Normandy, France, June 1944. Villages and city in ruins after the bombing and fighting, World War II. Photo © MGPhoto76 / Alamy Stock Photo

CHAPTER 1

Birth of the World Bank

The initial task of the World Bank was to fund the reconstruction of countries affected by the war, but its work was soon dominated by the long-term objective of spurring development across the globe.

Given that Europe's capital reserves had been so badly eroded, it was clear to those creating the World Bank that it would initially be dependent on funds from the United States. The United States had begun to establish its financial leadership, and the results of Bretton Woods codified this development. Both the new institutions—the International Monetary Fund and the World Bank—were built in its capital, Washington, D.C.

By the end of December 1945, the World Bank's articles of agreement were approved by the members. The Governors, each representing their member state, met in Savannah, Georgia the following March to agree how the institution would run. It was initially envisioned at Bretton Woods that the World Bank would largely function by providing guarantees as opposed to loans. The United States stated its view clearly: "The most important function of the World Bank's operations will be to guarantee loans in order that investors may have a reasonable assurance of safety in placing their funds abroad."[1]

(top and right) The World Bank and IMF Boards of Governors meet at the Oglethorpe Hotel in Savannah, Georgia, from March 1–18, 1946. Photo © Internationl Monetary Fund / Flickr

The World Bank's paid-in capital subscriptions were relatively small, amounting to only 20 percent of the World Bank's total capital of $10 billion. The remaining 80 percent was provided in the form of callable capital, which was subject to call only if needed to meet the outstanding debt obligations of the World Bank. For each member, only a small portion of paid-in capital was payable in hard currency (in gold or in U.S. dollars), with the majority in the members' own currencies.

The capital stock was divided into 100,000 shares. The World Bank apportioned these shares among the original 45 signatory countries of the articles of agreement according to each member's relative weight in the global economy.

Under the World Bank's articles of agreement, a member's paid-in capital could be used for lending purposes only with the consent of that member. Initially, only the United States provided its consent, so, when the World Bank first opened, only the paid-in capital of the United States ($571.5 million) was fully available for lending.

Eugene Meyer
1st World Bank President
Photo © World Bank Archives

John J. McCloy
2nd World Bank President
Photo © World Bank Archives

Opening for Business

The World Bank opened its doors for business on June 25, 1946 in an office building a few blocks from the White House, at 1818 H Street NW in Washington, D.C. This remains the address of its headquarters, although it has been rebuilt and much expanded.

Eugene Meyer was the first World Bank President. In his distinguished career, Meyer also was the publisher of the *Washington Post* and Chairman of the Federal Reserve of the United States.

Dutchman Daniel Crena de Iongh, a member of his country's delegation to the Bretton Woods conference, served as Treasurer from 1946 until 1952. He was methodical, patient, and cautious. Of the World Bank's early strategy, he later said that "if the World Bank had hastened into the field, as some people wanted it to do, I think it would have started by being mistrusted by the money markets and it would have rushed to decisions, which afterwards would have proved to be in the wrong."[2]

It was soon clear that requests for loans would outweigh requests for guarantees and that the World Bank would quickly come to depend on raising funds from private investors through the capital markets. Since only the United States had a deep and well-functioning capital market in those early years after the war, the World Bank's fundraising efforts had to be in the United States. Much work was needed to establish confidence in the World Bank from a skeptical Wall Street, the support of which was crucial. Private investors in the United States were still scarred by heavy losses from foreign loan defaults during the 1930s and needed to be convinced that this new international bank was sound.

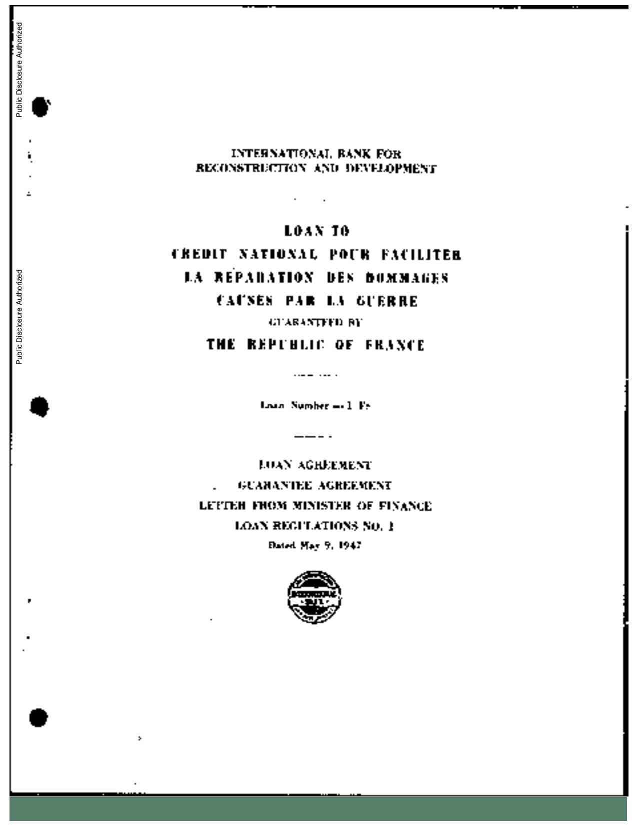
Entrance to World Bank and International Monetary Fund headquarters when first opened, June 25, 1946, at 1818 H Street. Photo © World Bank Archives

Daniel Crena de Iongh
1st World Bank Treasurer
1946–1952
Photo © World Bank Archives

Crena de Iongh's team at World Bank Treasury quickly addressed the sensitive technical issues that would establish the principles for the World Bank's financial operations, such as the pricing terms for the World Bank's loans. From the start, Crena de Iongh also established the principle of non-partisanship, ensuring all World Bank decisions were based on sound financial reasoning rather than national political influence.

John J. McCloy, a New York lawyer who had served as U.S. Assistant Secretary of War, became the World Bank President in March 1947. McCloy brought on board experienced bankers with strong links to Wall Street to prepare the first bond issue. Within two months of McCloy assuming the presidency in March 1947, the World Bank made its first loan. It was for $250 million to a French public corporation, Crédit National.

The rationale to make France the first order of business, over loan applications from Poland and Chile, was that: "France is vital to Western Europe because of her size and her productive capacity and the problem of her recovery cannot be divorced from the recovery of Western Europe as a whole."[3]



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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

LOAN TO
CREDIT NATIONAL POUR FACILITER
LA REPARATION DES DOMMAGES
CAUSES PAR LA GUERRE
GUARANTEED BY
THE REPUBLIC OF FRANCE

Loan Number — 1 Fr

LOAN AGREEMENT
GUARANTEE AGREEMENT
LETTER FROM MINISTER OF FINANCE
LOAN REGULATIONS NO. 1
Dated May 9, 1947

First Loan Agreement to Credit National. Photo © World Bank Archives

Paris initially applied for a loan of $500 million to finance the government's reconstruction program, the Monnet Plan. The request for $106 million for equipment, $180 million for coal and petroleum products, and $214 million for raw materials. Under McCloy, the World Bank quickly agreed to fulfill half of the original request, saying it would consider a further loan later in the year if necessary. However, the World Bank applied stringent conditions. "It was not so much on account of France but on account of the fact that if once we made things easy for France, all other borrowers would ask for the same conditions," said Crena de Iongh.[4] Two months later it issued its first bond.

"Since its creation in the aftermath of World War II, the World Bank Group has been standing for trust, stability and creditworthiness in the capital markets."

Martin Zielke, Chairman, Commerzbank

"It is likely, in my judgment, that the field of reconstruction from the consequences of war will mainly occupy the proposed World Bank in its early days. But as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely to develop the resources and productive capacity of the world, with special reference to the less developed countries."

John Maynard Keynes, British economist and one of the original architects of the World Bank, 1944 Bretton Woods Conference

70 Years of World Bank Treasurers