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L.B. Rist: Policy Issues of Importance

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Policy Issues of Importance - Correspondence 03

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POLICY ISSUES OF IMPORTANCE

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1. Memo from Mr. Black to William McC. Martin - Jan. 15, 1951  
re: U.S. Development Lending and the International Bank
2. Letter from Mr. Black to Charles Symington - March 26, 1951  
re: Development Lending and general policy of IBRD  
*his letter of July 18, 1951 - new letter Jan. 24, 1952*
3. Sommers' Draft Memo of April 2, 1951 on Rockefeller Report  
(International Advisory Board)
4. Proposed Reply to Bonesteel - Memo from Rist to Black - 1951  
Lending estimates & Tables
5. Letters to Isaiah Frank - The President's Materials Policy  
Commission
6. Exchange of correspondence re. Non Dollar Lending  
Fr. Rodan - Sir Ernest Rowe Dutton - Lord Brittain 1951
7. Special Board on Gray, Rockefeller & U.N. Experts Reports  
on Financing of Development *R-478  
July 6, 1951*
8. Problems of Bank Policy Arising From Recent Reports on Economic  
Development *E-176 (Green  
Aug 16, 1951 Report)*
9. Maturity of Loans Granted to our Borrowers
10. Denomination of Loans *- FPC/9 - Dec 13 1951*
11. Estimates of Loan Possibilities

NO. 545-13 U.S.A.

ESTIMATES OF  
LOAN POSSIBILITIES.



## Assumptions On Which Tables were Constructed

### General Assumptions Applicable both to "realistic" and "optimistic" calculations.

1. There will be no substantial changes in the international political situation except that the Suez Canal dispute and the Anglo-Iranian dispute are assumed to be settled<sup>by</sup> the beginning of the fiscal year 1953.
2. The supply of dollar funds will not be a limiting factor.
3. The physical availability of supplies will be the same as at present.
4. The present trend of improvement in preparing programs and projects will continue.
5. The U. S. will maintain continued high levels of income with a slowly rising demand for imports.
6. The degree of convertibility of currencies existing in the world will be approximately the same as at present.
7. The rate of foreign private investment in each country will be the same as at present.
8. The terms of repayment of loans will be similar to normal loans by the International Bank.
9. There will be a U. S. foreign assistance program of approximately the same magnitude as in the fiscal year 1952.
10. Satisfactory coordination policies and procedures will be developed so that grant, technical assistance, and loan programs will supplement each other and not work at cross purposes.
11. The policy on "local currency" lending will be the same as at present.

### Special Assumptions for "optimistic" calculations.

1. There will still be an acute shortage of currencies other than dollars for lending purposes but these currencies will be available in somewhat greater amounts than at present.
2. The amount of loans calculated for each country would be limited by:
  - a) Creditworthiness of the country
  - b) Technical absorptive capacity of the country

Special Assumptions for "realistic" calculations

1. In addition to the limitation set by creditworthiness and technical absorptive capacity, account has been taken on as realistic a basis as possible of such factors as:
  - a) Failure of some countries to present loan applications or to follow through on applications
  - b) Failure of countries to proceed as rapidly as it is technically possible in preparing programs and projects
  - c) Typical delays caused by changes in government and other political factors.



<u>Area</u>	New Loans Likely Prior to <u>June 30, 1952</u>	<u>Realistic Assumption</u>		<u>Optimistic Assumption</u>	
		Dollars Only	Dollars and non- dollar Currencies	Dollars Only	Dollars and non- dollar Currencies
Latin America	95	213	213	446	446
Africa	30	60	60	125	125
Australasia	0	0	0	50	50
Middle East	18	80	97	118	145
South and Southeast Asia	48	85	98	176	207
Europe	<u>11</u>	<u>30</u>	<u>50</u>	<u>70</u>	<u>91</u>
Totals	202	468	518	985	1064

New Loans Likely  
Prior to  
June 30, 1952

Country	June 30, 1952	Realistic Assumption		Optimistic Assumption	
		Dollars Only	Dollars and non-dollar Currencies	Dollars Only	Dollars and non-dollar Currencies
<u>Latin America</u>					
Mexico	0	20	20	50	50
Guatemala	0	5	5	15	15
Honduras	0	0	0	5	5
El Salvador	0	0	0	10	10
Nicaragua	1	3	3	10	10
Costa Rica	0	4	4	6	6
Panama	0	1	1	5	5
Cuba	0	5	5	20	20
Bolivia	0	0	0	0	0
Brazil	30	140	140	200	200
Chile	24	0	0	10	10
Columbia	30	15	15	30	30
Ecuador	0	0	0	5	5
Paraguay	5	0	0	0	0
Peru	5	10	10	20	20
Surinam	0	10	10	25	25
Uruguay	0	0	0	10	10
Venezuela	0	0	0	25	25
Total					
Latin America	95	213	213	446	446
<u>AFRICA</u>					
Ethiopia	0	0	0	5	5
South Africa	0	0	0	25	25
Southern Rhodesia	30	0	0	0	0
British Colonies	0	30	30	65	65
French Colonies	0	30	30	30	30
Belgian Congo	0	0	0	0	0
Total Africa	30	60	60	125	125



Country	New Loans Likely	Realistic Assumption		Optimistic Assumption	
	Prior to	Dollars	Dollars and non-	Dollars	Dollars and non-
	June 30, 1952	Only	dollar Currencies	Only	dollar Currencies
<u>Australasia</u>					
Australia	<u>0</u>	<u>0</u>	<u>0</u>	<u>50</u>	<u>50</u>
Total Australasia	0	0	0	50	50
<u>Middle East</u>					
Turkey	18	20	20	30	30
Iran	0	10	15	15	21
Iraq	0	10	10	15	15
Egypt	0	35	45	45	55
Syria	0	5	7	7	12
Lebanon	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>12</u>
Total Middle East	18	80	97	118	145
<u>South and Southeast Asia</u>					
India	0	50	50	100	100
Pakistan	48	10	20	25	35
Ceylon	0	10	10	20	20
Burma	0	2	2	5	10
Thailand	0	3	6	6	12
Philippines	0	10	10	20	20
Japan	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>
Total South and South- east Asia	48	85	98	176	207
<u>Europe</u>					
Iceland	1	0	0	0	1
Finland	10	10	10	15	15
Italy	0	10	10	15	15
Netherlands	6	0	0	0	0
Yugoslavia	0	10	30	15	35
Germany	<u>0</u>	<u>0</u>	<u>0</u>	<u>25</u>	<u>25</u>
Total Europe	11	30	50	70	91

## Country Notes

Mexico - Loans out of the \$150 million Exim line of credit have not been included. The amounts shown in the table are additional loans.

Brazil - Estimate of loans for remainder of Fiscal Year 1952 includes

Rio Grande	20
2 Hydro	3
Santos Railway	7
	30

The estimate for 1952-53 includes Amapa, American and Foreign Power proposals, International Telephone and Telegraph proposal and others.

Chile - The loans expected in Fiscal 1952 are:

Lota and Schwager coal mines	11
Los Cyposes	3
Paper mill	10

Colombia - The railway project is shown as being negotiated in Fiscal 1952. This might be carried over to Fiscal 1953.

Ethiopia - A small loan for a project additional to those financed by the Bank's existing loan could probably be worked up by the middle of 1953. As there is no indication of its nature as yet, entry is confined to "optimistic" column.

### British Colonies

- On information available, a mission will probably be requested soon to examine the possibility of financing projects in East and Central Africa. It is not expected that a loan would be consummated before the middle of 1952. A similar approach might be expected for West Africa. It appears likely, however, that this will be delayed until after the first loan has been signed, because the Colonial Office would wish to allow public reaction to the first loan to mature before proceeding further. A small loan to the West Indies is also possible, especially in view of the Bank's proposed mission to Jamaica. No allowance is made for Malaya.

Iran - The \$25 million Eximbank loan, already agreed to in principal, has not been included in the tables. Any lending to Iran is based on the assumption that Iran will again receive oil revenues on a level not lower than it would have been before the nationalization, according to the 1948 agreement rates. Lending in the fiscal year 1953 includes projects listed in Mr. Iliff's letter to the late Prime Minister Razmara dated March 2, 1951. The larger estimate, including all projects listed in the above letter, is based on the optimistic assumption that all these projects will be ready in time for financing.



Country Notes - Cont'd

- Iraq - Although the Bank has offered to negotiate with the Iraqi Government loan agreements on three projects, it is unlikely that Iraq will take advantage of the offer in view of the relatively small dollar amounts involved. Loan commitments of \$10,000,000 to \$15,000,000 are envisaged for next year on the assumption that there will be a credit line out of which a number of projects within the development program can be financed.
- Egypt - Any lending to Egypt is based on the assumption that progress will be made in the solution of the Suez Canal Zone dispute. Realistic estimates for fiscal year 1953 include the railway project, the fertilizer project and Aswan power. The optimistic assumption includes the Wadi El-Rayan project.
- Syria - Lending during the fiscal year 1953 includes the Roudj, roads and Latakia projects, on which the Bank has been ready to enter negotiations for some time. The Ghab project is included under the optimistic assumption.
- Lebanon - The Litani project has been included in the optimistic assumption (nothing under the realistic assumption).
- India - Although an IBRD Mission is now in India, it is probable that the delays attendant on the preparation of its report and the technical study of the projects will delay new loans beyond the current fiscal year. India may be expected to borrow at least \$50 million next year, however, and possibly as much as twice that sum. Non-dollar financing will probably not be requested in view of the plan to draw down sterling balances.
- Pakistan - In view of Pakistan's reluctance to borrow dollars for non-dollar expenditure, it is not presently anticipated that Pakistan will borrow more than about \$36,000,000 in dollars and \$12,000,000 in French francs for railways, agricultural machinery and power plants during the fiscal year. On the assumption of a relatively small supply of non-dollar currencies and of continued reluctance to borrow dollars for non-dollar expenditures, it is unlikely that borrowing in 1952/53 will exceed \$20,000,000 with half in dollars.
- Ceylon - No urgent need for external financing. A modest request for dollar financing in 1952/53 may be anticipated. Non-dollar financing may be deferred until sterling balances are drawn down.
- Burma - Soon to become IBRD member. Very limited capacity to absorb and repay loans owing to internal security situation. Cannot realistically expect more than \$2,000,000, presumably for transport, in 1952/53. Greater ability to repay but also greater disinclination to borrow non-dollar currencies.

- Thailand - No projects likely to be ready for loans before end of 1951/52. Project for the Kirat railway line may be expected for 1952/53 and there is a more remote prospect of other financing (Development Bank and Chainat hydro-electric scheme).
- Philippines - Amounts indicated are for loans supplemental to the U. S. assistance under the Bell report presumably largely in grant form.
- Japan - Likely to become a member in 1951/52. Country will be faced for quite some time with large dollar deficit which could only be met by continued large U. S. grants. Only on such a basis might a modest amount of non-dollar loans be extended.
- Iceland - Loan for fiscal 1952 is for fertilizer plant.
- Germany - Possible loan is for Rhine Canal and hydro development project.



DECLASSIFIED

SECRET

Date: 11/15/2010  
SRB

Messrs. Garner, Iliff, Hoar and Sommers

December 5, 1951

Martin M. Rosen *MMR*

Estimate of Loan Possibilities

Attached are tables which compare the estimates made by the Exim Bank and by the IBRD on possible lending operations by both institutions combined in fiscal year 1953 (1 July 1952 - 30 June 1953). The estimates are being prepared by the Exim Bank staff for the use of the Executive Branch of the U. S. Government in connection with the preparation of the proposed program for foreign assistance for fiscal year 1953.

No documents were exchanged between the Exim Bank and the IBRD and the figures were discussed in an informal meeting only. Where there are differences between the figures, the Exim Bank will take our estimates into account in making new Exim estimates which will be presented to the Bureau of the Budget as an Exim estimate, not a combined Exim Bank - World Bank estimate. I believe that on this basis the Bank is protected against the possibility of any leak of our own estimate.

In general the Exim figures are substantially higher than the IBRD estimates. Among the reasons for the differences are the belief by Exim Bank that they will continue to make commodity credit loans tied to the export of cotton, tobacco and similar products and that they will make a considerable amount of strategic materials loans. The most striking differences in the two sets of figures are the much larger estimates by the Exim Bank of lending to India and Japan.

Attachments

MMRosen:am



Estimate of Combined Lending Operations  
By the International Bank and Exim Bank

**SECRET**

Area	New Loans Likely Prior to June 30, 1952	New Loans Fiscal 1953 (1 July 1952 - 30 June 1953)					
		Realistic Assumption			Optimistic Assumption		
		Exim Estimate \$ Only	IBRD Estimates \$ Only \$ & Other Currencies		Exim Estimate \$ Only	IBRD Estimates \$ Only \$ & Other Currencies	
Latin America	69	239	244	244	540	476	476
Africa	20	3	60	60	55	125	125
Australia	0	0	0	0	0	50	50
Middle East	26	23	72	91	150	118	145
South and Southeast Asia	48	260	85	98	732	176	207
Europe	17	140	30	50	255	70	91
Critical Materials Projects Not Included in Geographic Totals	<u>n.e.</u>	<u>103</u>	<u>n.e.</u>	<u>n.e.</u>	<u>230</u>	<u>n.e.</u>	<u>n.e.</u>
Totals	180	768	491	543	1962	1015	1094



SECRET

	New Loans Fiscal 1953 (1 July 1952 - 30 June 1953)						
	Realistic Assumption			Optimistic Assumption			
	Exim Estimate	IBRD Estimates		Exim Estimate	IBRD Estimates		
	\$ Only	\$ Only	\$ & Other Currencies	\$ Only	\$ Only	\$ & Other Currencies	
	0	5	20	20	25	50	50
	0	0	5	5	3	15	15
	0	0	0	0	10	5	5
	0	5	8	8	15	10	10
	1	0	3	3	8	10	10
	4	0	2	2	3	6	6
	0	0	1	1	15	5	5
	0	20	5	5	50	20	20
	0	5	0	0	25	0	0
	30	170	140	140	250	200	200
	24	25	0	0	55	10	10
	0	7	45	45	15	60	60
	0	6	0	0	10	5	5
	5	9	0	0	11	0	0
	5	0	10	10	15	20	20
	0	7	0	0	20	10	10
	0	0	0	0	0	25	25
1. 0	0	0	5	5	10	25	25
	69	239	244	244	540	476	476

SECRET

New Loans Fiscal 1953  
(1 July 1952 - 30 June 1953)

New Loans Likely  
Prior to  
June 30, 1952

Country	Prior to June 30, 1952	Realistic Assumption			Optimistic Assumption		
		Exim Estimate \$ Only	IBRD Estimate \$ Only	Estimates \$ & Other Currencies	Exim Estimate \$ Only	IBRD Estimate \$ Only	\$ & Other Currencies
<u>Africa</u>							
Ethiopia	0	3	0	0	5	5	5
South Africa	0	0	0	0	15	25	25
Southern Rhodesia	20	0	0	0	0	0	0
British Colonies	0	0	30	30	0	65	65
French Colonies	0	0	30	30	20	30	30
Belgian Congo	0	0	0	0	15	0	0
Total	20	3	60	60	55	125	125
Australia	0	0	0	0	0	50	50
<u>Middle East</u>							
Turkey	19	3	20	20	5	30	30
Iran	0	0	10	15	30	15	21
Iraq	0	5	5	5	35	15	15
Egypt	0	5	35	45	15	45	55
Syria	7	5	2	6	30	7	12
Lebanon	0	5	0	0	20	6	12
Jordan	0	0	0	0	15	0	0
Total	26	23	72	91	150	118	145



SECRET

New Loans Fiscal 1953  
(1 July 1952 - 30 June 1953)

New Loans Likely Prior to June 30, 1952		(1 July 1952 - 30 June 1953)					
Country		Realistic Assumption			Optimistic Assumption		
		Exim Estimate \$ Only	IBRD Estimates \$ Only	\$ & Other Currencies	Exim Estimate \$ Only	IBRD Estimates \$ Only	\$ & Other Currencies
<u>South and South-east Asia</u>							
India	0	100	50	50	250	100	100
Pakistan	48	0	10	20	0	25	35
Ceylon	0	25	10	10	50	20	20
Burma	0	5	2	2	10	5	10
Thailand	0	5	3	6	7	6	12
Philippines	0	25	10	10	40	20	20
Japan	0	50	0	0	300	0	10
Indonesia	0	50	n.i.	n.i.	75	n.i.	n.i.
Total	48	260	85	98	732	176	207
<u>Europe</u>							
Austria	0	0	0	0	0	0	0
Iceland	1	0	0	0	0	0	1
Italy	0	0	10	10	10	15	15
Netherlands	6	0	0	0	0	0	0
Finland	10	0	10	10	10	15	15
Yugoslavia	0	0	10	30	20	15	35
Germany	0	0	0	0	15	25	25
Denmark	0	0	0	0	50	0	0
France	0	0	0	0	10	0	0
Cotton, Tobacco and other Commodity Credits	0	140	n.i.	n.i.	140	n.i.	n.i.
Total	17	140	30	50	255	70	91

SECRET

New Loans Fiscal 1953  
(1 July 1952 - 30 June 1953)

Critical Materials  
Projects not Elsewhere  
Included

New Loans Likely  
Prior to  
June 30, 1952

Realistic Assumption  
Exim Estimate    IBRD Estimates  
\$ Only            \$ Only    \$ & Other  
Currencies

Optimistic Assumption  
Exim Estimate    IBRD Estimates  
\$ Only            \$ Only    \$ & Other  
Currencies

Bolivia  
Brasil  
Chile  
Cuba  
Mexico  
Peru  
Canada  
Liberia  
Rhodesias and Congo  
Sierra Leone  
India  
Indonesia  
Japan  
Paraguay

5  
15  
10  
3  
12  
5  
10  
10  
10  
8  
10  
0  
5  
0

Total

103

10  
25  
13  
5  
15  
10  
20  
40  
15  
10  
25  
2  
25  
3  
230



# SECRET

## Country Notes

Mexico - Exim assumes \$70 million of line of credit will still be available for fiscal 1953. Bank assumes only \$22 million.

Bolivia - Exim has \$5 million for completion of highway project which they have begun.

### Surinam and Dutch West Indies

- Exim \$10 million estimate for a strategic materials project.

### French Colonies

- Exim forecast of \$20 million is for strategic materials development.

### Belgian Congo

- Exim forecast of \$15 million is for strategic materials development.

Turkey - Exim forecast is for strategic materials project.

Pakistan - Exim estimates for fiscal 1953 based on assumption loans in fiscal 1952 will be \$65 million rather than \$48 million.

Thailand - Exim estimate of \$7 million includes \$2 million for strategic materials.

### Philippines

- Exim expects loans of \$25 million in fiscal 1952 and grants not to exceed \$35 million in fiscal 1953.

Italy - Exim forecast of \$10 million is for strategic materials development.

Yugoslavia - Exim estimate of \$20 million is for strategic materials development.

Denmark - Exim estimate of \$50 million is for refunding operation.

France - Exim estimate of \$10 million is for strategic materials development.

NO. 545-13 U.S.A.

Denomination of  
Loans



INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

FPC/9

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OCT 30 2014

WBG ARCHIVES

December 13, 1951

TO: Committee on Financial Policy

DENOMINATION OF LOANS

The attached memorandum regarding the denomination of loans has been prepared for the use of the Committee on Financial Policy; the time of the meeting of the Committee to consider the memorandum will be announced at a later date.

December 3, 1951

MEMORANDUM

re: Denomination of Loans

I

The purpose of this memorandum is to provide a working paper for the Financial Policy Committee for use in its discussion of the Bank's policy with respect to the denomination of loans made by the Bank.

II

Under the Bank's Loan Regulations, as presently in effect, the denomination of a loan in a certain currency has substantive significance:

(a) Under Section 3.01<sup>1/</sup> the Bank has the option to provide the Borrower with the currency used to purchase goods, but the Bank has no obligation to provide the Borrower with any currency other than that in which the loan is denominated;

(b) Under Section 3.04<sup>1/</sup> commitment charge is payable in the currency in which the loan is denominated.

It is, however, possible, as a matter of drafting technique, to provide in the loan agreement for the currency with which the Bank can discharge its obligations and the currency in which commitment charge is payable without reference to the currency in which the loan is denominated and, indeed, without reference to the concept of denomination, as demonstrated in the recent Loan Agreement with Yugoslavia.

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<sup>1/</sup> Set forth in the Annex to this memorandum.



In that Loan Agreement the principal amount of the loan was expressed as "an amount in various currencies equivalent to \$28,000,000". Thus, this loan was not "denominated" in any currency within the technical meaning of Section 3.01 of the Loan Regulations. It therefore became necessary to provide specifically for the currency or currencies with which the Bank could discharge its obligations to the Borrower and the currency or currencies in which commitment charge would be payable. This was done in paragraphs (a) and (b)<sup>1/</sup>, respectively, of Schedule 3 to the Loan Agreement.

It may be useful to add that the currency in which a loan is denominated does not determine the currency or currencies which the Borrower has to repay to the Bank. Loans are repayable in the currency or currencies withdrawn by the Borrower, except when a currency withdrawn by the Borrower was purchased by the Bank with another currency, in which case the loan is to that extent payable in the latter currency.

### III

Until the first loan to Iceland in June, 1951, all the Bank's loans (with the exception of the 1948 Swiss franc loan to the Kingdom of the Netherlands for the purchase of Swiss goods) had been expressed either in dollars or the equivalent in other currencies, or in dollars only. In all of those loans it was either contemplated that the bulk of the loan proceeds would be used to pay for United States goods and services (this was the case in most loans), or that, even though a

---

<sup>1/</sup> Set forth in the Annex to this memorandum.



substantial portion of the proceeds would finance purchases outside the United States, dollars would be used by the Bank to acquire the currency needed by the Borrower (the South African loans), or it was intended that, regardless of the currency used by the Borrower, the Borrower would be entitled to receive dollars under the loan (the 1949 loan to Belgium).

#### IV

The Icelandic loan was in a different category. The relevant facts with respect to denomination were:

(a) It was contemplated that only European currencies would be disbursed under the loan;

(b) Approximately 60% of the loan proceeds was expected to be disbursed for purchases in the United Kingdom or in other European countries, the currencies of which would be acquired with sterling, whereas approximately 40% of the proceeds was expected to be disbursed in French francs, partly to pay for purchases in France and partly to acquire other European currencies in which goods were expected to be purchased;

(c) The Bank had available a sufficient amount of sterling to finance, if necessary, all of the loan with that currency.

Realizing the importance of stressing the fact that the Bank was utilizing in its lending operations currencies other than dollars, the management felt that, on the facts of this particular case, it would be appropriate to denominate the loan in sterling. Its recommendation to that effect was accepted by the Executive Directors.



V

The Yugoslav loan was in the same category as the loan to Iceland to the extent that disbursements were expected to be entirely in non-dollar currencies. There were, however, also differences:

(a) While more French francs were made available to the Bank for this loan than any other 18% currency, the amount of French francs constituted less than one-half of the principal amount of the loan.

(b) The Bank did not have at its disposal an amount of any single European currency sufficient to finance, if necessary, the entire principal amount of the loan.

(c) The French francs made available for this loan were only to be used for purchases in France.

Under these circumstances the management felt that the technique adopted in the first Icelandic loan could not be applied in this case. Instead, the formula "an amount in various currencies equivalent to \$28,000,000" was used.

VI

The Yugoslav loan was followed by the second Icelandic loan. The facts in this loan were substantially similar to those in the first Icelandic loan and the management therefore recommended, and the Executive Directors approved, that the loan be denominated in sterling.

Thus, the Bank's approach to the question of denomination has been empirical. The question has now been raised whether it would be possible to develop some policy rules with respect to the matter of denomination, with particular reference to the denomination of loans in which a substantial amount of non-dollar currencies is expected to be used.

## VII

In a discussion of the policy aspects of the denomination of the Bank's loans the following come to mind as relevant considerations:

- (i) the denomination (i.e. the formula by which the principal amount of the loan is expressed) should give a reasonably accurate picture of the nature of the transaction;
- (ii) the denomination should give as accurate a measure as possible of the actual amount which is intended to be disbursed;
- (iii) when a substantial amount of non-dollar currencies is expected to be used in a loan, the fact should be brought out and if possible reflected in the denomination;
- (iv) when several members of the Bank make substantial amounts of 18% funds available for a loan it is desirable to show the contributions of all of these members;
- (v) the wishes of the Borrower with regard to denomination should be given due weight.

## VIII

The following alternatives can be suggested for the denomination of loans in which non-dollar currencies play a substantial part:



- (a) to use the Yugoslav formula ("an amount in various currencies equivalent to \$\_\_\_\_\_") in all cases.
- (b) to denominate the loan in the "dominant currency" (as hereinafter defined) if there is a "dominant currency" and to use the Yugoslav formula in all other cases.
- (c) in cases where not more than two or three currencies are expected to be used, to denominate the loan in the various currencies which have been made available for the loan in substantial amounts.

These three alternatives will be discussed in the light of the considerations set forth in Part VII of this memorandum.

## IX

### Alternative (a).

(i) The Yugoslav formula has the advantage that it expresses very clearly the general multi-currency element in the Bank's lending operations.

(ii) The fact that it measures the loan in terms of dollars may, however, create some problems if all or a substantial part of the proceeds are to be spent outside the United States and one or more of the currencies used depreciates or appreciates in terms of dollars. Assuming that prices in the supplying countries remain constant in terms of local currency, depreciation of that currency would have the effect that the amount of the loan (which is expressed

in terms of dollars) would be larger than the amount intended to be loaned and needed for the project, so that the Borrower would have to cancel part of the loan, whereas appreciation of that currency would result in the amount of the loan not being sufficient to pay for the goods intended to be financed thereby. The first contingency would not cause any great difficulties, but the second possibility might present complications. It is assumed that the Bank in such a case would be prepared to grant the Borrower a supplemental loan in the amount by which the original loan "understated" the amount actually intended to be provided. There is the danger, however, that the Borrower (or the Guarantor in a guaranteed loan) would have to obtain additional legislative authority for such a supplemental loan which it may not be possible to obtain with the necessary promptness. As against this it can be argued that this danger is unlikely to arise in practice in view of the small likelihood of a depreciation of dollars in terms of other member currencies.

(iii) The Yugoslav formula does not draw particular attention to the fact that non-dollar currencies play an important part in the loan.

The non-dollar feature of a loan can of course be stressed in the Bank's press release and other publicity regarding the loan irrespective of the manner in which the loan is denominated. On the other hand, tabulations of the Bank's loans in U.N. and other non-Bank publications would be likely to list such a loan as a dollar loan.



(iv) The Yugoslav formula does not reflect the respective contributions made by the Bank's members in making currency available for the loan.

(v) The Yugoslav's formula has the advantage that it could be uniformly applied to most of the Bank's loans, (including loans in which it is expected that dollars will be used for substantially all disbursements, whether for payment of dollar goods or for the purchase of non-dollar currencies), with the exception possibly of loans which are intended to be disbursed in one or more specified currencies only.

X

Alternative (b).

The term "dominant currency" is intended to refer to a currency with which the greater part of a loan is intended to be financed and of which the Bank has available a sufficient amount to finance, if necessary, the entire loan. In most of the Bank's loans the dollar, and in the Icelandic loans, sterling is the "dominant currency" in this sense.

(i) Denomination in the "dominant currency" or the equivalent in other currencies gives a clear picture of the nature of the transaction, if no other currencies are expected to be used in substantial amounts.

(ii) To the extent that the bulk of the goods financed will be bought in the monetary area of the "dominant currency" country, there is little likelihood that the amount of the loan as denominated will prove to be too large or too small as a result of depreciation or appreciation of other currencies. As against that, however, it can be argued that the Bank's experience to-date with loans in European currencies indicates that such loans are likely to be disbursed in various European countries, the value of whose currencies will not necessarily remain constant in relation to the "dominant currency."

(iii) Alternative (b) has the advantage of bringing out very clearly the non-dollar character of the loan.

(iv) If in addition to the "dominant currency" substantial amounts of other currencies have been made available, and are expected to be used, for the loan, Alternative (b) has the disadvantage that it does not reflect the contribution made to the loan by the various members (see, e.g., the first Icelandic loan, where French francs had been made available for appr. 40% of the amount of the loan). On the other hand there may be loans, such as e.g. the second Icelandic loan, where the "dominant currency" is the only currency of which substantial amounts are expected to be used.



XI

Alternative (c).

As a practical matter this alternative, denomination in the various currencies which have been made available for the loan in substantial amounts, would be appropriate only if these currencies can be used not only locally, but in a certain area, such as the E.P.U. area. (This was the case in the first Icelandic loan). Otherwise, the anomalous situation might arise that, if the Borrower shifted its purchases from one European country to another, one of the currencies in which the loan is denominated would not be used at all.

Moreover, as already indicated, this alternative would seem to be appropriate only in a case where not more than two or possibly three currencies would be used for a loan, and substantial amounts of each currency had been made available. Its practical applicability may therefore well be limited to relatively few cases.

With the foregoing qualifications, however, Alternative (c) appears to have the same advantages as Alternative (b), with the added advantage that it will reflect the contributions made by the various members in making 18% currency available for a loan.

XII

The above analysis of the three alternatives indicates the difficulty of attempting to adopt a uniform system of denomination at this time and suggests that the Bank should continue to deal with the matter of denomination on the merits of each particular case in the light of the general considerations stated in section VII of this memorandum.



ANNEX

Loan Regulations No. 3 and 4, Section 3.01:

Currencies in Which Proceeds of Loan are to be Withdrawn.

The Borrower shall use reasonable efforts to purchase goods with the currencies of the countries from which such goods are acquired. The proceeds of the Loan shall, to the extent that the Bank shall so elect, be withdrawn from the Loan Account in the several currencies in which goods are paid for. The Bank shall be under no obligation to permit the proceeds of the Loan to be withdrawn in any currency except the currency in which the Loan is denominated. For the purposes of this Article, a Loan denominated in a specified currency or the equivalent in other currencies shall be deemed to be denominated in such specified currency.

Loan Regulations No. 3 and 4, Section 3.04.

Currency in Which Commitment Charge is Payable. The commitment charge shall be payable in the currency in which the Loan is denominated.

Loan Agreement with Yugoslavia, pars. (a) and (b) of Schedule 3:

(a) Section 3.01 shall be deemed to be modified as follows:

Section 3.01. Currencies in Which Proceeds of Loan are to be Withdrawn. The Borrower shall use reasonable efforts to purchase goods with the currencies of the countries from which such goods are acquired. The proceeds of the Loan shall, to the extent that the Bank shall so elect, be withdrawn from the Loan Account in the several currencies in which goods are paid for. The Bank shall be under no obligation to permit the proceeds of the Loan to be withdrawn in any currency except dollars.

(b) Section 3.04 shall be deemed to be modified as follows:

Section 3.04. Currency in Which Commitment Charge is Payable.

The commitment charge shall be payable thirty-five per cent (35%) in French

francs, thirty-five per cent (35%) in Swiss francs and thirty per cent (30%) in pounds sterling.



INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

11.14.51

12.10

This paper, just distributed  
now by Broches, is to be discussed  
at this afternoon meeting at 2.30  
according to Mr. Garner's instructions.

SLC  
Thursday

Broches

MEMORANDUM

NOV 14 1951

re: Denomination of Loans

I

The purpose of this memorandum is to provide a working paper for the Financial Policy Committee for use in its discussion of the Bank's policy with respect to the denomination of loans made by the Bank.

II

Under the Bank's Loan Regulations, as presently in effect, the denomination of a loan in a certain currency has substantive significance:

(a) Under Section 3.01<sup>1/</sup> the Bank has the option to provide the Borrower with the currency used to purchase goods, but the Bank has no obligation to provide the Borrower with any currency other than that in which the loan is denominated;

(b) Under Section 3.04<sup>1/</sup> commitment charge is payable in the currency in which the loan is denominated.

It is, however, possible, as a matter of drafting technique, to provide in the Loan Agreement for the currency with which the Bank can discharge its obligations and the currency in which commitment charge is payable without reference to the currency in which the

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<sup>1/</sup> Set forth in the Annex to this memorandum.



Loan is denominated and, indeed, without reference to the concept of denomination, as demonstrated in the recent Loan Agreement with Yugoslavia.

In that Loan Agreement the principal amount of the Loan was expressed as "an amount in various currencies equivalent to \$28,000,000". Thus, this Loan was not "denominated" in any currency within the technical meaning of Section 3.01 of the Loan Regulations. It therefore became necessary to provide specifically for the currency or currencies with which the Bank could discharge its obligations to the Borrower and the currency or currencies in which commitment charge would be payable. This was done in paragraphs \_\_\_\_ and \_\_\_\_<sup>1/</sup>, respectively, of Schedule 3 to the Loan Agreement.

It may be useful to add that the currency in which a loan is denominated does not determine the currency or currencies which the Borrower has to repay to the Bank. Loans are repayable in the currency or currencies withdrawn by the Borrower, except when a currency withdrawn by the Borrower was purchased by the Bank with another currency, in which case the loan is to that extent payable in the latter currency.

### III

Until the first loan to Iceland in June, 1951, all the Bank's

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<sup>1/</sup> Set forth in the Annex to this memorandum.



loans (with the exception of the 1948 Swiss franc loan to the Kingdom of the Netherlands for the purchase of Swiss goods) had been expressed either in dollars or the equivalent in other currencies, or in dollars only. In all of those loans it was either contemplated that the bulk of the loan proceeds would be used to pay for United States goods and services (this was the case in most loans), or that, even though a substantial portion of the proceeds would finance purchases outside the United States, dollars would be used by the Bank to acquire the currency needed by the Borrower (the South African loans), or it was intended that, regardless of the currency used by the Borrower, the Borrower would be entitled to receive dollars under the loan (the 1949 loan to Belgium).

#### IV

The Icelandic loan was in a different category. The relevant facts with respect to denomination were:

(a) It was contemplated that only European currencies would be disbursed under the loan;

(b) Approximately 60% of the loan proceeds was expected to be disbursed for purchases in the United Kingdom or in other European countries, the currencies of which would be acquired with sterling, whereas approximately 40% of the proceeds was expected to be disbursed in French francs, partly to pay for purchases in France and



partly to acquire other European currencies in which goods were expected to be purchased;

(c) The Bank had available a sufficient amount of sterling to finance, if necessary, all of the loan with that currency.

Realizing the importance of stressing the fact that the Bank was utilizing in its lending operations currencies other than dollars, the management thought that this could be best achieved by denominating the loan, if possible, in a currency other than dollars. It also felt that, on the facts of this particular case, it would be entirely appropriate to denominate the loan in sterling. Its recommendation to that effect was accepted by the Executive Directors.

V

The Yugoslav loan was in the same category as the loan to Iceland to the extent that disbursements were expected to be entirely in non-dollar currencies. There were, however, also differences:

(a) While more French francs were made available to the Bank for this loan than any other 18% currency, the amount of French francs constituted less than one-half of the principal amount of the loan.

(b) The Bank did not have at its disposal an amount of any single European currency sufficient to finance, if necessary, the entire principal amount of the loan.



Under these circumstances the management felt that the technique adopted in the first Icelandic loan could not be applied in this case. Instead, the formula "an amount in various currencies equivalent to \$28,000,000" was used.

## VI

The Yugoslav loan was followed by the second Icelandic loan. The facts in this loan were substantially similar to those in the first Icelandic loan and the management therefore recommended, and the Executive Directors approved, that the loan be denominated in sterling.

Thus, the Bank's approach to the question of denomination has been empirical. The question has now been raised whether it would be possible to develop some policy rules with respect to the matter of denomination, with particular reference to the denomination of loans in which a substantial amount of non-dollar currencies is expected to be used.

## VII

In a discussion of the policy aspects of the denomination of the Bank's loans the following come to mind as relevant considerations:

- (i) the denomination (i.e. the formula by which the principal amount of the loan is expressed) should give a reasonably accurate picture of the nature of the transaction;
- (ii) the denomination should give as accurate a measure as possible of the actual amount which is intended to be disbursed;
- (iii) when a substantial amount of non-dollar currencies is ex-



pected to be used in a loan, the fact should be brought out and if possible reflected in the denomination;

- (iv) when several members of the Bank make substantial amounts of 18% funds available for a loan it is desirable to bring out the contributions of all of these members;
- (v) there is some advantage in having a uniform system of denomination.

### VIII

The following alternatives can be suggested for the denomination of loans in which non-dollar currencies play a substantial part:

- (a) to use the Yugoslav formula ("an amount in various currencies equivalent to \$ \_\_\_\_\_") in all cases.
- (b) to denominate the loan in the "dominant currency" (as hereinafter defined) if there is a "dominant currency" and to use the Yugoslav formula in all other cases.
- (c) to denominate the loan in the various currencies which have been made available for the loan in substantial amounts.

These three alternatives will be discussed in the light of the considerations set forth in Part VII of this memorandum.

### IX

#### Alternative (a).

- (i) The Yugoslav formula has the advantage that it expresses very clearly the multi-currency element in the Bank's lending operations.



(ii) The fact that it measures the loan in terms of dollars may, however, create some problems if all or a substantial part of the proceeds are to be spent outside the United States and one or more of the currencies used depreciates or appreciates in terms of dollars. Assuming that prices in the supplying countries remain constant in terms of local currency, depreciation would have the effect that the amount of the loan (which is expressed in terms of dollars) would be larger than the amount intended to be loaned and needed for the project, so that the Borrower would have to cancel part of the loan, whereas appreciation would result in the amount of the loan not being sufficient to pay for the goods intended to be financed thereby. The first contingency would not cause any great difficulties, but the second possibility might present complications. It is assumed that the Bank in such a case would be prepared to grant the Borrower a supplemental loan in the amount by which the original loan "understated" the amount actually intended to be provided. There is the danger, however, that the Borrower (or the Guarantor in a guaranteed loan) would have to obtain additional legislative authority for such a supplemental loan which it may not be possible to obtain with the necessary promptness. As against this it can be argued that this danger is unlikely to arise in practice in view of the small likelihood of a depreciation of dollars in terms of other member currencies.

(iii) The Yugoslav formula does not draw particular attention to the fact that non-dollar currencies play an important part in the loan.

(iv) The Yugoslav formula avoids the question of the most equitable way of giving credit to the members for making currencies



available for a loan, but it achieves that result by not giving credit to any of them.

(v) The Yugoslav's formula has the advantage that it could be uniformly applied to all of the Bank's loans, including dollar loans, with the exception possibly of loans which are intended to be disbursed in one or more specified currencies only.

# X

## Alternative (b).

The term "dominant currency" is intended to refer to a currency with which the greater part of a loan is intended to be financed and of which the Bank has available a sufficient amount to finance, if necessary, the entire loan. In most of the Bank's loans the dollars, and in the Icelandic loans, sterling is the "dominant currency" in this sense.

(i) Denomination in the "dominant currency" or the equivalent in other currencies gives a fair picture of the nature of the transaction.

(ii) To the extent that the bulk of the goods financed will be bought in the monetary area of the "dominant currency" country, there is little likelihood that the amount of the loan as denominated will prove to be too large or too small as a result of depreciation or appreciation of other currencies. As against that, however, it can be argued that the Bank's experience to-date with loans in European currencies indicates that such loans are likely to be disbursed in



various European countries, the value of whose currencies ~~of which~~ will not necessarily remain constant in relation to the "dominant currency".

(iii) Alternative (b) has the advantage of bringing out very clearly the non-dollar character of the loan.

(iv) If, in addition to the "dominant currency" substantial amounts of other currencies have been made available, and are expected to be used, for the loan, Alternative (b) has the disadvantage that it does not reflect the contribution made to the loan by the various members (see, e.g., the first Icelandic loan, where French francs had been made available for appr. 40% of the amount of the loan). On the other hand there may be loans, such as e.g. the second Icelandic loan, where the "dominant currency" is the only currency of which substantial amounts are expected to be used.

## XI

### Alternative (c).

As a practical matter this alternative, denomination in the various currencies which have been made available for the loan in substantial amounts, would be appropriate only if these currencies can be used not only locally, but in a certain area, such as the E.P.U. area. (This was the case in the first Icelandic loan) Otherwise, the anomalous situation might arise that, if the Borrower shifted its purchases from one European country to another, one of the currencies in which the loan is denominated would not be used at all.



With the foregoing qualification, however, Alternative (c) appears to have the same advantages as Alternative (b), with the added advantage that it will reflect the contributions made by the various members in making 18% currency available for a loan.

Maturity of Loans Granted  
to our Borrowers



## OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist

FROM: John C. de Wilde *JW*

SUBJECT: Attached memorandum on the Maturity of Loans.

DATE: November 28, 1951

I am returning herewith the attached memorandum which you lent to me. I heartily agree with it, although I think the example of the agricultural equipment as compared with the equipment for an agricultural machinery plant is rather ill-chosen.

I should like to make the following two observations on the whole problem.

1. I do not think that the idea that maturity of loans should not be conditioned by the life of the equipment will ever gain unqualified acceptance until the Bank goes in for program lending pure and simple rather than project lending. Although the Bank is paying more and more attention to the general economic program of a potential borrower in determining whether or not it should make any loans and in what volume, it is still paying a disproportionate amount of attention to individual projects. This inevitably makes it appear, primarily to the loan officers, that we are making loans only on the merits of individual projects. Under these conditions the "banker's approach" that the loans should not exceed the life of the equipment will tend to prevail.
2. While the life of the equipment should obviously not be the criterion for determining the duration of the loan, it is difficult to say exactly what other criterion might be applied and to what conclusions such a criterion would lead. Theoretically one might say that the borrower's overall economic program is likely as of sometime in the future to begin yielding a surplus of foreign exchange which can be used to pay off the foreign debt previously contracted. In practice, however, it is extremely difficult to determine the time when such a foreign exchange surplus will begin to accrue, particularly since development is a dynamic process which continues over decades and even centuries. Thus most of our borrowers will presumably continue to import capital for decades to come and one cannot therefore say that they will have an exchange surplus except on the assumption of continued capital import.

Under those circumstances it would appear that the duration of our loans should be determined simply by our judgment as to how often we would like to have our borrowers come back to us for new funds. One might make out a case in favor of

the proposition that all of our loans should be of fairly short duration so that the Bank would have a frequent opportunity to review the economic progress actually made by our borrowers and the economic soundness of their programs and policies.

It might be useful to discuss this subject at some length at a future staff meeting.

Encl.

JCdeWilde/mm



Staff Loan Committee

October 1, 1931

Leonard B. Rist

**Maturity of Loans Granted to our Borrowers.-**

1. The considerations generally taken into account by the Bank when determining the terms of its loans fall broadly into two categories:

a) Those affecting the borrower:

- desire to lighten the burden of the amortization
  - an argument for longer term
- desire to lighten the burden of interest
  - an argument for shorter term
- desire to take advantage of good foreign exchange prospects while they last
  - an argument for shorter term
- desire to wait until full economic benefits of a long term project are reaped before imposing full repayment
  - an argument for longer term

b) Those affecting the Bank's financial policy:

- desire to hold bonds in a readily marketable form
  - an argument for shorter term
- desire to have - insofar as possible - a turnover in our funds available for lending
  - an argument for shorter term
- desire to provide continuous assistance by a series of loans
  - an argument for longer term and lighter service charges

This list is by no means exhaustive and in each case additional factors may have to be considered.

2. On several occasions, one of the considerations taken into account was the life of the goods financed by our loan. The attached memorandum contains a discussion of the validity of this consideration and comes to the conclusion that the life of the loan could be linked to the life of the imported goods only in the case of loans to private enterprises but not for loans to governments.
3. The subject appears to be important and controversial enough to warrant a special discussion of the Staff Loan Committee.

1/ or autonomous



Relationship of Period of Amortisation of  
Bank loans to Service Life of Equipment

1. In certain cases the Bank has taken into account the life of the machinery and equipment bought from the proceeds of the loan in determining the life of a loan. A discussion of the validity of this consideration follows.

2. a) Secured Loans:

In the outstandingly successful example of the use of this kind of provision, i.e. railway equipment obligations, the purpose is to obtain security for the loan. In these obligations, the security behind the loan is the value of the railway rolling stock. Consequently, amortization must stay a step ahead or proceed more rapidly than the depreciation occurring in the equipment if the margin of security for the lender is to be preserved. If there is a default, the lender can take possession of the rolling stock and recoup his money. Such obligations based on other types of manufacturing equipment, however, have been much less successful for various reasons but primarily because the right to take possession and sell second-hand machines does not usually represent much security for the lender. Generally, therefore, when a mortgage is desired as security for an obligation, lenders ask for a mortgage on real property or on a substantial part of the fixed assets essential to the continued existence of the business and not on the particular commodity or service on which the money they lent may happen to have been spent. The policy under discussion should be used, therefore, only in those cases where the Bank would wish to make a loan secured by a mortgage on the machinery and equipment bought and where the type of machinery is such that in the event of a default the Bank could reasonably wish to seize and dispose of the equipment. This proposal is valid whether the loan is to a private enterprise or to a government.

3. b) Loans to private or autonomous enterprises directly using the equipment:

When the borrower is an independent enterprise, even if no security is taken, a link is often established in domestic financing between financial amortization and physical depreciation if the equipment purchased with the loan can be segregated from total assets. This can frequently apply to foreign exchange loans to private or autonomous enterprises, since the Bank in lending to these entities in effect substitutes for an inadequate domestic capital market.

4. c) Loans to Governments (or the intermediary financial agencies which redistribute the equipment):

In Bank loans to governments, the rule is generally inapplicable, except where a mortgage on equipment financed by the Bank is part of the security of the loan. In most instances, loans to governments are secured by the general credit of the government and not by a mortgage on any asset much less on a commodity purchased under the loan. The creditworthiness of a government depends on its willingness and ability to repay a foreign exchange loan. What is relevant are a) the economic and financial policies of the government, b) the nature of its economy and its anticipated course of development, and c) the use of the addition to the country's resources, which is provided by the Bank loan, in the most productive manner. In other words, the dominating factor is the general ability to earn and pay in foreign exchange.

5. The purpose of the Bank is essentially to make available capital resources available

to.../



to its borrowers. In the case of a loan to a government designed to increase the amount of capital invested in the country, the form in which these resources are transferred across the frontier can almost be termed accidental; it depends on the past development of the country and, therefore, what particular kinds of commodities it needs for future development. From the point of view of the Bank, we want to be sure that our loan does actually increase the amount of capital permanently and productively used in the country. To penalize one country as against another in the length of time of repayment because of a difference in form is illogical. This is true whether our contribution results in a railroad being built or in a permanent increase in the stock of implements used in agriculture. It is the objective which counts.

6. The foregoing can best be illustrated by example: we might take two countries, each of which is proposing to build a system of economically justifiable roads. In both cases, the Bank is asked to finance the equipment which must come from abroad to be used to build the roads. However, in one country it is economic to build the roads using steam rollers and roadgraders having a service life of 10 years. In the other country, it is more economic because labor is cheap, to use shovels and baskets having a service life of 6 months. It does not make good sense to determine that the term of amortization of the Bank loan for the first country must be 10 years, and for the second country 6 months, when in both cases the roads which are being built will last indefinitely if properly maintained.
7. Again, we might have two countries each of which needs to augment its permanent stock of agricultural implements in order to secure an increase in agricultural production of which a part will be exported.

(a) In Country A it is economic to achieve this end by securing a loan from the Bank to buy machinery to install in a new plant to make agricultural implements. This machinery has a service life of 20 years so the country would get 20 years to amortize its loan and everything works well: the increased stock of implements results in increased agricultural exports which are not only sufficient to pay for the imports of iron and steel needed to make new implements as the old ones wear out but also to pay the interest and amortization on a 15-year loan. As the loan granted has an amortization period of 20 years Country A receives a margin of foreign exchange earnings which allows it to incur additional indebtedness.

(b) Country B for some reason - lack of power, perhaps - cannot adopt the same solution. It must import the agricultural implements directly. As these implements have an average life of 5 years, it gets a 5-year loan. Its amortization payments are 4 times the size of Country A. Its agricultural exports likewise go up and they earn enough foreign exchange to make it possible for it to replace the agricultural implements as they wear out and to service a 15-year loan. However, Country B has only received a 5-year loan. The net result is that over the five year period only a small part of its added foreign exchange earnings go into maintaining its expanded stock of agricultural implements and the bulk goes into debt amortization. The result is that at the end of five years, Country B must come to the Bank and borrow again if it is to replace its worn out implements. In order to achieve the same end, Country B has to come into the Bank three times over a 15-year period while Country A accomplishes the same purpose with one loan. Country A during the period can come to the Bank and secure other loans to promote other aspects of

its.../



its development; Country B would be regarded as loaned up as not even being able to maintain its existing stock of capital resources.

8. As can be seen from the preceding example, the system tends to force borrowers to come back to the Bank according to a completely arbitrary time schedule rather than a time schedule based on the best judgment and needs of the Bank and of the borrower. In the preceding example, the Bank might have felt that there were certain trends at work in the economy of Country A which made it wise to limit the maturity of the loan to 10 years. This would force Country A to come back to the Bank and give the Bank an opportunity at that time to decide whether to continue to commit its money in Country A. On the other hand, in the case of Country B, the Bank might well have felt that 20 or 25 years was a good maturity. This would then mean that Country B on the basis of added productivity resulting from this loan would have had an additional margin of foreign exchange earnings which would make it an acceptable debtor for another loan for other purposes.
9. One final example, that of the Bank's Australian loan, might also be cited. The Bank's loan to Australia was used to purchase machinery and equipment in the dollar area. It would appear to be a natural case for applying the proposed policy. But there is no possible argument that could be used to justify such a procedure to the Australian Government. They could legitimately ask what possible relationship was there between the service life of the equipment and the desirable maturity of the loan. The Australian Government is collecting cash on the barrel-head for each piece of equipment imported under the loan. When the loan is completely disbursed in dollars the Australian Government will have the whole amount in Australian pounds in hand without even having to wait for the machinery and equipment to give up its value while depreciating. It is obviously more relevant to consider what time is involved before the whole Australian economy can earn sufficient dollar foreign exchange.

#### Conclusion:

As a general rule in Bank lending to governments, the length of life of the commodities purchased from the proceeds of the Bank loan should have no influence in determining the maturity or period of amortization of the loan.



Problems of Bank Policy Arising  
From Recent Rpts. on Eco. Develop.

NO. 545-13 U.S.A.

DECLASSIFIED

Date: \_\_\_\_\_

No. E-176

CONFIDENTIAL

This report is restricted to those members of  
the staff to whose work it directly relates.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROBLEMS OF BANK POLICY ARISING  
FROM RECENT REPORTS ON ECONOMIC DEVELOPMENT

August 16, 1951

Economic Department  
P. N. Rosenstein-Rodan



PROBLEMS OF BANK POLICY ARISING FROM RECENT REPORTS ON  
ECONOMIC DEVELOPMENT

I. Coordination

1) The problems involved in coordinating national and international development actions have been preliminarily discussed in the Staff Paper on the Gray Committee Report R-393, page 12 ff. The case of complete coordination, where all foreign economic aid is wholly or in large part integrated and administered by a single international agency, is for political and other reasons neither probable nor practicable. At the present stage, far removed from any approximation to a world government, it would be idle to discuss whether it is desirable. An all-embracing, integrating International Development Authority is not in sight. What substitutes for full coordination can be devised that will still effectively promote development, reduce conflict between the several aid programs and preserve the principle of international action in the development field?

2) An international coordinating committee on the NAC pattern is not a practical proposition. It would necessarily be so complicated as to be unable to act.

3) The proposal to establish an International Development Authority as an affiliate of the International Bank deserves, however, a closer examination. Duplication of effort involved in the creation of any new international agency could be avoided if the International Bank became a management agent for administering a program of developmental grants. Two distinct forms and functions of the International Development Authority have to be considered, however, involving two distinct types of problems.

In the first case, the International Development Authority would determine which countries are to receive grants, and according to what principles and in what approximate amounts these grants should be extended. These questions are in large part policy questions. For the very same reasons for which no countries are prepared to surrender control of their aid funds, they will not be willing to transfer such decisions to an International Development Authority managed by the International Bank.

The second case, however, involves the almost completely separate problem of determining, on the basis of economic considerations, a program by which any given amount of grants to any country can be most effectively utilized so as to result in the greatest possible contribution to economic development. There should be no conflict between the two kinds of problems since whatever the amount of aid, it should be in a contributing country's interest that that amount of aid be most effectively used. One means of insuring maximum results from any given aid program could be the separating of responsibility for the decision of amount of aid to be given from the economic task of programming that aid for maximum results.



The general operating mechanism might be along the following lines: a government would indicate to the International Bank (the International Development Authority) the possible order of magnitude of grant aid it could give to some countries. The Bank would proceed to make an investigation of the economy of the country as a first step in preparing a development program which would make effective use of grants, loans and the country's own resources. In some cases, such an investigation might indicate that the total amount of developmental activity which could effectively be undertaken for the next year or two, might well be financed by that country's own resources or by foreign loans which it could afford to service. In other cases, the size of the proposed grant might be either substantially smaller or substantially larger than the amount which could be used efficiently within the time period in question. In some cases, the Bank might report that without internal changes and reforms, no program of external assistance could be effective and that without these reforms grants would be merely wasted. On completion of this study, the Bank would discuss its findings and conclusions with appropriate officials of the country involved in order to obtain to whatever extent possible an agreed program. The Bank would then prepare a proposed development program and submit it to the government or governments offering the grants, just as the IBRD presently submits similar programs involving its own lending actions to its own Board of Directors. On the basis of this report -- which in view of the need for missions and field studies might involve six to twelve months -- the government or governments would then allocate grants to be administered by the Bank (IDA), on condition that the recipient country would carry out the appropriate internal measures needed to make the development program achieve its maximum effectiveness.

Unless decisions of a government or governments were to be based so exclusively on political considerations as to make the economic effectiveness of the program impossible, the International Bank (IDA) would carry out the control of disbursement and the supervision of achievement of the development program in the same manner that it now supervises the projects which it finances from its own funds. In the process of supervising the carrying out of the development program, the Bank might wish to modify its original recommendations and would therefore make frequent reports on the actual progress of the development program as well as on the changes which it felt appropriate to introduce in that program.

The carrying-out of such programming functions would facilitate the Bank's task and would effectively contribute to a better coordination of international action in the development field.

4) The programming functions of the International Bank (IDA) described in the previous paragraph would provide a framework for coordination of all national or international agencies in the field of technical assistance, grants and loans. The International Bank's relation to the Export-Import Bank's activities in the development field is one part of this whole problem. If a development plan is satisfactorily worked out and agreed upon with the



government of the country concerned, as well as with all the agencies operating in the development field, funds from different sources may be fitted satisfactorily into the program. If the International Bank had all the means required for a development action on a sufficient scale, the Export-Import Bank's separate lending for this purpose might be superfluous. It could, however, most usefully supplement international capital movements by lending (a) to non-member states of the Bank, (b) for purposes of obtaining strategic and other essential materials which are of a high priority for the United States but not necessarily of an equally high priority for the development needs of a producing country, <sup>1/</sup> (c) it might be used as a lending arm of the United States Government whenever special interests of the United States are involved.

Meanwhile, however, there has been a feeling in United States Government quarters that the spheres of activity of the Export-Import Bank and the International Bank should be so arranged as to become complementary rather than competitive. This is agreed. As a means of achieving the goal of complementarity the proposal has been accepted as a first experiment that member countries whose creditworthiness is not a limiting factor should consider the International Bank as a Bank of first recourse except for those projects which have peculiar strategic material aspects.

5) If the form of coordination described in paragraph 3) were not realized, various ad hoc measures, varying according to the circumstances, might still strengthen the liaison between the different agencies acting in a country. In practice, this occurs already. In some cases, the Bank takes the lead in coordination, in other cases, it agrees with taking part in programs initiated by other agencies. In the case of Yugoslavia, for instance, the Bank took the lead in suggesting a development program. In the case of Brazil, it follows the action of a Joint American-Brazilian Commission and may, if its proposals are sound, take part in the financing of one part of such a program. In general, it seems that the division of responsibility on functional lines (health, education, public works, agriculture, etc.) is not conducive to the elaboration of a coordinated development program. <sup>2/</sup>

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<sup>1/</sup> The International Bank "as a truly international organization does not and should not view the strategic interests of the United States or of the North Atlantic Pact nations as a determining means. On the other hand, experience has likewise demonstrated the desirability of the appropriate use of credits to finance operations of particular interest to the United States and its Allies." (Organizing the U.S. Government for Foreign Economic Operations - a statement of the NPA (National Planning Association) Steering Committee, Washington, D.C. June 18, 1951).

<sup>2/</sup> This also applies notably to the Rockefeller Report's stated principle that "all programs of economic assistance should provide for some measure of cooperative local financing." The complementary nature of loan and grant financing of a development program as a whole is distorted by asserting that "all projects should be able to support at least a portion of the necessary financing on a loan basis." If some success were achieved in the coordination of the various national and international grant and loan agencies, such measures would not be required. They compromise the need for fully coordinated programs by emphasizing the individual project approach and elevate certain public relation aspects of financing operations to the status of first principles.



A division of responsibility on regional lines, however, whereby one agency takes the lead in one country -- perhaps a country where the agency contributes the greater part of external assistance -- and another agency in another country, may yield good results. The forms and the degrees of coordination vary and may be undoubtedly improved with greater experience in this field.

6) Bilateral Joint Development Commissions depend very largely on the type of person leading them and the efficiency of their staffs. In general, they can probably achieve less than an international agency could. An international agency can be more exacting than any national government could possibly be. Under an international flag, it may demand and obtain more.

Should the International Bank participate in bilateral Joint Commissions in the light of those considerations? There are obvious drawbacks in standing aside. The Bank's participation and help may contribute substantially to progress in development of the country concerned. Abstention might be criticised as an attitude of false pride. It would also deprive the Bank of remaining in constant touch with the development authorities and keeping its hand on the economic pulse of the country.

On the other hand, there are grave dangers if the Bank accepted to participate in Joint Development Commissions. The Bank would appear to implement some national Government's plans in the same way as any other Government department or agency. It might thereby easily lose not only prestige but also confidence as a truly international agency. This confidence is not as firmly established as to be exposed lightly to such trials. A woman of established virtue can afford to take some risky steps. The Bank is not yet in that position.

## II. Problems of the Bank's Organization and Policy

1) The need for coordination in the development field is stressed in all the Reports on Development and a satisfactory solution of this problem is sometimes implied or taken for granted. The "Mutual Security Program for Fiscal Year 1952" of the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations states, for instance, "Account has been taken of the fact that the resources of these Banks (Export-Import Bank and the International Bank) will be available in the region and will provide means of financing for certain major undertakings." The Report deals briefly with the problem of coordinating of various programs of grant assistance with the Export-Import Bank and the International Bank loans but contains no specific proposal for coordination. In fact, it might appear from the way the report is phrased that there is no problem of coordination since it states that grant and loan programs are all worked out in close consultation to make sure that there is a proper balance between loans and grants. In a similar way, President Truman's message on Foreign Aid states that the agencies are to "work very closely with the Export-Import Bank and the International Bank in achieving a proper integration between loan and grant



programs." In the section devoted to Asia and the Pacific, the following two paragraphs also imply that the problem of coordination has been solved.

"In preparing these recommendations for economic aid, projects which should be financed by loans have been excluded. The investment of private capital and public loans from the International Bank for Reconstruction and Development and the Export-Import Bank will play an important part in the economic progress of Asia, as in other parts of the world.

In the administration of this program, loans, grants and technical assistance will be meshed together with the plans and efforts of each of the recipient countries for the development of its own resources. Only in this manner can the various kinds of outside aid available to an Asian country be used most effectively and without duplication or overlapping."

2) While there seems to be no clear realization in public opinion of problems involved in coordination, the Bank's own strategic thinking and its tactical work may well be discussed in this connection. If the Bank is to take a leading part in elaborating development programs for various countries -- it will have to know -- or to say -- how much it will be able to lend to each country concerned. Such estimates must necessarily be based on a series of alternative assumptions as to the amounts and purposes of grant aid, other external loan and investment funds, and the probable amount of domestic resources available for investment, which in turn frequently depends on the size of external assistance.

Final determination of the amount of the Bank's aid can take place only at a late stage when other factors are known -- but a series of hypothetical estimates can be made in advance. Some tentative estimates of that kind have in fact been made; - for instance, on the assumption that the Gray Committee recommendations were to be accepted.

Should such estimates, which are not to be confused with the opening of a line of credit, be communicated to the countries concerned? Many dangers of misunderstanding are obvious, but the advantages may more than compensate for the drawbacks. To announce what share the Bank might be able to take in the financing of development programs under various assumptions might stimulate both the elaboration of the plan and its spelling out in the form of projects. The ultimate decision will depend on the program as a whole but loans will be made and disbursed only when the projects which constitute a plan have been satisfactorily worked out. Once it is known that the Bank is prepared to finance a part of a development program, the need to present satisfactory projects may be more keenly felt and the blame for delays may be more clearly placed.

3) To say what part the Bank may be prepared to take in a country's development program will be necessary, but it will not be easy. An organ-



ization and workload similar to that of the International Development Authority described in I. 3) would be required, quite irrespectively of whether such an institution is formally established. The Bank would have to proceed further on the road of giving its own technical assistance. To a still greater degree than at present, it would be not only a "Bank" but also an "Investment" -- or "Development Authority." Field missions, perhaps some permanent regional officers or offices and a still more direct continuous contact with the development countries would become necessary. Better co-ordination of technical assistance may only be possible if the Bank increases still further its activity and its expenditure in this field.

Whether, when and to what extent such steps should be taken by the Bank may have to be discussed soon, as soon as major decisions on Development Policy are taken by Member States Governments.





Special Board on Gray,  
Rockey. & UN Reports



R-478  
(To be considered by the  
Executive Directors at the  
Informal Discussion on  
Wednesday, July 11, 1951)

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

FROM: The Secretary

July 6, 1951

The attached staff memorandum on recent proposals for financing of development is submitted as a basis for the forthcoming Informal Discussion of the Executive Directors on Wednesday, July 11, 1951 at 10:00 a.m.

Distribution

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

Sec. No. 5-234



July 5, 1951

STAFF MEMORANDUM (P.N. ROSENSTEIN-RODAN)

ON

RECENT PROPOSALS ON FINANCING OF DEVELOPMENT

A. REPORTS ON DEVELOPMENT OF UNDERDEVELOPED COUNTRIES

I. What the Reports have in common

There seems to be general agreement both in the theoretical explanation of the problems of development in poor countries and in the principles of international aid recommended to promote the economic development of these countries. During the last year three reports have dealt with the problem. They are:

- (1) The Gray Committee Report<sup>1/</sup>
- (2) The Rockefeller Report<sup>2/</sup>
- (3) The U.N. Experts Report on Development<sup>3/</sup>

In addition The Colombo Plan<sup>4/</sup> and President Truman's Message on Foreign Aid<sup>5/</sup> deal with the same problems. All these reports agree

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- <sup>1/</sup> Report to the President on Foreign Economic Policy, Washington, D.C. November 1950 - reported to the Board in Staff Paper R-393, November 29, 1951
  - <sup>2/</sup> "Partners in Progress" - report to the President by the International Development Advisory Board, March 1951.
  - <sup>3/</sup> Measures for the Economic Development of Underdeveloped Countries - report by a group of experts appointed by the Secretary-General of the United Nations, New York, May 1951. See also Report of the Economic, Employment and Development Commission, U.N., E/2006 E/CN.1/36, June 7, 1951.
  - <sup>4/</sup> The Colombo Plan - reported to the Board in Secretary's Memorandum No. 665, May 11, 1951.
  - <sup>5/</sup> The Mutual Security Program - message on Foreign Aid transmitted by the President to the Congress on May 24, 1951; and the Mutual Security Program for Fiscal Year 1952 - basic data supplied by the Executive Branch provided for the use of House Committee on Foreign Affairs and Senate Committee on Foreign Relations, Washington, D. C., Government Printing Office, June 1951.



(1) That it is the Western world's concern and interest to help in the development of underdeveloped countries. Development is a slow process, however and raising of the low standards of living is not possible in less than a decade or even perhaps a generation. To achieve this, the efforts of the underdeveloped countries themselves must be substantially increased and this is possible only if new spirit and drive are aroused in those countries. Considerably augmented international assistance might achieve such a result if it succeeds in mobilizing faith and hope in a better future in poor countries. This psychological effect cannot be achieved, however, by piecemeal, small aid programs but only by a substantial amount of assistance and a definite expectation that it will continue over a number of years. The amount of aid must be (a) large enough to make an impact on the rate of progress in underdeveloped countries sufficient to raise their hopes and galvanize their efforts, (b) within the technical absorptive capacity of the underdeveloped countries, and (c) within the capacity of advanced countries to provide without straining their economies.

(2) Grants must supplement the aid in the form of loans. Wisely-used grants will not only raise investment, they will also increase an underdeveloped country's creditworthiness and thereby increase the amount of loans which can be made. Sound grants increase the scope for sound loans. It may be noted in this connection that practically all the reports propose a clean division between grants and loans without having recourse to an intermediate instrument of "fuzzy loans" or disguised grants in the form of very long-term loans of 60 or 99 years at a very low rate of interest or long-term interest-free loans. Such a possibility is envisaged only in some proposals presented by some delegates at the Sixth Session of the Economic, Employment and Development Commission of the U.N. (p. 32 of the Report of the Economic, Employment and Development Commission, Economic and Social Council, E/2006 E/CN.1/86).

(3) Technical assistance will achieve much more if it is known that adequate funds are available for subsequent investment. A great deal is achieved even by technical assistance in the present form but combined operations of technical assistance, increased internal effort, grants and foreign loans, would make such a difference in effectiveness of the aid as to amount to a different kind of program.

(4) Private investment cannot at present supply sufficient funds to accelerate substantially the rate of development. Although there is considerable variance in the reports, there is agreement on the proposition as stated.

(5) Some sort of coordination of the various forms of assistance (technical assistance, grants, loans, etc.) should be provided.

(6) Operation through international organizations is generally recognized to be desirable.<sup>1/</sup>

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<sup>1/</sup> See also: Foreign Economic Assistance, Brookings Institute, 1951, pp. 90-91.



(7) A vastly increased internal effort in the recipient countries is needed as a basic condition for success in development. The extent of external assistance should be dependent on the extent to which the recipient countries are prepared to take the drastic and frequently unpopular measures which are necessary for the mobilization of domestic development effort.

## II. Differences between the Reports

While there is general agreement on the basic principles of external aid for the development of underdeveloped countries, there are naturally differences of emphasis between the various reports. The Gray Committee Report frankly confines itself to a discussion of what should be done without examining concretely how it should be done. The Rockefeller Report, on the other hand, puts its maximum emphasis on how aid should be provided and administered. It is the only report which contains specific recommendations as to institutions needed for better coordination and administration of U.S. and international activity in the development field.

All three reports (Gray, Rockefeller and U.N. Experts) deal at considerable length with problems which can be solved only by action of the underdeveloped countries themselves. The bulk of the U.N. Experts Report, both in terms of length and emphasis, deals with this phase of the problem.

All three reports emphasize the need for an increased flow of external assistance. The Gray Committee Report recommended \$500 million annually in grants and technical assistance. This figure was repeated by the Rockefeller Report. The U.N. Experts Report speaks of eventually attaining a flow of grant funds of \$3 billion annually from all sources.

For both international (IBRD) and U.S. (Export-Import Bank) dollar loans, the Gray and Rockefeller Reports mention a figure of \$600-800 million annually. The U.N. Experts Report mentions only that IBRD should set itself a target of lending at a rate of \$1 billion per annum within five years.

In appraising the prospects for and the effects of positive measures to encourage a greater outflow of U.S. private capital, the Rockefeller Report is much more optimistic than the Gray Report. A doubling of the 1946-49 average flow of \$1 billion is considered feasible whereas the Gray Report saw little chance that private direct investment would increase substantially. The principal explanation for the difference may be the fact that the Rockefeller Report proposed a series of measures as incentives to private foreign investment, including exemption of all new foreign investment from U.S. income tax which the Gray Report did not mention. The U.N. Experts Report does not mention a specific figure but appears to be no more optimistic than the Gray Report.

All three reports stress the urgency of providing a steady flow of resource to the underdeveloped areas. The Rockefeller Report emphasizes the expansion of raw material production which can be expected from development in the underdeveloped areas. The U.N. Experts Report emphasizes the needs of the underdeveloped countries as such to a much greater extent.



Neither the U.N. Experts Report nor the Rockefeller Report attempts to appraise to what extent the capacity of the underdeveloped countries to support economic development out of their own resources has been increased in the recent past. The Gray Report (page 60) on the other hand outlined the principal reasons why and to what extent the improved foreign exchange position of the primary producers' countries does not eliminate the need for foreign aid.

### III. Principal features of the Rockefeller and the U.N. Experts Reports.

1) The Gray Committee Report has been summarized in the Staff Paper R-393, distributed November 29, 1950. Summaries of the Rockefeller Report and the U.N. Experts Report are given herewith.

The Rockefeller Report makes the following recommendations:

(1) Establishment of a new U.S. agency, the Overseas Economic Administration, with an appropriation of \$500 million for development purposes for the next fiscal year. The Overseas Economic Administration would include all the foreign economic functions of the U.S. Government and would absorb among others ECA, the present Point IV organization of the State Department, and the Institute of Inter-American Affairs. It is apparently contemplated that if the International Development Authority (see sub. 2) is established, part of the Overseas Economic Administration grant funds would be allocated to the International Development Authority and the remainder would be used chiefly in such broad social programs as health, education, sanitation, etc. It is further proposed that the O.E.A. operate on a regional basis and through standing missions in the underdeveloped countries.

(2) Creation of a new international agency, the International Development Authority, to operate under a management contract with the International Bank. Funds are to be contributed by all participating countries in proportion to their capital subscription to the International Bank. The contribution proposed for the United States would be up to \$200 million to be transferred from the appropriation of the Overseas Economic Administration if the new Authority should begin its operations during the fiscal year 1951-52. The funds of the Authority are contemplated as grants in the field of public works.

The Report states the principle that "all programs of economic assistance should provide for some measures of cooperative local financing."

(3) Creation of an International Finance Corporation as an affiliate of the International Bank, to be financed through subscription by the participating governments to non-voting stock up to the equivalent of \$400 million. The Corporation would be authorized to make non-voting equity investment and loans to private borrowers without government guarantees. It is intended that equities and loans be sold to private investors as soon as possible, and that the proceeds be used for further operations. United States subscription of \$150 million is proposed, with one-third actually paid in, the balance subject to call.



(4) The Rockefeller Report further proposes various measures to stimulate U.S. private investment including exemption from U.S. income tax of all new foreign investment and insurance against transfer risks, the latter to be underwritten by the Export-Import Bank up to an amount of \$100 million.

Coordination. The Report lays great emphasis on the need for coordination of all development assistance and on the preparation of a comprehensive development program for every country. The preparation of these programs would be the responsibility of Joint Commissions which are to consist of representatives of the United States and of the foreign country receiving assistance.

2) The U.N. Experts Report on "Measures for the Economic Development of Underdeveloped Countries" is divided into two major sections. The first deals with domestic measures requiring action by the underdeveloped countries; the second deals with measures requiring action by the developed countries and international agencies. Recommendations of the report are much less shaded than the text and fail to convey the subtleties of the analysis.

The first part of the report (pp. 5 - 70) contains an excellent analysis of the problems of underdeveloped countries and a realistic and persuasive statement of what the underdeveloped countries must do. The second part contains an estimate of total investment and of external capital required to raise by 2% the national income per head in underdeveloped countries. For that purpose, the experts assume: (a) an annual shift of 1% of the total working population into industry requiring \$2500 per head of worker employed, and amounting to \$15 billion. This would raise the national income by 1½% per annum; (b) annual investments in agriculture of about \$4 billion - of which \$1 billion would be invested in agricultural extension services and research - thereby increasing the yield per acre by an average of 2½% per annum equivalent to an increase of 1% of national income. With national income increasing annually by 2½%, income per head, taking into account the increase of population would increase by 2% per annum.

Total investment would then amount to \$19 billion per annum, or 20% of the income of these countries. Internal savings in 1949 amounted to \$5.2 billion, so that the gap would appear to be \$14 billion. The possible increase in domestic savings could reduce this gap to \$10 billion (80% of which would be needed for Asia). To meet this gap the present annual inflow is of \$1 to \$1.5 billion. "It is in order to emphasize that, if these countries are to progress more rapidly in the future than they have done in the past or are doing at present, the inflow of capital must be multiplied several-fold, that we have thought it worthwhile to give these estimates of the order of magnitude involved. We do not ask that these figures be taken exactly. We wish only to emphasize that the order of magnitude involved is well in excess of what is now generally believed. When members of the United Nations speak about rapidly increasing the standards of living of the underdeveloped world, they should realize that what they are talking about involves a transfer of several billion dollars every year." (p. 79).

Such a magnitude is not, it is claimed, beyond the capacity of the developed countries. 2% of the national income of Western Europe, Australia,



the United States and Canada would amount to \$7 billion a year. The experts observe that in the last five years, grants and loans from the United States have been running at over 3% of her national income and that in the period 1905-1913 the United Kingdom exported capital equivalent to 7% of her national income.

Raising the inflow of capital into underdeveloped countries requires action under three headings: private investment, government lending and grants-in-aid. With respect to private investment, the experts are generally in sympathy with various suggestions designed to promote a large flow of private funds. A creation of a favorable climate for foreign investment, transfer guarantees, removal of double taxation, investment treaties and an "International Finance Corporation to make equity investments and to lend to private undertakings operating in underdeveloped countries" are cited in this connection. In general, however, the experts are not optimistic as to the immediate prospects for a greatly increased volume of private investment.

With respect to government lending, the experts commend the operations of the Export-Import Bank and recommend similar institutions to the other developed countries. The International Bank is regarded by the experts as having failed to meet the "challenge of the circumstances." A rate of lending below \$300 million a year is viewed as inadequate and the experts recommend to the Bank to set for itself a target, which should be reached within five years, of a rate of lending of not less than \$1 billion a year. "If it (the International Bank) shows no sign of approaching this target, the whole question of the proper international organization for the provision of adequate amounts of loan capital to the underdeveloped countries should be reviewed by the United Nations."

An important obstacle to lending which is beyond the Bank's power to remove, the experts go on, is the limited sum now being spent on improving social capital. Much more must be done in this field before the underdeveloped countries will be in a position to absorb large amounts of loan capital. For this purpose, it is recommended (recommendation 14): "the United Nations should establish an International Development Authority to assist the underdeveloped countries in preparing, coordinating and implementing their programs of economic development; to distribute to underdeveloped countries grants-in-aid for specific purposes; to verify the proper utilization of such grants; and to study and report on the progress of development programs." Grants increasing rapidly and reaching a level of about \$3 billion a year should be given for (a) research and education; (b) public health programs; (c) subsidization of medium- and short-term farm credit; and (d) improvement of rural public works.

3) Comment on the U.N. Experts Report. The technical aspects of the experts' estimates of total investment on foreign assistance requirements made in this report will be the subject of a separate paper to be presented shortly to the Board. The main conclusion appears to be that the annual investment requirements of \$19 billion are somewhat exaggerated even within the unrealistically ambitious framework of the experts' assumptions and that the external gap may be but one-half of the experts' estimate of \$10 billion. The following comment may be made meanwhile.



We can readily agree with the basic theses of the report, which may be summarized as follows:

- (1) That the essential aim of economic development is an increase in real income per head.
- (2) That a vast increase in investment in the underdeveloped countries is required to achieve such an increase in real income.
- (3) That even if domestic savings were increased considerably, "the transfer of capital that is required to raise rapidly the living standards of underdeveloped countries is far beyond what is currently envisaged."
- (4) That the largest requirement of international aid is for the poorest countries which at present receive the least per head.

It is also probable that if all the underdeveloped countries of the world with their 1600 million people had to achieve simultaneously a 2% increase in income per head, an annual investment of somewhat less than \$19 billion and external aid of perhaps \$5 - 6 billion might be required. It is probably not possible, however, to secure either at present or even within the next few years such an increase in real income per head. A considerable national and international effort will be required not to allow the income per head among the poorest of those countries to fall below even the present very low level, and a preparatory period of several years during which only a slight increase in income per head might be obtained will have to precede a later stage at which a 2% increase in income might become possible. It would be dangerous to raise hopes which cannot be fulfilled as yet. The orders of magnitude of international aid proposed by the report are therefore unrealistic for a number of reasons:

- (i) Progress in economic development could not start in all the underdeveloped areas simultaneously. At first, the technical absorptive capacity would be very much below the amount which would secure an overall increase in income of 2% per annum.
- (ii) National incomes and actual investments in the underdeveloped areas appear to us to be underestimated. While there is admittedly a vast margin of error in all such estimates, we would put national incomes at \$125 billion (instead of \$96.6 billion) and actual investments at \$7 billion (instead of \$5.2 billion).
- (iii) If investments in underdeveloped areas, financed both by national and external resources, were increased, a higher proportion of the increased national income could be siphoned off into domestic savings. Even if external assistance could reach a high level for some years, the need for it would later fall off gradually. It is not necessary that it should be maintained at its maximum level forever.



(iv) Even if the technical absorptive capacity were much higher than it actually is, and even if progress in development could start everywhere simultaneously, it may be doubtful whether the proposed amounts of external assistance could be obtained. To present exaggerated claims may, in practice, only compromise more reasonable claims which might be realized.

(v) We have to admit therefore that for the next decade at least it would be impossible to secure an annual increase in income of 2% in all the underdeveloped areas of the world, notably in Asia. Without a large-scale developmental action, income per head in Asia would fall because of the increase in population. The immediate task therefore is to insure that income per head in Asia should not fall and even this task will require energetic development action. It would be no mean achievement if income per head were to rise slightly, by say 0.5 to 1% per annum.

(vi) The problem of coordination between grants and loans has not been treated in the report. There is no link between the grant recommendation and the lending recommendation.

#### B. THE MUTUAL SECURITY PROGRAM

President Truman's Message on Foreign Aid transmitted to the Congress on May 24, 1951<sup>1/</sup> proposes that the total funds required under the Mutual Security Program be divided as follows:

##### Mutual Security Program 1952

(in millions)

	<u>Economic</u>	<u>Military</u>
Europe	\$ 1650	\$ 5240
Middle East and Northern Africa	125	415
Asia	375	555
Latin America	22	40
Administrative Expenses	<u>78</u>	<u>---</u>
	\$ 2250	\$ 6250

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<sup>1/</sup> See also: The Mutual Security Program for Fiscal Year 1952, Basic Data Supplied by the Executive Branch, Washington, Government Printing Office, June 1951.



Economic aid for Europe includes the economic aid for Greece and Turkey. The Middle East and Northern Africa category includes Iran, the Arab States, Israel and the three independent African countries: Liberia, Libya and Ethiopia. Asia "includes countries of the free world from Afghanistan to Korea inclusive." It includes South Asia (India, Pakistan, Afghanistan, Ceylon, Nepal); South-East Asia (Thailand, Burma, the Associated States of Indo-china and Indonesia); the Philippines; Formosa; and Korea. Japan "is not included in this program since its needs are met in other ways." For convenience, the estimated requirement for administrative expenses for the entire program (i.e., both Economic and Military) is shown as a single figure under economic aid. It is recommended in addition that the lending authority of the Export-Import Bank be increased by \$1 billion for loans for economic development purposes as well as for expansion of strategic and other essential materials.

No details of proposed allocations to single countries have as yet been released. \$1.65 billion of economic aid is earmarked for Europe. A fraction of this will help develop Europe's underdeveloped dependent overseas territories. The bulk of development aid will be provided out of the remaining \$600 million. Administrative expenses will take \$78 million of it and \$112.5 million is going to the U.N. Korean Reconstruction Agency. In addition, help to Formosa, the greater part of Indo-china's share, and the care of Arab refugees from Palestine are primarily "emergency cases" rather than "development grants." Thus on the incomplete information available to date it appears that the Gray Committee Report's recommendation of \$500 million a year in grants for development and technical assistance is to be implemented only to the extent of around \$200 million. There have been some criticisms on this count. (See: Point Nought Four, The Economist, June 2, 1951.) On the other hand President Truman's message contains a forecast of a broader program to come: "If peace could be made secure, the American people would be glad to invest a part of the resources we must now allocate to defense to a large-scale program of world-wide economic development ... With such a program, we could, in cooperation with other peoples inaugurate the most hopeful and fruitful period of peaceful development the world has ever seen."

### C. AGENDA FOR DISCUSSION

The management proposes that the discussion at the meeting of the Executive Directors on the three reports might best revolve around the following points:

(1) Would a program of foreign grants for development purposes be a desirable supplement to the loan and technical assistance programs presently in effect? If so:

- (a) What should be the order of magnitude of the grants?
- (b) Should the grants be administered by national or international agencies?



- (c) Would the proposed International Development Authority, operating through a management contract with the Bank, be a desirable mechanism for the administration of grants?
- (2) Is there a need for an institution such as the International Finance Corporation and, if so, should the Bank be willing to operate such an institution as an affiliate?
- (3) Should the Bank representatives at the forthcoming ECOSOC discussion of the Report of the United Nations Experts take any position on behalf of the Bank as an institution and, if so, what should that position be?

#### D. THE VIEWS OF MANAGEMENT

The views of the management on the points listed above may be summarized as follows:

- (1) The management has already expressed the view (see statement of Mr. Black before the ECOSOC meeting at Santiago and statement of Mr. Demuth before the Economic, Employment and Development Commission in New York) that the development task is urgent and that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, the management believes that it should be in the form of grants rather than in the form of quasi-loans and that the grants should preferably be administered through international channels. The management recognizes, however, that the decision whether to make grants available for this purpose is one which only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments.
- (2) The management has neither expressed nor formulated a view on the question of the order of magnitude of a grant program. It does believe, however, that if any grant program is undertaken, it should be sizable enough to make a substantial contribution to improving standards of living and should have some assurance of continuity so that the legitimate hopes that will be aroused may not be disappointed.
- (3) So far as the management can ascertain, there is no real likelihood of any decision being made in the near future that such grants as may be made available for development will be administered through international channels. Should a decision to that effect be reached, however, the management believes that the proposal for the establishment of an International Development Authority, which would act through a management contract with the International Bank, would be an appropriate and probably the most effective mechanism for administration of the grants. The members of the International Development Authority, who would presumably be government representatives, would determine the general principles under which grants are to be made, the countries which are to receive grants, and, after considering the International Bank's recommendations, the amounts which are to be allocated to different countries. In



effect, therefore, these government representatives, acting as the Authority, would make the basic political decisions. The role of the Bank would be (a) to recommend, on the basis of economic considerations, the amount of external aid which any particular country could effectively utilize and an appropriate division of such aid as between loans and grants; (b) to prepare, in consultation with the authorities of the underdeveloped countries, programs of investment involving use of local resources as well as foreign loans and grants; (c) to suggest what conditions, if any, it believes should be imposed upon the provision of external aid to any particular country; and (d) to assume full responsibility for supervising the actual administration of the grants. The management feels that, if such a role were assigned to the Bank, it would go a long way toward solving the problem of coordinating various forms of aid from different national and international sources. It should be pointed out, however, that the proper performance of such a role would require a substantial enlargement of the Bank's staff, particularly in connection with its operations in the field.

(4) The management has expressed itself as in favor of the proposal for the establishment of an International Finance Corporation to make equity investments and loans to private enterprise without governmental guarantee and believes that, if such an institution is created, it could most effectively be operated as an affiliate or subsidiary of the International Bank.

(5) The management proposes to instruct its representatives at the forthcoming ECOSOC meeting to take the same line concerning the Report of the United Nations Experts as was taken on behalf of the management before the Economic, Employment and Development Commission. If the Directors wish to adopt this position as that of the Bank, the representatives will be instructed to speak accordingly.

(6) The Economic, Employment and Development Commission has recommended to ECOSOC that it should invite the Bank "to consider and to report to the Council whether an International Finance Corporation could make significant additional contributions to economic development, over and above those that can be made by existing organizations, through assisting in the financing of productive private enterprise in underdeveloped countries, either through loans without government guarantee, through purchase of stock, or otherwise, and if so, to make recommendations with regard to the powers, functions, organization and methods of operation of such an institution." The management recommends that the Executive Directors authorize the Bank representatives to indicate to ECOSOC that, if such an invitation by the Council is extended, it would be accepted by the Bank.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

## ROUTING SLIP

Date July 6/51

TO-		Name	Room No.
1		Mr. Leonard B. Rist	306
2			
3			
4			

### FOR-

	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

FROM-

D. Sommers



DRAFT  
July 5, 1951

C. AGENDA FOR DISCUSSION

The management proposes that the discussion at the meeting of the Executive Directors on the three reports might best revolve around the following points:

(1) Would a program of foreign grants for development purposes be a desirable supplement to the loan and technical assistance programs presently in effect? If so:

(a) What should be the order of magnitude of the grants?

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(c) Would the proposed International Development Authority, operating through a management contract with the Bank, be a desirable mechanism for the administration of grants?

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D. THE VIEWS OF MANAGEMENT

The views of the management on the points listed above may be summarized as follows?



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particular country; and (d) to assume full responsibility for supervising the actual administration of the grants. The management feels that, if such a role were assigned to the Bank, it would go a long way toward solving the problem of coordinating various forms of aid from different national and international sources. It should be pointed out, however, that the proper performance of such a role would require a substantial enlargement of the Bank's staff, particularly in connection with its operations in the field.

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✓  
Messrs. Iliff, Sommers, Crena, Rist, Hoar  
Demuth

July 3, 1951

Paul N. Rosenstein Rodan

Herewith please find the first draft of the Memorandum which is to serve as a basis for discussion at the Special Meeting of Executive Directors on July 11.

In view of the fact that it has to be circulated to the Executive Directors at the latest on Monday morning (July 9) I should be grateful to have an early discussion. (Thursday July 5, at 11 o'clock in the Board Room is proposed by Mr. Iliff).

att.





A. REPORTS ON DEVELOPMENT OF UNDERDEVELOPED COUNTRIES

I. What the Reports have in common

There seems to be general agreement both in the theoretical explanation of the problems of development in poor countries and in the principles of international aid recommended to promote the economic development of these countries. During the last year at least five documents have dealt with the problem. They are:

- (1) The Gray Committee Report 1/
- (2) The Colombo Plan 2/
- (3) The Rockefeller Report 3/
- (4) The U.N. Experts Report on Development 4/
- (5) President Truman's Message on Foreign Aid 5/

- Footnote*
- 
- 1/ Report to the President on Foreign Economic Policy, Washington, D.C. November 1950 - reported to the Board in Staff Paper R-393, November 29, 1950.
  - 2/ The Colombo Plan - reported to the Board in Secretary's Memorandum No. 665, May 11, 1951.
  - 3/ "Partners in Progress" - report to the President by the International Development Advisory Board, March 1951.
  - 4/ Measures for the Economic Development of Underdeveloped Countries - report by a group of experts appointed by the Secretary-General of the United Nations, New York, May 1951. See also Report of the Economic, Employment and Development Commission, U.N., E/2006 E/CN.1/86, June 7, 1951.
  - 5/ The Mutual Security Program - message on Foreign Aid transmitted by the President to the Congress on May 24, 1951; and the Mutual Security Program for Fiscal Year 1952 - basic data supplied by the Executive Branch provided for the use of House Committee on Foreign Affairs and Senate Committee on Foreign Relations, Washington, D.C., Government Printing Office, June 1951.



All these reports agree

(1) That it is the Western world's concern and interest to help in  
*underdeveloped*  
the development of poor countries. Development is a slow process, however,  
and raising of the low standards of living is not possible in less than a  
decade or even perhaps a generation. To achieve this, the efforts of the  
underdeveloped countries themselves must be substantially increased and this  
is possible only if new spirit and drive are aroused in these countries.  
Considerably augmented international assistance might achieve such a result  
if it succeeds in mobilizing faith and hope in a better future in poor  
countries. This psychological effect cannot be achieved, however, by  
piecemeal, small aid programs but only by a substantial amount of assist-  
ance and a definite expectation that it will continue over a number of  
years. The amount of aid must be (a) large enough to make an impact on  
the rate of progress in underdeveloped countries sufficient to raise their  
hopes and galvanize their efforts, (b) within the technical absorptive  
capacity of the underdeveloped countries, and (c) within the capacity of  
advanced countries to provide without straining their economies.

(2) Grants must supplement the aid in the form of loans. Wisely-used



grants will not only raise investment, they will also increase a poor country's creditworthiness and thereby increase the amount of loans which can be made. Sound grants increase the scope for sound loans. It may be noted in this connection that practically all the reports propose a clean division between grants and loans without having recourse to an intermediate instrument of "fuzzy loans" or disguised grants in the form of very long-term loans of 60 or 99 years at a very low rate of interest, or long-term <sup>interest free</sup> loans at a 0% rate of interest. Such a possibility is envisaged only in some proposals presented <sup>by some delegates</sup> at the Sixth Session of the Economic, Employment and Development Commission of the U.N. (p. 32 of the Report of the Economic, Employment and Development Commission, Economic and Social Council, E/2006 E/CN.1/86).

(3) Technical assistance will achieve much more if it is known that adequate funds are available for subsequent investment. A great deal is achieved even <sup>by itself as it</sup> in the present form, ~~of aid~~ but combined operations <sup>including</sup> ~~of~~ <sup>take any</sup> increased internal effort, ~~technical assistance,~~ grants and foreign loans, <sup>the effectiveness of the aid</sup> would make such a difference in ~~degree~~ <sup>as to amount to a difference in kind.</sup> <sup>of prof any</sup>



(4) Private investment cannot at present supply sufficient funds to accelerate substantially the rate of development. *although there is considerable emphasis on this in the reports that*  
(An increased flow of grants, loans and technical assistance may gradually create conditions for a greater flow of private investment at a later stage.)

(5) Some sort of coordination of the various forms of assistance (technical assistance, grants, loans, etc.) should be provided.

(6) ~~Further~~ *More international cooperation is desirable*  
7 (6) A vastly increased internal effort is needed as a basic condition for success in development. *The extent of outside assistance should depend on the extent to which*  
Without a fulfilment of the drastic and frequently unpopular measures which are necessary for the mobilization of domestic development effort, ~~outside assistance should not be given.~~ *would run the risk of being useless*

## II. Differences between the Reports

While there is general agreement on the basic principles of inter-external national aid for the development of underdeveloped countries, there are naturally differences of emphasis between the various reports. The Gray Committee Report, perhaps still the most balanced all-round account of the subject, frankly confines itself to a discussion of what is to be done without examining concretely how it is to be done. The Rockefeller Report, on the other hand, puts its maximum emphasis on how ~~it is to be done~~ *should* and is, *how aid should be provided and administered*



~~for that reason, perhaps the weakest of all on the analytical side. It is~~  
the only report, ~~however,~~ <sup>Contain specific recommendations to be</sup> which outlines what institutions must be created ~~which~~ <sup>needed</sup>  
~~to provide for better coordination and administration of all-national, U.S.~~  
and international activity in the development field.

All three reports (Gray, Rockefeller and U.N. Experts) deal at  
considerable length with problems which can be solved only by action of  
the underdeveloped countries themselves. The bulk of the U.N. Experts  
Report, both in terms of length and emphasis, deals with this phase of the  
problem. ~~It is in fact by far the best in this respect, closely followed~~  
~~by the Gray Report.~~

All three reports emphasize the need for an increased flow of external  
assistance. The Gray Committee Report recommended \$500 million annually in  
grants and technical assistance. This figure was repeated by the Rockefeller  
Report. The U.N. Experts Report speaks of <sup>eventually</sup> attaining a flow of grant funds  
<sup>equivalent</sup> of \$3 billion annually.

<sup>both</sup> For <sup>vs</sup> international (IBRD) and governmental (Export-Import Bank) dollar  
loans, the Gray and Rockefeller Reports mention a figure of \$600-800 million  
annually. The U.N. Experts Report mentions only <sup>that the IBRD should set up</sup> a specific figure of IBRD  
<sup>itself a to raise around</sup> lending at a rate of \$1 billion per annum within <sup>five</sup> a few years.



In appraising the prospects for and the effects of positive measures  
to encourage a greater outflow of private capital, the Rockefeller Report  
is much more optimistic than the Gray Report. *U.S.*  
*did not assume*  
~~The Gray Report envisaged~~

~~not more than \$500 million per annum while the Rockefeller Report cites a~~

~~figure of \$2 billion per annum. According to the Rockefeller Report, a~~

*the 1946-49 average*  
~~doubling of the present flow of \$1 billion is perfectly feasible whereas~~

~~the Gray Report saw little chance that private direct investment would~~

*The principal explanation of this*  
~~increase above the 1946-49 average. One part of the difference may be~~

*review*  
~~explained perhaps by the fact that the Gray Report did not support some~~

~~of the measures, including "tax premiums on investment abroad", proposed~~

~~by the Rockefeller Report. The U.N. Experts Report does not mention a~~

~~specific figure but appears to be no more optimistic than the Gray Report.~~

All three reports stress the urgency of providing a steady flow of  
resources to the underdeveloped areas. The Rockefeller Report appears to  
justify its stand primarily on the critical shortage of basic raw materials  
which can be met by development in the underdeveloped areas. The U.N.  
Experts Report emphasizes the needs of the underdeveloped countries as  
such to a much greater extent.



Neither the U.N. Experts Report nor the Rockefeller Report attempt to appraise to what extent the capacity of the underdeveloped countries to support economic development out of their own resources has been increased in the



recent past. *on the other hand* The Gray Report (page 60) *on the other hand* ~~at least~~ outlined the principal

reasons ~~why~~ *by* and to what extent the improved foreign exchange position of

the primary producers' countries *4* ~~does not eliminate~~ *was* the need for foreign aid.

*Principal features*  
III. Summaries of the Rockefeller and the U.N. Experts Reports.

i). The Gray Committee Report has been summarized in the Staff Paper R-393, distributed November 29, 1950. ~~The~~ Summaries of the Rockefeller Report and the U.N. Experts Report are given herewith.

The Rockefeller Report makes the following recommendations:

(1) Establishment of a new U.S. agency, the Overseas Economic Administration, with an appropriation of \$500 million *for development purposes* for the next fiscal year.

The Overseas Economic Administration is ~~to absorb the~~ *would include all foreign economic functions of the US foreign aid* ECA, the present Point

IV organization of the State Department, and the Institute of Inter-American

Affairs. ~~The proposed appropriations do not include, however, funds for aid~~ *would be in*

~~to Europe or for military aid elsewhere.~~ It is apparently contemplated that

if the International Development Authority (see sub. 2) is established, ~~the~~ *about half* ~~the~~ *part of*

*fund appropriated to* Overseas Economic Administration ~~grant funds~~ *would be allocated to that Authority and the balance* would be used chiefly in such

*directly by the overseas countries* broad social programs as health, education, sanitation, etc.

*The report further proposes that O.E.A. operate on a regional basis and have standing missions in the underdeveloped countries*  
(2) Creation of a new international agency, the International Develop-

*operation through standing missions*

*for public works*



ment Authority, to operate under a mangement<sup>o</sup> contract with the International Bank. Funds are to be contributed by all participating countries in proportion to their capital subscription to the International Bank. The contribution <sup>proposed for</sup> of the United States would amount <sup>be up to</sup> to \$200 million, which sum is to be transferred from the appropriation of the Overseas Economic Administration if the new Authority should begin its operations during the fiscal year 1951-52. The funds of the Authority are contemplated as grants in the field of public works.

<sup>Reports stated</sup>  
The ~~reports declared~~ principle that "all programs of economic assistance should provide for some measures of cooperative local financing" is interpreted to mean that in no case should the Development Authority make grants covering the full cost of any project. The complementary nature of loan and grant financing of a development program as a whole is distorted by asserting that "all projects should be able to support at least a portion of the necessary financing on a loan basis." If some success were achieved in the coordination of the various national and international grant and loan agencies, such measures would not be required. Such administrative principles might have to be considered only if attempts at coordinating international development action

*Who spans*



were to fail. It is remarkable that the report, which had previously stressed the need for fully coordinated programs in each country should, by emphasizing the individual project approach, elevate certain public relation aspects of financing operations to the status of first principles.

too vague

but then  
could add  
in country

(3) Creation of an International Finance Corporation as an affiliate of the International Bank, to be financed through subscription by the participating governments to non-voting stock up to the equivalent of \$400 million. The Corporation would be authorized to make <sup>non voting</sup> equity investment and loans to private borrowers without government guarantees. United States subscription of \$150 million is proposed, with one-third actually paid in, the balance subject to call. { It is intended to recall of interest

(4) The Rockefeller Report proposes further various measures to stimulate <sup>U.S.</sup> private investment including <sup>by exempting new investment from U.S. income tax</sup> special tax treatment of income from foreign investment and insurance against transfer risks, the latter to be underwritten by the Export-Import Bank up to an amount of \$100 million.

#### Coordination

9 | The Report lays great emphasis on the need <sup>for</sup> of the coordination of all development assistance and on the preparation of a comprehensive development



program for every country. The preparation of these programs <sup>would</sup> is to be the responsibility of Joint Commissions which are to consist of representatives of the United States and <sup>the</sup> foreign country receiving assistance. The Report envisages also the creation of mixed commissions and regional organizations with the participation of international agencies.

*See table*  
ii) The U.N. Experts Report on "Measures for the Economic Development of Underdeveloped Countries" is divided into two major sections. The first deals with domestic measures requiring action by the underdeveloped countries; the second deals with measures requiring action by the developed countries. <sup>and the international agencies</sup> Recommendations of the report are much less shaded than the text and fail to convey the subtleties of the analysis.

The first part of the report (pp. 5 - 70) contains an <sup>extensive</sup> excellent analysis of the problems of underdeveloped countries and a realistic and persuasive statement of what the underdeveloped countries must do. The second part contains an estimate of total investment and of external capital required to raise by 2% the national income per head in underdeveloped countries. For that purpose, the experts assume: (a) an annual shift of 1% of the total <sup>expenditure of</sup> working population into industry requiring \$2500 per head of worker employed,



and amounting to \$15 billion. This would raise the national income by  $1\frac{1}{2}\%$

per annum; (b) annual investments in agriculture of about \$4 billion of

which \$1 billion <sup>would be invested in</sup> agricultural extension services and research <sup>thereby</sup> ~~which would~~

<sup>increasing</sup> increase the yield ~~of agriculture~~ per acre by an average of  $2\frac{1}{2}\%$  per annum

equivalent to an increase of  $1\%$  <sup>of</sup> ~~as~~ national income. With national income in-

creasing annually by  $2\frac{1}{2}\%$ , income per head would increase by  $2\%$  per annum, <sup>taking</sup> ~~making allowance for the rate of population increase~~

Total investment would amount to \$19 billion, <sup>thus</sup> ~~equal to~~ 20% of the income

of these countries. Internal savings in 1949 amounted to \$5.2 billion, so

that the gap would appear to be \$14 billion. The possible increase in dom-

estic savings could <sup>again</sup> reduce this gap to \$10 billion ( 80% of which would be

needed for Asia). <sup>To meet this there is a future flow</sup> ~~as compared with a present annual inflow of \$1 to 1.5 billion.~~

"It is in order to emphasize that, if these countries are to progress more

rapidly in the future than they have done in the past or are doing at present,

the inflow of capital must be multiplied several-fold, that we have thought

it worthwhile to give these estimates of the order of magnitude involved. We

do not ask that these figures be taken exactly. We wish only to emphasize

that the order of magnitude involved is well in excess of what is now gener-

ally believed. When members of the United Nations speak about rapidly in-



creasing the standards of living of the underdeveloped world, they should realize that what they are talking about involves a transfer of several billion dollars every year." (p. 79).

Such a magnitude is not, it is claimed, beyond the capacity of the developed countries. 2% of the national income of Western Europe, Australia, the United States and Canada would amount to \$7 billion a year. <sup>The experts</sup> They observe that in the last five years, grants and loans from the United States have been running at over 3% of her national income and that in the period 1905-1913 the United Kingdom exported capital equivalent to 7% of her national income.

Raising the inflow of capital into underdeveloped countries requires action under three headings: private investment, government lending and grants-in-aid. With respect to private investment, the experts are generally in sympathy with various suggestions designed to promote a large flow of <sup>the creation of a favorable climate</sup> private funds. Transfer guarantees, removal of double taxation, investment treaties and an "International Finance Corporation to make equity investments and to lend to private undertakings operating in underdeveloped countries" ~~to be established by the United Nations~~, are cited in this connection. In general, however, the experts are not optimistic as to the immediate pros-

*fair  
treatment*



pects for a greatly increased volume of private investment. With respect to government lending, the experts commend the operations of the Export-Import Bank and recommend similar institutions to the other developed countries.

The International Bank is regarded by the experts as having failed to meet the "challenge of the circumstances." A rate of lending below \$300 million a year is viewed as <sup>11</sup>entirely inadequate<sup>11</sup> and the experts recommend to the Bank to set for itself a target, which should be reached within five years, of a rate of lending of not less than \$1 billion a year.

"If it (the International Bank) shows no sign of approaching this target, the whole question of the proper international organization for the provision of adequate amounts of loan capital to the underdeveloped countries should be reviewed by the United Nations."

<sup>The experts go on to say</sup>  
An important obstacle to lending which is beyond the Bank's power to remove is the limit<sup>ed</sup> sum now being spent on improving social capital. Much more must be done in this field before the underdeveloped countries will be in a position to absorb large amounts of loan capital. For this purpose, it is recommended (recommendation 14): "the United Nations <sup>should</sup> ~~to~~ establish an International Development Authority to assist the underdeveloped countries in pre-



paring, coordinating and implementing their programs of economic development; to distribute to underdeveloped countries grants-in-aid for specific purposes; to verify the proper utilization of such grants; and to study and report on the progress of development programs." Grants increasing rapidly and reaching a level of about \$3 billion a year should be given for (a) research and education; (b) public health programs; (c) subsidization of medium- and short-term form credit; and (d) improvement of rural public works.

*Parum?*  
iii) Comment on UN experts report

The estimate of total investment on foreign assistance requirements made in this report will be the subject of a separate paper to be presented shortly to the Board. The main conclusion appears to be that the annual investment requirements of \$19 billion <sup>are</sup> ~~is~~ somewhat exaggerated even within the unrealistically ambitious framework of the experts' assumptions and that the external gap may be ~~the~~ but one-half of the experts' estimate of \$10 billion.

The following comment may be made meanwhile. [ We can readily agree with the basic theses of the report.

(1) That the essence and aim of economic development is an increase in real income per head.



(2) That a vast increase in investment in the underdeveloped countries is required to achieve such an increase in real income.

(3) That, even if domestic savings were increased considerably, "the transfer of capital that is required to raise rapidly the living standards of underdeveloped countries is far beyond what is currently envisaged."

(4) That the largest requirement of international aid is for the poorest countries which at present receive <sup>the</sup> least. *per head*

It is also probable that if all the underdeveloped countries of the world with their 1600 million people had to achieve simultaneously a 2% increase in income per head, an annual investment of somewhat less than \$19 billion and external aid of perhaps \$5 - 6 billion might be required. It is probably not possible, however, to secure either at present or even within the next <sup>few</sup> two or three years such an increase in real income per head. A considerable national and international effort will be required not to allow the income per head among the poorest of those countries to fall even below the present very low level, and a preparatory period of several years during which only a slight increase in income per head might be obtained, will have to precede a later stage at which a 2% increase in income might become possible. It would be dangerous

*rewrite*



to raise hopes which cannot be fulfilled as yet. The orders of magnitude of international aid proposed by the report are therefore unrealistic for a number of reasons:

(i) Progress in economic development could not start in all the underdeveloped areas simultaneously. At first, the technical absorptive capacity would be very much below the amount which would secure an <sup>overall</sup> increase in income of 2% per annum.

(ii) National incomes and actual investments in the underdeveloped areas appear to us to be underestimated. While there is admittedly a vast margin of error in all such estimates, we would put national incomes at \$125 billion (instead of \$96.6 billion) and actual investments at <sup>7</sup>\$8 billion (instead of \$5.2 billion).

(iii) If investments in underdeveloped areas, financed both by national and external resources, were increased, a higher proportion of the increased national income could be siphoned off into domestic savings. <sup>even</sup> External assistance might therefore <sup>could reach</sup> have to increase rapidly over the next two or three years, reach a high level for some years and then fall off gradually. It is not necessary that it should be maintained at its maximum level forever.



(iv) Even if the technical absorptive capacity were much higher than it actually is, and even if progress in development could start everywhere simultaneously, it may be doubtful whether the proposed amounts of external assistance could be obtained. / To present exaggerated claims may, in practice, only compromise more reasonable claims which might be realized.

(v) We have to admit therefore that for the next decade at least it would be impossible to secure an annual increase in income of 2% in all the underdeveloped areas of the world, notably in Asia. It would be no mean achievement, however, to ~~secure~~ <sup>make certain that</sup> by ~~an~~ energetic development action, ~~that~~ <sup>that it</sup> income per head in Asia should not fall, or even <sup>that it</sup> should rise slightly by say 0.5 to <sup>1%</sup> ~~0.5%~~ per annum. Without a large-scale developmental action, income per head in Asia would fall because of the increase in population.

(vi) The problem of coordination between grants and loans has not been treated in the report. <sup>there is no link</sup> No function <sup>is made</sup> between the grant recommendation and the lending recommendation ~~is made~~.

It is to be remembered first that the increase in the underdeveloped countries' national income does not necessarily correspond to the increase in their available resources. These countries had in the base year 1949 <sup>a</sup>



balance of payments deficits amounting to \$3½ billion. Moreover, they would find it extraordinarily difficult to siphon off more than a fraction of ~~and~~ their gain in income to additional investment. The prospects of adequate aid for development, even if this aid were to flow in substantial amounts in only one or two years time, might, however, facilitate such unpopular measures as to siphon off possibly only 10% of their gain, i.e. around \$400 million, into additional investment in 1952. Since it cannot be assumed that the present terms of trade will necessarily obtain over the next decade, the gains from trade made by primary producers are not a valid reason to deny the need of international assistance in development. If the promise to proceed with such action were made, however, then the gains do constitute a valid ground for making this aid flow at a considerably reduced rate during the present emergency period.

#### B. THE MUTUAL SECURITY PROGRAM

President Truman's Message on Foreign Aid transmitted to the Congress on May 24, 1951 <sup>1/</sup> proposes that the total funds required under the Mutual Security Program be divided as follows:

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<sup>1/</sup> See also: The Mutual Security Program for Fiscal Year 1952, Basic Data Supplied by the Executive Branch, Washington, Government Printing Office, June 1951.



Mutual Security Program 1952

(in millions)

	<u>Economic</u>	<u>Military</u>
Europe	\$ 1650	\$ 5240
Middle East and Northern Africa	125	415
Asia	375	555
Latin America	22	40
Administrative Expenses	<u>78</u>	<u>---</u>
	<u>\$ 2250</u>	<u>\$ 6250</u>

Economic aid for Europe includes the economic aid for Greece and Turkey. The Middle East and Northern Africa <sup>category</sup> includes Iran, the Arab States, Israel and the three independent African countries: Liberia, Libya and Ethiopia. Asia "includes countries of the free world from Afghanistan to Korea inclusive." It includes South Asia (India, Pakistan, Afghanistan, Ceylon, Nepal); South-East Asia (Thailand, Burma, the Associated States of Indo-china and Indonesia); the Philippines; Formosa; and Korea. Japan "is not included in this program since its needs are met in other ways." For convenience, the estimated requirement for administrative expenses for the entire program (ie: both Economic and Military) is shown as a single figure under economic aid. It is recommended in addition that the lending authority of the Export-Import Bank be increased



by \$1 billion for loans for economic development purposes as well as for expansion of strategic and other essential materials.

No details of proposed allocations to single countries have as yet been released. \$1.65 billion of economic aid is earmarked for Europe. A fraction of this will help develop Europe's underdeveloped dependent overseas territories. The bulk of development aid will be provided out of the remaining \$600 million. Administrative expenses will take \$78 million of it and \$112.5 million is going to the U.N. Korean Reconstruction Agency. In addition, help to Formosa, the greater part of Indo-china's share, and the care of Arab refugees from Palestine are <sup>primarily</sup> ~~admirable objectives, but they~~ are "emergency cases" rather than "development grants." The Gray Committee Report's recommendation of \$500 million a year in grants for development and technical assistance can probably be written down to around \$200 million. "The bold new program which Mr. Truman announced twenty-eight months ago in his Inaugural Address for the improvement and growth of underdeveloped areas is still being watered with little more than fine phrases and lavish promises. This, in the present atmosphere, is no doubt inevitable. ... The risk must be taken of postponing for the present the longer-term task of developing those areas whose soil is

Worth



so ~~and~~ that only the Communist cactus can flourish in it. But the pity is that this necessity is not openly faced; in the President's message there is an implicit attempt to pretend that great schemes are under way and that big money is being provided for them. ... The writing down of development grants ~~may~~ may not be surprising; but it is unfortunate that the figures in the President's message suggest that it has not been written down at all. ... If \$250 million were transferred from the military program to bring the economic one up to Mr. Gray's requirements, the immediate results might be impressive. And those who were promised a bold, new program in January, 1949, might begin to feel that Point IV would one day become a reality. " (Point Nought Four, The Economist, June 2, 1951).

*Write*

Nor can it be said that eagerness for ~~really~~ really bold new action is discernible among other developed countries. It is idle to speculate whether suspicion that they would not be followed by others hampers the U. S. or whether the uncertainty about the U.S. stifles, for instance, the United Kingdom. Faith and hope have to be generated and not only in the underdeveloped countries. *The aim should be* Not only to secure supplies of strategic materials but to build the beginning of a world community. ~~should be the aim.~~ The whole Western world



should join President Truman's promise in his message: "If peace could be made secure, the American people would be glad to invest a part of the resources we must now allocate to defense to a large-scale program of worldwide economic development ... With such a program, we could, in cooperation with other peoples inaugurate the most hopeful and fruitful period of peaceful development the world has ever seen."

### C. PROBLEMS OF BANK POLICY

#### I. Coordination

(1) The problems involved in coordinating national and international development actions has been preliminarily discussed in the Staff Paper on *the* Gray Committee Report R-393, p. 12 ff. The case of complete coordination, where all foreign economic aid is wholly or in large part integrated and administered through a single international agency, was cited only for reasons of logic. It would be idle to discuss whether it is desirable -- because it is quite clear that this solution will not be adopted. There is indeed a complete unanimity on this point among all parties concerned. The developed (contributing) countries are against it because they do not want to surrender control of their aid funds; the underdeveloped receiving countries are against



it because they prefer to be able to "ring several bells." An all-embracing, integrating International Development Authority is not in sight. What substitutes for full coordination can be devised that will still effectively promote development, reduce conflict between the several aid programs and preserve the principle of international action in the development field?

(2) An international coordinating committee on the NAC pattern is not a practical proposition. It would be necessarily so complicated as to be unable to act.

(3) The proposal to establish an International Development Authority as an affiliate of the International Bank deserves, however, a closer examination. Duplication of effort involves in the creation of any new international agency could be avoided if the International Bank became a management agent for administering a program of developmental grants. Two distinct and forms of functions of the International Development Authority have to be considered, <sup>involving</sup> ~~which involve~~ two distinct types of problems.

In the first case, the International Development Authority would <sup>determine</sup> ~~settle the problem of~~ which countries are to receive grants, and according to what principles and in what approximate amounts these grants should be



extended. These questions are in large part policy questions. For the very same reasons for which no countries are prepared to surrender control of their aid funds, they will not be willing to transfer such decisions to an International Development Authority managed by the International Bank.

<sup>The</sup> ~~a~~ second case, however, involves <sup>the</sup> ~~an~~ almost completely separate problem of determining, on the basis of economic considerations, a program by which any given amount of grants to any country can be most effectively utilized so as to result in the greatest possible contribution to economic development. There should be no conflict between the two kinds of problems since whatever the amount of aid, it should be in a contributing country's ~~interests to extend to an underdeveloped country. It is certainly in every-~~  
~~body's~~ interest that that amount of aid be most effectively used. One means of insuring maximum results from any given aid program could be the separating of responsibility for the decision of amount of aid to be given from the economic task of programming that aid for maximum results.

The general operating mechanism might be along the following lines:

a government would indicate to the International Bank (the International

Development Authority) the possible order of magnitude of grant aid <sup>it could give to</sup> ~~for~~ some



countries. The Bank would proceed to make an investigation of the economy of the country as a first step in preparing a development program which would make effective use of grants, loans and the country's own resources. In some cases, such an investigation might indicate that the total amount of developmental activity which could effectively be undertaken for the next year or two, might well be financed by that country's own resources or by foreign loans which it could afford to service. In other cases, the size of the proposed grant might be either substantially smaller or substantially larger than the amount which could be used efficiently within the time period in question. In some cases, the Bank might report that without internal changes and reforms, no program of external assistance could be effective and that without these reforms grants could be merely wasted. On completion of this study, the Bank would discuss its findings and conclusions with appropriate officials of the country involved in order to obtain to whatever extent possible an agreed program. The Bank would then prepare a proposed development program and submit it to the government or governments offering the grants, just as the IERD presently submits similar programs involving its own lending actions to its own Board of Directors. On the basis of this report -- which



in view of the need for mission and field studies might involve six to twelve months -- the government or governments would then allocate grants *to be administered by the Bank (IDA),* ~~for the Bank's (IDA) administration,~~ on condition that the recipient country *would carry out* ~~performed and executed~~ the appropriate internal measures needed to make the development program achieve its maximum effectiveness.

Unless decisions of a government or governments were to be based so exclusively on political considerations as to make the economic effectiveness of the program impossible, the International Bank (IDA) would carry out the control of disbursement and the supervision of achievement of the development program in the same manner that it now <sup>*supervises*</sup> ~~controls disbursement and~~ ~~completion of~~ the projects which it finances from its own funds. In the process of supervising the carrying out of the development program, the Bank might wish to modify its original recommendations and would therefore make frequent reports on the actual progress of the development program as well as on the changes which it felt appropriate to introduce in that program.

The carrying-out of such programming functions would facilitate the Bank's task and would effectively contribute to a better coordination of international action in the development field.



(4) The programming functions of the International Bank (IDA) described in the previous paragraph would provide a framework <sup>for</sup> of coordination <sup>of</sup> with all national or international agencies in the field of technical assistance, grants and loans. The International Bank's relation to the Export-Import Bank's activities in the development field is one part of this whole problem. If a development plan is satisfactorily worked out and agreed <sup>upon</sup> with the government of the country concerned, as well as <sup>with</sup> all the agencies operating in the development field, funds from different sources may be fitted satisfactorily into the program. If the International Bank had all the means required for a development action on a sufficient scale, the Export-Import Bank's separate lending for this purpose might be superfluous. It could, however, most usefully supplement international capital movements by lending (a) to non-member states of the Bank, (b) for purposes of obtaining strategic and other essential materials which are of a high priority for the United States but not necessarily of an equally high priority for the development needs of a producing country, <sup>1/</sup>(c) it might be used as a lending

<sup>1/</sup> The International Bank "as a truly international organization does not and should not view the strategic interests of the United States or of the North Atlantic Pact nations as a determining means. On the other hand, experience has likewise demonstrated the desirability of the appropriate use of credits to finance operations of particular interest to the United States and its Allies." (Organizing the U.S. Government for Foreign Economic Operations - a statement of the NPA (National Planning Association) Steering Committee, Washington, D.C. June 18, 1951)



arm of the United States Government whenever special interests of the United States are involved.

Meanwhile, however, there has been a feeling in ~~the~~ United States Government quarters that the spheres of activity <sup>of</sup> ~~for~~ the Export-Import Bank and the International Bank should be so arranged as to become a complementary rather than competitive. This is agreed. As a means of achieving the goal of complementarity the proposal has been accepted as a first <sup>experiment</sup> ~~experience~~ that <sup>member</sup> ~~for~~ countries whose creditworthiness is not a limiting factor, ~~member countries~~ should consider the International Bank as a Bank of first recourse except for those projects which have peculiar strategic material aspects.

(5) If the form of coordination described in paragraph (3) were not realized, various ad hoc measures, varying according to the circumstances, might still strengthen the liaison between the different agencies acting in a country. In practice, this occurs already. In some cases, the Bank takes the lead in coordination, in other cases, it agrees with taking part in programs initiated by other agencies. In the case of Yugoslavia, for instance, the Bank took the lead in suggesting a development program. In the case of Brazil, it follows the action of a Joint American-Brazilian Commission and



may, if its proposals are sound, take part in the financing of one part of such a program. In general, it seems that the division of responsibility on functional lines (health, education, public works, agriculture, etc.) is not conducive to the elaboration of a coordinated development program. A division of responsibility on regional lines, however, whereby one agency takes the lead in one country -- perhaps a country where the agency contributes the greater part of external assistance -- and another agency in another country, may yield good results. The forms and the degrees of coordination vary and may be undoubtedly improved with greater experience in this field.

(6) Bilateral joint development commissions depend very largely on the type of person leading them and the efficiency of their staffs. In general, they can achieve less than an international agency could. An international agency can be more exacting than any national government could possibly be. Under an international flag, it may demand and obtain more. One has to beware of being doctrinaire in this respect, however, and let not the better be the enemy of the good.

## II. Problems of the Bank's organization and policy.

(1) The need for coordination in the development field is stressed, as



we saw, in all the Reports and a satisfactory solution of this problem is sometimes implied or taken for granted. The "Mutual Security Program for Fiscal Year 1952" of the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations states, for instance: "Account has been taken of the fact that the resources of these Banks (Export-Import Bank and the International Bank) will be available in the region and will provide means of financing for certain major undertakings." The report deals briefly with the problem of coordination<sup>ing</sup> of various programs of grant assistance with the Export-Import Bank and the International Bank loans but contains no specific proposal for coordination. In fact, it might appear from the way the report is phrased that there is no problem of coordination since it states that grant and loan programs are all worked out in close consultation to make sure that there is a proper balance between loans and grants. In a similar way, President Truman's message on Foreign Aid states that the agencies are to "work very closely with the Export-Import Bank and the International Bank in achieving a proper integration between loan and grant programs." In the section devoted to Asia and the Pacific, the following two paragraphs also imply that the problem of coordination has been solved.



"In preparing these recommendations for economic aid, projects which should be financed by loans have been excluded. The investment of private capital and public loans from the International Bank for Reconstruction and Development and the Export-Import Bank will play an important part in the economic progress of Asia, as in other parts of the world.

In the administration of this program, loans, grants and technical assistance will be meshed together with the plans and efforts of each of the recipient countries for the development of its own resources. Only in this manner can the various kinds of outside aid available to an Asian country be used most effectively and without duplication or overlapping."



(2) While there seems to be no clear realization <sup>in public opinion</sup> of problems involved in coordination, the Bank's own strategic thinking and its tactical work may well be discussed in this connection. If the Bank is to take a leading part in elaborating development programs for various countries -- it will have to know -- or to say -- how much it will be able to lend to each country concerned. Such estimates must necessarily be based on a series of alternative assumptions as to the amounts and purposes of grant aid, other external loan and investment funds, and the probable amount of domestic resources available for investment, which in turn frequently depends on the size of external assistance.

*What do you mean*  
The <sup>amount of the</sup> final determination of the Bank's aid can only take place at a late stage when other factors are known -- but a series of hypothetical estimates can be made in advance. Some tentative estimates of that kind have, in fact, been made; for instance, on the assumption that the Gray Committee recommendations were to be accepted.

Should such estimates, which are not to be confused with the opening of a line of credit, be communicated to the countries concerned? Many dangers of misunderstanding are obvious, but the advantages may more than compensate *for*

the drawbacks. To announce what share the Bank might be able to take in the financing of development programs under various assumptions might stimulate both the elaboration of the plan and its spelling out in the form of projects. The ultimate decision will depend on the program as a whole but loans will only be made and disbursed when the projects which constitute a *have been* plan ~~will be~~ satisfactorily worked out. Once it is known that the Bank is prepared to finance a part of a development program, the need to present satisfactory projects may be more keenly felt and the blame for delays may be more clearly placed.

(3) To say what part the Bank may be prepared to take in a country's development program will be necessary but it will not be easy. An organization and workload similar to that of the International Development Authority ~~as a programming agency~~ (C. I. (3)) would be required, quite irrespectively of whether such an institution is formally established. The Bank would have to proceed further on the road of giving its own technical assistance. ~~it~~ *to a still greater degree than at present it would* ~~would to a still larger extent than at present~~ be not only a "Bank" but also ~~in fact~~ an "Investment" -- or "Development Authority." Field missions, perhaps some permanent regional officers or offices and a still more direct continuous



contact with the development countries would become necessary. Better co-ordination of technical assistance may only be possible if the Bank increases still further its activity and its expenditure in this field.

Whether, when and to what extent such steps should be taken by the Bank may have to be discussed soon, <sup>as</sup> ~~as~~ soon as major decisions on Development Policy are taken by Member States Governments.

III. The Rockefeller Report proposed the establishment of an International Finance Corporation as an affiliate of the International Bank (page 7, III, 1).

The U.S. Council of the International Chamber of Commerce in a policy statement on the Rockefeller Report under the title "Business and International Economic Development", New York, May 23, 1951, supports the Rockefeller Report's proposal for an International Finance Corporation, "with the following qualifications: first, the Corporation should be set up as an entirely private organization, capitalized with private funds. Only if this proves unpracticable should it be established as an authority of the International Bank financed by subscriptions from governments; secondly, the Corporation, in common with all governmental organizations, should not be authorized to acquire ownership rights even though non-voting, in business

and enterprises. The Corporation should be limited to making loans to private enterprise and, as recommended by the Board, government guarantees should not be required for this purpose.

The U.N. Experts Report makes a similar recommendation (No. 16) in which, however, the International Finance Corporation should be established by the United Nations, <sup>and</sup> not as an affiliate of the International Bank. The Economic Employment and Development Commission Report (paragraph 29) "recommends that the Economic and Social Council invite governments to give further consideration to this recommendation and, in addition, invite the International Bank for Reconstruction and Development to consider and to report to the Council whether an International Finance Corporation could make significant additional contributions to economic development, over and above those that cannot be made by existing organizations, through assisting in the financing of productive private enterprise in underdeveloped countries, either through loans without government guarantee, through purchase of stock, or otherwise, and if so, to make recommendations with regard to the powers, functions, organization and methods of operation of such an institution."

The problems involved in this field certainly deserve further study.



The government reactions may show whether less bilateral action may be expected in this field than in other fields. It appears probable, however, that the establishment of an International Finance Corporation may make some significant contribution in the development field. It is proposed, therefore, if the Board consents, that the Bank ~~send~~ delegates at the ECOSOC meeting should be instructed to accept the invitation to the International Bank, if it is made, to prepare a report on this subject to ECOSOC.

The International Bank was also invited by the resolution 342 (XII) adopted at the Twelfth Session of the ECOSOC to submit any proposals on the subject of the financing of economic development for consideration at the Thirteenth Session of the ECOSOC. The management proposes not to present detailed specific proposals at this meeting since ~~there~~ ample basis for the consideration by ECOSOC of the problem of financing development is provided by the recent "U.N. Experts Report," its discussion at the last meeting of the Economic, Employment and Development Commission and the report which emerged from the meeting. The views of the management and staff of the Bank

were expressed by the Bank's representative at the meeting of the Commission on May 17, 1951. The Executive Directors ~~Board~~ may wish to authorize ~~xx~~ the Bank's delegates at the ECOSOC meeting to make a similar statement in the name of the International Bank. <sup>1/</sup>

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<sup>1/</sup> A letter from Mr. Eugene R. Black to Mr. A.D.K. Owen on this subject is attached.



DATE

My dear Owen:

I wish to thank you for your letter of May 7, 1951, enclosing a copy of Resolution 342 (XII), on the financing of economic development of underdeveloped countries, adopted at the Twelfth Session of the Economic and Social Council. In accordance with the terms of that Resolution, the International Bank for Reconstruction and Development, as a specialized agency of the United Nations, was invited to submit any proposals on the subject of the financing of economic development for consideration at the Thirteenth Session of the Economic and Social Council.

The International Bank is most anxious to assist the Economic and Social Council in any way practicable in its forthcoming consideration of the problem of financing economic development and the Bank representatives to the forthcoming session of the Council will be instructed to render any assistance possible to the Council and its Economic Committee. The Bank does not, however, wish formally to present any detailed specific proposals for the consideration of the Council since the Bank believes that the recent report on "Measures for the Economic Development of Underdeveloped Countries" prepared by the group of experts appointed by the Secretary-General; the discussion at the recent meeting of the Economic, Employment and Development Commission on this report and related issues; the various national positions enunciated at that meeting by the members of the Commission; and the report which emerged from the meeting constitute an ample basis for the consideration by the Economic and Social Council of the important problem of financing development. The views of the management and staff of the Bank were expressed by the Bank's representative at the meeting of the Commission on May 17, 1951 and a copy of that statement is attached for the information of the Council. The Board of Executive Directors of the Bank, however, has not taken any position on the proposals contained in the experts' report.

Yours sincerely,

Eugene R. Black

Enclosure

Mr. A.D.K. Owen  
Assistant Secretary-General  
Department of Economic Affairs  
United Nations  
New York, N.Y.



### C. POSITION OF THE BANK

The immediate question posed by the three reports is whether the Bank should take any position on the proposals therein contained and what that position should be.

Resolution No. 342 (XII) adopted at the twelfth session of the ECOSOC invited the Bank to submit proposals on the subject of the financing of economic development for consideration at the thirteenth session of ECOSOC to be held at Geneva in \_\_\_\_\_. The President has informed ECOSOC<sup>1/</sup> that the Bank does not wish formally to present detailed specific proposals on the subject, that the views of the management and staff were expressed by the Bank's representative at the May 17 meeting of the Economic, Employment and Development Commission; and that the Executive Directors have not taken any position on the proposals contained in the experts' report.

In the light of this background, it is desirable to decide whether, in the forthcoming ECOSOC session, the Bank's representative may state any position on behalf of the Bank as an institution and, if so, whether the position should confirm the views of the management expressed in the recent meeting of the Economic, Employment and Development Commission.\*

The principal questions presented by the proposals of the three reports may be summarized as follows:

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<sup>1/</sup> See letter dated \_\_\_\_\_ from Mr. Black to Mr. A. D. K. Owen, Assistant Secretary-General, copy of which is attached.

\* See copy of statement attached.



- (1) Would a program of foreign grants for development purposes be a desirable supplement to the loan and technical assistance programs presently in effect?

The management has expressed the view, at pages \_\_\_\_ to \_\_\_\_ of the annexed statement, that such a program would be desirable.

- (2) What should be the order of magnitude of such a program?

The management has not expressed to ECOSOC, and does not intend to express, any views on this question except perhaps to state that if any such program is undertaken, it should be sizeable enough to make a substantial contribution to development, and should have some assurance of continuity so that the legitimate hopes that will be aroused may not be disappointed.

- (3) Should such grants be administered by national or international agencies; and would the proposed International Development Authority, operating by means of a management contract with the Bank, be a desirable mechanism for that purpose?

The management realizes that, in the near future at least, any grant program must involve periodic appropriations or allocations of funds by governments and that accordingly the amounts to be made available at any one time, and presumably the amounts to be made available to particular recipient countries, are matters for governmental decisions. Nevertheless,



the management is of the opinion that these decisions should be taken only after due consideration of the views of qualified international organizations having operating responsibilities in the development field.

Moreover, the management believes that the administration of such a grant program could be most effectively carried out by a qualified international agency.

For these reasons it is the view of the management that the International Development Authority proposal contained in the Rockefeller report is worthy of further study (see pages \_\_\_\_\_ of attached statement). The management does not feel that it will be necessary or desirable to discuss at the forthcoming ECOSOC meeting the implications (budgetary, organizational, etc.) of the proposal for the Bank as an institution. These are matters that might be further explored within the Bank.

- (4) Is there a need for a source of foreign public equity capital; and would the International Finance Corporation proposed by the Rockefeller report be an appropriate mechanism for this purpose?

The management has expressed the view that provision of equity funds would serve a useful purpose and that the International Finance Corporation proposal is worthy of further study (see pages \_\_\_\_\_ of attached statement).

The Economic, Employment and Development Commission Report (paragraph 29) "recommends that the Economic and Social Council



invite governments to give further consideration to this recommendation and, in addition, invite the International Bank for Reconstruction and Development to consider and to report to the Council whether an International Finance Corporation could make significant additional contributions to economic development, over and above those that cannot be made by existing organizations, through assisting in the financing of productive private enterprise in underdeveloped countries, either through loans without government guarantee, through purchase of stock, or otherwise, and if so, to make recommendations with regard to the powers, functions, organization and methods of operation of such an institution."

The management believes that such an invitation, if extended, should be accepted by the Bank.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

FOR THE INFORMATION OF THE PRESS

May 18, 1951

Attached is a statement made on behalf of the International Bank for Reconstruction and Development by Richard H. Demuth, Assistant to the Vice President, to the United Nations Economic, Employment and Development Commission on May 17, 1951.

The Commission is now holding its sixth session at the United Nations Headquarters in New York. The Report to which Mr. Demuth's statement refers is entitled, "Measures for the Economic Development of Under-Developed Countries" which was prepared by a group of five experts appointed by the Secretary-General of the United Nations in accordance with a resolution adopted by the Economic and Social Council at its meeting last summer in Geneva.



STATEMENT ON BEHALF OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT BEFORE THE  
ECONOMIC, EMPLOYMENT AND DEVELOPMENT COMMISSION

The management of the International Bank has examined with great interest the Report of the Group of Experts entitled "Measures for the Economic Development of Under-Developed Countries".

May I say, at the outset, that we believe that the authors of the Report have made an outstanding contribution through their careful and comprehensive analysis of the problems of economic development. They have pointed out with clarity, and with a commendable sense of proportion, the many different factors involved in the development process and the interrelationship among them.

Often in the past, the concept of development has been thought of too narrowly as synonymous simply with the availability of physical resources, capital and technology. Indispensable as these factors are, they will not, as the Experts have pointed out so forcibly, bring about development by themselves. Rather, the pace of economic progress is determined by a great variety of inter-related elements — among which, in addition to physical resources, capital and technology, perhaps the most important are the energy and effectiveness of the government, the social institutions of the country, the distribution of wealth and opportunity among the various classes of the population, the effectiveness of the educational effort, and the character of the economic and financial policies and institutions governing the allocation of the country's resources. Economic development can proceed rapidly in any nation, as the Experts have emphasized, only if there is a strong national will to develop -- a will to put the long-range interests of the country as a whole ahead of short-term political advantages and ahead, too, of immediate financial advantage to particular interests or groups, however influential they may be.

The Bank welcomes the sense of urgency which pervades the Report. With the permission of the Commission, I would like to repeat in this connection what the President of the Bank stated to the Economic and Social Council at its recent meeting in Santiago. He said, "I want to press on you again the view that development is an urgent task. We cannot build a stable world out of nations whose populations are engaged in a tooth-and-nail struggle merely to keep themselves alive. We can achieve stability only when men are loyal to the social order in which they live, and when that order provides an equitable sharing of rewards, so that men can live as neighbors rather than as rivals for an insufficient share of the world's goods.

"It is imperative for all of us to help provide the means for men to create a better tomorrow for themselves and for their



children. It is imperative to help build a common stake in the future which will lead to new unity and new vigor among the nations which share the same ideals about the dignity of man. This can be a great contribution to peace today. Carried on continuously and constructively, it can be an even greater force for peace and stability in years to come."

We have been glad to note that the Experts did not permit their statement of the urgency of development to obscure their analysis of the very difficult and complex problems which must be faced if the pace of development is to be materially accelerated. The problems they analyze in their Report are the very problems with which the Bank, and most of the other international organizations, have been grappling for the past few years. The Report recognizes that to overcome these difficulties will in most countries involve painful readjustments; in some, major structural readjustments of the economy will be required. Our experience in the Bank amply confirms this analysis.

I don't want to take the time of the Commission to go over each of the many suggestions for domestic action discussed in the Report. There are a few, however, which I would like to single out for special mention.

The first is the need to give high priority to education. In those countries where, as a result of social revolution or otherwise, great efforts have been made to spread education to the people at large, the result has usually been a spurt in economic progress; where education has been neglected, development has rarely achieved much momentum. This is scarcely surprising, for the many steps necessary to achieve dynamic progress -- and particularly the creation of a national will to develop -- depend very largely on the existence of a literate and inquiring population.

Within the general field of education, the Bank is glad to note the emphasis put by the Experts on three fields -- the growth of agricultural extension facilities, the training of skilled workers and the training of executives and administrators able to plan and execute development programs.

It has been our experience that, in practically all of the under-developed member countries of the Bank, extension services are still in their early stages. Knowledge of advanced production techniques, better seed, better methods of fertilization and the like is usually available or can be made available without undue difficulty -- but to disseminate that knowledge to the farmers, and to induce them to apply it, is a major undertaking. It is a task that has not yet been tackled with the energy it deserves; even the importance of the task is not widely enough appreciated. Yet successful execution of a comprehensive extension program, accompanied by an appropriate agricultural credit program, can work



a minor revolution in agricultural production in many countries and can thereby raise the standard of living of a large segment of the population, make more resources available for industrial development, create a broader market for industrial products, and generally stimulate the entire development process.

The lack of trained executives and administrators and of skilled workers at all levels is, as the Experts have stated, a major bottleneck to development -- and it is one that takes a considerable period to break. We are peculiarly aware of this difficulty in the Bank, for the most formidable single barrier to the expansion of our development activities has been the inexperience of the less developed countries in working out programs and projects up to the point where they are ready for financing. They have also frequently encountered difficulty in finding the proper personnel to manage new projects. The Bank has rendered considerable assistance to its members in meeting these difficulties. Our engineers have often helped prospective borrowers on the technical aspects of projects under consideration. Our loan officers and economists have often been able to make suggestions as to administrative or organizational arrangements for a project or as to the plans for its financing. And we have increasingly been asked by our members to recommend foreign executive and technical personnel to be employed by them to assist in the effective operation of enterprises we have financed.

Progress has been made in this matter; it is reflected in the increasing number of loan applications received by the Bank and in the increasing number of development loans we have been able to make. It is our confident hope that the international and bilateral technical assistance programs, as they grow and begin to bear fruit, will help to speed up the proper preparation of projects and thus permit acceleration in the pace of our lending activities.

Another suggestion for domestic action which we believe the Experts properly stressed is the need to mobilize domestic resources more energetically and to channel them into productive investment. The Experts have called particular attention in this connection to the advantages to be derived from the creation of development banks and corporations. The Bank wholeheartedly supports this position, although a warning is perhaps in order that no single type of institutional organization will meet the varying needs of different countries. The particular type of organization required -- how it is to secure its funds, what types of financing it is to do, what its management and control are to be -- must be carefully worked out in the case of each country. The experience of other countries can provide a guide, but not one that should be copied blindly.



As the Commission is doubtless aware, the Bank has been quite active in this field. We encouraged and provided substantial assistance for the creation of the new Industrial Development Bank of Turkey and released one of our former officers so that he could accept the position of first General Manager of that Bank. We also played a leading role in the creation of the new Development Bank of Ethiopia. Both of these institutions have received substantial credits from the Bank. In Mexico we helped to work out a consortium arrangement of private banks, with the participation of Nacional Financiera, the official Mexican financing agency, which serves the same general purpose as the Development Banks, and we have made a line of credit available to the consortium. Similar proposals for Development Banks or consortium arrangements in other countries are under discussion. Furthermore, we assigned a member of our staff to work for a number of months as an adviser to the newly established Development Bank of Honduras -- and another member of our staff has been assisting Iceland, at its request, in investigating the desirability of creating a new investment agency.

The mobilization of domestic resources and the creation of local capital markets depend only in part, however, on institutional arrangements; at least equally important, of course, are the general economic and financial policies adopted by the government. And in this field, too, we have often found ourselves able to be of assistance. Advice on such matters is less spectacular -- less easy to dramatize -- than assistance in the establishment of new institutions, but it is no less important. And I think I can fairly say that, through staff missions and through outside consultants employed by the Bank, we have been able to make a not insignificant contribution to the formulation of economic and financial policy in many of our less developed member countries which, in the long run, should help substantially in their further development.

The final point I want to make on the domestic measures proposed by the Experts concerns programming. Here, again, the Bank's experience supports the analysis contained in the Report about the need, first, for a coordinated approach to development problems, second, for the intelligent determination of priorities for public investment expenditures and the formulation of appropriate policies for the private sector, and, third, for permanent organizations to work out development programs, to keep them under constant review and to modify and adapt them as conditions require.

When the Bank initially undertook development financing, the loan applications filed with it all too often consisted simply of lists of projects which the member government had under consideration -- usually without any indication of the relative priority of the various projects, the relation between them, or their place in the development pattern being worked out for the economy as a whole. A good deal of the time and attention of the Bank's staff has necessarily been devoted, therefore, to helping member countries determine priorities among the different projects they had in mind



and sometimes to suggesting additional projects in fields which may have been overlooked or insufficiently emphasized.

It is a striking fact that practically every mission sent out by the Bank -- and we have had missions in almost all of our under-developed member countries -- has reported back the inadequacy of development programming efforts and has urged the creation of a high-level local development board, economic council or planning agency, of one kind or another, to rectify the situation. Development programming is a complex, inexact discipline at best -- but it is inescapably necessary if resources are not to be wasted or, at best, applied haphazardly.

The Bank has played a significant role in this field. Comprehensive survey missions organized by the Bank at the request of member governments have made recommendations, or are in the process of making recommendations, to Colombia, Cuba, Guatemala, Iraq and Turkey, designed to assist those countries in formulating long-term national development programs. We have provided help not only in the survey stage but in the even more vital implementation stage. In addition to these comprehensive missions, members of the Bank staff have assisted, on a somewhat more limited scale, in the planning of development, or in the study of the methods of programming, in a number of other countries, such as Ethiopia, Chile, Iceland, Pakistan and the Philippines. We have also joined with FAO in sponsoring a mission to survey the agricultural economy of Uruguay -- and FAO and the Bank are sending a similar mission to Chile at the end of this month. Similarly, in response to a request from Nicaragua, we are stationing two members of our staff in that country for a period of from eight months to a year to help the government in formulating an investment program, in arranging for technical experts in various specialized fields, and in coordinating and implementing the recommendations of these other experts.

In other words, to the extent that we can effectively do so, and through various devices to meet the varying desires and needs of our members, we are pushing ahead as fast as we can with assistance in the vital field of development programming.

So much for the domestic measures suggested in the Experts' Report. Let me turn now to the portions of the Report that deal with public loans for development -- and particularly with the discussion of the International Bank.

I wish I could report that we find the same sense of realism in those portions of the Report as in so much of the rest of it. Unfortunately, this is not the case. In dealing with the Bank, the Experts seem not to have realized that the very obstacles to development they high-lighted in earlier sections have been obstacles in the way of Bank development financing. We have moved in various ways, as I have already indicated, to overcome those obstacles, but in the nature of things it has not been an easy job nor one that could be accomplished over-night.



I think a single set of figures will illustrate the direction in which we have been moving, and the measure of success we have achieved. In the fiscal year ended June 30, 1948, we made two loans for development, aggregating \$16 million. In the 1949 fiscal year, we made three development loans aggregating \$109 million. In the 1950 fiscal year, we made eight development loans totalling \$134 million. And in the fiscal year now coming to a close, we have already made 18 development loans, aggregating about \$290 million. This steady progression accurately reflects, I believe, both the progress made within the Bank in achieving an understanding of the economic situation and problems of its less well developed member countries, and also the progress made by those countries, in part with the assistance of the Bank, in preparing their programs and projects to the point where they are susceptible of being financed by the Bank.

I wish it were possible for me to indicate the amount of development lending the Bank will do over the next few years. But any such prognostication on my part would have to be based on so many assumptions as to future eventualities as to make the end result pure guess work. So far as the Bank is concerned, our objective is to increase our rate of lending just as rapidly as we can, subject only to the limitation that we will not lend more than the borrowing country can absorb and effectively utilize, nor more than the country has a reasonable prospect of repaying. We do not have a top limit on the amount of development loans we are willing to make -- neither \$300 million, nor \$400 million, nor any other figure -- and, for the next few years at least, we anticipate that our ability to borrow will remain such as to place no limitation on our capacity to lend.

The plain fact is that the rate of Bank lending for development will depend primarily, not on decisions of the Bank at all, but on decisions over which the Bank has little or no control. It will depend, in the short-run at least, upon the ability and willingness of the industrialized nations to make equipment and materials available. It will depend also upon the ability and willingness of the underdeveloped countries, with such foreign technical assistance as may be made available to them, to push their development programs ahead along the lines the Experts have discussed, and particularly to prepare programs and projects ready for financing. It will depend to some extent, too, on whether the more developed countries, other than the United States, make available for lending purposes a greater part of their 18% capital subscriptions to the Bank -- for many of the less developed countries are in a position to service a greater amount of non-dollar indebtedness than of dollar indebtedness. Finally it depends upon what action may be taken by the more advanced countries on the



various proposals now under consideration for additional developmental assistance in the form of grants -- for obviously grant funds, if available, could be so used as to increase the ability of many countries, particularly some of the Asiatic countries, to service additional foreign debt.

I repeat, then, that in the nature of things, it would be unrealistic for the Bank to set any target for the amount of its development loans other than the target to lend as much money as can be productively used and as the borrowing countries can reasonably be expected to repay. I would be less than frank, however, if I did not add that, in our judgment, there seems no real likelihood that the amount of the Bank's development loans will, under presently foreseeable world conditions, approach the figure of one billion dollars annually suggested by the Experts. It is, I suggest, a disservice to raise hopes which cannot be fulfilled and which, by the very fact of their expression, may serve to obscure the real contribution which the Bank can make.

Another point in the Experts' Report on which I wish to comment is the statement that the Bank "attaches excessive importance to the foreign currency aspects of development". From the very general nature of this statement it is difficult to discover on what factual information it is based.

Actually the brief reference to the emphasis on the foreign exchange aspects of the Bank's policy and operations involves two distinct issues. One is the restriction of the utilization of Bank loans for imports of equipment and materials. The Report itself notes that the Bank has made every effort in this respect to interpret its Articles of Agreement liberally. The Fifth Annual Report of the Bank contains a concise statement of the Bank's policy on this matter. This policy, which the Bank explained at length to the Economic and Social Council at its meeting in Geneva last summer, was noted with approval by the Council. The Bank has now under active consideration loans which are very largely intended, not for direct foreign exchange costs, but for indirect foreign exchange requirements arising out of expenditures in the borrowing country itself.

The second issue involved in the Experts' comment is the transfer problem, or more specifically, the ability of borrowing countries to assume additional foreign debt obligations. The Bank is in full agreement with the Experts' statement that the primary objective of all development expenditures, whether financed by domestic capital or foreign loans or grants, is to build up the capacity of the country concerned to produce goods and services. The Bank is also aware that the expansion of production, particularly of marketable products of manufacturing, mining and agriculture, is likely on the whole to have a favorable



effect on the borrowing country's long-run balance of payments position. We would be reluctant, however, to subscribe to the easy generalization of the Experts that "if development succeeds, the transfer problem of meeting debt charges should take care of itself". An increase in internal production and consumption does not necessarily imply an increase in export availability. Moreover, the addition to the flow of goods and services available to any country as a result of increased output is inevitably associated with an increase in income and this additional income is bound to give rise to an increased demand for imports. Therefore, the Bank feels that it would be derelict in its obligations toward its member countries under its Articles of Agreement if it did not pay close attention to the transfer problem. However, the Bank has at no time looked upon the balance of payments effects of the projects which it finances in isolation; it has been concerned rather with the over-all, long-run balance of payments position of the borrowing country, taking into account all aspects of the country's development.

There are three other points which I wish to touch on briefly. The first is the encouragement given by the Experts to overseas development financing by national lending agencies in the more advanced countries. National lending agencies have performed a useful role and they have an important role to play today. But the creation of new national institutions would be of practical significance only if it resulted in an expansion of the total amount of financial assistance available for development purposes. To the extent to which new institutions would take over the functions of existing arrangements, including the lending operations of the International Bank, it would make no net addition to the credit facilities of underdeveloped countries; it would, however, create new problems of coordination and might thereby impede rather than enhance the development process.

I do not propose to enter into any prolonged discussion before this Commission of the relative advantages of national and international action in the field of development financing. I do think it worthwhile, however, to quote again in this connection from the statement of the President of the Bank to the Economic and Social Council in Santiago: "International agencies, I have no hesitation in saying, seem to me to offer potentially the most efficient avenue of approach. International action may frequently be more effective than national action in inducing the less developed nations to adopt necessary, but politically difficult domestic measures. International organizations cannot, in truth, be charged with invading national sovereignty, with economic exploitation, or with political discrimination among different countries. Finally, these agencies seem to me to provide the best -- and probably the only -- way of directing the resources of national contributors toward the same common purpose."



The more advanced countries, other than the United States, have not yet found themselves in a position to release, for use in Bank lending, any very large part of the 18% local currency portion of their capital subscriptions to the Bank. To suggest that, even though they have not yet made such releases, they should set up new national lending agencies seems to us to suggest a retreat from the concept of cooperative international action which motivated the establishment of the Bank and which, if we judge properly, has gained increasing support over the intervening years.

My final two points concern the suggestions for an International Finance Corporation and for an International Development Authority. In the Commission's consideration of the proposed Finance Corporation, the experience of the Bank is, I believe, very relevant. We found, early in our operations, that our contribution to the expansion of private investment in the under-developed countries was limited by two factors. The first is the requirement in our Charter that Bank loans must be guaranteed by the government of the country in which the project is located. It is politically very difficult for any government to guarantee a loan to a private enterprise because, by so doing, it lays itself open to the charge of favoring that particular enterprise over its competitors or over various public projects - and such charges are likely to be made, however important the private project may be. Moreover, many private enterprises are reluctant to ask for a government guarantee for fear it may lead to governmental interference in their business. We have tried to meet this difficulty in some cases by making credits available to private enterprises through the medium of a Development Bank or a banking consortium of the type I have already referred to, but this is only a partial answer to the problem. The second limitation has been the fact that the Bank has not available to it funds for equity investment. There are many private undertakings of a kind which would contribute greatly to development and which could be carried forward with the help of equity financing but which it may not be practicable to finance entirely on a loan basis.

Because of our recognition of these limitations on our financing of private enterprises, the Bank welcomed the suggestion made by the U.S. International Development Advisory Board, headed by Mr. Nelson Rockefeller, that an International Finance Corporation be created as an affiliate of the International Bank, designed to enable the Bank, through the Corporation, to make loans to private enterprise without a governmental guarantee, and to make equity investments in participation with private investors. We believe that such a Corporation would provide a very useful supplement to the Bank's existing lending authority. We have been glad to know, therefore, that the Experts considered this suggestion worthy of further study.



So far as concerns the proposed International Development Authority, the Bank would say only this: We regard the development task as urgent. We believe that, in some countries, the rate of development cannot be accelerated substantially if the only external capital they receive is in the form of loans which have a reasonable prospect of repayment. If additional assistance is to be given to these countries, we believe strongly that it should be in the form of grants, rather than in the form of quasi-loans, and that the grants should preferably be administered through international channels. But the decision whether to make grants available for this purpose is one which only the more advanced countries can make in the light of their own national policies, resources and the totality of their commitments. On that point, therefore, the Bank cannot appropriately express any view.

We would suggest, however, that if the Commission should endorse the recommendation for an International Development Authority, it consider carefully the problem of coordinating the activities of such an Authority with those of the International Bank, so that both loans and grants might be used most effectively to achieve the common development objective. To this end, we call to the attention of the Commission the proposal contained in the Rockefeller Committee Report that such coordination might best be achieved through a management contract between such an Authority and the International Bank.

In conclusion, I want to say a word about the assertion of the Experts in their Report that the International Bank "has not adequately realized that it is an agency charged by the United Nations with the duty of promoting economic development". That is an assertion made without factual demonstration. I do not hesitate to add that it is an assertion contrary to fact. All of us in the Bank regard the promotion of economic development as our primary task. To the achievement of that goal, all the energies of the Bank have been directed. To the achievement of that goal, all the energies of the Bank will continue to be directed.