loans)

From

Thanks
INTERNATIONAL BANK FOR 
RECONSTRUCTION AND DEVELOPMENT

Minutes of Thirty-eighth Regular Meeting of the Executive Directors held 
in the Conference Room of the Bank on September 20, 1946 at 11:00 a. m.

1. There were present: –

(a) Chairman

Eugene Meyer, President
Harold D. Smith, Vice President

(b) Executive Directors and Alternates acting as Executive Directors

Leon Baranski
Thomas Basyn (Alternate)
J. W. Beyen
Guy de Carmoy (Alternate)
Emilio G. Collado
Sir James Grigg
Luis Machado
Victor Moller
J. F. Parkinson (Alternate)
Yuen-Ting Shen
N. Sundaresan
Kyriakos Varvaressos

(c) Alternates not acting as Executive Directors

John S. Hooker
Fernando Illanes
Alois Kral

(d) Staff

Chester A. McLain, General Counsel
Leonard B. Rist, Director of Research
Morton M. Mendels, Secretary
Richard H. Demuth, Assistant to the President
John H. Ferguson, Assistant to the President
Henry W. Riley
Lyeil Doucet
REPORT BY COMMITTEE ON MEMBERSHIP

2. The Executive Directors approved the Report (R-29) presented by the Committee on Membership on the terms and conditions on which Syria, Lebanon, Italy and Turkey should be admitted to membership in the Bank. The Chairman of the Committee was authorized to discuss jointly with the Fund Committee Chairman, such terms and conditions with representatives of Syria, Lebanon and Italy and prepare a report for submission to the Board of Governors. Further action on the application of Turkey was deferred pending clarification of that country's position in the light of Bretton Woods Resolution No. VI on Enemy Assets and Looted Property.

INVESTMENT OF CAPITAL - REPORT OF COMMITTEE ON INTERPRETATION

3. The Executive Directors considered the report (R-30) presented by the Committee on Interpretation on the investment of all or part of the 2% of the Bank's capital paid in under Section 7 (i) of Article II of the Articles of Agreement, and adopted the following resolution:

RESOLUTION NO. 21

RESOLVED that the President or the Vice-President of the Bank, and each of them, be, and he hereby is, authorized in the name and on behalf of the Bank (a) to purchase from time to time at current market prices at the time of purchase United States Treasury Bills, United States Treasury Notes and United States Treasury Certificates of Indebtedness, or any of them, maturing not more than twelve months after the date of purchase thereof; (b) to apply to the purchase of such Bills, Notes and Certificates of Indebtedness all or any part of the 2% of the capital of the Bank which under Section 7 (i) of Article II of the Articles of Agreement of the Bank was required to be paid in gold or United States dollars and which is held by the Bank in United States dollars; and (c) from time to time to sell at current market prices at the time of sale any or all such Bills, Notes and Certificates which shall be held by the Bank; and

RESOLVED that the President and the Vice-President of the Bank, and each of them, be and he hereby is, authorized in the name and on behalf of the Bank to execute any and all such documents and to do any and all such acts and things as he shall deem necessary or proper in order to carry fully into effect the purpose of the foregoing resolution.

SECTION 12 OF BRETTON WOODS AGREEMENT ACT - REPORT OF COMMITTEE ON INTERPRETATION

4. The Executive Directors approved the report (R-28) of the Committee on Interpretation with regard to the authority of the Bank to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans.
ANNUAL REPORT TO THE BOARD OF GOVERNORS

5. The Executive Directors approved the final draft of the "First Annual Report to the Board of Governors" subject to the following:

(a) The date of the report to be as of September 20.

(b) Inclusion of the Auditors’ report.

(c) Inclusion, as an appendix, of the report of the Committee on Interpretation (R-28).

NEXT MEETING

6. It was decided that the next meeting would be held on Tuesday, September 24, at 11:00 a.m.

7. There being no further business the meeting was adjourned at 4:00 p.m.

Approved September 26, 1946

M. M. Mendels
Secretary
Section 12 of The Bretton Woods Agreements Act of the United States of America provides as follows:

The governor and executive director of the Bank appointed by the United States are hereby directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

Resolution 6, adopted by the Board of Governors of the Bank on March 12, 1946, provides as follows:

That the Executive Directors of the International Bank for Reconstruction and Development are invited, at the request of the Governor for the United States of America, to interpret the Articles of Agreement, pursuant to Article IX (a), as to the authority of the Bank to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans.

The Executive Directors of the Bank have referred the matter to this Committee.

The Committee, having carefully examined the question in the light of the provisions of the Articles of Agreement of the Bank and
of statements and memoranda which have been submitted to the Committee
with regard thereto, presents the following report and recommendations
to the Executive Directors:

1. The question presented by Section 12 of the Bretton
Woods Agreements Act relates to the general purposes for which the
Bank is authorized to make or guarantee loans and the scope of the
authority of the Bank to make or guarantee loans.

2. Article I of the Articles of Agreement of the Bank
sets forth the purposes of the Bank as follows:

(i) To assist in the reconstruction and development
of territories of members by facilitating the
investment of capital for productive purposes,
including the restoration of economies destroyed
or disrupted by war, the reconversion of productive
facilities to peacetime needs and the encoura-
gement of the development of productive facilities
and resources in less developed countries.

(ii) To promote private foreign investment by means of
guarantees or participations in loans and other
investments made by private investors; and when
private capital is not available on reasonable
terms, to supplement private investment by provid-
ing, on suitable conditions, finance for productive
purposes out of its own capital, funds raised by
it and its other resources.

(iii) To promote the long-range balanced growth of inter-
national trade and the maintenance of equilibrium
in balances of payments by encouraging international
investment for the development of the productive re-
sources of members, thereby assisting in raising
productivity, the standard of living and conditions
of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in
relation to international loans through other chan-
nels so that the most useful and urgent projects,
large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

3. The relevant provisions of Article III of the Articles of Agreement of the Bank with regard to the making or guaranteeing of loans by the Bank are as follows:

Section 1. Use of resources

(a) The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike.

(b) For the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction.

Section 3. Limitations on guarantees and borrowings of the Bank.

The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank.

Section 4. Conditions on which the Bank may guarantee or make loans.

The Bank may guarantee, participate in, or make loans to any member or any political sub-division thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to the following conditions:
(i) When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(vi) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.
Section 5. Use of loans guaranteed, participated in or made by the Bank.

(a) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members.

(b) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

(c) In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

4. The expression "loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans," is not defined either in the Bretton Woods Agreements Act or in the above-quoted Resolution No. 6. There is no reason to doubt, however, that loans of the kinds intended to be included in such expression fall within the general purposes for which the Bank is authorized to make or guarantee loans. With regard to any particular loan the only question would be whether or not it complied with the conditions specified in the above-quoted provisions of Article III of the Articles of Agreement of the Bank. Such conditions apply generally to all loans made or guaranteed by the Bank.

Among these conditions is the condition set forth in paragraph (vii) of Section 4 of Article III that "Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development." It is obvious
that many of the loans referred to in Section 12 of the Bretton Woods
Agreements Act would be "for the purpose of specific projects of re-
construction or development", within the meaning of the above-quoted
provision of Section 4 (vii) of Article III of the Articles of Agree-
ment of the Bank. But without at this time attempting to determine
what would constitute a specific project of reconstruction or develop-
ment within the meaning of that Section, it is sufficient to point out
that under such Section the Bank is authorized "in special circumstances"
to make or guarantee loans other than for purposes of specific projects
of reconstruction or development, provided, of course, that such loans
come within the general purposes of the Bank as set forth above. It
follows, therefore, that, under Article III, Section 4 (vii), of the
Articles of Agreement, the Bank, while primarily expected to make or
guarantee loans for specific projects of reconstruction and develop-
ment, does have authority to make or guarantee loans for programs of
economic reconstruction and the reconstruction of monetary systems, in-
cluding long-term stabilization loans, even if such loans are not for
specific projects of reconstruction or development within the meaning
of such Section.

5. In determining whether or not to make or guarantee any
such loan, it is, of course, for the Bank to decide whether or not such
loan conforms to the conditions specified in the above-quoted provisions
of Article III of the Articles of Agreement of the Bank, and, in the case
of a loan which is not for the purpose of a specific project of recon-
struction or development, it is for the Bank to decide whether special
circumstances exist which justify it in making or guaranteeing such loan,
6. The Committee is, therefore, of opinion that, under the Articles of Agreement, the Bank has authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans, and the Committee recommends that the Executive Directors so decide.

7. If this report shall be approved by the Executive Directors, the Committee recommends that this report be transmitted to the Board of Governors as the decision of the Executive Directors in accordance with the above-quoted Resolution No. 6 of the Board of Governors.

Committee on Interpretation

(Original signed by)

Kyrirkos Varvarossos

Kyrirkos Varvarossos (Chairman)
Hubert Amsicux
Victor Moller
Yuen-Ting Shen
N. Sundaresan
Excerpt:

Section 12 of the Bretton Woods Agreements Act of the United States of America provides as follows:

The governor and executive director of the Bank appointed by the United States are hereby directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

REPORT BY THE PRESIDENT TO THE EXECUTIVE DIRECTORS WITH
RESPECT TO MATTERS OF ORGANIZATION AND LOAN PROCEDURE

The Executive Directors have heretofore recognized that the
principles with respect to organization and procedure adopted last summer
(R-17 (Revised) approved July 23, 1946) must be re-examined in the light of experience since that time.

The management of the Bank, after careful consideration of the
important issues involved, recommends the adoption by the Executive
Directors of the following statement of principles to take the place of
R-17 (Revised):

1. The Executive Directors are responsible for the decision
of all matters of policy in connection with the operations of the
Bank, including the approval of loans.

2. The management is responsible for developing recommendations
on all matters of policy requiring decision by the Executive Directors.
Whenever, in connection with the operations of the Bank, decision of
a question of policy becomes necessary, the President will submit such
question to the Executive Directors with the recommendation of the
management as to the action to be taken. Any Executive Director may
at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the
Chairman. He will call a regular meeting of the Executive Directors
at least once each week, unless the Executive Directors determine
with respect to any particular week that a meeting is unnecessary,
and will call such additional meetings of the Executive Directors as
he believes to be necessary in the interests of the Bank. The Chair-
man will call a special meeting of the Executive Directors whenever
requested to do so by any Executive Director.

4. Following each regular weekly meeting of the Executive Directors, an informal meeting will be held, at which the President and appropriate members of the staff designated by him will discuss informally with the Executive Directors the status of the work in the various departments of the Bank, the problems being encountered, and the progress being made, as well as the status of all important organization and administrative matters.

5. Committees of the Executive Directors, whether standing or ad hoc will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. Each committee will have a chairman and a vice-chairman, also designated by the President. In the absence of an Executive Director, his Alternate will act for him as a committee member.

6. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

7. There will be the following standing committees:

   Financial Policy

   Interpretation

   Liaison

It is intended that the Financial Policy Committee will consider those matters heretofore considered by both the Loan Policy and Financial Policy Committees. The question of the continuance of the Joint Standing Committee with the Fund is reserved for separate consideration at a later date.

8. Ad hoc committees will be established from time to time
to consider and make recommendations on specific matters referred to them by the Executive Directors (including, where appropriate, the action to be taken on any specific loan application). The present Membership and Advisory Council Committees are considered as Ad Hoc Committees, which will continue in existence until the specific matters referred to them have been resolved. The Organization Committee is considered as an Ad Hoc Committee whose work will have been completed when and if this statement of principles is adopted by the Executive Directors.

9. Committees will meet upon the call of the chairman of the committee or, in his absence, the vice-chairman. The chairman or vice-chairman will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any other member of the committee or by the President. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates, or particular members of the staff should be invited to attend.

10. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the Secretariat for Executive Directors' committees.

11. It is the responsibility of the Secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of Executive Directors' committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents.
setting forth the views of the committee.

12. The following procedure will be followed in connection with the processing of loan applications:

a. When a loan application is received, it will be reproduced and distributed to all Executive Directors. The application will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so recommend to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will proceed, after so informing the Executive Directors to conduct such negotiation with the applicant to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.
e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by oral reports made at the informal weekly meetings of the Executive Directors and by such supplementary written information and documentation as may be appropriate in individual cases. Where such study, discussion or negotiation reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President, Loan Director, General Counsel, Director of Research and Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular loan committee, the President or Vice-President may designate a substitute to act for him.

13. As used in this statement of principles, the words "Executive Director" include an Alternate acting for an Executive Director.
Regular Meeting of the Board of Executive Directors

A regular meeting of the Board of Executive Directors of the International Bank for Reconstruction and Development was held at the offices of the Bank, 1818 H Street NW, Washington, D. C., on Thursday, July 18, 1946 at 4:30 o'clock in the afternoon.

There were present the following:

Eugene Meyer, President and Chairman
Harold D. Smith, Vice President

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<td>Floyd R. Harrison, Assistant to the President</td>
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<td>John S. Rockefeller, Temporary Secretary</td>
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The minutes of the meeting of July 15, 1946 (M-22), were approved.

On motion duly made and seconded, the following Resolution (No. 10) was unanimously adopted:
"RESOLVED:

That on receipt of a formal invitation from the Temporary Sub-Commission on Economic Reconstruction of Devastated Areas meeting in London, England commencing on 29 July 1946 that the Bank be represented there by a consultant, the invitation be accepted and Mr. Leonard E. Rist be appointed a Consultant at that meeting to represent the Bank, and particularly to explain its purposes and limitations, without in any way undertaking any commitments on behalf of the Bank."

There was discussion of a draft letter to UNRRA in reply to their letter of July 12 concerning the Bank's sending an observer to their forthcoming session at Geneva. The Board agreed to the substance of the draft submitted by the Committee on Loan Policy, the exact wording to be determined by the President.

Mr. Collado referred to his letter of July 16 to the Chairman requesting that urgent attention be given to the request for interpretation of the powers of the Bank incorporated in Section 12 of the Bretton Woods Agreement Act, and made the following summary statement of the position of the United States:

The Congress of the United States in Section 12 of the Bretton Woods Agreement Act directed the United States Governor and Executive Director to obtain promptly an official interpretation by the Bank as to its "authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans". Section 11 of the Act requests an interpretation by the Fund as to whether "its authority to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical and emergency fluctuations in the balance of payments of any member for current transactions". At the Savannah Meeting the United States Governor requested that action be taken in this matter and the Governors by Resolution No. 6 referred the matter to the Executive Directors in accordance with Article IX.

The scope of loan activities of the Bank was the subject of much discussion prior to and during the Bretton Woods Conference. Proposals submitted by the United Kingdom and the Netherlands at Bretton Woods provided specifically in exceptional circumstances to aid a member in "establishing its exchanges and allowing a breathing space for the recovery of its economy and the balancing of its international payments". In the discussion at Bretton Woods two principal cases were discussed: (a) direct monetary reconstruction or "stabilization" loans and (b) loans for the reconstitution of levels of stocks of raw materials and foodstuffs. Both of these categories of loans were characterized as working capital advances.
A number of delegations felt that too much emphasis on monetary and exchange loans might detract from acceptance of the Monetary Fund proposals and accordingly it was decided to omit detailed reference to these loan concepts. The final provision was worded (Article III Section 4(vii)) "loans made or guaranteed by the Bank which, except in special circumstances, be for the purpose of specific projects of reconstruction or development". A number of delegations wished to be specifically satisfied that this wording covered the two categories of loans mentioned above, and other similar cases, and the delegation of Czechoslovakia directed specific questions to the representatives of the United States in both the working commission and the plenary session. On both of these occasions the United States official spokesman took the position that such loans under appropriate circumstances were included in the "special circumstances" provision.

Spokesmen for the State and Treasury Departments recited this history in the Congressional hearings on the Bretton Woods Agreements Act. The Congress, however, has requested a formal interpretation in this matter. The Executive Director for the United States consequently submits that both the wording of the Articles of Agreement and their legislative history clearly indicate that the Bank has the legal authority to make the type of loans referred to in Section 12 of the Bretton Woods Agreements Act.

The Chairman stated that Mr. Collado's letter of July 16 and its enclosure had been referred to the Committee on Interpretation and that the Legal Department would work with the Committee on the matter.

The Chairman reported that the Committee on Loan Policy had discussed the distribution of the documents of the Bank to Governors and member governments. He stated that the Committee had reached no definite decision on this matter in regard to all documents, but felt that the minutes of the Board meetings should have no outside distribution. There was a brief discussion of this question and the Chairman suggested that it be held over for decision at a later meeting of the Board.

There being no further business, the meeting was adjourned.

Adopted August 13, 1946

Temporary Secretary
MEMORANDUM WITH REGARD TO ORGANIZATION AND LOAN PROCEDURE (REVISED) - R-106/6 DATED AUGUST 10, 1955

1. In view of the recent changes in the Management of the Bank, the Memorandum R-106/6 dated August 10, 1955 requires the following amendments:

   (a) Paragraph 4 (line 3) and Paragraph 8 (line 2) replace "the Vice President" with "a Vice President".

   (b) Paragraph 4 (line 5); replace "Vice President" with "Vice Presidents".

   (c) Paragraph 11(f) to read as follows:

   "The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and a Vice President, the Director or Acting Director of the particular Area Operational Department concerned with the loan, the Director or Acting Director of the Legal Department, the Director or Acting Director of the Department of Technical Operations, and the Treasurer or Acting Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular Loan Committee, the President or a Vice President may designate a substitute to act for him."

2. If these changes are approved by the Executive Directors at their meeting on September 13, a revised version of the complete Memorandum will be circulated.

Distribution: Executive Directors and Alternates, President, Vice Presidents, Department Heads

Sec. 10-369
FROM: The Secretary

August 10, 1955

Memorandum with Regard to Organization and Loan Procedure-(Revised)

Memorandum R-106/5, dated October 16, 1952, regarding Organization and Loan Procedure has been revised to incorporate the changes in paragraph 11 (f) as approved by the Executive Directors on August 9, 1955. Attached is a copy of the revised memorandum for information.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice President
Assistant to President
Department Heads
Secretary, International Monetary Fund

Sec. 9-374
Memorandum with Regard to Organization and Loan Procedure

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each month, unless the Executive Directors determine with respect to any particular month that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director. Monthly meetings would be organized in accordance with report (R-270/1) as approved by the Executive Directors on January 16, 1950.

4. Committees of the Executive Directors will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. The President, or in his absence the Vice President,
will act as chairman of each committee. In the absence of both the President and the Vice President, the members of any committee may designate one of their number to act as chairman of that committee. In the absence of an Executive Director, his Alternate may act for him as a committee member.

5. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

6. There will be the following standing committees:

   Financial Policy
   Interpretation

7. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors. The existing Membership Committee is an Ad Hoc Committee, which will continue in existence until the specific matters referred to it have been resolved.

8. Committees will meet upon the call of the President or, in his absence, the Vice President. The President or Vice President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates or particular members of the staff should be invited to attend.

9. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the secretariat for committees.

Sec. 9-374
10. It is the responsibility of the secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents setting forth the views of the committee.

11. The following procedure will be followed in connection with the processing of loan applications:

a. When a request for a loan is received, the substance of it will be reported to the Executive Directors. The request will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so report to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will, after so informing the Executive Directors, proceed to negotiate with the applicant in order to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.
e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by fortnightly reports made at and between the monthly meetings. Where such study, discussion or negotiation reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President or Assistant to the President, the Director or Acting Director of the particular Area Operational Department concerned with the loan, the General Counsel or Acting General Counsel, the Director or Acting Director of the Department of Technical Operations, and the Treasurer or Acting Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular Loan Committee, the President, or Vice President, or Assistant to the President may designate a substitute to act for him.

12. As used in this memorandum, the words "Executive Director" include an Alternate acting for an Executive Director.

Sec. 9-374
FROM: The Secretary

September 14, 1956

Memorandum with Regard to Organization and Loan Procedure - (Revised)

Memorandum R-106/6, dated August 14, 1955, regarding Organization and Loan Procedure has been revised to incorporate the changes in paragraphs 4 and 11(f) of R-106/7 dated September 7, 1956 as approved by the Executive Directors on September 13, 1956. Attached is a copy of the revised memorandum.

Attachment

Distribution:

Executive Directors and Alternates
President
Vice President
Department Heads

Sec. 10-379
Memorandum with Regard to Organization and Loan Procedure

September 14, 1956

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each month, unless the Executive Directors determine with respect to any particular month that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director. Monthly meetings would be organized in accordance

Sec. 10-379
with report (R-270/1) as approved by the Executive Directors on January 16, 1950.

4. Committees of the Executive Directors will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. The President, or in his absence a Vice President, will act as chairman of each committee. In the absence of both the President and the Vice Presidents, the members of any committee may designate one of their number to act as chairman of that committee. In the absence of an Executive Director, his Alternate may act for him as a committee member.

5. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

6. There will be the following standing committees:

   Financial Policy
   Interpretation

7. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors. The existing Membership Committee is an Ad Hoc Committee, which will continue in existence until the specific matters referred to it have been resolved.

8. Committees will meet upon the call of the President or, in his absence, a Vice President. The President or Vice President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff.
as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates or particular members of the staff should be invited to attend.

9. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the secretariat for committees.

10. It is the responsibility of the secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents setting forth the views of the committee.

11. The following procedure will be followed in connection with the processing of loan applications:

   (a) When a request for a loan is received, the substance of it will be reported to the Executive Directors. The request will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

   (b) If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so report to the Executive Directors with his reasons therefor.
(c) If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will, after so informing the Executive Directors, proceed to negotiate with the applicant in order to reach agreement on the amount, term and conditions of the loan.

(d) If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.

(e) During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by fortnightly reports made at and between the monthly meetings. Where such study, discussion or negotiation reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that
discussion and decision of such issue by the Executive Directors should take place.

(f) The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and a Vice President, the Director or Acting Director of the particular Area Operational Department concerned with the loan, the Director or Acting Director of the Legal Department, the Director or Acting Director of the Department of Technical Operations, and the Treasurer or Acting Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular Loan Committee, the President or a Vice President may designate a substitute to act for him.

12. As used in this memorandum, the words "Executive Director" include an Alternate acting for an Executive Director.
FROM: The Secretary

August 5, 1955

MEMORANDUM WITH REGARD TO ORGANIZATION AND LOAN PROCEDURE
(R-106/5 dated October 16, 1952)

1. The composition of the Statutory Loan Committee is prescribed in paragraph 11(f) of the Memorandum with regard to Organization and Loan Procedure (R-106/5, dated October 16, 1952) as follows:

"The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President, the Director of the particular Area Operational Department concerned with the loan, the General Counsel, the Director of the Department of Technical Operations and the Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular Loan Committee, the President or Vice President may designate a substitute to act for him."

2. It would be helpful if this paragraph could be changed to include alternative designations for occasions when the Vice President or heads of departments are absent from the Bank.

Distribution:

Executive Directors and Alternates
President
Vice President
Assistant to President
Department Heads

Sec. 9-366
Accordingly, it is recommended that the said paragraph 11(f) of the Memorandum be revised to read as follows:

"The Statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President or Assistant to the President, the Director or Acting Director of the particular Area Operational Department concerned with the loan, the General Counsel or Acting General Counsel, the Director or Acting Director of the Department of Technical Operations, and the Treasurer or Acting Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular Loan Committee, the President, or Vice President, or Assistant to the President may designate a substitute to act for him."
Memorandum with Regard to Organization and Loan Procedure - (Revised)

Memorandum R-106/4 regarding Organization and Loan Procedure has been revised to incorporate the change in paragraph 11 (f) as approved by the Executive Directors on October 16, 1952. Attached is a copy of the revised memorandum for information.

Distribution:
Executive Directors and Alternates
President
Vice President
Assistant to President
Department Heads
Secretary, International Monetary Fund
Memorandum with Regard to Organization and Loan Procedure

October 16, 1952

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each month, unless the Executive Directors determine with respect to any particular month that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director. Monthly meetings would be organized in accordance with report (R-270/1) as approved by the Executive Directors on January 16, 1950.

4. Committees of the Executive Directors will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. The President, or in his absence the Vice President, will act as
chairman of each committee. In the absence of both the President and the Vice President, the members of any committee may designate one of their number to act as chairman of that committee. In the absence of an Executive Director, his Alternate may act for him as a committee member.

5. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

6. There will be the following standing committees:

   Financial Policy
   Interpretation

7. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors. The existing Membership Committee is an Ad Hoc Committee, which will continue in existence until the specific matters referred to it have been resolved.

8. Committees will meet upon the call of the President or, in his absence, the Vice President. The President or Vice President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates or particular members of the staff should be invited to attend.

9. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the secretariat for committees.

10. It is the responsibility of the secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of committees to furnish to such committees factual information requested by them, and to prepare,
upon request, drafts of committee reports and other documents setting forth the views of the committee.

11. The following procedure will be followed in connection with the processing of loan applications:

a. When a request for a loan is received, the substance of it will be reported to the Executive Directors. The request will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so report to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will, after so informing the Executive Directors, proceed to negotiate with the applicant in order to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.
e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by fortnightly reports made at and between the monthly meetings. Where such study, discussion or negotiation reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President, the Director of the particular Area Operational Department concerned with the loan, the General Counsel, the Director of the Department of Technical Operations and the Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular Loan Committee, the President or Vice President may designate a substitute to act for him.

12. As used in this memorandum, the words "Executive Director" include an Alternate acting for an Executive Director.
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Memorandum with Regard to Organization and Loan Procedure — (Revised)

Memorandum R-106/3 regarding Organization and Loan Procedure has been revised to incorporate changes approved by the Executive Directors. Attached is a copy of the revised memorandum for information.

Distribution:

Executive Directors and Alternates
President
Vice President
Department Heads
Secretary, International Monetary Fund
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Memorandum with Regard to Organization and Loan Procedure

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each month, unless the Executive Directors determine with respect to any particular month that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director. Monthly meetings would be organized in accordance with report (R-270/1) as approved by the Executive Directors on January 16, 1950.

Sec. 4-187
4. Committees of the Executive Directors will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. The President, or in his absence the Vice President, will act as chairman of each committee. In the absence of both the President and the Vice President, the members of any committee may designate one of their number to act as chairman of that committee. In the absence of an Executive Director, his Alternate may act for him as a committee member.

5. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

6. There will be the following standing committees:

   Financial Policy

   Interpretation

7. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors. The existing Membership Committee is an Ad Hoc Committee, which will continue in existence until the specific matters referred to it have been resolved.

8. Committees will meet upon the call of the President or, in his absence, the Vice President. The President or Vice President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee.

Sec. 4-187
unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates or particular members of the staff should be invited to attend.

9. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the secretariat for committees.

10. It is the responsibility of the secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents setting forth the views of the committee.

11. The following procedure will be followed in connection with the processing of loan applications:

   a. When a request for a loan is received, the substance of it will be reported to the Executive Directors. The request will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

   b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so report to the Executive Directors with his reasons therefor.
c. If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will, after so informing the Executive Directors, proceed to negotiate with the applicant in order to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.

e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by fortnightly reports made at and between the monthly meetings. Where such study, discussion or negotiation reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors.
of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President, Loan Director, General Counsel, Economic Director and Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular loan committee, the President or Vice President may designate a substitute to act for him.

12 As used in this memorandum, the words "Executive Director" include an Alternate acting for an Executive Director.
1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each week, unless the Executive Directors determine with respect to any particular week that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director.
4. At each regular weekly meeting of the Executive Directors, the President and appropriate members of the staff designated by him will discuss informally with the Executive Directors the status of the work in the various departments of the Bank, the problems being encountered, and the progress being made, as well as the status of all important organization and administrative matters.

5. Committees of the Executive Directors, whether standing or ad hoc will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. The President, or in his absence the Vice President, will act as chairman of each committee. In the absence of both the President and the Vice President, the members of any committee may designate one of their number to act as chairman of that committee. In the absence of an Executive Director, his Alternate may act for him as a committee member.

6. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

7. There will be the following standing committees:

   Financial Policy
   Interpretation

8. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors (including, where appropriate, the action to be taken on any specific loan application). The existing Membership Committee is an Ad Hoc Committee, which will continue in existence until the specific matters referred to it have been resolved.

Sec 3-173
9. Committees will meet upon the call of the President or, in his absence, the Vice President. The President or Vice President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates or particular members of the staff should be invited to attend.

10. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the secretariat for committees.

11. It is the responsibility of the secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents setting forth the views of the committee.

12. The following procedure will be followed in connection with the processing of loan applications:

a. When a request for a loan is received, the substance of it will be reported to the Executive Directors. The request will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.
b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so report to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will, after so informing the Executive Directors, proceed to negotiate with the applicant in order to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.

e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by oral reports made at the weekly meetings of the Executive Directors and by such supplementary written information and documentation as may be appropriate in individual cases. Where such study, discussion or negotiation
reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant, and the Vice President, Loan Director, General Counsel, Economic Director and Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular loan committee, the President or Vice President may designate a substitute to act for him.

13. As used in this memorandum, the words "Executive Director" include an Alternate acting for an Executive Director.
MEMORANDUM WITH REGARD TO ORGANIZATION AND
LOAN PROCEDURE

March 16, 1949

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each week, unless the Executive Directors determine with respect to any particular week that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director.
4. Following each regular weekly meeting of the Executive Directors, an informal meeting will be held, at which the President and appropriate members of the staff designated by him will discuss informally with the Executive Directors the status of the work in the various departments of the Bank, the problems being encountered, and the progress being made, as well as the status of all important organization and administrative matters.

5. Committees of the Executive Directors, whether standing or ad hoc will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. The President, or in his absence the Vice President, will act as chairman of each committee. In the absence of both the President and the Vice President, the members of any committee may designate one of their number to act as chairman of that committee. In the absence of an Executive Director, his Alternate may act for him as a committee member.

6. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

7. There will be the following standing committees:

   Financial Policy
   Interpretation

8. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors (including, where appropriate, the action to be taken on any specific loan application). The existing Membership Committee is an Ad Hoc Committee, which will continue in existence until the specific matters referred to it have been resolved.
9. Committees will meet upon the call of the President or, in his absence, the Vice President. The President or Vice President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee. Attendance at committee meetings will be limited to the members of the committee, their alternates, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates or particular members of the staff should be invited to attend.

10. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the secretariat for committees.

11. It is the responsibility of the secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents setting forth the views of the committee.

12. The following procedure will be followed in connection with the processing of loan applications:

a. When a loan application is received, the substance of it will be reported to the Executive Directors. The application will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.
b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so report to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes that a loan, subject to appropriate negotiation, should be granted, he will, after so informing the Executive Directors, proceed to negotiate with the applicant in order to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.

e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by oral reports made at the informal weekly meetings of the Executive Directors and by such supplementary written information and documentation as may be appropriate in individual cases. Where such study, discussion or negotiation
reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors; the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall consist of the expert selected by the Governor representing the applicant; and the Vice President, Loan Director, General Counsel, Economic Director and Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular loan committee, the President or Vice President may designate a substitute to act for him.

13. As used in this memorandum, the words "Executive Director" include an Alternate acting for an Executive Director.
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

May 22, 1947

FROM: The Secretary

ORGANIZATION AND LOAN PROCEDURE

The attached Report by the President with respect to matters of Organization and Loan Procedure has been the subject of discussion at two meetings of the Reconvened Ad Hoc Committee on Organization and is recommended by that Committee to the Executive Directors for approval.

Distribution:

Executive Directors and Alternates
President
Vice President
General Counsel
Secretary
Treasurer
Loan Director
Research Director
Director of Marketing
Director of Public Relations
Director of Administration
Assistant to the Vice President
Communications and Records

EMW/0s
Sec-693
The Executive Directors have heretofore recognized that the principles with respect to organization and procedure adopted last summer (R-17 (Revised) approved July 23, 1946) must be re-examined in the light of experience since that time.

The management of the Bank, after careful consideration of the important issues involved, recommends the adoption by the Executive Directors of the following statement of principles to take the place of R-17 (Revised):

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken. Any Executive Director may at any time propose for discussion and decision any matter of policy.

3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each week, unless the Executive Directors determine with respect to any particular week that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever
requested to do so by any Executive Director.

4. Following each regular weekly meeting of the Executive Directors, an informal meeting will be held, at which the President and appropriate members of the staff designated by him will discuss informally with the Executive Directors the status of the work in the various departments of the Bank, the problems being encountered, and the progress being made, as well as the status of all important organization and administrative matters.

5. Committees of the Executive Directors, whether standing or ad hoc will be composed of three or more Executive Directors designated by the President in consultation with the Executive Directors. Each committee will have a chairman and a vice-chairman, also designated by the President. In the absence of an Executive Director, his Alternate will act for him as a committee member.

6. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

7. There will be the following standing committees:

   Financial Policy
   Interpretation
   Liaison

It is intended that the Financial Policy Committee will consider those matters heretofore considered by both the Loan Policy and Financial Policy Committees. The question of the continuance of the Joint Standing Committee with the Fund is reserved for separate consideration at a later date.

8. Ad hoc committees will be established from time to time
to consider and make recommendations on specific matters referred to them by the Executive Directors (including, where appropriate, the action to be taken on any specific loan application). The present Membership and Advisory Council Committees are considered as Ad Hoc Committees, which will continue in existence until the specific matters referred to them have been resolved. The Organization Committee is considered as an Ad Hoc Committee whose work will have been completed when and if this statement of principles is adopted by the Executive Directors.

9. Committees will meet upon the call of the chairman of the committee or, in his absence, the vice-chairman. The chairman or vice-chairman will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any other member of the committee or by the President. Attendance at committee meetings will be limited to the members of the committee, the President, and such members of the staff as the President may determine to be necessary to facilitate the work of the committee, unless in the case of any particular meeting the committee determines that other Executive Directors, Alternates, or particular members of the staff should be invited to attend.

10. The Secretary of the Bank will function as Secretary of the Executive Directors and will provide the Secretariat for Executive Directors' committees.

11. It is the responsibility of the Secretariat and of the members of the technical staff of the Bank assigned to facilitate the work of Executive Directors' committees to furnish to such committees factual information requested by them, and to prepare, upon request, drafts of committee reports and other documents.
setting forth the views of the committee.

12. The following procedure will be followed in connection with the processing of loan applications:

a. When a loan application is received, it will be reproduced and distributed to all Executive Directors. The application will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so recommend to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes that a loan should be granted, he will proceed to conduct negotiations with the applicant to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the project, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.

e. During the process of study, discussion and negotiation, the management will keep the Executive Directors
informed with respect to the progress and status of the loan application by oral reports made at the informal weekly meetings of the Executive Directors and by such supplementary written information and documentation as may be appropriate in individual cases. Where such study, discussion or negotiation reveals that the loan application presents a question of policy not theretofore decided by the Executive Directors, the President will promptly inform the Executive Directors of the issue of policy involved and will recommend to the Executive Directors at what stage he believes that discussion and decision of such issue by the Executive Directors should take place.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall, in the absence of action to the contrary by the Executive Directors, consist of the expert selected by the Governor representing the applicant, and the Vice President, Loan Director, General Counsel, Director of Research and Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular loan committee, the President or Vice-President may designate a substitute to act for him.

13. As used in this statement of principles, the words "Executive Director" include an Alternate acting for an Executive Director.
Recommending only very restricted circulation
until approved by staff and by
the Executive Directors. At that
time, however, should be distributed
to all senior members of Research Dept.
April 22, 1947

Mr. Garner
Mr. McLain
Mr. Pinoe
Mr. Crena de Iongh
Mr. Rist
Mr. Mendels
Mr. Parker
Mr. Dudley

Attached third draft is being circulated to officers of the Bank, as Mr. McCloy suggested. This draft, if approved, is intended for discussion by Mr. McCloy with the Organization Committee of the Executive Directors.

Richard H. Desmut
REPORT BY THE PRESIDENT TO THE EXECUTIVE DIRECTORS
WITH RESPECT TO MATTERS OF ORGANIZATION AND LOAN PROCEDURE

The Executive Directors have heretofore recognized that the principles with respect to organization and procedure adopted last summer [R-17 (Revised) approved July 23, 1946] must be reexamined in the light of experience since that time.

The management of the Bank, after careful consideration of the important issues involved, recommends the adoption by the Executive Directors of the following statement of principles to take the place of R-17 (Revised):

1. The Executive Directors are responsible for the decision of all matters of policy in connection with the operations of the Bank, including the approval of loans.

2. The management is responsible for developing recommendations on all matters of policy requiring decision by the Executive Directors. Whenever, in connection with the operations of the Bank, decision of a question of policy becomes necessary, the President will submit such question to the Executive Directors with the recommendation of the management as to the action to be taken.
3. Meetings of the Executive Directors will be called by the Chairman. He will call a regular meeting of the Executive Directors at least once each week, unless the Executive Directors determine with respect to any particular week that a meeting is unnecessary, and will call such additional meetings of the Executive Directors as he believes to be necessary in the interests of the Bank. The Chairman will call a special meeting of the Executive Directors whenever requested to do so by any Executive Director.

4. Following each regular weekly meeting of the Executive Directors, an informal meeting will be held, at which the President and appropriate members of the staff designated by him will discuss informally with the Executive Directors the status of the work in the various departments of the Bank, the problems being encountered, and the progress being made.

5. Committees of the Executive Directors, whether standing or ad hoc, will be composed of three or more Executive Directors, designated by the President in consultation with the Executive Directors. Each committee will
have a chairman and a vice-chairman, also designated by the President. In the absence of an Executive Director, his Alternate will act for him as a committee member.

6. The President will, from time to time, review the composition of committees, in order to assure a fair distribution of committee assignments.

7. There will be the following standing committees:

   Financial Policy
   Interpretation
   Liaison

It is intended that the Financial Policy Committee will consider those matters heretofore considered by both the Loan Policy and Financial Policy Committees. The question of the continuance of the Joint Standing Committee with the Fund is reserved for separate consideration at a later date.

8. Ad hoc committees will be established from time to time to consider and make recommendations on specific matters referred to them by the Executive Directors (including, where appropriate, the action to be taken on any
specific loan application). The present Membership and Advisory Council Committees are considered as Ad Hoc Committees, which will continue in existence until the specific matters referred to them have been resolved. The Organization Committee is considered as an Ad Hoc Committee whose work will have been completed when and if this statement of principles is adopted by the Executive Directors.

9. Committees will meet upon the call of the President. The President will call a committee meeting whenever in his opinion the interests of the Bank so require or when requested to do so by any member of the committee concerned. Attendance at committee meetings will be limited to the members of the committee, the President, and such members of the staff as the President may designate, unless in the case of any particular meeting the committee determines that other Executive Directors or Alternates should be invited to attend.

10. The Secretary of the Bank will function as Secretary of the Executive Directors
and will provide the Secretariat for Executive Directors' committees.

11. The following procedure will be followed in connection with the processing of loan applications:

a. When a loan application is received, it will be reproduced and distributed to all Executive Directors. The application will then be studied by the management and discussions will be conducted with the applicant to determine the precise nature of the loan requested and the general economic and balance of payments situation of the prospective borrower.

b. If, after study of the application, the President believes that the loan should not at the time be made, he will promptly so recommend to the Executive Directors with his reasons therefor.

c. If, after study of the application, the President believes
that a loan should be granted, he will proceed to conduct negotiations with the applicant to reach agreement on the amount, term and conditions of the loan.

d. If agreement is reached with the applicant, the final proposal of the President embodying such agreement, accompanied by a report of the statutory Loan Committee recommending the loan agreed upon, will be presented to the Executive Directors for decision. If no agreement is reached, the facts of the matter will be presented by the President to the Executive Directors, with his recommendation as to the action to be taken.

e. During the process of study, discussion and negotiation, the management will keep the Executive Directors informed with respect to the progress and status of the loan application by oral reports made at the informal weekly meetings of the Executive Directors.
and by such supplementary written information and documentation as may be appropriate in individual cases.

f. The statutory Loan Committee required to be established under Section 7 of Article V of the Articles of Agreement to make reports on loans pursuant to Article III, Section 4, shall, in the absence of action to the contrary by the Executive Directors, consist of the expert selected by the Governor representing the applicant, and the Vice President, Loan Director, General Counsel, Director of Research and Treasurer of the Bank. If any of such officers shall for any reason be unable to act on a particular loan committee, the President or Vice-President may designate a substitute to act for him.
The Executive Directors have heretofore recognized that the principles with respect to organization and procedure adopted last summer [R-17 (Revised) approved July 23, 1946] must be reexamined in the light of experience since that time.

The administration of the Bank, after careful consideration of the important issues involved, recommends the adoption by the Executive Directors of the following statement of principles to take the place of R-17 (Revised):

1. The Executive Directors are responsible for determination of the policies which govern the operations of the Bank.

2. Whenever, in connection with the operations of the Bank, determination of a question of policy becomes necessary, the President will submit such question to the Executive Directors, with his recommendation as to the action to be taken. As a general rule, no action will be taken by the Executive Directors in connection with any matter of policy until a recommendation thereon is received from the President.
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

April 9, 1947

FROM: The Secretary

The attached Confidential Draft Memorandum on Loan Policy will be discussed with the Executive Directors at their meeting on Wednesday, April 16, 1947.

The policies outlined in this memorandum are intended as an initial guide to the management and staff in dealing with loan applications, and are subject to change according to circumstances.

Distribution

Executive Directors and Alternates
President
Vice President
Treasurer
General Counsel
Loan Director
Research Director
Director of Marketing
Secretary

EMW:gm
Sec-579
DRAFT MEMORANDUM ON LOAN POLICY

1. The primary purpose of the Bank is to "assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peace-time needs and the encouragement of the development of productive facilities and resources in less developed countries."

2. In carrying out that purpose the Bank is to "promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources."

3. The Bank is further enjoined to "promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, to arrange "the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first"; and to "conduct its operations with due regard to the effect of international investment on business conditions in the territories..."
of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peace-time economy."

Furthermore, in making or guaranteeing any loan the Bank is required to "pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in a position to meet its obligations under the loan"; and to "act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole."

The Bank is, therefore, a cooperative financial institution designed to promote mutual assistance among its members in the reconstruction and development of their territories and the promotion of the long-ranged balanced growth of international trade and the maintenance of equilibrium in balances of payments.

With due regard to the purposes of the Bank as set forth in the Articles of Agreement; to the magnitude of its task of assisting in the economic and financial recovery of the world; to the responsibilities of the Bank towards its members as stockholders and potential borrowers, and towards the investors who must supply the major portion of its loanable funds - these are adopted as principles governing its loan policy:

1. **The Need to take Calculated Risks**

   It is essential for the Bank to take calculated risks that private capital is not now willing to assume, especially risks arising from general economic and political uncertainties, and from the magnitude of the amounts required.
8. **The Need to insist on Constructive Lending.**

In accepting these general risks, it is necessary for the Bank to insist that the purposes for which its funds are used are constructive, practical and essential to the economic rehabilitation or development of the borrowing countries, and beneficial to the world economy.

9. **The Distribution of Loanable Funds.**

Since the Bank's resources are limited in relation to the demands to be made upon it, it is not enough to consider individual applications on their merits. First consideration shall be given to the most urgent needs whether for reconstruction or development; these can be defined broadly as the elimination of bottlenecks and the restoration and expansion of productive facilities that will contribute most effectively to the healthy revival of the world economy.

10. **The Principle of Successive Advances.**

The principle of successive advances arises from two reasons:

First, the Bank's purpose is not fulfilled by the mere granting of loans. It has a continuing responsibility regarding the utilisation of its loans. This responsibility can best be discharged by meeting the needs of borrowing countries with successive advances in the light of their own performance, and by the maintenance of close collaboration between the Bank and borrowing countries.

Secondly, the present limited resources of the Bank preclude it from providing finance for a long period ahead for all the
qualifying applications. The Bank can lend no faster than it can borrow. Its current policy must, therefore, be one of making successive advances to individual borrowing countries to meet their most important needs as they arise.

5. The Primary Responsibility of the Borrower for the Major Contribution to its Recovery.

The Bank shall proceed on the basis that, important though its financial contributions can be, the major effort must be made by the borrowing countries. The future of every country must depend primarily on its willingness and ability to utilise to the fullest and for productive purposes its own resources.

6. The Fulfilment of Contracts.

In view of the fact that the realisation of the purpose of the Bank - to assist in economic recovery and development, both by direct or guaranteed loans, and by the encouragement of private lending - depends on its ability to work towards the opening up of all sources of finance, it has an inescapable interest in the fulfilment of obligations in good faith. Therefore, it has responsibility for appraising fairly all factors affecting confidence in international loans and of encouraging all steps which tend to promote such confidence.

7. The Use of the Proceeds of Loans.

The Articles of Agreement provide that arrangements shall be made to ensure that the proceeds of loans are used efficiently for the specified purposes. Such arrangements shall ensure that:

(1) Disbursements are for expenditure on goods and
services acquired in accordance with the terms of the loan agreement; and

(2) The goods and services so purchased are employed for the purposes stated in the loan agreement.

15. **Technical Advice.**

The efficient utilisation of loans depends, in large measure on the quality of the engineering and other technical skills employed not only in the preparation of projects submitted, but also in their execution. Accordingly, the Bank will scrutinise carefully the engineering and technical skills used in the preparation of projects and proposed to be used in their execution. The Bank will be prepared to consult with and advise applicants concerning the provision of requisite engineering and other technical services.

16. **Interest on Loans, Commissions and Conditions of Redemption.**

Subject to modification in the light of changing conditions:

(a) **The Rate of Interest on Loans.**

The rate of interest on loans made by the Bank shall be stated separately from the rate of commission to be charged on such loans.

Such rate of interest shall be approximately one-quarter of one per cent. per annum higher than the net rate of interest at which the Bank can reasonably expect to borrow at long-term
an amount equal to the amount of the loan.

A commitment fee at the rate of 1½ per cent shall be charged from the date on which the Bank undertakes a firm commitment to make the loan until disbursement. Interest shall begin on the date of disbursement but is to be charged only on the amount disbursed. In exceptional cases of projects requiring a long period of time to complete, some modification of this principle may be necessary.

(b) Commission on Loans

The rate of commission to be charged by the Bank on loans made by it shall be one per cent. per annum on the amount of the loan outstanding and such commission shall be charged on all loans made by the Bank whether made out of capital or out of borrowed funds.

(c) Provisions for the Redemption of Loans prior to Maturity at Option of the Borrower

Loans made by the Bank shall be subject to redemption at any time prior to maturity at the option of the borrower.

Upon optional redemption of all or any part of the loan prior to maturity the borrower shall be required to pay a premium at a rate approximately equal to the rate of premium which the Bank shall reasonably expect to have to pay on the optional redemption of securities issued by it having substantially the same maturity.

The Bank at its option may waive the payment of all or part of such redemption premium on the optional
redemption prior to maturity of loans made by it when the Bank is satisfied that it can use the amounts of the loan so repaid to retire its own securities without loss of interest or otherwise use such amount in its operations.

23. The Protection of the Bank's Loans.

The Bank is required to protect the integrity of its loans. Since such loans will be repayable in foreign exchange, the Bank must provide suitable protection against the borrower impairing its ability to provide the necessary foreign exchange either by pledging its foreign exchange resources as security for other external debt or by improvidently incurring an excessive amount of external debt. To that end the borrower should agree not to pledge its sources of foreign exchange so as to give other external debt priority over the Bank's loans without the consent of the Bank. In appropriate cases an exception to this principle may be made in order to permit short-term self-liquidating transactions. The borrower should also agree not to incur additional external debt without first consulting with the Bank.

24. The Relations between the Bank and Borrowing Countries.

In order to accomplish its purposes, the relations between the Bank and its members must be based on confidence and a spirit of mutual cooperation. The relations of the Bank with its borrowers must be broader and closer than the ordinary relations between a cred-
itor and a debtor. There must be the fullest exchange of information with regard to all matters of mutual interest and full opportunity to consult and advise with each other on all such matters. That must be true not only at the inception of the loans but throughout the life of the loans.

Since the financial assistance rendered by the Bank will provide only a part of the resources which the borrower will require for the accomplishment of the particular project or program for which the loan is made, and since in the end the accomplishment of such project or program must depend on the constructive efforts and savings of the government and people of the nation to which the loan is made, both the Bank and the borrower must be assured that those efforts and savings can and will be mobilised.

The Bank, therefore, has an interest in:

(a) Internal economic and financial measures taken by the borrowers to implement their reconstruction or development programs;

(b) Continuing developments relating to the economic and financial progress of the borrower.


The contracts of the Bank with its borrowers should contain appropriate recognition of the principles here enunciated and appropriate provisions to implement such principles. Such principles are necessarily subject to modification from time to time in the light of changing conditions.
Minutes of Staff Loan Committee Meeting held Thursday, January 21, 1954 at 11:00 a.m. in Room 1005

1. Present:

Mr. A. L. Garner
Mr. W. A. B. Iliff
Mr. F. D. Gregh
Mr. A. S. G. Hear
Mr. J. B. Knapp
Mr. D. Sommers

Mr. L. B. Rist
Mr. R. H. Demuth
Mr. S. Aldenwereld
Mr. P. G. Rum
Mr. H. G. A. Woolley, Secretary

In attendance:

Mr. P. Acheson
Mr. K. A. Bohr
Mr. E. E. Clark
Mr. S. R. Cope

Mr. M. L. Lejeune
Mr. F. M. Oppenheimer
Mr. H. E. Ripsman

2. Guarantees of Loans for Projects in Dependencies

The Committee considered Memorandum SLC/0/615, "Report of Working Party on Guarantees of Loans for Projects in Dependencies" and

AGreed

with the conclusions and recommendations contained in paras. 21 and 22.

3. The meeting adjourned at 11:35 a.m.
FROM: Office of the Secretary
Secretary, Staff Loan Committee

DATE: January 19, 1954

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on
Tuesday, January 19
at 10:30 a.m., in Room 1005.

AGENDA

Guarantees of Loans for Projects in Dependencies

The Committee will consider the attached Memorandum (53/0/0/05), "Report of Working Party on Guarantees of Loans for Projects in Dependencies" dated January 3, 1954.

DISTRIBUTION

President
Vice President
Assistant to President
Director, Department of Operations - Asia and Middle East (2)
Director, Department of Operations - Europe, Africa and Australasia (3)
Director, Department of Operations - Western Hemisphere (2)
Director, Department of Technical Operations (2)

General Counsel (2)
Director, Economic Staff (2)
Treasurer (2)
Director, Technical Assistance and Liaison Staff
Secretary
Director, Public Relations
Files

General Wheeler
Working Party
The Problem

1. At the request of Mr. Iliff, a Working Party has been set up to consider the degree to which the guarantor of a loan to a dependency (or to a government agency in a dependency) should guarantee performance by the borrower of its obligations in connection with the carrying out of the project.

2. The Working Party consists of:

   - Mr. S. R. Cope, Chairman
   - Mr. Patrick Acheson
   - Mr. Kenneth A. Bohr
   - Mr. Ellsworth E. Clark
   - Mr. W. M. Gilmartin
   - Mr. Hugh Ripman

3. In its guarantee of the loans to Northern and Southern Rhodesia, the United Kingdom undertook to allow the borrower to borrow in British markets any deficiency in the funds necessary for carrying out the project. The United Kingdom has indicated informally that it would not accept such a provision in future guarantee agreements. There seem to be several reasons for this attitude. One, that as long as the total claims on the London market are greater than the funds available, access to the market will have to be regulated by a system of priorities. A provision which gave dependencies receiving Bank loans a prior claim on the market would give rise to resentment on the part of others who feel that they have an equal claim to consideration. Another is that the capacity of the market to absorb colonial loans may be less than the total amount which the United Kingdom is obligated to permit them to borrow, and the reservation about the timing of the borrowings would not give adequate protection if market conditions become difficult. Finally, the United Kingdom has laid particular stress on the possibility that an undertaking by a guarantor to provide funds would weaken the efforts of the borrower to raise funds itself.

4. One informal suggestion coming from the U.K. side was that the clause should provide merely for consultation in order to concert measures to ensure the completion of the project.

5. The issue is a practical one, since there are two impending negotiations for loans to U.K. dependencies. One would be a loan for East African Railways; the other a loan for a hydro-electric scheme on the Kafue river in the Rhodesias. The Working Party considered that it should both examine the general question of the guarantees which the
Bank should receive of the obligations of a dependency to carry out a project and also provide a specific answer to be given to the United Kingdom in view of possible loans to East Africa and Central Africa.

6. The question came up in 1951 in connection with the loan to the Belgian Congo, when the Bank obtained the Belgian Government's guarantee of full performance.

The Case for Covenants regarding Completion of the Project

7. From the early days of its operations the Bank has been concerned to see that the projects it finances will be carried out satisfactorily. If the Bank is not satisfied on this point, it will not make the loan. If a government is willing to guarantee repayment of a loan with interest, it must presumably have singled out the project as important and of high priority. It is clearly reasonable as a general principle for the Bank to require a guarantee of full performance of the borrower's covenants. It might happen that, because of economic or other changes, the project should no longer enjoy the high priority it was given when the loan was made and that the guarantor would not wish to see the Bank-financed project completed in priority to others which were not financed by the Bank. In these circumstances the consultation provisions of the guarantee agreement would come into play and the Bank would surely not insist on the enforcement of its rights if it felt that the general interests of the member required a relaxation.

Possible Types of Covenant

8. The fullest protection would be afforded to the Bank by the standard provisions to the effect that:

(a) The guarantor guarantees or agrees to compel performance by the borrower (Annex I-1), and

(b) The guarantor undertakes that the funds necessary to complete the project will be made available (Annex I-2).

The second provision is covered by the first, but its inclusion may give the point extra emphasis and make it easier for the government department or official concerned to make the money available.

9. Until early 1952 the Bank frequently obtained, in addition to the guarantee of performance, a "negative" undertaking that the guarantor would not take any action which would prevent or materially interfere with the performance by the borrower of any of its covenants and obligations. Since
then it has usually been dropped where there was a guarantee of performance. The recent loan to ESCOM was an exception, in that the South African Government guaranteed performance and also gave a "negative" undertaking.

10. This "negative" covenant has usually been accompanied by an "affirmative" undertaking on the part of the guarantor to take or cause to be taken all action necessary to enable the borrower to perform its obligations. This combined covenant has frequently been obtained where the borrower, although subject in the last resort to the guarantor, had a good deal of independence in practice. An example is the covenant in the guarantee of the KLM Loan (Annex I-3).

11. The general effect of the combination of "negative" and "affirmative" covenants mentioned above is much the same as a guarantee of full performance. It may not always be necessary or desirable for either of these alternatives to be adopted, and in particular cases the Bank has accepted provisions which amount to less.

12. There are several reasons why a guarantee of full performance cannot always be required. The guarantor may be unable as a matter of law or in practice to compel the borrower to carry out the project. A member with a federal constitution, for example, Australia, might not be able to compel one of its constituent states to carry out a project. Moreover, the Bank, as a matter of policy, might not wish to ask for the full provisions. The Bank does not ask a government to guarantee full performance where the borrower is a privately owned corporation, as such a guarantee might result in undue government interference in the corporation's affairs. An analogous reason accounts for the omission in guarantees of loans to certain parastatal organizations. It might also be undesirable for a government to guarantee full performance in the case of a loan to a dependency. This case is examined more fully below.

Guarantees of Loans to Dependencies

13. The Bank has made the following loans to dependencies of its member countries:

(a) Loan of $40 million to Belgian Congo dated September 13, 1951 (67 BE). In the terms of its guarantee of this loan, the Kingdom of Belgium guaranteed full performance by the borrower of its covenants to carry out the projects (Annex I-1).

(b) Loan of $28 million to Southern Rhodesia, dated February 27, 1952 (58 SE); Loan of $14 million to Northern Rhodesia, dated March 11, 1953 (74 NR). In these two loans the guarantor guaranteed payment of principal, interest and
premium, if any, but did not guarantee any other of the borrowers' obligations. However, in addition, the guarantor agreed to allow the borrower to borrow in its markets the amount of any shortfall in the funds necessary for the carrying out of the project (Annex I-4). It is this latter provision which, as stated above, the United Kingdom is now objecting to.

14. If the guarantor is in fact responsible for the operations of the borrower (whether a dependency or a body in a dependency) a guarantee of full performance is appropriate and should be required. If, however, the guarantor is constitutionally incapable of compelling full performance by the borrower or if the borrower is in practice a responsible government, such a covenant should normally not be required. The Bank should, however, get whatever protection is possible and appropriate in the circumstances.

15. In the case of the Belgian Congo, it was appropriate to obligate the guarantor for full performance. The Belgian Congo, while it had its own administration, was subject to control of the Ministry of Colonies in Brussels and the Belgian Government, both in law and in fact, could ensure that the borrower carried out its undertakings.

16. The question arose recently in the negotiations in connection with the French guarantee of the proposed loan for the French West African Railways. The borrower would be the Office Central des Chemins de Fer de la France d'Outre-Mer which is subject to the effective control of the French Government. The Bank proposed that the guarantee cover the punctual performance of all the covenants and agreements of the borrower, including those relating to the carrying out of the project, and in addition a covenant requiring the provision of funds. The French negotiators objected to the second covenant. Since the first covenant gives adequate protection, the Bank acceded to the French request.

17. It was different with the Rhodesias. Southern Rhodesia was a self-governing colony subject to the exercise of very limited reserve powers by the metropolitan government. Northern Rhodesia was less independent but had its own legislature. The relevant consideration with the Northern Rhodesian loan was, however, the fact that the project was the development of the Rhodesia Railways, a corporation set up under the law of Southern Rhodesia and subject to control by Northern and Southern Rhodesia and Bechuanaland. In neither case, therefore, was it considered appropriate to require the United Kingdom to guarantee performance. In each case it seemed that the projects would be duly completed unless there were not enough funds for this purpose. The borrowers were relying on their ability to raise funds in the London market. It was not then possible to satisfy all those who wished to borrow in London, and access to the market was regulated by HM Treasury. Hence the Bank's desire for an assurance from the United Kingdom that
the borrowers would be given "access to the market". The provision eventually agreed was never liked by the United Kingdom for the reasons alluded to in paragraph 3 above, and there is sufficient substance in the United Kingdom's point to warrant its modification in future guarantee agreements.

18. A covenant in the guarantee agreement is, of course, not the only way to obtain whatever assurances or covenants are required by the Bank. The General Counsel has suggested that the United Kingdom might be willing to give the Bank a general letter containing assurances regarding its attitude to the completion of projects. Such a letter might either replace or supplement specific provisions in guarantee agreements.

19. Other things being equal it is usually better to have undertakings in the main document rather than in a separate letter, either general or related to a particular project. However, the guarantor may be willing to agree to more either in (a) an unpublished side letter relating to a specific project or (b) in a general letter not related to a specific project, whether published or not. Depending on the circumstances the Bank might be willing to accept some combination of these different possible forms of obligation.

20. In the U.K. case the Bank could try to get:

(a) a specific undertaking (preferably in the guarantee agreement rather than in a side letter) along the following lines:

"Whenever there is reasonable cause to believe that the borrower will not have sufficient funds to carry out the project in accordance with the loan agreement, the guarantor will, in consultation with the Bank, take all appropriate measures to assist the borrower to obtain the additional funds necessary therefor."

Or, if the U.K. would prefer, the covenant could be phrased in terms of assisting the borrower to carry out the Project, rather than to obtain additional necessary funds.

(b) in addition, a general letter, not related to any particular project, but stating the policy of the United Kingdom to the effect that the U.K.:

(i) Is just as anxious as the Bank to avoid uneconomic use of the Bank's funds or of the dependencies' resources.
(ii) Recognizes that the Bank must protect itself against the possibility of the projects it finances not being finished.

(iii) Recognizes that what the Bank will require will differ from case to case according to circumstances.

(iv) Assures the Bank that its general policy (without regard to any specific agreement in a particular case) is to take whatever practical steps are appropriate to get projects duly completed and to consult with the Bank with respect to those steps.

Conclusions and Recommendations

21. The Working Party is of the opinion that:

(i) The Bank must be satisfied that the project will be duly carried out, and that the necessary funds will be available.

(ii) The Bank cannot require a guarantor to agree to do anything which would be beyond its constitutional powers. What a member government can legally do in relation to a project in one of its dependencies will vary widely from one dependency to another.

(iii) In deciding what to ask for, the Bank should take into account the policy and practice of the member government. The member's intention to give increasing autonomy to a dependency with a view to the eventual grant of independence would be an important element in this respect.

(iv) A covenant of full performance should be required only when:

(a) the metropolitan government has the clear legal and constitutional right to compel performance; and

(b) in the relationship between the metropolitan government and the local administration in the dependency the exercise of the metropolitan government's right would not be contrary to accepted practice.

(v) In other cases the Bank should be satisfied with
What undertakings will be required, and in what form they should be given, will depend on the circumstances.

(vi) An undertaking with respect to the provision of funds (or assistance) to carry out the project should be required if a covenant of full performance has not been obtained, or if it seems desirable to amplify the full performance covenant with such a specific provision. The terms of the undertaking will depend on the facts of each case and will take into account:

(a) the strength and resources of the borrower;

(b) possible sources of additional funds.

(vii) The minimum undertaking the Bank should accept, where one is to be required, should be on the lines indicated in paragraph 20 (a) above.

22. The Working Party recommends that in the case of the United Kingdom the Bank discusses the matter forthwith with United Kingdom representatives, along the lines proposed in paragraph 20 above.
1. Guarantee Agreement of the Belgian Congo Loan dated September 13, 1951, Article II Section 2.01 reads:

"Without limitation or restriction upon any of the other covenants on its part in this Guarantee Agreement contained, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and the interest, commitment charge and service charge, if any, on the Loan, the principal of and interest on the Bonds, the premium, if any, on the prepayment of the Loan or the redemption of the Bonds, and the punctual performance of all the covenants and agreements of the Borrower, all as set forth in the Loan Agreement and in the Bonds."

2. Section 2.02 of the same Agreement reads:

"Without limitation or restriction upon the provisions of Section 2.01 of this Guarantee Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the amount of currency of the Guarantor available to the Borrower will be inadequate to meet the estimated expenditures payable in such currency and required for carrying out and completing the Program and the Otraco Project as provided in Section 6.01 of the Loan Agreement, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such amounts of currency of the Guarantor as are needed to meet such expenditures."

3. Guarantee Agreement of the KLM Loan of March 20, 1952, Article III Section 3.06 reads:

"The Guarantor will not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrower of any of the covenants, agreements and obligations in the Loan Agreement or the Mortgage contained, and will take or cause to be taken all action reasonably necessary and appropriate to enable the Borrower to perform such covenants, agreements and obligations, including, without limitation, any action necessary to make it possible for the Borrower from time to time as needed to acquire against guilders or other currency such amounts in dollars as are required to enable the Borrower to purchase the airplanes and equipment described in Schedule 2 to the Loan Agreement."
4. Guarantee Agreement of the Loan to Southern Rhodesia of February 27, 1952, Article II Section 2.02 reads:

"Whenever there is reasonable cause to believe that the funds available to the Borrower will fall short of the funds required for the execution of the Plan and the Project described in Schedule 2 to the Loan Agreement, the Guarantor will permit the Borrower to borrow in the markets of the Guarantor the amount of such shortfall, it being understood that in considering the precise timing of such borrowings the Guarantor will have regard to the importance of maintaining orderly market conditions."
OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist
FROM: Kenneth A. Bohr
SUBJECT: Working Party on Guarantees of Loans for Projects in Dependencies

DATE: December 22, 1953

For the past few weeks I have represented the Economic Staff on a Working Party studying the degree to which the guarantor of a loan to a dependency should guarantee performance by the borrower. The attached report is now ready for the Staff Loan Committee, pending approval of the departments we represent. It might be summarized very briefly as follows:

1. The legal and practical relationships between mother countries and dependencies vary from case to case and in many instances impose certain restrictions upon the responsibility the mother country can be required to assume for the satisfactory completion of projects in a dependency.

2. The Working Party recognized this situation and recommended that in cases where a covenant of full performance cannot be obtained, at least an agreement with respect to the provision of funds should be required and it suggested the wording for a minimum agreement of this kind.

3. The Working Party also noted that in some cases the mother country may be willing, for various reasons, to give more assurances in an unpublicized "side" letter than in the loan agreement itself. In such cases it considered the form of the agreement of less importance than the extent.

In my opinion the report presents a very reasonable approach, and I think it deserves our blessing.
Commitment Charges

Liquidity Policy
Committee on Financial Policy
Document No. 4.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

November 1, 1946.

COMMITTEE ON FINANCIAL POLICY

REDAF'T OF REPORT ON RATES OF INTEREST

The attached draft report to the Executive Directors will be considered by the Committee on Financial Policy at its meeting scheduled for Wednesday, November 6 at 2:30 p.m.

It will be noted that this document is No. 4 in the series of Committee on Financial Policy Documents. The former documents issued on behalf of this Committee, excluding final reports for the consideration of the Executive Directors, were:

1. Draft report of the Committee on Financial Policy regarding the question whether the Bank should consider guaranteeing debenture issues in the U.S.A., dated September 23, 1946.

2. Draft report on Rates of Interest, dated October 24, 1946.

3. Memorandum by the Treasurer on "Financial Policy to be Followed by the Bank in Granting Loans out of Currency Raised by Subscription of its Shares and by Issuing Bonds in the Market".

H. M. Mendels
Secretary

Distribution:

Members of the Committee on Financial Policy
President (4)
Treasurer
General Counsel
Loan Department
Director of Research
Secretary
I. The Committee on Financial Policy met on October 9, 23 and 30 and considered the policy aspects of interest rates and commissions to be charged in connection with direct loans.

II. The Committee was of the opinion that the questions to be answered are:

1. Should there be differentiation in interest rates as between debtors?
2. Should there be differentiation in rates of commission as between debtors?
3. Should there be differentiation in interest rates as between loans of different terms of maturity?
4. Should there be a fixed relation between the interest charged on loans given by the Bank and the interest paid by the Bank on its debentures of the same term of maturity as such loans?
5. Should there be differentiation in interest rates as between loans in different currencies?
6. Should the costs of control and supervision be borne by the debtor or by the Bank or shared by both and should there be a general rule as to the charge of costs or can there be
differentiation as between types of loans and between debtors?

III.

The consensus of the Committee in answering these questions of policy is set forth below:

Question 1 and 2 - Interest and Commission Rates

Differentiation in interest rates and levels of commission could only be based on an appraisal of the risk differential.

As regards the rate of commission, Article IV Section 1(a) appears to exclude such differentiation. The Commission was clearly meant to be a uniform contribution from all borrowers to a special reserve fund, as provided in Article IV, Section 6.

As regards interest rates, the Articles give no such indication of uniformity. The Committee agreed, however, that, for the time being at least, no differentiation of interest rates based on an appraisal of the risk differential should be attempted. The appraisal of a risk differential between countries poses almost unanswerable questions. The combination of rumours, assumptions and expectations on which the market bases its appraisal could never guide the Bank in fixing its interest rates. Apart from that, it is clear that the charging of very high interest rates would defeat the object of the Bank and would be in conflict with Article III Section 1(b). Insofar as such high charges have been imposed in the past by private investment agencies in concluding international loans, they have proved to be a heavy burden to the debtors without in reality covering the risk of the lenders. If the Bank would want to differentiate in interest rates, this differentiation would have to be kept within relatively...
narrow limits. Although that would mean that those debtors on whom the higher charges would be imposed would not be necessarily heavily burdened, the effect of the higher charge would nevertheless be politically painful.

The Committee therefore agreed that there should be no differentiation in either interest or commission charges as between debtors. This of course does not mean that all loan contracts will contain the same interest rates at all times (See under 3, 4 and 5).

Question 3 - Rates on Differing Maturities.

It seems obvious that there should be varying rates of interest on loans of different terms of maturity.

Question 4 - Borrowing and Lending Rates.

There is no good reason to link the interest charged on loans to the overall interest actually paid by the Bank on its own debentures. The Bank is not forced to have the maturities of its own debentures in absolute concurrence with the maturities of the loans given. But it is logical that there should be a relation between the interest charged on loans of a given maturity and the rate at which the Bank could issue debentures of the same maturity. The rate of interest charged on a loan concluded at a given moment should therefore be related to the interest rate prevailing in the market at that moment. But it is impossible to establish a fixed rule as to an eventual spread between the two rates.

Question 5 - Different Currencies.

In consequence of what is said under 4 it is obvious that there may be differentiation in interest rates as between loans in different currencies.
Question 6 - Costs of Supervision.

The answer to this question should be deferred until the report of the Staff on the subject of control and supervision has been received.

IV, In view of the loan applications presently pending, a statement of policy in regard to interest rates cannot be avoided. At the same time, the recommendations of this report are not intended to lay down a rigid policy, incapable of revision in the future when the Bank shall have commenced operations and factors affecting the Bank's determination of interest rates may have come to light. Nor does this report intend to preclude differentiation as between loans of different character (specific projects versus general purpose loans) although it does not recommend any such differentiation at the moment. Differentiation in connection with collateral attached to a loan should be considered in case such collateral would materially reduce the risk of the loan. All such appraisals can only be made in connection with specific loan applications, and the Committee recommends that the Bank staff on the Loan Committees should analyze the various elements entering into the loans, in an attempt to arrive at a practical judgment of the risk differential. Such analysis will serve as a guide to future policy in determining rates of interest.

Committee on Financial Policy

(Original signed by J. W. Beyen)

J. W. Beyen, Chairman