Folder Title:	Organization - International Development Association [IDA] - General - Volume 2
Folder ID:	30205491
Series:	Administration and organization
Dates:	02/12/1959 - 12/30/1959
Fonds:	Central Files
ISAD Reference Code:	WB IBRD/IDA ADMCF-03
Digitized:	08/30/2023

This volume closed with effect from

December ~~18,~~ 1959. See Vol. III

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
December 30, 1959	Board Record

Correspondents / Participants

Subject / Title
Draft of Report by the Executive Directors in Connection with Submission of IDA Articles of Agreement

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

✓ IDA.

Mr. Joseph Rucinski

December 18, 1959

O. J. McDiarmid

I.D.A. Charter

1. Board discussion will continue next week. Next meeting is scheduled for Tuesday at 10 a.m.

2. On Article V, Forms of Financing, a majority favored permitting IDA to make grants but the U.S. opposed. Financing local currency costs with foreign exchange was left as a possibility "in special cases". A general technical assistance article was proposed but no agreement was reached and a more limited article may be considered.

OJMcD:mm

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Joseph Rucinski

DATE: December 17, 1959

FROM: O. J. McDiarmid OJM 12.17.59

SUBJECT: I.D.A.

1. At the Board meeting of December 16 the provisions for additional subscriptions and the supplementary resources section were reviewed. The only significant points were:

(a) In case of additional subscriptions including replenishment after 5 years should each member be given only one option, namely, subscribing no additional amount or subscribing enough to keep its voting power intact. The general opinion favored a more flexible arrangement but the question was left open.

(b) Should contributors of supplementary resources get half the net earnings from the use by IDA of such resources. On this everyone opposed the U.S. which wants half the net earnings.

2. On matters requiring qualified majority voting, most favored 2/3 rather than 3/4 majorities.

Mr. Joseph Rucinski

December 17, 1959

O. J. McDiarmid

I.D.A.

1. At the Board meeting of December 16 the provisions for additional subscriptions and the supplementary resources section were reviewed. The only significant points were:

(a) In case of additional subscriptions including replenishment after 5 years should each member be given only one option, namely, subscribing no additional amount or subscribing enough to keep its voting power intact. The general opinion favored a more flexible arrangement but the question was left open.

(b) Should contributors of supplementary resources get half the net earnings from the use by IDA of such resources. On this everyone opposed the U.S. which wants half the net earnings.

2. On matters requiring qualified majority voting, most favored 2/3 rather than 3/4 majorities.

OJMcD:mm

IDA

Your Ref: EC 132/23

December 17, 1959

Dear Mr. de Seynes:

I wish to thank you for your letter of December 11, 1959, enclosing the text of the resolution on the subject of the International Development Association which was adopted by the General Assembly on December 5.

At the same time, we also received the records of the debates of the General Assembly on this subject and have had them made available to the Executive Directors of the Bank.

Sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

Mr. Philippe de Seynes
Under-Secretary for
Economic and Social Affairs
United Nations
New York 17, N.Y.

ERB:ELH:em

IDA

December 16, 1959

Mrs. Ruth Laves
701 S. Ballantine
Bloomington, Indiana

Dear Mrs. Laves:

Thank you for your nice letter of December 11. It was a pleasure for me to talk to you and your colleagues last month and I was very glad to learn of the approach which the League of Women Voters is taking to the issues of foreign economic policy which we discussed. I was also glad to learn from your letter that Congressman Barr is prepared to battle for IDA. Support from a representative of the middle west is certainly most welcome.

I hope it will not be too long before I have a chance to see you and Walter again. With kind regards,

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
December 16, 1959	Board Record

Correspondents / Participants

Subject / Title

Memorandum of Informal Executive Session of the Executive Directors held on Wednesday, December 16, 1959, at 12:45 pm (following Meeting of Financial Policy Committee dealing with IDA draft charter)

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Joseph Rucinski

DATE: December 15, 1959

FROM: O. J. McDiarmid

SUBJECT: I.D.A.

1. Detailed discussions of the draft charter were resumed in the Board at 10 a.m., December 15. They will continue for the rest of the week.

2. The only point of substance discussed this morning was the rate at which subscriptions would be paid in. The staff has suggested 23% for all kinds of subscriptions at the beginning of operations and 19.25% a year for the next four years. The U.S. reseerved on this but it will probably be accepted. The same percentage applies to convertible as to inconvertible subscriptions. Some directors felt that the rate of commitment could exceed substantially the rate at which funds would be available in the early years since disbursements will lag. However this would mean a decrease in the lending rate in the 4th and 5th years. The most likely lending rate therefore would be uniform at $150-$170 million a year.

cc: Mr. Larsen

Form No. 27
(11-58)
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

INTERNATIONAL FINANCE CORPORATION

IDA

TO: Steyn
Treasury
Pretoria
Union of South Africa

DATE: December 15, 1959

CLASS OF SERVICE: Night Letter

COUNTRY:

TEXT:
Cable No.:

IDA discussions resumed today and various amendments were submitted by the staff to the original draft. The most important of these is a change in the schedule of payments for initial subscriptions of original members. Under the proposed new payment schedule, instead of an initial payment of 50% of the total subscription, the 50% requirement would apply only to the 10% portion of the subscription payable in gold or freely convertible currency, and the 90% portion would be payable in five equal annual instalments. Mathematically, this would work out to an initial payment of 23% of the total subscription, with four subsequent instalments of 19¼% each. This proposal does not affect in any way the provision that notes could be substituted for the 90% portion of capital subscriptions.

In the discussions that followed, Directors preferred the new version.

NOT TO BE TRANSMITTED

MESSAGE AUTHORIZED BY:

NAME J.M. Garland

DEPT. Executive Director

SIGNATURE J.M. Garland
(SIGNATURE OF INDIVIDUAL AUTHORIZED TO APPROVE)

CLEARANCES AND COPY DISTRIBUTION:

For Use by Archives Division

ORIGINAL (File Copy)

(IMPORTANT: See back of yellow copy for guide in preparing form)

Checked for Dispatch:

FORM No. 58
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Davidson Sommers

DATE: December 15, 1959

FROM: A. A. Khosropur

SUBJECT: Views Expressed by Pakistan, Sudan and Iraq on the Draft IDA Articles of Agreement.

With reference to my memorandum of December 14, 1959, regarding the views of Pakistan, Sudan and Iraq on the draft IDA Articles of Agreement, I should like to mention that according to a corrected version of the telegram received from Pakistan, the proposed views of Pakistan for Article I after line 4 should read as follows, "for projects and programs including those not directly productive which meet the developmental requirements of the country or countries concerned."

A. Khosropur

FORM No. 58
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Davidson Sommers

DATE: December 14, 1959

FROM: A. A. Khosropur

SUBJECT: Comments on Draft IDA Articles of Agreement.

I enclose herewith a copy of the comments regarding the IDA draft Articles of Agreement received from Pakistan, Sudan and Iraq for your consideration.

A. Khosropur

Enclosure

Views expressed by Pakistan, Sudan and Iraq on the proposed Articles of Agreement of I.D.A.

ARTICLE I 1. Sudan has mentioned that the sentence "high developmental priority" does not convey the full purposes of the Association and has proposed to include specifically in this Articles the non-productive and social projects.

Pakistan has proposed the following sentence after the word "finance" in line 4 "for projects and programs including those not directly productive ."

Iraq has proposed to substitute the words "educational and health spheres" for the words"in the light of the needs."

2. Pakistan and Sudan both have proposed to delete the rest of the clause of this paragraph after the word "hereby" in order to make provision for financing not only specific projects but also of general programs and non-productive schemes.

ARTICLE II, Section 3 - Sudan has proposed to insert the word "administrative" before operations which will read "and not needed by the Association in its administrative operations."

ARTICLE III Pakistan and Sudan both have proposed that the transfers of the supplementary resources should take place with the consent of the country in whose currency the resources are held and the currency so transferred should not be used to pay for exports of goods or services except with the consent of the country concerned.

Section 2, paragraph (c) - Sudan has proposed:

1. to delete the paragraph because the payment of dividend does not seem to be in conformity with the high motives behind the proposal of setting up I.D.A.;

2. to provide in this Section provisions for accepting additional resources from regional or international organizations in addition to individual countries, for example, U.N.O. or the World Bank itself.

ARTICLE IV, Section 1(a)

Pakistan and Sudan are against the use of 90% in members own countries for projects financed by the Association because this does not make any additional resources available for the country and the distinction between developed and underdeveloped countries becomes meaningless.

ARTICLE V, Section 2, paragraph (b)

Pakistan has proposed to change this paragraph as follows: "Financing provided by the Association shall be for programs and projects which make an important contribution direct or indirect to the economic and social advancement of the country concerned." Iraq proposed to insert "in the economic, educational and health spheres" after the words "developmental priority."

Section 2, paragraph (c) - Pakistan and Iraq have proposed to delete this paragraph as may be interpreted too rigidly.

Section 2(f) - Iraq has proposed to insert "in agreement with the member in whose territory the project is located" between the words shall and make.

Section 3(a) - Sudan is of the opinion that there are circumstances where grants are fully justified by the economic position of some underdeveloped countries. It will be a great disappointment if the Association is precluded during the first five years of its existence from considering exceptional cases warranting such form of assistance. She hopes that it would be possible for the Association to make a limited number of grants from its main resources.

ARTICLE V, Section 3(a) - Continued:

Iraq has proposed to delete the whole paragraph.

Section 3(b) - Pakistan suggests that in addition to this Section and subject to the general condition, the Association may, for example, make loans repayable in foreign exchange with long maturities or long period of grace or both, loan repayable wholly or partly in local currency and loans free of interest or at low rate of interest. The Association may also provide grants, especially out of supplementary resources.

Iraq has proposed to delete the words "subject to the foregoing paragraph.

Section 3(e) - Pakistan has proposed to delete the words "in special cases."

~~Iraq has proposed to retain this paragraph.~~

Sudan has proposed to delete the whole section in order to give more flexibility and freedom for making foreign exchange available for local expenditure.

ARTICLE VI, Section 12 - Sudan is against payment of any dividends.

FORM No. 75
(5-58)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Dec 23/59

NAME	ROOM NO.
~~Mr Demuth's Office~~	~~506~~
Mrs. Pam Stock	P-103

	Action		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		To Handle

REMARKS

Has Mr Demuth seen this and if so are the enclosures supposed to come to files. We have kept a copy of the Resolution for T.A.& L. files, & Mr. Olsen, Research Files, has a copy.

E. I Tomid
Rm 506

From ~~Mrs Pam Stock P-103~~

FORM No. 89
(2-57)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Dec 22

OFFICE OF THE PRESIDENT

NAME	ROOM NO.
Mrs. Stech	P-103

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

I believe this was seen by Mr. Demuth, not Mr. Black. I don't know where the enclosures are – perhaps Mr. Demuth or, possibly, Mr. Mendels

F

C. Ladue

FORM NO. 75
(5-58)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Dec 22/59

NAME	ROOM NO.
Miss C. Ledue	1024

	Action		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		To Handle

REMARKS

Would you please state whether this letter has been seen and if the enclosures referred to are supposed to come to files.

Thank you,

From: Ann Stech P-103

Files IDA

UNITED NATIONS  NATIONS UNIES

NEW YORK

CABLE ADDRESS · UNATIONS NEWYORK · ADRESSE TELEGRAPHIQUE

FILE NO.: EC 132/23

11 December 1959

Dear Mr. Black,

On behalf of the Secretary-General, I have pleasure in transmitting .... to you herewith the text of the resolution on the subject of the International Development Association which was adopted by the General Assembly on 5 December on the basis of a draft submitted by the Second Committee. In accordance with the request contained in paragraph 4 of the same resolution, I am also transmitting to you, for communication to the .... Executive Directors of the Bank, the records of the debates of the General Assembly on this subject at its present session.

Yours sincerely,

Philippe de Seynes

Philippe de Seynes
Under-Secretary for
Economic and Social Affairs

Mr. Eugene R. Black
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington 25, D.C.

1 D07

DEC 15 REC'D

Mr Demuth: What shall I say to this gentleman? EBB

Columbia University
in the City of New York
NEW YORK 27, N.Y.
SCHOOL OF LAW

December 11, 1959

Mr. Eugene Black, President
International Bank for Reconstruction
and Development
1818 H Street
Washington, D. C.

Ack: Jan 11/60

Dear Mr. Black:

During the last Bank and Fund meetings in Washington I was struck by one notable paragraph in your speech suggesting the need for new institutions to promote the international flow of private capital.

Last May, in a talk to the American Society of International Law, I made a proposal for such an institution to be made part of the IBRD-IMF-IFC-IDA complex. I am taking the liberty of enclosing a reprint of my remarks.

The heart of my proposal (pp. 264-266) is to use the new International Development Association as a means for encouraging the less developed countries to do more in the way of creating a favorable investment climate and, particularly, to resolve in a more orderly way than now exists disputes between them and private investors from abroad. I should be most interested to have your comments on this proposal.

I feel my proposal is made particularly timely in view of your appeal for more "gardners" to cultivate the field of international development!

Yours very sincerely,

Richard N. Gardner

Richard N. Gardner
Associate Professor of Law

RNG:EC
Enclosure

INTERNATIONAL MEASURES FOR THE PROMOTION AND PROTECTION OF FOREIGN INVESTMENT

By Richard N. Gardner

Reprinted from Proceedings of the American Society of International Law, 1959

FIFTH SESSION

Friday, May 1, 1959, at 8:30 p.m.

PANEL I: ECONOMIC GROWTH AND TRADE AMONG COMPETITIVE SYSTEMS

The session reconvened at 8:30 o'clock p.m. in the East Room of the Mayflower Hotel, Mr. G. Winthrop Haight, of the New York Bar, presiding.

The Chairman introduced the first speaker, Professor Richard N. Gardner of Columbia University.

INTERNATIONAL MEASURES FOR THE PROMOTION AND PROTECTION OF FOREIGN INVESTMENT

BY RICHARD N. GARDNER

Columbia University Law School

The principal challenge to students of international law today, according to a recent article by Professors Myres S. McDougal and Harold D. Lasswell, is "to make continuous reappraisal of the circumstances in which specific institutional combinations can make the greatest contribution to our over-arching goals."[1] I have been asked to take up this challenge by reappraising existing and proposed international institutions for the protection and promotion of private foreign investment.

This is quite a large exercise. Since the short time available does not permit a comprehensive historical or analytical survey of the subject, I shall make a highly personal evaluation in the form of six propositions. Some of these propositions will undoubtedly prove controversial; but they will serve at least to define the issues.

My six propositions are as follows:

1. *A satisfactory rate of economic growth of the free world is an essential precondition to the achievement of our basic objectives.*

Our basic objectives may be defined in shorthand form as security, prosperity and freedom, both for ourselves and for the other peoples of the non-Communist world. Currently the most dramatic way of demonstrating the relation between these objectives and free world economic growth is to emphasize the "Communist economic challenge." At the 21st Communist Party Congress in Moscow, Mr. Khrushchev boasted that the world balance of economic power was turning in favor of the Communists. He predicted that by 1970 the Soviet Union would be out-producing the United States and that the Communist *bloc* would be out-producing the free world. He concluded that Communist victory in the production race would "attract millions of new adherents and bring about tremendous changes not only in our own country, but in the whole world."

[1] 53 A.J.I.L. 5 (1959).

Khrushchev's challenge is real and it is well for us to be concerned about it. But surely we can state our interest in economic growth in a more affirmative way. Even if the Communists were not around, we would need to have a satisfactory rate of economic growth, not only for its own sake but because it is a prerequisite to the attainment of our non-material ends. To be sure, economic development is not the panacea some people have claimed it to be. But in a world swept by the "revolution of rising expectations," it is clearly an essential basis for progress toward security and freedom.[2]

2. *Free world economic growth of the kind necessary to promote our objectives is heavily dependent on foreign investment by the industrialized West.*

Economic development requires capital. For the underdeveloped countries there are three possible sources of capital: domestic, Communist and Western. The relative emphasis which underdeveloped countries place on these alternative sources will profoundly affect their economic and political evolution and consequently our pursuit of security, prosperity and freedom.

A good part of the capital needs of the underdeveloped countries can and must be supplied from domestic sources. But for most of these countries existing production is barely sufficient to cover current consumption needs. Only a small margin of production can be channeled into the formation of capital. If these countries despair of obtaining sufficient capital from abroad, they will be forced to adopt totalitarian measures at home. They will seek development by ruthlessly suppressing consumption and by forcibly mobilizing capital and labor. They may withdraw into militant and embittered nationalism. For them, development will create a climate in which freedom cannot survive. For us, it will mean the loss of vital raw materials and markets, a vast erosion of our world power and the end of an opportunity to further the cause of human freedom.

The second source of capital for the underdeveloped countries is the Communist world. The Communist leaders use trade and aid as political weapons. Even though their assistance may be unaccompanied by formal political conditions, the spread of their capital, technology and manpower throughout the underdeveloped countries cannot fail to have a political effect.

We need not fear Communist investment in these countries as long as it is relatively small in comparison with investment by the West. But when the Communist *bloc* becomes the main source of foreign capital for an underdeveloped country, it will use the influence thus gained to detach the country from the free world. Should this strategy prove successful in the case of some of the larger underdeveloped countries like India and Indonesia, the Communists would profoundly alter in their favor the balance of political and economic power. We cannot afford to let this happen.

[2] For more detailed argument in support of this and the following two propositions, see Richard N. Gardner, New Directions in U. S. Foreign Economic Policy (Foreign Policy Association Headline Series, Booklet No. 133 (1959)).

The third and last source of capital is the industrialized West—primarily the United States. This means that our investment represents the only chance for the underdeveloped countries to achieve a tolerable rate of economic development without sacrificing human values and without joining the Communist *bloc*. Beyond this, our investment provides an excellent channel—perhaps the only effective one—through which we can influence the institutions of the underdeveloped countries and transmit to them our most important human values.

3. *The present flow of Western investment—private and public—is far below the level necessary to promote the economic growth essential to the achievement of our objectives.*

More than two thirds of the free world's people live in the underdeveloped countries of Asia, the Middle East, Africa and Latin America. According to United Nations statistics, per capita income in these countries averages about $100 a year, compared with $2,000 in the United States and $1,000 in other developed parts of the free world. The people in these countries have a life expectancy of only 36 years, about half as long as life expectancy in the rest of the free world.

It is not sufficiently understood that the gap in living standards within the free world is actually widening, not decreasing. In some of the less developed countries, population growth is causing an absolute decline in per capita income. In most others, whatever increase has taken place has been far less than increases in per capita income in the industrialized countries. This wide and growing gap in living standards is a time-bomb which ticks ominously beneath the surface of contemporary affairs.

The record of economic development in the free world is particularly inadequate when compared with the record of the Communist *bloc*. We have only to contrast the growth of India with the growth of China. In 1952, the steel production of these countries was approximately equal, about one million tons. Today, Indian steel production is up to about two million tons and Communist China's steel production is over nine million tons. This disparity in rates of growth cannot help but influence the judgment of many leaders in underdeveloped countries concerning the relative merits of the Communist and free systems for the solution of their own problems.

The unsatisfactory rate of economic growth in the underdeveloped countries of the free world may seem strange in view of the extent of foreign investment by the industrialized West. The statistics for private investment are particularly impressive, revealing in recent years an extraordinary increase in foreign direct and portfolio investment by the United States and a real revival in such investment by Western Europe. The difficulty, of course, is that this investment is very unequally distributed among the countries of the free world.

Although gaps and inconsistencies in the available data make it impossible to give precise figures, it is possible to give a rough idea of the present pattern of capital flow. Figures available for the three years 1956–1958

indicate that United States private foreign investment is running at about four billion dollars a year. This is a gross figure which includes reinvestment by branches and subsidiaries abroad and does not deduct the return flow of capital and earnings. Of this four billion, about two billion dollars are being invested in the underdeveloped countries. Total foreign investment by the rest of the industrialized West (primarily the United Kingdom, France, West Germany, Canada, Switzerland, The Netherlands and Belgium) is running at an annual rate of about two billion dollars, of which two-thirds to three-quarters of a billion are flowing to the underdeveloped countries. But only about 200 million dollars of gross annual United States private investment in underdeveloped countries are going to the non-oil-producing countries of Asia, the Middle East and Africa. Only about 300 million dollars of the gross annual private investment of the other Western industrial Powers are going to these countries—and even these 300 million dollars are mostly concentrated in their overseas commonwealths.[3]

To be sure, the economically advanced countries of the West have embarked on substantial programs of government investment overseas. But these programs are also very unevenly distributed throughout the free world. According to the United Nations, about two billion dollars a year of public capital have been flowing to underdeveloped countries.[4] This estimate embraces all government programs of economic assistance—bilateral and multilateral. The United States accounts for most of the two-billion-dollar figure, largely through "defense support" aid to countries with which it has military assistance agreements—Nationalist China, South Korea, South Vietnam, Pakistan and Turkey. Only about 400 million dollars of United States aid have been available each year for the uncommitted countries of Asia and Africa. The public aid programs of the other Western countries in Asia, Africa and the Middle East amount to another 200–300 million dollars, and once again this is concentrated in their overseas commonwealths.

When we add the total of 600–700 million dollars in public assistance to the approximately 500 million dollars of private investment we get a total annual capital flow of a little over one billion dollars to the uncommitted, non-oil-producing, underdeveloped areas of Asia, the Middle East, and Africa. This volume of capital flow to areas containing nearly one billion of the world's people is clearly inadequate to support the rate of growth essential to the achievement of our basic objectives.

[3] The figures cited above are the author's estimates based on analysis of the U. S. Department of Commerce periodical, Survey of Current Business, and United Nations, Department of Economic Affairs, The International Flow of Private Capital 1956–58 (Doc. E/3249, May, 1958). The lack of data on capital movements in many countries and the incomparability of much of the data that is available make it necessary to emphasize that the figures given above are only rough estimates.

[4] United Nations, Information Concerning International Economic Assistance for the Less Developed Countries, Report by the Secretary General (Doc. E/3074, Sept. 24, 1957).

4. *The existing flow of investment to the underdeveloped countries will* ***not be materially increased by attempts to draft an intergovernmental code for the protection of private foreign investment.***

In the early postwar years the United States Government took the view that the negotiation of bilateral and multilateral treaties could provide a great stimulus to private foreign investment in underdeveloped countries. Thanks to recent experience, this view is not widely held in Washington today. But some lawyers and business men in the United States and Europe have recently revived the idea of drafting a multilateral investment code.[5]

In essence the proposed investment code would declare that a government may not legally take the property of aliens except for a public purpose and then only upon payment of prompt, adequate and effective compensation. It would state that any taking of alien property not in accordance with these requirements is a violation of international law and therefore ineffective to pass title, so that the courts of other states would not recognize the title of the taking government in the event that the propery found its way into their jurisdiction. Prompt compensation would be defined to mean the payment of compensation at the time of the taking or at least provision at the time of taking for the payment of compensation within a reasonable time thereafter; adequate compensation would be defined to mean the fair market value of the taken property (taking into account, in appropriate circumstances, the factor of loss of profit); and effective compensation would be defined to mean payment in the investor's currency or in a currency convertible into the investor's currency.

Quite apart from the question of whether all the principles summarized above can be said to represent international law as it now exists,[6] there is surely very little hope of achieving agreement between underdeveloped

[5] The most important efforts have been led by groups under the direction of Hermann Abs of Germany and Sir Hartley Shawcross of the United Kingdom. The summary which follows is based on recent drafts of a "Convention on Investments Abroad" which appears to be the joint work of these groups. For more details on the Abs and Shawcross efforts, see Arthur S. Miller, "Protection of Private Foreign Investment by Multilateral Convention," 53 A.J.I.L. 371 (1959), and Michael Brandon, "An International Investment Code: Current Plans," Journal of Business Law (January, 1959).

[6] The Preamble of the "Convention on Investments Abroad" (April draft) contains language suggesting that the Convention is a "restatement of principles." In several important respects it is clearly a good deal more than that. International law in its present state of development, for example, does not require that compensation for lawfully expropriated property be made in transferable form. Reference in the Comment to the Convention (p. 11) to the *S. S. Wimbledon* (1923), P. C. I. J., Series A., No. 1, is not in point. That case involved a distinctly different question—the currency in which to pay damages for an international wrong. It is one thing to say that Germany must pay in francs for wrongful refusal of passage through the Kiel Canal which causes damages to a French company; it is quite another to say that Germany must pay francs upon taking the property of a French company or citizen located within German territory, particularly where such property may be the product of reinvested mark earnings and where the corporation or person is a permanent resident of Germany and has the opportunity to reinvest marks within the country.

This is not to say that transferability should not be required as a matter of policy,

and the industrially advanced countries on a code embodying such principles. There are at least four reasons for pessimism on this score.

In the first place, it is doubtful whether the industrialized countries themselves would be willing to accept all these propositions. Look, for example, at the bilateral treaties of friendship, commerce and navigation which the United States has concluded with Germany and Japan. The German treaty provides for payment of "just" compensation:[7] apparently, under the Basic Law of the Federal Republic of Germany, "just" compensation takes into account the German public interest and may be compensation considerably below the actual value of expropriated property.[8] Neither the German nor the Japanese treaty contains an unqualified commitment to pay compensation transferable into the investor's currency: the German treaty specifies only "reasonable" facilities for transfer of compensation,[9] while the Japanese treaty specifies "reasonable" transfer of compensation subject to whatever exchange controls may be necessary to assure imports of goods and services essential to the welfare of the Japanese people.[10] It is unlikely that Germany and Japan would be willing to sign a multilateral code of the kind suggested earlier containing commitments they were not prepared to accept in the bilateral treaties. The same is true of other industrial countries—even Canada, which was not prepared to accept such broad commitments when the Charter of the International Trade Organization was being drafted in 1946–1948 and would probably be even less willing to accept them today.

In the second place, whatever may be the prospect of achieving agreement on the above principles between the industrialized countries, there is surely little prospect of achieving agreement with the underdeveloped countries. The United States today has commercial investment-protection treaties in effect (even with all their watered-down commitments) with only five countries in the "underdeveloped" category—Nicaragua, Taiwan, Ethiopia, Israel, and Iran. We have been unable to obtain the signature on such a treaty of any newly-independent nation of Asia or Africa, or any Arab state. Although we did succeed in negotiating such a treaty with Uruguay, it is not yet in effect, which means there is not even an investment-protection treaty in force with a country of South America. This experience gives us little reason to be optimistic about associating the principal underdeveloped countries of the non-Communist world in a multilateral investment code containing the strict investment-protection provisions summarized above.

---

but only that different issues are at stake here and should be examined separately from the issues involved in cases of the *Wimbledon* type. It should be recalled also that restrictions on the transfer of compensation for expropriated property can be justified under Arts. VI and XIV of the Articles of Agreement of the International Monetary Fund. As the following paragraph in the text points out, such restrictions in circumstances of exchange stringency are specifically permitted even in those U. S. bilateral treaties most favorable to investors.

[7] T. I. A. S., No. 3593, Art. V(4).

[8] Seymour J. Rubin, Private Foreign Investment: Legal and Economic Realities 17, 77 (1956).

[9] Art. XII(4).

[10] T. I. A. S., No. 2863, Art. XII(3).

In the third place, we do not even have to speculate about the possibility of drafting a successful multilateral investment treaty. Two attempts have already been made in the postwar period, both of them disastrous. In the case of the Bogotá Agreement among the American states, the provisions of the agreement, already somewhat inadequate from the private investor's point of view, were rendered completely meaningless by reservations attached to the Agreement by various Latin American countries subordinating the provisions of the treaty to their national laws. In the case of the I. T. O. Charter, the lengthy bargaining at Geneva and Havana resulted in the lowest common denominator of agreement, and the final provisions did more to affirm the right of underdeveloped countries to interfere with investments than the rights of the investors themselves. The unsatisfactory investment provisions were a principal reason for the failure of the Charter to receive the endorsement of the major interested American business groups or the approval of the United States Congress.

If a conference of the free-world countries were held tomorrow to draft a multilateral investment treaty, would the result be any better? It is true that the last decade has brought a somewhat greater appreciation of the importance of private investment among leaders in some European and even in some underdeveloped countries; but there have also emerged a number of new independent underdeveloped countries. These and the other underdeveloped nations freed from colonial rule or Western influence after the second World War are highly nationalistic. Political leaders in most of these countries would be keenly embarrassed if they were obliged to register public acceptance of the investment code described earlier, however much they might be privately sympathetic with its principles. Unexceptionable as it may seem to us, such a code is too easily associated with capitulations, colonialism, and the abuses of native capitalists and landlords. For this reason it would be unwise to force another public, intergovernmental showdown on investment questions—particularly a showdown concerned with general principles rather than concrete problems. The underdeveloped countries would only insist, as they have in United Nations debates, on recognition of their sovereignty over their natural resources, and on the need to qualify private property rights by public interests of an economic and social nature. The industrialized countries, or some of them, would espouse the proposed investment-protection principles summarized above. The final document would embody something of the slogans of both sides, with the result that it would be satisfactory to neither. The public confrontation of opposing doctrines would leave a legacy of bitterness. The only gainers would be the Communists.[11]

Recently an alternative suggestion has been made that the members of

[11] Even between countries which share as much of a consensus as the United States and Britain, premature attempts to draft detailed principles of international economic conduct have proved self-defeating. See Richard N. Gardner, Sterling-Dollar Diplomacy (1956), especially Parts 3 and 4.

the Organization for European Economic Co-operation should themselves draft a treaty on this subject which might then be open for adherence by underdeveloped countries. Although the provisions of such a treaty would be more satisfactory from the point of view of private investors than the provisions of a treaty negotiated with underdeveloped countries, it is doubtful that such a treaty would go quite as far toward investor protection as the proposed code summarized earlier. Furthermore, adherence to a treaty negotiated among the former colonial Powers of Western Europe would hardly commend itself to the leaders of the underdeveloped countries. The whole idea would look suspiciously like some form of collective imperialism.

One final problem with the proposal for a multilateral investment treaty is the impossibility of achieving a definition of a taking of private property broad enough to be of substantial practical value. Property rights can be effectively destroyed in many ways short of an actual confiscation or expropriation—they can be taken indirectly by exchange controls, export and import regulation, taxation, labor legislation, limitations on the ownership and control of enterprises, price controls, even by runaway inflation. Indeed, the prospect of these indirect takings provides much more of a deterrent to private foreign investment in underdeveloped countries than the prospect of a direct taking *via* confiscation or expropriation. No international agreement can satisfactorily protect against all these indirect forms of taking—certainly no agreement to which an underdeveloped country would willingly subscribe. In the last analysis, foreign investors place primary emphasis on a satisfactory "investment climate," a phrase used to describe a whole constellation of government policies and conditions which affect the security of investment and profit opportunities. This satisfactory "investment climate" is not something which can be created by drafting an investment code.[12]

5. *An indispensable means of stimulating the flow of private capital to the underdeveloped countries is an expanded program of public investment.*

The main deterrent to private investment in most underdeveloped countries is the very fact of their underdevelopment. Because of this underdevelopment, the U. S. International Development Advisory Board has pointed out, private capital in the near future "is not likely to play a major role in the development of either Asia or Africa." As the Board puts it: "The immediate primary need for capital in these areas is in 'social overhead'—power, communications, transportation, and educational facilities—and it is improbable that U. S. private capital will find this a profitable field for investment."[13] If a satisfactory rate of economic

[12] This point is well developed in Rubin, *op. cit.* note 8 above.

[13] International Development Advisory Board, A New Emphasis on Economic Development Abroad, A Report to the President (1957), p. 13.

growth of the underdeveloped countries is to be achieved, it is clear that an increased program of public investment in "social overhead" will have to pave the way.

For nearly a decade the question of establishing a new international agency to provide public capital for economic development was debated in the United Nations in connection with the proposed Special United Nations Fund for Economic Development (SUNFED). The United States took the position in these debates that such an ambitious program of economic development should be deferred until such time as the countries of the world could reduce their arms burdens as part of a plan of enforced disarmament. Privately, our Government expressed reluctance to put large amounts of American money in an institution likely to be dominated by the recipients of aid. It also feared the prospect of Communist-*bloc* participation in any such United Nations sponsored arrangement.

The long stalemate on this subject came to an end in 1958. Attention was dramatically shifted to a stage outside the United Nations when Senator A. S. Mike Monroney made his proposal for an International Development Association to be operated as an affiliate of the World Bank. From the point of view of the United States the Monroney proposal would avoid the difficulties of the SUNFED plan by placing development funds in the hands of a responsible financial institution in which the United States and its industrial allies have voting control and in which Communist-*bloc* countries do not participate. The creation of an International Development Association could greatly aid the cause of Western freedom. The problem of financing such an institution can be solved. The I. D. A. could start with a comparatively modest capital, for example, one billion dollars. The United States could contribute about one third of this sum and have a corresponding amount of voting power. Provision should be made for continuous injections of dollar capital in succeeding years without the need for annual Congressional appropriations. One attractive solution to this problem would be for the United States to assign to I. D. A. the repayments due it on Marshall Plan loans and other major postwar credits.

6. *New measures for the protection and promotion of private investment should be combined with an expanded program of public investment in underdeveloped countries.*

The debate about methods of financing the economic development of underdeveloped countries has been plagued too long by an argument between those who think that private investment alone should do the job and those who think that public investment alone should do the job. In fact what we need is both.

The importance of private investment in foreign economic development

deserves constant emphasis. In the United States and most of the industrial societies of the West the bulk of capital and skills is in private hands. Public investment, as noted earlier, must necessarily play the dominant rôle in the "take-off" stage of economic development. But the burden of financing economic development would become intolerable for the taxpayers of Western nations if private investment were not utilized increasingly as economic development gained momentum. Even in the early stages of development there are functions which private capital can perform with equal or greater success than public capital. There is no inconsistency, therefore, between a program of public investment in the underdeveloped countries and measures to protect and promote private investment. Those who are concerned with the latter should not oppose the former. Instead, they should consider ways in which an expanded public investment program could be made to enlarge opportunities for private investment.

Public and private measures for promoting economic development should be combined in one institution. The Charter of the proposed International Development Association (or whatever the agency is called which is to supply additional public investment) should contain the following provisions with respect to private investment:

First, the participating countries should agree to make maximum use of private capital—foreign and domestic—in their economic development efforts, so far as is consistent with their economic and social systems. This last qualification would exempt from the obligation a country whose economy was entirely socialist. Naturally such a qualification would limit somewhat the scope of the private investment obligation. But we cannot very well force private enterprise on countries which have entirely rejected it.

Second, the participating countries should agree to consult periodically with the staff of the I. D. A. on the measures they are taking to create a favorable investment climate. The periodic consultations would be modeled after the system developed under Article XIV of the International Monetary Fund Agreement, by which Fund members maintaining exchange controls on current transactions are obliged to consult annually about their domestic and external financial policies. The Fund's informal consultative machinery has done much more to achieve changes in national policies than could possibly have been done by attempts to draft a treaty with specific commitments about domestic and external financial policy.

Third, the Charter should provide for studies on how private investment is being used and could be used to promote the economic development of member countries. The members would be obliged to take part in such studies and give full publicity to their conclusions. In this way a consensus might be slowly developed on the appropriate rôle of private investment where no consensus presently exists. Many leaders of opinion in underdeveloped countries still believe that there is an incompatibility be-

tween the profit-making interest of a foreign corporation and the interest of the country in which it operates. Numerous studies already published in the United States (such as those of the National Planning Association on United States business performance abroad) have amply demonstrated that this is not the case. These studies are either not known to people in most underdeveloped countries or are regarded by them with an understandable amount of skepticism. Surely it would be useful to associate leaders from the underdeveloped countries in the conduct of studies of a similar kind.

Fourth, the Charter of the I. D. A. should provide for the orderly settlement of disputes between private investors and governments. It could specify procedures for the mediation of such disputes by the president of the agency, drawing on the encouraging experience in the mediation of the controversy between Egypt and the Suez Canal Company by President Eugene Black of the International Bank. In the event that mediation fails, the Charter should provide for the settlement of investment disputes by members of a permanent panel of arbitrators composed of outstanding citizens of industrial and underdeveloped countries.

Fifth, the Charter could also authorize the drafting of a set of general principles concerning private foreign investment. The investment principles might be drafted either by the staff of the agency, by the panel of arbitrators, or by a group of experts chosen specially for the purpose. This set of investment principles would differ from the proposed investment treaty in that (a) it would not be negotiated by government representatives; (b) it would not be formally binding upon governments; (c) it would specify the obligations as well as the rights of foreign investors in underdeveloped countries. These three features would make the investment principles much more palatable to the underdeveloped countries, as would the fact that the industrial countries were committed to a long-term program of development assistance. The principles could be used as a standard in the conduct of the periodic investment consultations and in the arbitration of specific disputes.

Sixth, the I. D. A. and its associated agencies (the International Bank, the International Monetary Fund, the International Finance Corporation) might be obliged, in their decisions on applications for aid from underdeveloped countries and private investors, to consider the extent to which those seeking assistance were performing the various obligations outlined above. The ultimate sanction for refusal to consult, participate in studies, and submit disputes to mediation and arbitration in a manner found satisfactory by the governing board of the agency would be a declaration that the country or investor in question was ineligible to use the resources of the international lending agencies. This would be a formidable sanction in view of the magnitude of lending operations by the Bank, the Fund, the I. F. C., and the I. D. A. Satisfaction of unpaid judgments

rendered pursuant to arbitration might even be had out of a country's paid-in subscription.[14]

This is but a tentative and illustrative outline of an institution for promoting and protecting private investment in underdeveloped countries. Undoubtedly it requires substantial additions and modifications. But at this point it is obviously premature to argue very much over details. The pressing need is to recognize that verbal formulas cannot camouflage the present lack of consensus. Let us get on with the job of building a consensus over the years through institutions in which men of good will can work together in the common interest.

The Chairman then presented the second speaker, Mr. Stephen M. Schwebel of the New York Bar.

INTERNATIONAL PROTECTION OF CONTRACTUAL ARRANGEMENTS

By Stephen M. Schwebel

Of the New York Bar

Contracts between the international investor and the state in which he invests have a special importance. They clarify and particularize the rights and obligations of the parties. They lend a degree of security and stability to the process of foreign investment which is not notably stable or secure. Such contractual arrangements take more than one form. Insofar as they relate to long-term investment, they traditionally appear as concession agreements—contracts between the host state and the alien investor that more or less comprehensively express the relationship between them. The postwar years have seen the growth of investment laws, of general application, pursuant to which the foreign investor often is granted a specific authorization to invest. States also have accorded aliens assurances concerning matters like taxation and withdrawal of capital that have a contractual character. For the purposes of this discussion, these varying types of arrangements will be referred to as "international contracts."

The questions to which I shall address myself are these: First, is violation of an international contract by the contracting state a violation of international law? Second, of what importance is the answer to that question?

It is clear that such international contracts are not to be equated with treaties between states, whose breach, of course, entails violation of international law.[1] But while international contracts may not be assimilated

[14] The proposals in this paragraph would, of course, require amendments to the Articles of Agreement of the I. M. F., I. B. R. D., and I. F. C.

[1] Anglo-Iranian Oil Co. Case (Jurisdiction), Judgment of July 22, 1952, [1952] I.C.J. Rep. 112.

LANCASTER PRESS, INC., LANCASTER, PA

IDA

LEAGUE OF WOMEN VOTERS
OF THE UNITED STATES

1026 SEVENTEENTH STREET, N.W., WASHINGTON 6, D.C. NA 8-3684

Mrs. Robert J. Phillips, President

701 S. Ballantine
Bloomington, Indiana
December 11, 1959

Mr. Richard De Muth
International Bank for Reconstruction and Development
1818 H. Street N.W.
Washington 25, D.C.

Dear Mr. De Muth:

This is just to tell you - belatedly, but no less sincerely - how very much we appreciated talking with you when I was in Washington last month, about the various economic policy issues the League is concerned with. I think our conversation served to clarify our thinking on many things, and to strengthen our conviction that we are on the right track in emphasizing the use of multilateral instruments as fully as possible. It seems to me that increasing acceptance of this point of view, both in Congress and by the general public, is one of the bright spots in an otherwise pretty cloudy picture just now. For example, we had a long discussion with our new Indiana Congressman, Joe Barr, yesterday, and found him not only enthusiastic about IDA but preparing to do battle for it in the House - which, considering his constituency, is really significant!

Personally, I enjoyed meeting you as much as Walter had assured me I would, and I hope we shall see you here in Bloomington sometime. Walter sends his greetings, and says to tell you he was delighted to find you listed on the future program of the Detroit Council on Foreign Relations, where he spoke last week. He thinks you're just what the doctor ordered!

With best wishes and thanks,

Sincerely,

Ruth Lawes

DDH

FORM NO. 59
(2-55)

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: December 10, 1959

TO: Mr. Knapp

FROM: J. D. Miller, Paris Office.

FILED UNDER: United Kingdom - General and Europe - OE.E.C. General.

SUMMARY: Paragraph 3. (Re conversations in London mostly with Denis Rickett)

What Denis told me is at present largely his own thinking and has not yet become official policy. He sees the future of the OEEC as a "regional fund-raising organization" (his expression) for the Bank and IDA. He wants to ensure that Europe not only does enough but is generally realised to be doing enough to encourage the U.S. and he thinks OEEC could be a useful coordinator both of effort and information. But je is against letting them have any say in the disposition of the funds raised. That, it must be clearly understood, is the Bank's job. The talks with Dillon went well and generally followed these lines though Denis is not quite clear whether the U.S. do not want the OEEC to have a wider role than the U.K. does.

✓ IDA

December 3, 1959

Dear Mr. Dina:

Thank you very much for your letter of November 18, 1959 enclosing copies of the Western Region Development Plan, 1960-65. Mr. Adler has asked me to thank you for your kindness in sending a copy also to him.

We have read the Plan with great interest, and we are impressed by the large amount of careful work that has gone into its preparation and by the clarity with which the conclusions are expressed. There are many aspects of the Plan, including its emphasis on development of the productive sectors, which seem to me to be very well considered.

You ask in your letter for my comments on what parts of the Plan, if any, could qualify for assistance by the International Bank or the proposed International Development Association.

I am sure you will appreciate that without further information on the individual projects included in the Development Plan, and without a new study of the economic situation by our staff on the spot, it is difficult to judge whether there are parts of the Plan that might be suitable for Bank assistance. This uncertainty applies even more to assistance by the International Development Association, because until that organization is established -- which may be a year or more from now -- and until it has had time to formulate its lending policies, it is quite impossible to know whether its resources might be of help to Western Nigeria.

Mr. I. O. Dina
Permanent Secretary
Ministry of Economic Planning
Western Region of Nigeria
Ibadan, Nigeria

As you know, too, when it comes to specific lending proposals, our contacts with Nigeria are through the Federal Ministry of Finance. We would expect that any loan request for projects in the Western Region would be considered in the light of the requirements for external capital of Nigeria as a whole, and would be submitted to the Bank by the Federal Government. I should also say that until Nigeria becomes a member of the Bank in its own right, the United Kingdom Government is to be kept informed of loan proposals.

In fact, the Bank welcomes the type of development programming in which you have been engaged, and prefers that its lending should be associated with projects drawn from a well thought out development plan. It would not usually be possible, however, for the Bank to finance a development program as such, because the Bank's Articles of Agreement require it to finance specific projects except in exceptional circumstances which I doubt would exist in Nigeria.

I hope that what I have said does not sound too disheartening as far as some possible future association between the Bank and your development efforts is concerned. Let me repeat again that we have found your Development Plan to be of the greatest interest. I am sure that the next time the Bank sends an economic mission to Nigeria it will wish to come to Ibadan to discuss the Plan with you and your associates.

With kind regards,

Yours sincerely,

Andrew M. Kamarck
Economic Adviser
Department of Operations
Europe, Africa and Australasia

RFS

RFSkillings:mea

Cleared with Mr. Parsons, Mr. Lejeune

cc: Messrs. Cope/Lejeune
Adler
Parsons
Bass
Fontein
Perram

IDA

Mr. Broches

December 2, 195

Richard H. Demuth

IDA Charter - Definition of "Freely Convertible Currency"

Mr. Watanabe has raised two points in connection with Article II, Section 2(e) of the IDA charter (the definition of "freely convertible currency"):

(1) He questions whether the words "while so held" should be retained in sub-paragraph (iii). If yen made convertible by agreement with the Government of Japan are convertible only when held by the Association, they could not very effectively be used, for example, to buy sterling from the Bank of England. Furthermore, Watanabe asks what happens if such yen are loaned and then repaid. Do the yen repaid become subject again to the convertibility agreement?

(2) Watanabe also inquired whether, under sub-paragraphs (i) and (ii), currency would be accepted by IDA at par value or at market value. If the latter, he feels that there is some inconsistency between (i) and (ii), on the one hand, and (iii) on the other since, under (iii), the exchange is to be at par, in the absence of a determination by the Association that some other rate is more reasonable.

RHD:tf

cc: Mr. Sommers
Mrs. Boskey

1 DA

Mr. Leonard B. Rist November 30, 1959

J. Burke Knapp

Prof. Mikesell's study on Latin America

Returned herewith are the papers regarding Professor Mikesell's study on Latin America, which have also been read by Mr. Schmidt over the weekend.

My only comments would be as follows:

a) Delete the sentence marked on P. 141. This subject has been covered elsewhere and it seems to me particularly inappropriate in the context of the danger of overlending. It is exactly the Inter-American Bank, by reason of its political origin and constitution, which might be the offender in this respect.

b) Revise the final paragraph on P. 142. When IDA comes into existence there will no doubt be "package deals" of hard and soft loans from the Bank and IDA. "The logic involved in this mixed operation" arises simply out of the fact that there is no sharp dividing line on a nation's creditworthiness.

c) As indicated by Mr. Schmidt's comment on P. 4 of your Summary of the Study, I believe the paragraph running from P. 146 to 147 should be expanded to indicate the great importance of financial management to the country's balance of payments position, including its export earnings.

As for Mikesell's use of our figures, I definitely think that we should authorize him to do so in view of the very useful purpose to which they are being put.

Att.

JBKnapp/js

IDA

Mr. R. H. Demuth

November 30, 1959

S. R. Cope

I.D.A. Articles

1. I have the following suggestions and comments to make on the draft of November 19, 1959.

2. Article II, Section 2(e): Add the words "at the date of payment" after the words "the currency of any member which" in the first lines of subparagraph (i) and (ii).

3. Article II, Section 4: Does the definition of liability exclude liability for maintenance of value under Article IV, Section 3?

4. Article IV, Section 1(e): Of the three modes of payment permitted to Part I members, gold and convertible currency other than that of the member are in one category in that providing them involves a "burden" on the member, whether or not the Association uses them. The member's own convertible currency for which notes may be substituted does not involve a "burden" on the member until the Association uses it. The section as drafted does not reflect this difference. Two alternative solutions are attached.

Attachments

SRCope:mmr

cc: Mr. L. Nurick

ARTICLE IV, Section 1(e)

Alternative 1

The Association shall take appropriate steps to ensure that, over reasonable intervals of time, the portions of the subscriptions of members payable [in gold or freely convertible currency] under Article II, Section 2(d)(ii)(a) shall be used by the Association on an appropriately pro rata basis. In giving effect to this subsection, amounts paid by members in gold or freely convertible currencies other than their own currencies shall be deemed to be used on the dates on which they are received by the Association.

Alternative 2

The Association shall take appropriate steps to ensure that the portions of the subscriptions of members payable under Article II, Section 2(b)(ii)(a) which remain unused in the hands of the Association in the currencies of such members, either in the form of notes substituted under Section 3 of Article II or otherwise, shall be approximately in proportion to their respective capital subscriptions.

IDA

TELEGRAMS : PERMPLAN
PRIVATE MAIL-BAG No. 5170

MINISTRY OF ECONOMIC PLANNING

IBADAN · WESTERN NIGERIA

Your Ref. No.....
All communications to be addressed to the Permanent Secretary quoting
Our Ref. No. S.MEP. 380/200

AIRMAIL

Date 18 Nov. 1959.

Dr. John Adler,
c/o International Bank for
Reconstruction and Development,
1818 H Street, N.W.
New York, U.S.A.

Dear Dr. Adler,

Further to my letter of the 24th September, I forward herewith a copy of our Development Plan 1960-65 for your comments and advice.

I have raised with Dr. Kamarck a number of issues with regard to possible assistance from the Bank or any of its agencies towards the financing of the programme, and I shall be grateful if you will discuss with him.

Yours Sincerely,

Isaac Dina

I.O. Dina.

IDA

MINISTRY OF
ECONOMIC PLANNING
WESTERN REGION OF NIGERIA
IBADAN

AIRMAIL

My ref: S.MEP. 380/198

18 November 1959.

Dr. Andrew M. Kamarck,
Economic Adviser,
Dept. of Operations,
Europe, Africa and Australasia,
International Bank for Reconstruction
and Development,
1818 H Street, N.W.
Washington 25, D.C.
U.S.A.

Ack Dec 3/59

Dear Dr. Kamarck,

I thank you very much for your letter of the 5th October, especially for the information it conveyed. I have already kept my Minister duly informed of our discussions and I have received his approval to forward to you herewith six copies of our Western Region Development Plan, 1960-65. You will remember that while discussing the problems associated with the implementation of development programmes you suggested that it might be advantageous to let you have a copy of the Plan as a whole for close study with a view to advising on what aspects of the Plan, if any, could qualify for assistance by an international agency such as yours, i.e. I.B.R.D. or the new organisation, International Development Association.

I think he rather jumped the gun in interpreting my interest in the Plan to mean all this. Andy

I shall be grateful, therefore, if you will let me have your comments as early as possible so as to enable us to apply in due course for assistance.

I would wish to remind you of the point that I emphasised, that it would be in our general interests if financial assistance - by way of loan or grant - could be received towards the implementation of the plan as a whole rather than for the execution of particular projects. In this connection you will observe at page 39, paragraph 22.10, that there is an anticipated gap of £29.3m in our proposed capital programme of £68.3m. This gap is not considered excessive when related to the overall projected recurrent and capital expenditure of over £~~180~~160m for the period.

.....

ack Dec. 3/59

I am sorry to have to bother you with this assignment but I am sure you will be prepared to help.

I.O. Dina,
Permanent Secretary,
Ministry of Economic Planning.

IDA

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: November 17, 1959

FROM: A. M. Kamarck

SUBJECT: Bank Contribution to IDA

In working out the IDA charter the possibility of Bank contributions to IDA should not be foreclosed. While this is merely a preliminary idea and would need to be examined very carefully, it might be wise without being explicit to leave this opportunity open. The idea briefly is as follows:

At some point we are going to decide that our reserves do not need to grow as rapidly as they have and will have to take a decision on what to do. The usual alternatives are to start to pay dividends or cut the special commission. Another possible solution would be for the Bank to decide, say, to contribute half of its profits to IDA every year. Within a few years' time this may amount to around $50 million a year and would not be an insignificant contribution to IDA as presently visualized.

Several advantages to this scheme come quite quickly to mind. The industrialized countries could feel the glow of virtue from foregoing dividends from the Bank. The richer under-developed countries could also feel that they were sharing in the task of helping their poorer colleagues. It would also be a start on the way of finding a method of making the contributions to IDA as automatic and painless as possible. The member countries might be able to do something similar in finding some legislatively painless way of providing an automatic flow of funds to IDA.

Incidentally, if the Bank did follow this procedure it might change our own future role somewhat. The Bank might then be able to continue to lend to countries like Italy, Japan, Australia to supplement what they might be able to get on private capital markets with a better conscience since the profits from lending to them would be used for IDA financing.

cc: Messrs. Demuth
Rist
Adler
Larsen
Gilmartin

[RC-829] Cromer IDA (Chart) general

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N.W.
WASHINGTON 25, D.C.

TELEPHONE EXECUTIVE 3-6360 CABLE ADDRESS-INTBAFRAD

PERSONAL

16th November, 1959

My dear Gene,

I was so sorry to hear about your Mother and I hope that it is not too serious.

I am off to New York on Tuesday, 17th, returning to Washington on Saturday, the 21st. I understand that there is not now likely to be a meeting until Monday, the 23rd. I have really been waiting around this last 10 days expecting some definitive decisions from the U.S. on I.D.A., but it would probably have been pointless, and in any event I think mistaken, to have pressed for their views.

I hear that there is some thought of having a full discussion on the I.D.A. Charter starting next Monday, which I should have thought would not be too constructive and would almost inevitably lead, after a great deal of further discussion, to a demand to produce a new draft Charter. I do hope and I believe it is your intention that any meeting should be confined as far as possible to an explanation by the Staff of the meanings of the more abstruse passages. I know that as far as I am concerned, I will not really be in a position to do anything more until London has had an opportunity of studying the draft Charter in some detail.

Yours

Rowley.

The Earl of Cromer

Mr. Eugene R. Black,
President,
International Bank for Reconstruction
and Development.

FORM NO. 89
(2-57)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Nov 16

OFFICE OF THE PRESIDENT

NAME	ROOM NO.
Mr. Cope	813
~~Pl. Legal~~	
Files	R-100

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

From

JBKnapp

IDA

Mr. Eugene R. Black November 13, 1959

J. Burke Knapp

Meeting with Senator Javits re NATO Parliamentarians' Conference

In accordance with your request I called upon Senator Javits this morning, in his capacity as Chairman of the Economic Committee of the NATO Parliamentarians' Conference, for an informal discussion of some of his problems. I had meanwhile received and reviewed the two documents attached - the first consisting of a series of Resolutions which the Economic Committee had drafted in preliminary form to place before the NATO Parliamentarians' Conference which is meeting in Washington next week, and the second consisting of a proposal received by the NATO group from the Economist Intelligence Unit in London proposing to undertake a very ambitious study of the external capital requirements of the undeveloped countries of the free world.

Senator Javits had only a half-hour for his talk with me and we covered a lot of territory in that time. The principal focus of our discussion was Paragraph 9 of the draft Resolutions, and the proposal for a study of the capital requirements of the undeveloped countries.

Senator Javits expressed some considerable doubts, which I echoed, as to whether NATO was the right kind of organization to go into the problem of aid to undeveloped countries. There are of course many agencies already concerned more directly with this task and NATO has the considerable disadvantage that it is identified in the minds of the leaders of the undeveloped countries with the East-West conflict and indeed as a military alliance.

Without attempting to pass on this basic question, I said that if NATO wanted to look into the matter of "coordination of the activities of the NATO countries in respect of aid to the less developed areas" (see paragraph 9 of the Resolutions), we in the Bank would certainly offer our full cooperation. I told Senator Javits about our work in coordinating aid to India (with which he was fairly familiar) and also about our discussion with Mr. Erhard and others regarding the use of the Bank as a center for the exchange of information and the coordination of policies in this field. I also told Senator Javits about the present status of the negotiations on IDA, and suggested that he consider extending the last part of paragraph 9 to cover not only the increase in the capital of the World Bank but also the proposal for the creation of IDA. I said I realized that IDA

had not yet been submitted to national parliaments but I suggested that the NATO Council might welcome the initiative taken by the United States in this matter and urge the NATO governments to give the proposal serious consideration. Senator Javits said they could certainly do that and that he personally would be in favor of a Resolution lamenting the fact that the proposed capitalization for IDA was not larger.

It appears that these draft Resolutions are going to be revised by the Economic Committee at a meeting to be held on Sunday, November 15, for consideration by the full NATO conference some time next week.

As for the proposal for a study of the external capital requirements of the undeveloped countries of the free world, I told Senator Javits that in my frank opinion the proposal was entirely unrealistic. Briefly, the Economic Intelligence Unit had offered to produce a report covering:

a) The total investment requirements in the undeveloped countries necessary to achieve three stipulated rates of progress;

b) Estimates of how far undeveloped countries could meet these requirements out of their own resources;

c) Estimates of the "gap" over the next 10 years which would have to be filled from the "west";

d) Estimates of the skilled manpower requirements necessary to sustain this level of effort in the undeveloped countries;

e) Estimates of the trade necessary to sustain this level of effort and of how far increased trade might take the place of increased investment, etc.. -

all this for a fee of $70,000 for which application would be made to one of the Foundations. Presumably this proposal had the support of Paul Hoffman - this is the only way I can interpret the passage marked on page 7 of the statement regarding the study.

This same statement refers on page 2 to the desirability of consulting "major personalities" in this field, including in particular "Mr. Eugene Black, Mr. Paul Hoffman, Mr. Per Jacobsson and Mr. David Owen." However, without claiming to speak on your behalf, I explained to Senator Javits the completely vain efforts which had been made in the past to make estimates of this kind (particularly those contemplated under a), b) and c) above), and how the Draper Committee had specifically disclaimed the responsibility for doing so. He naturally asked me what my alternative was, and how people like himself who were in favor of increased foreign aid could prove their case to their parliaments. I said the only way I knew how to do this job was to recognize from the state of the world that the current effort

was inadequate and to step it up gradually until more satisfactory results could be obtained. I said that this would basically be the approach of IDA.

I did not know at all how far Senator Javits was committed to this study, but he seemed to take my remarks in very good grace and said that they made a lot of sense.

At the end of our conversation Senator Javits said that his Committee was meeting on Sunday to complete their work for the Conference and asked if I would like to sit in as an Observer. I said that I doubted that this would be appropriate and Senator Javits didnot press the matter.

c.c. Messrs. Iliff, Sommers, Cope, Domuth, Rist (w/encl.)

JBKnapp/js

I.D.A.

November 12, 1959

Mr. George Dumontet
Secretary
Administrative Committee
on Co-ordination
United Nations
New York

Dear Mr. Dumontet:

I am writing in regard to your letter to Mr. Black dated November 9, reference No. OR 323/1 (29), enclosing a copy of the provisional summary record of the twenty-ninth session of the Administrative Committee on Co-ordination.

Our only comment is to request that in the summary of Mr. Black's remarks on page 6, the fourth sentence beginning with the words "The function of IDA" should be amended to read as follows:

> "The function of IDA would be primarily to provide 'soft loans' either in dollars or in convertible currencies, which would be wholly or partly repayable in local currencies, or would be amortized over a very long term, possibly on an interest-free basis. Although the capital is limited, provision is to be made for governments to consider replenishment of that capital at five-year intervals".

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance & Liaison Staff

RHD:fh
cc. Central Files

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
November 12 and 13, 1959	Memorandum

Correspondents / Participants
To: Files
From: L. Nurick

Subject / Title
IDA; Territorial Application Clause

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

UNITED NATIONS  NATIONS UNIES

NEW YORK

CABLE ADDRESS · UNATIONS NEWYORK · ADRESSE TELEGRAPHIQUE

FILE NO.: OR 323/1 (29th)

9 November 1959

Dear Mr. Black,

I enclose a copy of the provisional summary record of the twenty-ninth session of the Administrative Committee on Co-ordination (CO-ORDINATION/SR.29/1). It would be appreciated if you would let me have any amendments or additions you may wish to make, at your early convenience.

Yours sincerely,

Georges Dumontet

Georges Dumontet
Secretary,
Administrative Committee
on Co-ordination

ack Nov. 12

Mr. Eugene R. Black
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington 25, D.C.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
November 4, 1959	Minutes

Correspondents / Participants
Administrative Committee on Co-ordination
Twenty- Ninth Session
New York

Subject / Title
Provisional Summary Record - First Meeting held at Headquarters, new York on Monday, 12 October 1959, at 3 pm.

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

STANDARD FORM NO. 64

~~Legal~~ Files

Office Memorandum • UNITED STATES GOVERNMENT / I.D.A.

IDA

TO : Mr. Sommers
International Bank

DATE: November 5,1959

FROM : Elting Arnold EA.

SUBJECT:

Attached are our drafting comments on the October 2 draft of Articles of Agreement for IDA. Of course, there will be numerous other drafting questions once some agreement is reached on the general principles to be followed on the points of substance now unsettled. As examples of these, I would point out the need for carefull attention to the provisions of Article II, Section 2(d) and Article VI with regard to availability of funds for making grants.

Attachment: "Draft Comments on October 2 Draft of Articles of Agreement for IDA" dated 11/5/59.

November 5, 1959

Draft Comments on October 2 Draft of Articles of Agreement for IDA

Article I - Purpose.

This will presumably have to be redrafted in various particulars, but the work should await the conclusions of the various discussions in the financial policy committee.

Article II - Membership.

Section 2 - Capital Stock.

Provision should be made in subsection (c) or elsewhere for consideration of replenishment at 5-year intervals, as contemplated by the U. S. proposal.

Article III - Currencies.

Section 1 - Use of Currencies.

(a) Revise the first sentence of subsection (a) by striking "the" before "payment" in the second line and by inserting "payment for" in the fourth line in place of "the payment of." Also make the second sentence into a separate subsection (b) and renumber the succeeding subsections accordingly. (In this connection, see explanation under former subsection (c).)

(b) Revise the preamble of subsection (b) to read: "Members shall not maintain or impose restrictions upon the use or exchange of:"

(c) In subsection (b)ii, seventh line, delete "highly".

(d) It would be desirable to add after subsection (b), a new subsection, spelling out the status of the 50% currency, instead of leaving it merely to

implication. The drafting of this provision must, of course, await policy decision as to the availability of the 50% portion.

(e) In subsection (c), revise first line to read: "the provisions of this section, except paragraph (b)." While it is true that only the two paragraphs specifically cited in the draft could possibly be applicable to the local currency contributions article, nevertheless their specific mention tends to be complicating and there is no harm in simply referring to the section as a whole. On the other hand, the last sentence of paragraph (a) should be applicable to any currencies held by the Association. For this reason, it has been proposed that that sentence be made a separate paragraph and be excepted from the operation of subsection (c).

(f) At the end of subsection (c) add the following: "Except insofar as arrangements referred to in Article VI(1)(a) may provide".

New Section

Add a new section defining fully convertible currency as set forth in Annex A hereto attached.

Article V.

(a) Make present Article VI, Article V. All operational provisions of the article should appear before the section on organization and management, which in Bretton Woods type charters traditionally marks the boundary between active and formal provisions of the agreement.

(b) Section 1.

In subsection (a), fourth line, replace "its operations" with "the operations of the Association". The reference of "its" is very indefinite.

(c) Revise Section 2 to read as follows:

"Section 2 - Separate Accounts. Supplementary contributions shall be accounted for separately from the other assets of the Association." There is no reason why these contributions should be administered separately. They may appropriately be used in connection with the other funds of the Association.

Article VI - Organization and Management.

(a) This, of course, is the article formerly numbered "V".

(b) Section 5 - President and Staff.

In subsection (c), line 2, replace "offices" by "functions for

the Association". This change is proposed because the President and presumably many other employees of the Association will also have duties to the Bank and possibly to the IFC.

(c) Add a new subsection (d) as provided for in the Articles of the Bank and of the IFC.

(d) Section 6 - Relationship to the Bank.

In subsection (a), line 3, add "lend to or" before "borrow".

ARTICLE VIII. - Status, Immunities, and Privileges.

(a) Section 4.

It is strongly desired that the immunities and privileges be set forth in full.

(b) It is noted that the proposed article does not contain any provision like section 11 of the IFC Articles relating to waiver of privileges and immunities. Why is this?

Article IX - Amendments.

(a) In subsection (b)ii, second line, omit "and". This does not appear in either the IFC or the IBRD articles.

Article XI - Final Provisions.

(a) Section 1.

Consideration should be given to dropping the provision for requiring that not less than governments subscribe. This requirement is in the IFC Articles, but not in those of the IBRD. On the whole, it seems to introduce only a complication.

(b) Section 2 - Signature.

In subsection (a) consideration should be given to dropping the phrase "without reservation". This does not appear in the Articles of Agreement of the Bank, although it is in those of the Fund. It was not included in the I-ADB Articles. On the whole, it is probably an irritant to the Congress and does not serve any vital purpose.

Consideration should be given to inserting a subsection comparable in principle to that in subsection (g) of the Bank Articles, providing that all signatories accept the agreement in behalf of their colonies, etc. No such provision was made in the IFC Articles, but it appears to be particularly important in regard to IDA in view of the insistence of a number of countries that their colonies be eligible for financing.

(c) Section 3 - Inauguration of the Association.

In subsection (c), last line, replace "until" by "under".

ANNEX A

Section 5. Definition of fully convertible currency.

For the purposes of this Agreement the term fully convertible currency means:

(i) the currency of a member whose monetary authorities ~~in fact~~ freely buy and sell gold or United States dollars within the limits prescribed by Article IV, Sections 2 and 3, of the Articles of Agreement of the International Monetary Fund; or

(ii) currency of a member held by the Association which the member has irrevocably agreed will be exchanged by the member for the currency of any other member without restriction at the par value for the member's currency established with the International Monetary Fund or, if the Association so decides, at such rate of exchange as shall be reasonably determined by the Association after consultation with the Fund.

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: November 2, 1959

FROM: A. M. Kamarck

SUBJECT: U.S. Local Currency Loans to Industrialized and Semi-Industrialized Countries

Acting on a suggestion of Mr. Parsons, I looked briefly at how useful local currency repayments on existing U.S. PL-480 and Sec. 402 loans might be to I.D.A. for lending outside the particular debtor country. The following are the principal amounts of local currency loans already signed or scheduled to be signed as of June 30, 1959 owed by industrialized and semi-industrialized countries.

Industrialized Countries	Principal Amount $ Millions
Austria	26
Denmark	2
France	14
Italy	107
Japan	109
Total	258
Semi-Industrialized Countries	
Argentina	42
Brazil	150
Chile	29
Colombia	29
Finland	12
Greece	75
Iceland	7
Mexico	7
Portugal	3
Spain	118
Turkey	72
Yugoslavia	233

Prepared By
Approved By

Comparison of I.B.R.D / I.D.A Voting Power
assuming shares of $100,000 and $10,000
(to 1/1/83) (Rounded to nearest even 100,000) (no rounding)

	I.B.R.D Voting Power Votes	I.B.R.D Voting Power %	I.B.R.D Total Subscription (millions $)	I.B.R.D Total Subscription (millions $)	I.D.A $100,000 per share Votes	I.D.A $100,000 per share % of Total	I.D.A $10,000 per share Votes	I.D.A $10,000 per share % of Total	$100,000 Shares	10,000 Shares
Afghanistan	550	.25	30	1.50	265	.98	400	.34	15	150
Argentina	3983	1.84	373.3	18.67	436	1.62	2117	1.82	186	1867
Australia	4250	1.97	400	20.00	450	1.67	2250	1.93	200	2000
Austria	1250	.58	100	5.00	300	1.11	750	.64	50	500
Belgium	4750	2.20	450	22.50	475	1.76	2500	2.14	225	2250
Bolivia	460	.21	21	1.05	260	.96	355	.31	10	105
Brazil	3983	1.84	373.3	18.67	436	1.62	2117	1.82	186	1867
Burma	650	.30	40	2.00	270	1.00	450	.39	20	200
Canada	7750	3.59	750	37.50	625	2.32	4000	3.43	375	3750
Ceylon	850	.39	60	3.00	280	1.04	550	.47	30	300
Chile	950	.44	70	3.50	285	1.06	600	.51	35	350
China	6250	2.89	600	30.00	550	2.04	3250	2.79	300	3000
Colombia	950	.44	70	3.50	285	1.06	600	.51	35	350
Costa Rica	330	.15	8	.40	254	.94	290	.25	4	40
Cuba	1183	.55	93.3	4.67	296	1.10	717	.62	46	467
Denmark	1983	.92	173.3	8.67	336	1.25	1117	.96	86	867
Dominican Rep	330	.15	8	.40	254	.94	290	.25	4	40
Ecuador	378	.18	12.8	.64	256	.95	314	.27	6	64
El Salvador	310	.14	6	.30	253	.94	280	.24	3	30
Ethiopia	350	.16	10	.50	255	.95	300	.26	5	50
Finland	1010	.47	76	3.80	288	1.07	630	.54	38	380
France	10750	4.97	1050	52.50	775	2.87	5500	4.72	525	5250
Germany	10750	4.97	1050	52.50	775	2.87	5500	4.72	525	5250
Ghana	717	.33	46.7	2.34	273	1.01	484	.42	23	234
Greece	750	.35	50	2.50	275	1.02	500	.43	25	250
Guatemala	330	.15	8	.40	254	.94	290	.25	4	40
Haiti	400	.19	15	.75	258	.96	325	.28	8	75
Honduras	310	.14	6	.30	253	.94	280	.24	3	30
Iceland	400	.19	15	.75	258	.96	325	.28	8	75
India	8250	3.82	800	40.00	650	2.41	4250	3.65	400	4000
Indonesia	2450	1.14	220	11.00	360	1.34	1350	1.16	110	1100
Iran	1150	.53	90	4.50	295	1.09	700	.60	45	450
Iraq	400	.19	15	.75	258	.96	325	.28	8	75
Ireland	850	.39	60	3.00	280	1.04	550	.47	30	300
Israel	583	.27	33.3	1.67	266	.99	417	.36	16	167
Italy	3550	1.78	360	18.00	430	1.60	2050	1.76	180	1800

Prepared By
Approved By

Comparison of IDA / IBRD Voting Power (Contd)

	Voting	I.B.R.D. Power	Total Subscription (millions)	Total Subscription (millions)	$100,000 per share Votes	% of Total	$10,000 per share Votes	% of Total	@100,000 shares	@10,000 shares
				1/20 of col 3.	(Rounded to nearest even 100 000)		(no rounding)			
Japan	6910	3.20	666	33.30	583	2.16	3580	3.07	333	3330
Jordan	400	.19	15	.75	258	.96	325	.28	8	75
Korea	550	.25	30	1.50	265	.98	400	.34	15	150
Lebanon	400	.19	15	.75	258	.96	325	.28	8	75
Libya	450	.21	20	1.-	260	.96	350	.30	10	100
Luxembourg	550	.25	30	1.50	265	.98	400	.34	15	150
Malaya	750	.35	50	2.50	275	1.02	500	.43	25	250
Mexico	1983	.92	173.3	8.67	336	1.25	1117	.96	86	867
Morocco	950	.44	70	3.50	285	1.06	600	.51	35	350
Netherlands	5750	2.66	550	27.50	525	1.95	3000	2.57	275	2750
Nicaragua	310	.14	6	.30	253	.94	280	.24	3	30
Norway	1583	.73	133.3	6.67	316	1.17	917	.79	66	667
Pakistan	2250	1.04	200	10.-	350	1.30	1250	1.07	100	1000
Panama	310	.14	6	.30	253	.94	280	.24	3	30
Paraguay	310	.14	6	.30	253	.94	280	.24	3	30
Peru	600	.28	35	1.75	268	.99	425	.36	18	175
Philippines	1250	.58	100	5.-	300	1.11	750	.64	50	500
Saudi Arabia	983	.46	73.3	3.67	286	1.06	617	.53	36	367
Spain	2250	1.04	200	10.-	350	1.30	1250	1.07	100	1000
Sudan	550	.25	30	1.50	265	.98	400	.34	15	150
Sweden	2250	1.04	200	10.-	350	1.30	1250	1.07	100	1000
Thailand	850	.39	60	3.-	280	1.04	550	.47	30	300
Tunisia	550	.25	30	1.50	265	.98	400	.34	15	150
Turkey	1400	.65	115	5.75	308	1.14	825	.71	58	575
Union S. Africa	2250	1.04	200	10.-	350	1.30	1250	1.07	100	1000
United Arab Rep.	1576	.70	126.6	6.33	313	1.16	883	.76	63	633
United Kingdom	26250	12.15	2600	130.-	1550	5.75	13250	11.37	1300	13000
United States	63750	29.50	6350	317.50	3425	12.71	32000	27.45	3175	31750
Uruguay	530	.25	28	1.40	264	.98	390	.33	14	140
Venezuela	1650	.76	140	7.-	320	1.19	950	.82	70	700
Vietnam	550	.25	30	1.50	265	.98	400	.34	15	150
Yugoslavia	1050	.49	80	4.-	290	1.08	650	.56	40	400
	216125	100%	19912.5	995.7	26953	100%	116567	100%	9953	99527

FORM No. 75
(5-58)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date October 22, 1959
NAME	**ROOM NO.**
~~1. Mr. Sommers~~	~~1003~~
~~2. Mrs. Boskey~~	506
3 Files	P-101

	Action		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
X	Information		Signature
	Initial		To Handle

REMARKS

From Richard H. Demuth

IDA

October 22, 1959

Prof. James A. Robinson
Department of Political Science
Northwestern University
Evanston, Illinois

Dear Prof. Robinson:

Oct. 15.

Thank you for your kindness in sending me a copy of your interesting case study on the Monroney Resolution. I think you have presented the story clearly and well.

I should be glad to talk with you about further developments in connection with the International Development Association on your proposed visit to Washington later this fall.

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf

File copy w/incoming letter and document to (1) Mr. Sommers
(2) Mrs. Boskey

IDA
X/PPIT

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: October 22, 1959

FROM: Shirley Boskey

SUBJECT: Projects for Peace Investment Trusts

PPIT

On October 13, Mr. Broches and I met with Gordon Evans to discuss with him his suggestion (see attached paper, dated October 6) that IDA might be a suitable vehicle for the PPIT proposal, since the IBRD did not seem to be.

We told Mr. Evans that the principal difficulty with his plan was that the contemplated basis of IDA lending was inconsistent with IDA's borrowing on terms calling for repayment of principal, let alone payment of interest. We suggested the possibility of the PPITs' raising funds on a contribution basis, and turning them over to IDA as a gift, with the stipulation that they be used for a designated project. However, Mr. Evans was reluctant to accept this idea. He thought that only small amounts could be raised as charitable contributions; moreover, the PPIT proposal is intended to provide a means by which smaller savers could invest in, not merely contribute to, economic development.

Mr. Broches suggested the possibility that governments of the countries in which funds were raised might be willing to guarantee repayment by IDA. He noted that, for various reasons, this would not be practicable in the United States. Mr. Evans planned to explore this approach with Geoffrey Wilson, at the Embassy.

Before leaving Washington, Mr. Evans spoke with Mr. Demuth by phone. Mr. Demuth proposed another alternative, suggested by Mr. Sommers, that governments themselves might borrow funds from the PPITs and turn the proceeds over to IDA as supplemental contributions. Mr. Demuth also suggested the possibility of the PPITs issuing certificates of much longer maturity than had originally been contemplated, to tie in more closely with the terms on which IDA would relend funds available to it. Mr. Evans will consider all these suggestions.

IDA

FORM NO. 27
(8-55)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE:

DATE: OCTOBER 20, 1959

TO: ~~XXXX~~ INTBAFRAD

PARIS

COUNTRY (FRANCE

TEXT:

Cable No.

218

YOUR 116 YES.

MENDELS

Signed:

AUTHORIZED BY:

NAME: M.M.MENDELS

DEPT: SECRETARY

SIGNATURE:

For Use by Archives Division
Checked for Dispatch

ORIGINAL (File Copy)

(IMPORTANT: See over for guide in preparing Outgoing Wire)

GUIDE FOR PREPARING OUTGOING WIRES

1. Class of Service

Type in class of service desired. Each class is described as follows:

Letter Telegram — Letter telegrams are normally delivered the morning after day of despatch. The cost is half the cost of full rate messages with a minumum charge for 22 words including address and text.

Full Rate — Full rate messages are normally transmitted and delivered immediately. There is a minimum charge for 5 words, including address and text.

IBF Govt. — This is a preferential rate extended to the Bank by some of its member countries. Messages are sent at full rate speed and at about half the cost. This rate normally should be used whenever available. It is at present available for the following countries:

Bolivia	Cuba	Guatemala	* Peru
Brazil	Dominican Republic	Honduras	* Syria
Burma	Ecuador	Jordan	Uruguay
Chile	El Salvador	* Lebanon	Venezuela
* China	* Ethiopia	Nicaragua	Yugoslavia
Colombia	* France	Pakistan	
Costa Rica	Greece	Panama	

* In these countries the letter telegram rate is lower than IBF government rate and should be used for messages when immediate transmission is not required.

Code — Code messages are transmitted at full rate (or IBF Govt.) speed and cost. This rate should be used only for confidential messages to staff members having a code with them.

Day Letter — Day letters are delivered during the day of transmission and should be used only for messages in the United States and to Mexico and Canada. There is a minimum charge for 50 words in text.

Teletype — To be used only for messages to the New York Office, United Nations, and certain commercial firms. For information, call Cable Post (Ext. 2008).

2. Address

Use only last name of addressee and cable address whenever possible. The Bank cable address "INTBAFRAD" is registered in Paris, Beirut, Rio de Janeiro, Bogota, and Guatemala City. The name of the country of destination must always be added. (No charge is made for the name of a country).

3. Text

Messages to Bank Missions and to Resident Representatives should be numbered. These numbers may be obtained by calling Ext. 2008.

Type text in capital letters and double space between lines. The text should be edited to eliminate unnecessary words and unnecessary punctuation. If punctuation is needed, spell out the words "Comma," "Stop," etc.

Use common abbreviations whenever possible, i.e. reourlet, reurfive, etc. Write as one word hyphenated words, hyphenated names, and certain two-word groups, e.g. Airmail, Newyork, enduse.

4. Signature

Type in last name of sender. Use INTBAFRAD as part of the signature only when addressee does not know the address of the sender.

5. Authorization

Type in name and department of staff member authorizing message and have authorizing staff member sign the original (pink copy). A list of authorized signatures is kept in the cable office.

Forward messages in triplicate in a cable envelope to Room 210 for despatch. The cable service is open from 9:00 a.m. to 5:45 p.m. on working days. Special arrangements should be made for the despatch of of cables outside of these hours.

ANY QUESTIONS REGARDING INCOMING AND OUTGOING WIRES SHOULD BE REFERRED TO THE CABLE POST, EXT. 2008.

IDA

October 20, 1959.

Mr. P. R. Jolles,
Deputy Director General,
Department of Administration, Liaison
and Secretariat,
International Atomic Energy Agency,
Karntnerring, Vienna, 1,
Austria.

Dear Paul,

The enclosed all deal (in part) with IDA. They should be useful to you in understanding its background.

Best regards,

Cordially,

Corbin Allardice

Corbin Allardice
Adviser on Atomic Energy

Enclosures.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
October 19, 1959	Board Record

Correspondents / Participants

Subject / Title
Minutes of the 315th Regular Meeting of the Executive Directors held in the Board Room of the Bank on October 15, 1959, at 10:00 am

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

IDA

FORM No. 26 (8-59)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	INCOMING WIRE	INTERNATIONAL FINANCE CORPORATION

DATE OF WIRE:

LOG NO.: OCTOBER 19, 1959 ACR 1.

TO: MENDELS IBRD

FROM: PARIS

TEXT:

ROUTING	
ACTION COPY:	
INFORMATION COPY:	MR. MENDELS
DECODED BY:	

116 EEC STAFF PREPARING PAPER ON IDA PRESUMABLY TO COORDINATE APPROACH STOP MAY WE SHOW THEM MEMORANDUM ANNEX DOCUMENT IDA R59-1

DUPLICATE

TYPED

GENERAL FILES
CORRESPONDENCE

OCT 20 10 19 AM 1959

FORM NO. 59
(2-55)

CROSS REFERENCE SHEET

COMMUNICATION: Letter

DATED: October 16, 1959

TO: Mr. Eugene R. Black

FROM: Mr. Dag Hammarkjold
Secretary General
United Nations

FILED UNDER: LIAISON - UNITED NATIONS

SUMMARY: Re: Concerning the problem of the relationship between the proposed International Development Association and the United Nations and the other specialized agencies.

ack. Oct. 23, 1959

IDA

October 16, 1959

Dear Mr. Rayan:

I was interested in reading your comments on the proposed International Development Association, which appeared in the 26th September issue of COMMERCE. Thank you for sending me a copy of your article.

Best regards.

Sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

Mr. S. V. Rayan
Editor
COMMERCE
Post Box 840
Bombay 1, India

mel

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SecM59-180

FROM: The Secretary

October 16, 1959

NOTICE OF MEETINGS

There will be a Special Meeting of the Executive Directors in the Board Room on Thursday, October 22, at 10:00 a.m., to consider the Report (R 59-84) regarding Capital Increases.

This meeting will be immediately followed by a Meeting of the Financial Policy Committee which will begin its consideration of the proposal for an International Development Association (Report IDA/R59-1 dated October 9, 1959).

Distribution:

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

Sec. 59-367

NORTHWESTERN UNIVERSITY
EVANSTON, ILLINOIS

DEPARTMENT OF POLITICAL SCIENCE

PROGRAM OF GRADUATE TRAINING AND RESEARCH
IN INTERNATIONAL RELATIONS

October 15, 1959

Mr. Richard H. Demuth, Director
Technical Assistance and Liaison Staff
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington 25, D. C.

Dear Mr. Demuth:

This is a published version of a manuscript you were kind enough to read last spring. Later this fall I would like to call on you to discuss more recent activities concerning the International Development Association. I hope to make a further study of the organization.

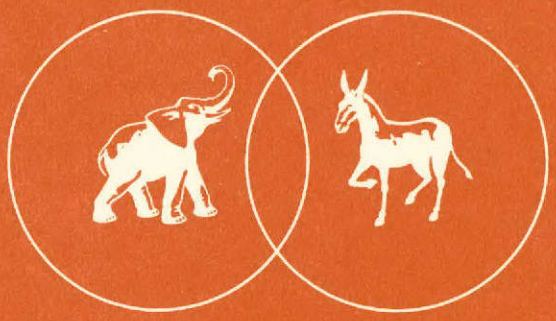
Sincerely,

James A. Robinson

James A. Robinson
Assistant Professor

JAR:ds
Enclosure

ack. Oct. 22



THE MONRONEY RESOLUTION: CONGRESSIONAL INITIATIVE IN FOREIGN POLICY MAKING

James A. Robinson

Henry Holt and Company

Case Studies in Practical Politics

Members of the Eagleton Foundation Case Studies Committee

The Eagleton Foundation Studies in Practical Politics are premised on the importance and utility of political parties in American political life and are designed to increase understanding of the vital contribution to American democracy of partisan political activity. They introduce the case method, already applied successfully to business and public administration curricula, into the teaching of American politics. Cases provide an inside look at practical politics; these are aimed at improving student interest and performance in introductory through graduate courses. The cases themselves are lucid, dispassionate accounts of actual political activity—campaigning, financing, programming, framing issues, running affairs of state—built on materials not found between hard covers, materials hitherto locked in the oral tradition of politics. The program in practical politics contemplates continuous replenishment of cases to assure comprehensive coverage and to keep the cases close to political realities, student interests, and teaching needs.

Biographical Sketch

James A. Robinson received his doctorate from Northwestern University in 1957. He was a Congressional Fellow of the American Political Science Association, 1957-1958, and was attached to the staff of the Senate Committee on Banking and Currency while the Monroney Resolution was under consideration. He is now Research Associate, Program of Graduate Training and Research in International Relations, and Instructor in Political Science, Northwestern University.

Library of Congress Catalog Card Number: 59-12380

27520-0119
Printed in the United States of America

THE MONRONEY RESOLUTION: CONGRESSIONAL INITIATIVE IN FOREIGN POLICY MAKING

by

JAMES A. ROBINSON

Preface. This is an account of the enactment of the Senate Resolution urging the executive to consider an International Development Association as an affiliate of the World Bank. Data for reconstructing the story were gathered by three means: direct observation and participation, interviews, and analysis of private files and public records.

What is the significance of this case? One may read it as an example of the legislative process, as a case of a potentially important development in international financial organization, or as illuminating and modifying some familiar propositions about the role of Congress in making United States foreign policy. In *Congress and Foreign Policy* Robert Dahl has written:

> Perhaps the single most important fact about Congress and its role in foreign policy . . . is that it rarely provides the initiative. In foreign policy the President proposes, the Congress disposes—and in a very large number of highly important decisions about foreign policy, the Congress does not even have the opportunity to dispose.[1]

Why was the Monroney Resolution an exception to the rule? Does this case suggest hypotheses about the conditions under which Congress may take the initiative in making foreign policy?

ORIGINS OF THE RESOLUTION

Less than a month after his re-election to the United States Senate in 1956, Mike Monroney, Democrat of Oklahoma City, flew to Bangkok, Thailand, for the annual meeting of the Inter-Parliamentary Union (IPU). It was his first participation in the deliberations of this semiofficial association of legislators representing more than sixty countries. The trip not only introduced the Senator to many other parliamentary politicians, but it also gave him firsthand acquaintance with a few of the problems of underdeveloped countries.

As a result of his travel and talks Monroney returned with the general impression that United States foreign-aid programs were not meeting the special needs of many underdeveloped nations. He discovered that Asians often interpreted United States assistance as an attempt to buy allies, while Soviet assistance was encumbered by no such suspicion. The numerous American officials, Monroney was informed, often told the local officials what to build, whereas the relatively few Russian aid administrators allowed the Asians more initiative and control. And when the American government made outright gifts, the Soviets offered loans over long periods of time at low rates of interest.

Point Four projects appeared to Monroney to be received better than any other American aid programs. For example, the United States had trained Thai technicians who, in two years, eradicated the malaria-bearing mosquito and made Thailand malaria free. The Thais were determined to pass these blessings on to Laos and Cambodia, and Monroney particularly admired this "chain reaction" in which those who had received help turned to helping others. Yet the cost of Point Four was slight compared to American military assistance.

The Asian attitude toward foreign assistance was sharply revealed on two side trips which Monroney took from Bangkok. On the first he made a Sunday flight to Burma, and passed over a 148-kilometer section of a highway built with $2 million from American military aid. This was, by engineering standards, a magnificent piece of construction and a useful adjunct to Thailand's transportation system. But many Thais were ashamed of the gift. In fact, the emperor refused to dedicate it, and the prime minister had been reluctant to do so.

In contrast to their lack of pride in the highway the Thais took special pride in an irrigation dam built, in part, with an $18 million loan from the International Bank for Reconstruction and Development (World Bank). Thai officials were proud that a respected and sound international banking institution had loaned the money to build a locally conceived project.

But Monroney soon learned that the World Bank could not meet all the demands for capital among underdeveloped countries. For example, the Thais planned a $100 million dam which, Monroney was told, would "erase a power desert" and provide electricity to Thailand, Burma, and perhaps Malaya. Because an unusually long term would be required to repay the loan, the World Bank was unable to supply all the required capital.

In discussions with Burmese financial experts Monroney learned that another source of funds might be available for such developments. The Senator was told that for two years the United States had sought to reloan Burmese currency, acquired from the sale of surplus wheat to Burma. This suggested the possibility of using "counterpart" funds set

[1] New York: Harcourt Brace and Co., 1950, p. 58. Quoted by permission.

aside by recipients of Marshall Plan aid.[2] Monroney did not then appreciate the amount (more than two billion dollars) of foreign currencies which the United States had acquired from the sale of farm surpluses under Public Law 480, nor did he realize that virtually all counterpart moneys were exhausted. In a speech to the Inter-Parliamentary Union he stressed the opportunity to "recycle" the counterpart funds through an international lending institution. Such a plan, if it matured, could satisfy the preference among underdeveloped nations for borrowing from international organizations rather than directly from single nations. It would also capitalize on what appeared to be dormant currencies.

Monroney believed his Bangkok speech evoked a favorable response among the members of the International Parliamentary Union and, when he returned to Washington in December 1956, he felt ready to discuss the idea with Eugene Black, president of the World Bank, and Senator J. William Fulbright (D-Ark), chairman of the Banking and Currency Committee. If they were receptive, he would introduce a resolution urging further study. Such an inquiry might be concluded, he thought, in time for part of the American supply of local currencies to be included in the 1957 foreign aid authorization, which Monroney hoped would mark the first phase in the shift from bilateral to multilateral aid.

The consultations with Black were encouraging. Black also had been thinking about possible new developments because World Bank regulations would not permit the long-term, low-interest loans which were becoming increasingly necessary. His role as an international official forbade Black to commit himself or the bank at such an early stage, but he believed Monroney's idea worth exploring. Chairman Fulbright also thought the subject deserved study and appointed Monroney chairman of the Subcommittee on International Finance, of which Monroney had not previously been a member. Fulbright himself had chaired this subcommittee in the previous Congress, but volunteered to surrender this role to Monroney so that he might have an official platform from which to launch his proposal. Monroney was grateful to have a subcommittee of his own, which permitted him to schedule hearings at virtually his own pleasure, command a small staff, and take initiative in pursuing the matter before the full committee and with the administration.

With such encouragement he was prepared to discuss the idea publicly in the United States. In an interview with *Washington Post and Times-Herald* reporter, Robert C. Albright, the Senator emphasized reusing local currencies owned by the United States and the advantages of allocating foreign aid through international organizations. "I think the time has come to at least begin the transition to multilateral aid through the World Bank, possibly starting with some of the Asiatic nations which may actually prefer long-term loans," Monroney said. He also envisioned the use of a new "Class B" stock to finance long-term loans with interest and amortization suspended over the first five years. The United States could contribute counterpart funds proceeds from Public Law 480 sales. Eventually other nations might contribute.

1957

About the time Monroney approached Black and Fulbright he also asked the Department of State for its evaluation of the possibility of using foreign currencies for development purposes. Within a short period the department communicated its reply through Robert Hill, then the Assistant Secretary for Congressional Relations charged with coordinating almost all State Department communications with the House and Senate. Assistant Secretary Hill's memorandum lent little encouragement to Monroney's idea. The department reported that virtually all the counterpart funds had been expended and that revenue from sales of farm surpluses was being allocated for purposes established by Public Law 480. According to the memorandum it was not practicable to negotiate additional "triangular" deals, by which Country *A* might loan "soft" currencies to Country *B* to buy from Country *C*, which in turn would make purchases from *A*. Local currencies would not meet the need for hard currencies, especially the dollar.

Monroney did not introduce a resolution in 1957. No hearings were held, no further signs of interest in or activity about the matter were displayed. Monroney continued to hope that his idea or something like it would be adopted, but if the "experts" in the administration did not believe it practicable, he would bide his time. He became occupied with other legislation—aviation safety and automobile pricing, both of which fell within the jurisdiction of his subcommittees of the Interstate and Foreign Commerce Committee. In and out of the United States, he occasionally discussed the possibility of using more foreign currencies for aid, but a full year elapsed before he again attempted to put the idea before the Senate. In August 1957, he appointed Thomas D. Finney, Jr., an Oklahoma attorney and former Foreign Service officer, as administrative assistant and put this subject at the top of a list of issues Finney could expect to handle in the next year.

1958

At the first meeting of the Banking and Currency Committee in 1958, the staff director, Dr. Robert A. Wallace, asked Senator Monroney whether he intended to do anything with his International Finance Subcommittee. Monroney said that he had talked to Under Secretary of State Christian Herter, Treasury Secretary Robert Anderson, and Eugene Black about an international local currencies bank, but that more work needed to be done, and he was in no hurry.

On February 4 Monroney, who is an active Episcopalian, called on Secretary Anderson to invite him to address a women's group at the Washington National Cathedral. The Senator used this occasion to discuss his local-

[2] When the United States, through the European Recovery Program, loaned dollars to other nations, the recipient governments deposited equal amounts of their own currencies in their central banks. These became known as "counterpart" funds, a small percentage of which was at the direct disposal of the American government. Such "local" currencies, with little exchange value in international markets, are often called "soft" currencies in contrast to "hard" currencies like the dollar.

currency bank idea with the Secretary again. Anderson was quite interested and said he had been talking to Black about the same problems—especially how to expand multilateral lending activities.

On February 6, on his own initiative, Wallace wrote a one-page memorandum proposing that Monroney offer a simple Senate resolution recommending a conference among the nations whose local currencies had been acquired by the United States. The purpose of the conference would be to consider establishing an international bank to take deposits and loan such currencies. Also on February 6 Monroney was visited by John Oakes, an old newspaper friend and chief editorial writer of *The New York Times*. When the Senator told Oakes about the idea of using local currencies for additional international loans, Oakes invited Monroney to meet with the editorial board to discuss the proposal. Monroney asked Oakes to set a date, and early the next week he stopped off in New York for a long luncheon at which he answered the writers' questions.

A week later—on Monday, February 17—Monroney and his press secretary, Mrs. Beth Campbell Short, went to the Department of State to see Under Secretary Christian Herter. Monroney and Herter had known each other from the time they served together in the House, and Monroney also had been a member of the famous Herter Committee which in 1947 visited Europe to study the first foreign aid programs. Also present was William B. Macomber, Jr., the new Assistant Secretary for Congressional Relations. Monroney presented his idea and urged the department to take a more positive position than it had a year earlier. Herter appeared to like the idea, and Monroney thought he might be able to secure not only bipartisan, but also combined executive-legislative support. On Friday morning of this same week—February 21—Monroney visited Eugene Black at his office in the International Bank for Reconstruction and Development. Black preferred that Monroney not propose an international conference similar to the Bretton Woods meeting which culminated in the formation of the World Bank. Instead Black suggested that if sufficient support should grow among national governments, the bank's Board of Directors could take the initiative.

After seeing Black, Monroney went to lunch with E. W. Kenworthy, a Washington correspondent for *The New York Times*, whom Oakes had sent to see the Senator. At the entrance to the tunnel from the Senate office building to the Capitol, Monroney and Kenworthy chanced to meet Staff Director Wallace, and the Senator invited Wallace to join them. Monroney was reluctant to introduce his resolution at this point but Kenworthy and Wallace urged him to act. Monroney said he would like to talk to Anderson and Herter again. Meanwhile Kenworthy, Wallace, Finney, Mrs. Short, and Charles Boots, attorney with the Senate's Office of Legislative Counsel, gathered in Monroney's office. Boots put Wallace's rough draft of a resolution into legal language, and preliminary drafts of statements, which Monroney later revised, were prepared for Kenworthy's use in his Sunday and Monday articles. At this point there was no assurance about the prominence which Kenworthy's articles would receive.

Monroney thought he was making progress when he went to see Anderson to tell him he was ready to introduce his resolution. The Secretary said he would like to call Herter, and Monroney could tell from overhearing half the conversation that he was running into opposition. Anderson advised him to see Herter, and an appointment was made for 5:30 that afternoon. When Monroney arrived at the State Department he was greeted by Herter, Macomber, and C. Douglas Dillon, then Deputy Under Secretary for Economic Affairs. From the outset Monroney sensed that they were going to be discouraging. He inferred that Secretary of State Dulles had turned thumbs down on the proposal, and Herter and Dillon advised him not to go ahead. The administration's concern was evident; Monroney's proposal might jeopardize the Development Loan Fund. But the Senator told the departmental representatives that he was too far along to stop. He left a copy of his resolution and said that he had hoped for executive cooperation so that they might "break" the story together. In any case, he was going to give the story to the Sunday *Times* and try to get the plan "airborne."

On Sunday *The New York Times* gave Monroney's proposal prominent and extensive coverage. Kenworthy's dispatch was placed on the front page, and Moroney's picture appeared inside with the continuation of the article. On Saturday Kenworthy had interviewed Black, and Monday morning's paper contained another front-page story which presented the World Bank president's view that the Senator's idea was worthy of serious study. Also on Monday *The Times* published a sympathetic editorial.

This publicity was valued very highly by Monroney. First, he believes *The Times*, especially the Sunday edition, is read by some of the most influential individuals throughout the nation and indeed the world. Second, he knows that often what appears initially in *The Times* will be picked up by other newspapers. And third, he likes to circulate reprints of such articles and editorials which he thinks will, because of their source, carry great weight. In fact, after the initial publicity in *The Times* Monroney's office received many calls and letters for further information, including some foreign requests. Packers of materials, later called IDA kits, containing *The Times* and other reprints, were widely circulated.

After the week-end publicity was released, Wallace turned to drafting a memorandum from which the Senator could prepare a speech to accompany the introduction of the resolution. On Saturday at the office and on Sunday at home he wrote out in longhand a draft to be submitted to Monroney Monday morning. An article in that Sunday's *New York Times Magazine* by Barbara Ward, well-known British economic journalist, contributed to his thinking. Miss Ward offered two timely reasons for a more energetic foreign aid program in 1958. One was to counter the Soviet Union's entry into this activity, and the other was to offset the decline in world trade accompanying the American business recession. The Communist challenge received more emphasis in the final draft of Monroney's speech than the trade theme. By 10 or 11 A.M. Monday Wallace's draft had been typed and delivered to Monroney and his administrative assistant, Finney, who gave it addi-

tional editing and polishing. Monroney then worked this into the final version of his speech.

Before Monroney could secure the floor that afternoon to introduce his resolution, Senator Wayne Morse (D-Ore.) spoke in glowing terms of the proposal he had read about in Sunday's *New York Times*. Two Senators asked whether there would be any objection to their putting the article into the *Congressional Record*. About 3 o'clock Monroney made his speech setting forth the case for what he now officially called an International Development Association. (He had toyed with the initials, IDEAL, but settled on IDA.)

The text of the 216-word resolution, designed Senate Resolution 264, was as follows:

> *Resolved,* That, recognizing the desirability of promoting a greater degree of international development by means of multilateral loans based on sound economic principles, rather than a system of unilateral grants or loans, it is the sense of the Senate that consideration should be given to the establishment of an International Development Association, in cooperation with the International Bank for Reconstruction and Development.
>
> In order to achieve greater international trade, development and economic well-being, such an agency should promote the following objectives:
>
> 1. Provide long-term loans available at a low rate of interest and repayable in local currencies to supplement World Bank loans and thereby permit the prompt completion of worthwhile development projects which could not otherwise go forward.
>
> 2. Permit maximum use of foreign currencies available to the United States through the sale of agricultural surpluses and through other programs by devoting a portion of these currencies to such loans.
>
> 3. Insure that funds necessary for international economic development can be made available by a process which eliminates any possible implications of interference with national sovereignty.
>
> It is further the sense of the Senate that, as a part of the United States economic aid program, funds be subscribed to the capital stock of the International Development Association in cooperation with investments made by other participating countries.

Monroney's appeals were several. He invited the support of liberals who favored internationalizing aid. To conservatives he hinted that the United States might save money by activating dormant foreign currencies rather than appropriating new dollars, and he indicated that he personally would favor transferring the money set aside for the Development Loan Fund to an IDA, thus avoiding any new authorization. He criticized "badly worn Democratic tires, good in their day, but now worn down to the fabric," which was meant to give his speech a nonpartisan ring. And he pleaded with long-time supporters of mutual aid that an IDA might be a way of obtaining more foreign economic assistance, inasmuch as he expected the House of Representatives to make substantial cuts in the administration's foreign-aid request.

The Senator also emphasized several arguments which coincided with his observations in Thailand. He was alarmed at the competitive appeal of Russian economic programs, a point Miss Ward had also stressed. And he was concerned that the World Bank could not meet the demand for long-term, low-interest loans.

As is customary in the Senate, several colleagues rose to compliment Monroney on his "imaginative" and "constructive" idea. By asking favorable questions they gave him further opportunity to expand on the merits of IDA. His close personal friend, Albert Gore (D-Tenn.), asked about "the enormous quantities of foreign currencies" now within the control of the United States government. Senator Stuart Symington (D-Mo.) wondered whether the costs of the farm price-support program might be reduced by better management of these foreign currencies. Senator Prescott Bush (R-Conn.) elicited the fact that Monroney had had informal discussions with World Bank officials and that they encouraged study of IDA.

Now that the resolution had been introduced, the next step was to build public support. Monroney, himself a former newspaperman, believes that effective press relations can contribute much to the success or failure of a political campaign. His press secretary is Mrs. Beth Campbell Short, former Associated Press correspondent, who served as White House correspondence secretary during the four months before President Truman left office in 1953 after the death of her husband, White House Press Secretary Joseph Short. Early in March, Mrs. Short selected a group of editors of large metropolitan dailies, and the Senator wrote each of them (some of whom he knew personally), enclosing copies of *The New York Times* stories and of his speech introducing the resolution. Within the next few months over fifty of these papers carried editorials about IDA. Some discussed the idea generally without taking sides, but most endorsed it. As these editorials were received from a clipping service, Monroney or friendly Senate colleagues placed them in the *Congressional Record*. Monroney's staff assumed that someone in each Congressional office gleans the *Record* for items of interest to his Representative or Senator and that any editorial from a member's district or state would be called to his attention. Staff Director Wallace estimated that between ten and twenty thousand "opinion leaders" read the *Record*.

Each editor who wrote an editorial on IDA was kept informed as the resolution proceeded through the Senate. Simultaneously with the letters to editors and foreign-policy experts, Monroney wrote to all members of the House of Representatives. His purpose was to keep them advised in the event that it would be necessary for that body to appropriate money for IDA. He also wrote to all members of the Senate to acquaint them with the purposes of his resolution. Always, he enclosed materials, with the emphasis on attractive reprints of editorials from all sections of the country.

PREPARATION FOR THE HEARINGS

The next step was to conduct the customary public hearing, which would call further attention to Monroney's proposal, both in and out of the Senate. Preparations for hearings on IDA began shortly after the resolution was introduced. The chairman of the full committee sent letters to the executive departments asking them to prepare their positions, and committee staff personnel and departmental

staff worked on the details of the presentation. Monroney personally asked Secretary Anderson to testify on the assumption that the higher the rank of the government witness, the greater the attention the issue is likely to receive in the press. Indeed, adverse testimony by a high-ranking official would not ncessarily have been unwelcomed inasmuch as it too would have attracted attention.

The Treasury Department was certain to be represented because of its jurisdiction over American international financial activity. Because of the obvious foreign policy implications of Senate Resolution 264 the State Department was interested. The Commerce Department, whose concerns overlap both State's and Treasury's, was asked to participate. The Agriculture Department was involved by virtue of its Public Law 480 activities. The International Cooperation Administration, which administers mutual security legislation, naturally was invited to testify. And the Bureau of the Budget, because of its coordinating role in the administration, also sent a witness.

Within the administration, the National Advisory Council on International Monetary and Financial Policy discussed IDA at the staff level. No action was taken but there was an exchange of views among the departments represented on the council—Treasury, State, Commerce, the Export-Import Bank, and the Federal Reserve Board. The Treasury Department's office of General Counsel, which has a section to deal with international finance, arranged for the presentation of the departmental position. The nature of the testimony was discussed with Secretary Anderson and a draft prepared. Questions were anticipated and answers prepared. Representatives of the General Counsel's office worked with Under Secretary Dillon's assistants to coordinate their departments' testimony.

In addition to the government's witnesses, Monroney wanted some eminent nongovernmental persons to testify. In order to attract attention and to recruit favorable witnesses Monroney's staff selected a large number of names from the roster of participants in the President's Conference on Foreign Aid. The Senator then wrote these "opinion leaders" brief letters setting forth his aims and enclosing *The New York Times* articles, a copy of his Senate speech, and the resolution. He hoped that from replies to these letters he would find several helpful witnesses.

Paul G. Hoffman, an Eisenhower Republican and former administrator of the European Recovery Program under President Truman, was invited to testify. He was willing to do so, but requested additional information. The staff sent him a tape recording of a fifty-minute extemporaneous speech the Senator had made to a luncheon meeting of the Point IV Information Group, a small liberal organization in Washington, one of many Monroney addressed about IDA. He attended others outside Washington as well. When Senate floor business prevented his speaking to a group of UN delegates organized by the Quaker UN Program, he sent Wallace to substitute for him.

Wallace called a member of the staff of Governor Averell Harriman to New York to see whether the governor, who was also a former Mutual Security director, might be able to testify, but closing activities of the state legislature prevented his coming to Washington.

MARCH 18: THE HEARINGS OPEN

The hearings were held in the ornate committee room on the third floor of the Senate Office Building. As is customary, the chairman made an opening statement. Monroney's remarks were drafted by Wallace and Matthew Hale, the committee's legal counsel. Wallace worked on the political parts of the statement. Hale prepared the technical and factual materials, and Finney and Monroney put together the final version. After reviewing the variety of international lending programs and several recent proposals for new approaches to capital development, Monroney listed six advantages of his proposal for international relations.

> (1) It removes the political stigma attached to loans from the United States alone by placing them under international banking facilities;
>
> (2) It insures to receiving nations a continuation of long-range project financing by removing the uncertainty of year-to-year appropriations for the annual aid bill in Congress;
>
> (3) It provides a further mechanism by which new nations can develop an international line of credit;
>
> (4) It places the responsibility of passing on the feasibility of projects and requests for loans in a genuine banking facility;
>
> (5) It encourages other nations whose recovery has been helped to assume their proper share of the common burden of the development of new nations; and
>
> (6) It facilitates the use in international trade of dozens of local currencies not now freely convertible.

He then enumerated four advantages for the United States.

> (1) It takes the matter of economic development of underdeveloped countries out of the arena of domestic politics;
>
> (2) It reduces the costs of foreign economic development by the better use of soft currencies acquired in our program of surplus agricultural commodity disposal;
>
> (3) It reduces the cost of administration of foreign-aid programs; and
>
> (4) It enables the Congress to enact a long-range banking program and thereby remove this portion of our aid from year-to-year consideration on an emotional basis.

After reading his statement, Monroney and Senator Homer Capehart (R-Ind.), the ranking minority member on both the sub-committee and full committee, engaged in a spirited controversy. Capehart asked a series of critical questions which Monroney answered. Then Senator Fulbright suggested that the committee hear Secretary of the Treasury Anderson who had been waiting to testify. But Capehart protested the procedure under which the chairman read a three-page statement without showing it to the minority in advance and giving the Republicans opportunity to reply. "I think we have gotten to the point in this committee and to the point on the floor of the Senate," he declared, "where the minority in the Congress is completely blanked out from taking part in the proceedings of the Congress."

Capehart and Monroney then agreed to hear Anderson, who had broken two previous engagements and consented to come with the understanding that he might leave early to fulfill an 11:00 A.M. appointment. As the United States

representative on the Board of Governors of both the World Bank and the International Monetary Fund, the Secretary of the Treasury is, formally at least, the government's foremost expert on United States participation in international financial organizations.

The Secretary declared that the Senator's proposal "represents a valuable additional suggestion" worthy of longer study and full of far-reaching implications. Anderson suggested that the relationship to the World Bank be spelled out more specifically and he offered language making IDA an "affiliate" of the bank. Among the obstacles he saw before an IDA, the Secretary included the question whether foreign governments would be willing to subscribe substantial amounts of convertible currencies to a new institution. He was also concerned about the attitude of other lending countries toward repayments in soft currencies. He noted, too, that the local currencies owned by the United States had been acquired under specific agreements and could not be used except in accordance with those agreements. Furthermore, the Secretary was discouraging about the value of many of these currencies in international markets.

As this summary indicates, Anderson devoted most of his testimony to the local-currency feature of the resolution. Near the end he referred to Monroney's preference for multilateral aid programs by reaffirming the need for bilateral financing, including the Development Loan Fund. Nevertheless, he thought IDA ought to be studied with "all reasonable diligence." Anderson's testimony was regarded by the Senator and his staff as a thinly veiled attempt to oppose the resolution with faint praise rather than to reject it outright. Monroney's interpretation was put on the record two days later in the public hearing when he cited Kenworthy's report of Anderson's statement. *The New York Times* headline read: "Anderson Is Cool to Second World Bank."

Owing to his other appointment, Secretary Anderson could not remain for questioning. The committee showed little interest in questioning his assistants and rather soon called on Paul Hoffman. Hoffman had taken an overnight flight from California in order to attend the hearings and had arrived too late to complete dictating and mimeographing his statement. As a result, advance copies of his remarks were not available to reporters when the hearing opened.

In a vigorous manner Hoffman urged an "immediate and exhaustive study" of the Monroney Resolution. He said it would be "tragic if the Congress failed to act promptly upon Senator Monroney's exciting proposal." He endorsed multination lending over single-nation loans. Costs of world development are less through international agencies and such agencies encourage participation among more countries. An IDA would promote larger use of local currencies, and Hoffman recalled the experience of the Marshall Plan countries in founding the European Payments Union on a hard-currency basis but with provisions for the use of soft currencies. "The result was a quick doubling of trade among European nations and a consequent reduction in the cost of the Marshall Plan," Hoffman observed. "My guess is that we might have saved as much as $2 billion as a result of the mutual aid that came from providing the mechanisms for the use of these currencies." By following Secretary Anderson, Hoffman was able to counter the administration's negative attitude toward IDA with an enthusiastic endorsement. Nevertheless, Anderson's testimony received more prominent attention in the next morning's newspapers.

MARCH 19: THE SECOND DAY

The hearings reopened with testimony by C. Douglas Dillon, then Deputy Under Secretary of State for Economic Affairs. Mr. Dillon was formerly Ambassador to France and a successful investment banker. Mimeographed copies of his statement were delayed in preparation, and Monroney explained that this would cause Senators to interrupt more frequently than if they had copies of Dillon's testimony before them. These interruptions combined with a long statement to force Dillon to come back the third day.

Dillon presented what he described as the State Department's "preliminary comments" and promised a prompt study by the interested departments of the government. In greater detail and at greater length than Anderson he surveyed the problems of underdeveloped economies and raised objections to the success of an IDA.

Dillon belabored the local-currency part of the Monroney Resolution. He had asked a department economist for an "optimistic" and "simple" memorandum on the uses of these currencies. This study led him to conclude that soft currencies in the possession of the federal government "do not constitute a means for enlarging the total flow of external resources to these less developed countries." Furthermore, he indicated that there is an upper limit to the amount of capital which hard-currency (e.g., the dollar, the pound sterling, the deutsche-mark, or the franc) countries can export and that that limit had just about been reached. To divert this capital from one plan to another "would not be getting any more money."

When Dillon turned to a discussion of the relationship of an IDA to the Development Loan Fund and other existing programs, he was soon drawn away from his prepared statement by Senator Monroney's sharp and often caustic questioning. First, Monroney was critical of the delay in incorporating the fund; second, he wondered whether incorporation would not put the fund beyond the control of the Congressional appropriation process; third, he criticized the year's delay in making loans; fourth, he referred to the account of government-owned foreign currencies as "another bank" in the International Cooperation Administration and wanted to know why it was not coordinated with the fund.

To this last criticism Dillon replied mildly, "It might be a very possible and useful thing."

Monroney shot back, "Except that Mr. Dulles does not believe these foreign currencies are worth anything." Dillon firmly responded, "I do not think we have ever said that," and went on to point out that "their use is limited . . . in multilateral lending."

The Senator then turned to the dangers implicit in giving a more favorable loan to one country than another.

Again he caustically referred to the fund and to Secretary Dulles:

> . . . it would appear that in Mr. Dulles' bank the one who can drive the hardest bargain or make the strongest commitment in support of Mr. Dulles' policy will get the best deal. At least the flexibility indicated . . . would suggest that our State Department bank has no standards which apply to all.

Dillon resisted this interpretation: "That is not correct, Senator. It is not possible to put everything into that statement."

Senator Fulbright, who had to leave for his office, interrupted to inquire about Dillon's point that local currencies "have very limited if any use multilaterally." The Arkansas Senator indicated that he did not believe Dillon or Anderson had proved this proposition, but if that were the case, it would have great influence in considering Senate Resolution 264. He, therefore, asked Dillon to prepare "a concise and lucid explanation. Do not make it so complicated that nobody can understand it."

Once more the discussion soon returned to the Development Loan Fund, and Monroney criticized the practice of bilateral loans favoring one country over another:

> I still say your ambassador is going to be quite a busy man explaining to country *A* why it must repay 50 percent in dollars, while neighboring country *B* can pay in cruzieros or something else. Again I get back to the disadvantages of the State Department mixing up its job of public relations and diplomacy for America with that of loan officer and bill collector.

Dillon took the position that IDA and the fund were not mutually exclusive and could operate in conjunction with each other. He emphasized that neither he nor the department opposed IDA.

Monroney continued with his pointed attack on the failure to use local currencies more advantageously. "I think we are being very shortsighted in, as the State Department has consistently done for 18 months, writing off as of no value any contributions that the people who have been helped in Asia are willing to help others."

Senator Capehart, the ranking Republican member, broke in, "I challenge that statement. . . . I think it is unwarranted and unfair, I think it is not factual. I want the record to show it."

Monroney then produced the State Department's memorandum of January 1957 as evidence and put it in the record. The heat and flurry of the next few minutes can be seen in these categorical remarks by the two senators.

> SENATOR MONRONEY. This is January 1957. I will read the summary.
>
> "No large reservoir of local currencies is available now to the United States, in Western Europe, or in other developed countries. Some significant sums are available in countries which have no great export potential in terms of development goods. The United States may have large sums available during the next decade after repayment of outstanding local currency loans, but most of these funds will be available in relatively underdeveloped areas."
>
> Now, this was their attitude in 1957. It is still their attitude in 1958. It will be their attitude in 1968 if the Congress does not do something about trying to expedite a new approach—something more concrete than "pursuing a study with due diligence" such as the administration is proposing on this idea.
>
> SENATOR CAPEHART. What page is that on?
>
> SENATOR MONRONEY. This is the summary.
>
> SENATOR CAPEHART. Well, let me analyze it.
>
> "No large reservoir of local currencies is available now to the United States, in Western Europe. . . ."
>
> A 100-percent true statement.
>
> "Some significant sums are available in countries which have no great export potential in terms of development goods."
>
> That, too, is a 100-percent true statement. These backward countries certainly have no great potential export value of goods, because they do not make electrical machinery, do not make machine tools, do not make steel, do not make the things that development comes from. So that is a true statement.
>
> "The United States may have large sums available during the next decade after repayment of outstanding local currency loans, but most of these funds will be available in relatively underdeveloped areas."
>
> A more true statement could never be made.
>
> Nobody can read anything else than the facts into this. And anyone who tries to do so just does not understand what is meant by "development." Otherwise, you cannot read anything else into it.

When the exchange with Capehart subsided, Senator Clifford Case of New Jersey, the most junior Republican member of the full committee, although not a member of the subcommittee, asked whether he might draw out some of the implications of voting for or against this resolution. In response to one of Case's questions, Monroney strongly indicated his hope of internationalizing foreign aid, but at the same time continued to deride the fund as Dulles' bank:

> I think one of the most important points of this whole business is moving out of being the sole banker of the world—which Mr. Dulles' bank helps to make us become.
>
> Senator George time and time again, in carrying the foreign aid bills through—he was indeed a great statesman —warned the Congress repeatedly that grave danger existed of our becoming the sole banker of the world. And yet, from the distinguished Secretary's statement, we are practically that today. And I am begging and pleading that before it is too late we move to international banking facilities.

To this Senator Case responded with a statement that summarized the concern of many of Monroney's friends and also the administration.

> I agree with these objectives with all my heart. I do have the feeling that it is unfortunate to attempt to gain these objectives by knocking down the present Development Fund and by attempting to show that it is of no value. With this I thoroughly disagree. I think you will not only fail to accomplish your objective, one which I share, by that process, by going at it in that way, but you will also very greatly hurt the whole cause of sound foreign aid. . . .
>
> I do not disagree with the objective at all. I do think it is unfortunate to gain this objective in ways that will hurt our foreign-aid program and which will probably result in not accomplishing the objective itself.
>
> If you will forgive me, I am a little vehement about this, but I feel very strongly about it.

His statement contrasted the situation as it was defined by Monroney and as it was defined by the administration. Case said that for Monroney to fight the DLF would be unsuccessful for both the fund and IDA, and that if Monroney should succeed in defeating DLF he would unwittingly damage the cause of helping underdeveloped countries. Without the fund and in the absence of the as yet uncreated IDA, there would be even less capital available for foreign assistance.

Monroney saw the situation differently. Unless somebody in the Senate dramatized the malaise of the foreign-aid program, the State Department would continue the same policies with the same fruits. In effect, he felt he would have to threaten the fund in order to get serious consideration for IDA.

His lengthy public reply to Case reflected the real and private feelings which he expressed to his friends and staff then and later. He recalled that he had started eighteen months earlier to work on this proposal; for many weeks he had sought to develop a bipartisan support for his program; he named persons in the administration with whom he had tried to work.

> I for one would not propose to strip the United States and leave her bare of funds with which to pursue international development of underdeveloped areas at this critical point in world history. But I do think that we would be foolish in the extreme to cement another layer of unilateral bureaucracy to the ICA and the Export-Import Bank which we now have.

Senator Case reiterated his position.

> . . . I do have a feeling from just sitting here and hearing the reading of the statements that were made about this earlier that a degree of criticism of the present program and its objectives has been indulged in which is not calculated to produce the results the Senator and I both want and is harmful in the extreme.
>
> I hope that we can continue in the future consideration of this very desirable measure without that kind of approach.

Monroney's rejoinder reflected his deep personal resentment that the Department of State, in particular, had not given him more cooperation and shown more imagination:

> I will say to the distinguished Senator that I do not wish this approach, but it was brought on us by the repeated opposition. I would far rather have it on the table that the administration does not want it than to have it chloroformed with kind words and "study with due diligence."

Then Monroney added another element of the situation as he defined it. The Senator had fully expected the foreign-aid request to be sharply cut by the House. This had led him to think 1958 might be a good year for IDA. "I am trying," he said to Case, "to have a mechanism for the dozens of Senators who have told me that they would like to vote for foreign aid, but they could not do it if it is the same old model T that was inherited from the Acheson-Truman days. It was a good car in those days, but today it is slightly worn out and we need a new approach and new ideas."

It was now noon. With all these interruptions Dillon had not completed his statement. He had about ten minutes of reading left, so the chairman asked that he be allowed to finish it without interrogation. Commerce Department witnesses who had waited all morning to testify were excused.

Dillon emphasized that IDA and DLF could exist together. "In our opinion, a continuing bilateral program will be essential if American objectives are to be effectively furthered in our relations with many countries."

By 12:30, Dillon had been on the stand for two hours and fifteen minutes. He agreed to return at ten the next morning for further questions.

Monroney then released a telegram from Governor Harriman intended to offset Secretary Anderson's negative testimony of the previous day. This little strategem had been devised as a substitute for the governor's presence, but the telegram received scant public notice.

When the committee recessed, Senator Monroney was observed in an earnest five- or ten-minute conversation with Senator Case explaining to him why he had felt compelled to be so critical of the State Department witness.

Later that same day Wallace and Finney sat down with Monroney to discuss the hearings. They believed that unnecessary time and argument were being devoted to the local-currency features of IDA and that attention had been diverted from the advantages of international administration which had attracted Monroney originally. These two staff men advised the Senator not to argue the technical issues about the uses or value of local currency with the Department's financial experts. Not only was Monroney put at a disadvantage by arguing his weakest point, but he was missing the opportunity to score with his stronger policy contentions.

MARCH 20: DILLON RESUMES

At 10:20 the next morning the committee convened again to question Dillon. The questioning was less antagonistic than it had been on Wednesday. Senator Capehart began with a short statement reviewing his two doubts about IDA: (1) about the value of local currencies, and (2) whether other countries would participate. Then he inquired about the International Finance Corporation (IFC), a recent affiliate of the World Bank created to loan capital to private firms in underdeveloped countries. This elicited a summary by Dillon of the latest developments in that organization.

Senator Prescott Bush (R-Conn.), although not a member of the subcommittee, was invited to participate as were all members of the Banking and Foreign Relations committees. Bush asked Dillon whether the United States had sounded out other governments about their views of IDA. Dillon replied that "we have made no such formal check at all yet." Bush suggested to the chairman that the committee, in considering IDA, would find it useful to have some sign of opinion from other countries.

A few minutes later Senator Bush repeated his suggestion that the chairman seek from Treasury and State their views of the likely response of other governments before the Senate committed itself to this plan. Monroney replied that the Senate's endorsement might encourage other govern-

ments and also move the American government to take greater interest.

> May I say to my friend that unless someone far more important than the chairman of this subcommittee gives this proposal a sprinkling of holy water, we will not be able to ascertain the sentiments of the rest of the world toward a "Monroney plan." It is not important for them to consider something that one lone Senator from Oklahoma is proposing. It is only if it is seriously considered by the United States Senate and is stated as the sense of the Senate that we will have anything on which we will be able to get an expression of opinion other than informal dinner-table conversation.

And then Monroney tacked on one more sentence which resumed the flurry of partisan exchange of the previous day. "Mr. Dulles is wedded to the unilateral lending proposition."

Senator Bush, a Republican, thought this was not the case. Monroney cited Dillon's testimony as representing the Secretary. Bush believed Dillon had been cooperative. Monroney conceded this but, he said, "I do not think he was overly enthusiastic about the idea." He went on, indicating his belief that Secretary Dulles had rejected the Monroney proposal after other administration spokesmen had encouraged it:

> I do not think we need to belabor the fact, but apparently the word has gone out that Mr. Dulles does not like it. And if he does not, all the talk and all the hearings that we are having here is not going to encourage any vast number of diplomats with attaché cases to go charging up to the front door of the State Department and talk to Mr. Dulles about a multilateral lending operation or their willingness to get on the dotted line.

The discussion then turned to some of the technical problems of international banking. After several minutes of argument with Senator Capehart about the value of local currencies, Monroney attempted to change the subject and acknowledge other Republican Senators:

> SENATOR MONRONEY. Well, if silence would not be considered an assent to the statement of my distinguished colleague, I think we should go on with the questioning by the very able and distinguished junior Senator from New Jersey who has always been so interested in foreign matters and economic aid.
>
> SENATOR CAPEHART. The able Senator is a typical chairman of the Democratic party. When you disagree with him or start using a little logic or common horsesense he immediately becomes sarcastic when he no longer has logic on his side.
>
> He immediately wants to run away from the facts and become funny and sarcastic when he no longer has logic on his side.
>
> I thought you said a moment ago that you wanted to have hearings on this and bring out all of the conceivable facts, all the things against it and all the things for it. I have been bringing out the things that I see are against it. The only thing I have heard about so far from you, Mr. Chairman, in favor of it is that people would like us better if we loaned our money in conjunction with some other country rather than loaning it to them directly, which to me is a silly argument. I do not think there is any truth to that statement at all.
>
> I think if it is true, we had better get out of all this world-wide loaning. If a country is going to like us better because we put a billion dollars in and England puts a little in, and somebody else, but if we loan them a billion directly they are not going to like us, then I for one am in favor of getting out of the whole business.
>
> SENATOR MONRONEY. I will say to the distinguished ranking minority member that I was criticized yesterday for belaboring the point of the use of local currencies until I became darned boring to everybody in the committee room, and for that reason I do not wish to again generate the same degree of boredom on the same subject.
>
> SENATOR CAPEHART. You were going completely out of your way this morning talking about the "able minority ranking member," and you were not fooling anybody.
>
> SENATOR MONRONEY. It is the senior Senator from Oklahoma you have your trouble with.[3]
>
> SENATOR CAPEHART. You were sticking the knife in and you wanted to turn it around a little bit. You were not fooling me. We might just as well understand each other that you are not fooling me. You may be fooling somebody. I think you are fooling yourself is all. You are not fooling other people. We ought to be kind and generous to each other in these committee meetings and not be sarcastic.

At the conclusion of Dillon's testimony Senator Monroney placed in the record the statement prepared by Henry Kearns, Assistant Secretary of Commerce for International Relations. Kearns had been scheduled to follow Dillon on Tuesday, but was unable to appear again on Wednesday. The Commerce Department position was similar in tone and substance to that of Treasury and State. It had evidently been prepared in collaboration with those departments, because Kearns' statement had been mimeographed for distribution to the press before Dillon's was available, yet Kearns referred to Anderson and Dillon's testimony.

After lunch the committee met again to hear Dr. Don Paarlberg, an economist, then Assistant Secretary of Agriculture. Paarlbergs' testimony, like that of officials from the Bureau of the Budget and the International Cooperation Administration who followed him to the witness stand, was concerned with legal and technical problems of accounting for and spending foreign currencies acquired by the United States under P.L. 480. Quorum calls prevented many Senators from attending, and once the hearing was recessed briefly while Senator Monroney went to the floor. The eight witnesses later furnished the committee with documents which consumed over 100 pages in the Appendix to the *Hearings*.

REACTION TO THE HEARINGS

Staff members closely associated with the Senator varied in their reactions to the hearings; some were neutral, others mixed, still others miserable. Some administration officials felt Monroney's questioning of Dillon had been "impolite" and that on the whole the Senator's case for IDA had been "unimpressive." Several reporters asserted that Monroney

[3] This is a reference to a standing verbal feud between Senator Capehart and Monroney's colleague from Oklahoma, Robert S. Kerr. The highlight of the Kerr-Capehart troubles occurred when Kerr questioned whether President Eisenhower has any "fiscal brains," and Capehart came to Eisenhower's defense on the Senate floor.

had not made a convincing case for the resolution. The assessment of E. W. Kenworthy, who had encouraged Monroney, appeared several month later in *The Reporter:*

> The Senator somehow figured that a revolving fund could be established out of the loan repayments in soft currencies. Some State and Treasury officials derided the whole scheme on this account, pointing out that soft currencies could not be used for development purposes because the needed capital equipment could be purchased only in hard-currency countries.
>
> Through two days of testimony, Dillon patiently explained this point to the Senator. But he went on to say that there was a limited use for soft currencies to pay for local labor and locally produced materials. . . . The upshot was that Dillon and the Senator got together on the wording of a resolution calling for a cabinet-level study of a World Bank subsidiary.[4]

When the hearings were terminated after three days of testimony, it was still undecided whether other witnesses would be called. Indeed, Dillon had been told that he might be asked to return after Easter "for some further amplification." Staff Director Wallace went to Philadelphia for the annual meeting of the American Academy of Political and Social Science to sound out academic authorities on the economic problems of underdeveloped countries. He thought he might enlist a sympathetic witness. I joined the committee staff at this time and was set to work reading half-galleys of the hearings with instructions to identify weaknesses in the case for IDA and to search scholarly writings for experts who might be called to testify.

LEGISLATIVE-EXECUTIVE BARGAINING

The day after the hearings Monroney flew to Geneva to sit with a committee making preparations for the next Inter-Parliamentary meeting to be held in Rio de Janeiro the following July. In his absence his administrative assistant and the staff director of the Banking Committee edited the transcript of the hearings. As is customary, dittoed copies of the hearings were submitted to witnesses and committee members so that they might amend their own remarks to eliminate factual and grammatical errors and to clarify their statements. Certain of the Senator's sharper adjectives about State Department policy were deleted and claims made for IDA, particularly about the use of local currencies, were modified.

At the end of the hearings, the State Department submitted several proposed changes in the wording of the resolution. These grew out of Dillon's testimony, but were sent by Macomber, Assistant Secretary of State for Congressional Relations.

First, the department asked to delete language which might imply a wholesale commitment to multilateral loans exclusive of bilateral programs such as the DLF. The second proposed amendment specified an "affiliate" relationship between IDA and the World Bank. The third compromised with Monroney's preference for international institutions; whereas the first change would prevent exclusive reliance on such mechanisms, the third would encourage and "facilitate" them. The fourth proposal eliminated the resolve to subscribe funds at this time and substituted language repeating the major purpose of the resolution, namely a study.

APRIL: A CHANGE IN STRATEGY

When the Senator returned from Europe, he spent an evening with his administrative assistant and the committee's staff director reviewing progress. In Geneva, the senator explained IDA to fellow committee members. Monroney told his advisers of conversations which reinforced his belief that the use of local currencies might be accelerated and that other nations would, in fact, be willing to contribute—both assertions the administration politely had denied. They, in turn, reviewed the issues raised by witnesses. Monroney was advised to trim his demands and to seek a more limited goal. Finney and Wallace urged him to avoid the impression that he considered IDA a substitute for the Development Loan Fund. They argued that the fund was, to a large extent, accepted by the administration in 1957 at the repeated urging of Senate liberals, especially Democrats on the Foreign Relations Committee, some of whom were also his senior colleagues on the Banking Committee. Thus, they believed Monroney would do IDA political harm by continued attacks on the fund as "that State Department Bank," and that to abolish the fund before IDA was created would leave underdeveloped countries with even less foreign assistance. The best strategy, it seemed to them, was to emphasize that the resolution called for a study to see what more could be done than was presently being done. By avoiding sharp criticism of the Republican administration Monroney would seem to have greater opportunity to obtain support from Republican internationalists and thereby make his proposal bipartisan.

In a speech at the Brookings Institution on April 15, Monroney tried to correct the overemphasis on local currencies. He instructed Finney to prepare a draft of this part on his speech, which he then revised; the rest was extemporaneous. Monroney's position this time was deliberately less ambitious for IDA and less critical of the Eisenhower administration.

Although he continued to say that the Development Loan Fund was not a final solution, he did not ridicule it as "Mr. Dulles' bank" or "the State Department bank." His major theme was the need for more international lending activities and he especially emphasized IDA's proposed relationship to the World Bank. He also took cognizance of the attacks on the local currency features of IDA.

> The greatest amount of criticism has been levied at the proposal to use local curriences in economic development. I am, of course, fully aware of the limitations on the use of such currencies. However, they have been used successfully in triangular trade arrangements for development purposes. Their use would be greatly increased in an international mechanism and their usefulness will, of course, increase

[4] "The Profits and Losses of a Banker in Politics," *The Reporter,* Sept. 18, 1958, pp. 18-20. Quoted by permission.

directly in proportion to our achievements in the economic development of the issuing countries. The currency which is of little value today may be of great value in ten years.

Some who had followed closely the development of Monroney's idea noticed that he had changed his tactics. It is questionable, however, whether the administration learned of Monroney's de-emphasis of the local-currency question through this speech. The speech was not mimeographed for distribution to the press, nor was it covered by any journalist. Interviews with the people in the Treasury Department who were responsible for the department's Congressional relations disclosed that they did not know about it.

Among those present was a staff consultant of the Senate Committee on Foreign Relations. He discussed the resolution with the Senator afterwards and suggested that the Foreign Relations Committee might offer it as an amendment to the mutual security bill. Monroney asked him to prepare such an amendment in the event that this strategy should prove most feasible.

On April 17, two days after the Brookings speech, Wallace sent a memorandum to Monroney setting forth the next steps. His first suggestion was for a prompt informal committee meeting with Eugene Black, after which, providing Black remained encouraging, Monroney would modify his original resolution and press for committee action. Without Black's support most of Monroney's staff believed the resolution was doomed, and Monroney himself later said that if Black had not been interested he would have stopped.

MAY: THE MEETING WITH BLACK

It was another three weeks (May 5) before Black could meet with committee members. Senator Bush held a dinner party at Allies' Inn, attended by Black, Monroney, Fulbright, Joseph Clark (D-Penn.), Wallace Bennett (R-Utah), John Bricker (R-Ohio), Willis Robertson (D-Va.), and Allen Frear (D-Del.). For three and a half hours, from about 7 until 10:30, they discussed the possibilities of an IDA. Not all participated in the discussion, but the party adjourned with encouragement from Black and a conviction among several that the administration ought to support the resolution. Indeed, attention was paid to how American policy might move from the Development Loan Fund to IDA.

The next day Monroney met with his administrative assistant, press secretary, and three members of the committee staff. The decision was made to accept as many State Department and Republican suggestions as possible, and it was agreed that a meeting with Republican assistants should be held promptly.

The following day (May 7) Finney, Wallace, Hale, and I met in the Banking Committee room with the legislative assistants to the Republican members of the committee. The purpose of this session was to inform Republicans of Monroney's revised position, to present them with the new language suggested by the State Department, and to invite their help in rewriting the resolution. Senators who were represented were Bush, Frederick Payne (Me.), Glenn Beall (Md.), and Case. The senior Republicans, Capehart (Ind.) and Bricker (Ohio), were represented by Donald Rogers, then the minority counsel for the committee.

Senator Bush had already shown more interest in the resolution than any other Republican, and his assistant, David Clarke, participated more than any other staff member in revising the resolution. Upon seeing Assistant Secretary Macomber's letter, one staff assistant asked whether this constituted an endorsement of the resolution, providing that the recommended changes in language were made. Monroney's representatives had to say, "no." Questions were also asked about Eugene Black's position. Black was represented as giving informal encouragement and constructive suggestions to Monroney, but, as in the public hearings, it was emphasized that he could not appear before the committee.

Following the meeting with the Republican staff assistants, Moroney agreed to a revised version of the resolution which incorporated several, but not all, State Department suggestions and also benefited from the advice of the Republican assistants. On May 8 a "committee print," or unofficial revision, was circulated to all members of the committee with an invitation to cosponsor it, and copies were also submitted for the consideration of Black, Anderson, and Dillon.

The language of the committee print contained three of the administration's four recommendations. The implication that the United States should substitute multilateral programs for unilateral ones was eliminated; the affiliate relationship with the World Bank was accepted; a phrase favoring facilitating multilateral contributions replaced the language about "interference with national sovereignty." The last paragraph of the resolution, which suggested an American subscription to IDA, was retained against the wishes of the State Department which preferred to reword it.

Three other amendments were made, largely as the result of the discussion with the Republican assistants. First, the term "sustained source" was introduced to signify that IDA would be a genuine bank which would loan, take repayments, and reloan. It would not merely make one-shot long-term loans which might or might not be repaid. Second, it was implied that loans would not be repaid solely in local currencies. Third, the language about the use of local currencies was softened as an anticipatory concession to the State Department.

THE LAST PARAGRAPH

In the meantime Senator Bush had discussed IDA with Under Secretary Dillon, a frequent golfing partner at the Chevy Chase Country Club. He talked with Dillon about ways of bringing Monroney and the department closer together. Bush then wrote Monroney (and sent a carbon to Senator Fulbright) suggesting two changes necessary for winning State Department approval, without which Bush seemed to believe the resolution could not pass. The Connecticut Senator proposed that IDA loans be repaid either

"wholly or partially" in local currencies, and he urged dropping the last paragraph.

Within another few days Black and Monroney talked again, this time in very specific terms. Black preferred that the last paragraph of the resolution be stricken. This is the one which the State Department wanted to amend and Monroney had kept:

> It is further the sense of the Senate that, as a part of the United States economic aid program, funds be subscribed to the capital stock of the International Development Association in cooperation with investments made by other participating countries.

Two reasons were advanced for deleting this paragraph. First, it would help to win administration support. This was Monroney's interpretation of Black's conversations with high-ranking American officials, including Anderson, Dulles, and Dillon. The Senator inferred that the State Department feared that premature appropriation of funds to IDA would jeopardize the Development Loan Fund. But if the threat to the DLF could be removed, the administration's objection to IDA might be eliminated. And Black doubted whether the resolution could pass against the administration's opposition. Second, Black contended that the United States ought not to push the idea so much that other countries would believe that it was only a subtle attempt to exercise American influence. Some spontaneity ought to be allowed, and opportunities should be left open for other governments to assume some leadership in promoting the plan. Monroney agreed to Black's suggestion, but planned to allow another member of the subcommittee or committee to offer the amendment to strike the paragraph. By not offering it himself he would retain an opportunity to make gains later.

Senator Fulbright then wrote Monroney. He had inferred from Bush's letter that certain concessions to the State Department were necessary to pass the resolution in the Senate. He also suggested a joint or concurrent resolution which would require action by the House of Representatives *before* it was asked to appropriate money.

Then Under Secretary Dillon called and asked to come to the Senator's office, but Monroney volunteered to go to see Dillon, saying "you're a busier man than I am." Their meeting was delayed a day while Dillon worked with the Reciprocal Trade Agreements legislation in the House of Representatives.

When they met on May 16, the Under Secretary urged several changes. He too wanted to strike the final paragraph. He wanted to replace "consideration" with "study"; in diplomatic parlance the word study would seem to commit the United States less than consideration. Dillon also proposed that the resolution specify that the study be made by the National Advisory Council on International Monetary and Financial Problems.

On Monday afternoon, May 19, Monroney held a staff meeting to report on his conversation at the State Department. When he concluded, Wallace advanced the view that only Administration endorsement was needed to close the case for presentation to the subcommittee and full committee. It was agreed that the possibility of attaching IDA to the foreign-aid bill should be rejected and Monroney then called the staff consultant on the Foreign Relations Committee who had drafted such an amendment and told him of this decision. The Senator next telephoned Dillon and Anderson to request letters of endorsement. Dillon promised a prompt response but the Treasury Secretary was out of town. The following morning Dillon's office called for a copy of Monroney's letter of May 8 to which Dillon would formally reply as a way of sending the department's new position. John Leddy, assistant to Dillon, and Elting Arnold, Assistant General Counsel for International Finance in the Treasury Department, worked out a revision of the language of the resolution which had accompanied the Senator's May 8 letter.

While awaiting the administration's endorsement Monroney considered adopting Senator Fulbright's suggestion that the resolution be a joint resolution of the House and Senate. He soon rejected this plan because his administrative assistant learned from the House Democratic whip, an Oklahoma Congressman, that the House agenda might not have room for anything less than urgent as the session drew to a close. Monroney feared that IDA might die in the House Rules Committee, even if he secured the Foreign Affairs Committee's support, so he decided to retain the simple Senate resolution form.

About 10:30 on the morning of May 21 Dillon's office notified the Senator's office that the Under Secretary's letter was being sent by special messenger and that a copy was also going to Senator Bush, indicating Bush's activity in the matter. The text of Dillon's letter was as follows:

> Department of State
> Washington, May 20, 1958
>
> Hon. A. S. Mike Monroney,
> United States Senate,
> Washington, D.C.
>
> Dear Senator Monroney:
>
> Thank you for your letter of May 8 enclosing for our comment the committee print of a revised version of Senate Resolution 264, relating to the proposal for an International Development Association.
>
> I believe that it would be desirable to make a few changes in the text of the committee print in order to clarify the nature of the study called for and to specify the agency which would conduct the study. A suggested revision of the proposed resolution along these lines is enclosed for your consideration. With these changes the Department of State would favor its enactment.
>
> Sincerely,
>
> Douglas Dillon
>
> (Enclosure.)

In a speech in New York later the same day Dillon favorably mentioned IDA. At this point the committee staff urged the Treasury liaison officers not to await Anderson's return, but to take the matter up with the Acting Secretary. One day later, May 22, Julian Baird's letter of endorsement, similar to Dillon's and containing a duplicate revised draft, arrived.

The administration's new suggestions included most of

those previously made orally or in writing, although the disputed last paragraph, which the State Department formerly would have amended, was now stricken. Technical changes were also introduced: *e.g., reasonable* instead of *low* rate of interest and *International* instead of *World* Bank.

With Dillon's and Baird's letters, Monroney's path was now clear. He was willing to accept virtually all of the administration's suggestions, and he scheduled a subcommittee meeting for Friday, May 23, at which time he planned to ask that the resolution be reported to the full committee. Once again a snag developed. An afternoon meeting of the Foreign Relations Committee occupied Fulbright, John Sparkman (D-Ala), and Capehart, who were members of both committees. Monroney himself was diverted by another committee assignment. Several spectacular airplane collisions had led him to call emergency hearings before his Aviation Subcommittee of the Interstate and Foreign Commerce Committee.

When the May 23 meeting was cancelled, J. H. Yingling, the clerk of the Banking Committee, asked Senator Capehart, the ranking Republican, whether he would agree to suspend action by the subcommittee and take the resolution before the full committee. Capehart preferred that the international finance subcommittee act first, but in a personal call from Monroney he agreed to bypass the subcommittee. But the next week Monroney was scheduled to deliver a series of high school commencement speeches in Oklahoma and to address an aviation industry convention in Houston. This meant further postponement.

With further delay thus made necessary, Monroney released the texts of the State and Treasury Department letters, and the May 26 *New York Times* carried a front-page story announcing the agreement between the Senator and the executive branch. Later that day a prominent financial official within the administration called on Senator Fulbright, chairman of the Banking Committee, to express opposition to IDA. This expert, who had earlier informally communicated his position to Monroney, preferred not to be heard in a public hearing but offered to appear at an executive session of the committee. Fulbright reported the gist of this conversation to the committee clerk, and the staff director then wrote a memorandum to Monroney's administrative assistant. When Monroney's office made its daily call to the Senator in Oklahoma City, he was apprized of this latest development. Monroney reaffirmed the position he had taken earlier, that if anyone wished to be heard, he should appear in open session. Upon his return Monroney discussed this with Chairman Fulbright, who concurred in the Oklahoma Senator's decision.

JUNE: EXECUTIVE SESSION

On June 11 the whole committee held an executive session to report out a housing bill. Just before a late afternoon adjournment, Monroney asked whether at the next executive session he could have action on Senate Resolution 264. He explained that the administration had agreed to his proposal with a "few minor changes" in language and that Senator Capehart was willing to have the full committee consider it. Chairman Fulbright explained that the agenda for the next meeting had already been determined, but that at the first meeting after that IDA could be the pending business.

Thus, on Thursday, June 19, at 10:00 A.M. the committee met in closed session to consider the Monroney Resolution. Fulbright invited Monroney to explain his proposal. Senator Monroney recalled that after hearings there had been negotiation with the State Department about the language of the resolution and that he was ready to accept all the changes prepared by the department. He spelled out each of these and offered the department's explanation for making each. He asked that a phrase be added specifying that IDA loans need not be repaid solely in soft currencies, and Senator Willis Robertson (D-Va.) moved that the words "or partly in local currencies" be inserted to fulfill this purpose. Within thirty minutes and by a 12-3 vote Senate Resolution 264 was amended and approved. All Democrats voted aye, as did all Republicans, except Capehart, who also cast the proxies of Senators Bricker and Beall.

The differences between the resolution as Senator Monroney originally introduced it and as it was reported by the committee are shown in the following comparison, with deletions in italic type and insertions in small capital letters:

> Resolved, That, recognizing the desirability of promoting a greater degree of international development by means of multilateral loans based on sound economic principles, *rather than a system of unilateral grants or loans,* it is the sense of the Senate that *consideration* PROMPT STUDY should be given BY THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS WITH RESPECT to the establishment of an International Development Association, *in cooperation with* AS AN AFFILIATE OF the International Bank for Reconstruction and Development.
>
> In order to achieve greater international trade, development, and economic well-being, such *an agency* STUDY should *promote* INCLUDE CONSIDERATION OF the following objectives:
>
> 1. Provid*e*ING A SOURCE of long-term loans available at a *low* REASONABLE rate of interest and repayable in local currencies, OR PARTLY IN LOCAL CURRENCIES, to supplement *World* INTERNATIONAL Bank *loans* LENDING ACTIVITIES and thereby permit the prompt completion of worthwhile development projects which could not otherwise go forward.
>
> 2. *Permit maximum use of foreign currencies* FACILITATING, IN CONNECTION WITH SUCH LOANS, THE USE OF LOCAL AND OTHER FOREIGN CURRENCIES, INCLUDING THOSE available to the United States through the sale of agricultural surpluses and through other progams *by devoting a portion of these currencies to such loans.*
>
> 3. Insur*e*ING that funds *necessary* for international economic development can be made available by a process which *eliminates any possibile implications of interference with national sovereignty* WOULD ENCOURAGE MULTI-LATERAL CONTRIBUTIONS FOR THIS PURPOSE.
>
> *It is further the sense of the Senate that as a part of the United States economic aid program funds be subscribed to the capital stock of the International Development Association in cooperation with investments made by other participating countries.*

There was a little discussion about the contents of the committee report. Senator Capehart asked to see it in advance of release so that he might consider adding a minority report, and another Republican Senator requested that no criticism of the Development Loan Fund be made. In anticipation of this action the committee staff had been working on a report for several days. In fact, initial discussion of the report had been held in early May. This document was prepared under the direction of Wallace and reviewed by Finney and Committee Counsel Hale. I wrote the original draft in accordance with Wallace's instructions that the report be brief, expository, and noncontroversial. If it were brief, he believed it would more likely be read and it might be published in full by newspapers and magazines. If expository rather than argumentative, it would be less likely to alienate readers. Furthermore, a committee report is an official document on which the administration and courts partially rely in interpreting executive obligations and Congressional intent.

The afternoon following the committee's approval of the resolution, Wallace sent copies of the draft report to the State and Treasury departments by special messenger. The next day Elting Arnold and Arnold Weiss, liaison officers from the Office of General Counsel in the Treasury Department, met with Wallace and Hale.

The Treasury's Congressional liaison also carried the State Department's views on the committee report. The Banking Committee's staff director preferred to deal with Treasury and asked their liaison men to communicate with the State Department. Wallace felt that Treasury would be more cooperative and easier to deal with not only because of Treasury's more favorable view of IDA but because of the more regular and continuous interaction between this committee and the Department. The jurisdiction of the Banking Committee more closely coincides with that of the Treasury than with State; as a result, the committee and Treasury staffs have frequently worked together and some individuals know each other well.

The State and Treasury suggestions were mostly technical corrections of factual and legal statements. They also offered language more appropriate in a report which the departments' liaison officers and the committee staff believed officials in other governments were certain to read. For example, the term "second-mortgage" was stricken and "subordinate" inserted to describe the kind of loan IDA might make. The departments also were concerned that the report not claim too much for local currencies and that it not disparage bilateral programs. Thus, the departments' suggestions emphasized that "additional" uses of soft currencies (but the word "soft" was never used in the official document) ought to be "explored," and IDA was referred to as a "further" mechanism rather than as a substitute for any existing form of assistance. On the whole, the executive officials did not want to be committed or directed to any particular course of action without more time to study the implications of IDA, and they, therefore, sought rather general, but careful, language in the committee report. In making suggestions for revisions, the departmental representatives distinguished those on which they felt strongly from less vital ones.

Working with these suggestions the report went through another round of revisions, which State and Treasury again were given opportunity to consider. This draft received the personal attention of Secretary Anderson, and in another conference Arnold and Weiss returned with the administration's final views. These consisted of a few minor technical suggestions and three paragraphs extolling the virtues of economic assistance and its importance as a deterrent to communism.

With Treasury's changes the report was mimeographed and distributed to all committee members. Monroney's only alteration was to insert a more succinct summary of the content and purpose of the resolution in the introduction. No other Democratic Senator offered any objections or suggestions, and only Senators Capehart and Bricker wanted a minority report, which Donald Rogers, minority counsel, drafted.

In its final form the report emphasized the political importance of the economic development of the underdeveloped nations containing two thirds of the world's population. Needs for international development were said to be so great that every promising means of help ought to be explored. The Soviet economic offensive was listed as a further reason for prompt study.

The report then stated the objectives of the resolution, specified who should make the study, and set a deadline for interim and final reports. The objectives of the proposed IDA were spelled out in general terms—to encourage more participation; to enlarge the available long-term, low-interest capital; to provide subordinate, second mortgage loans, and to avoid the difficulties of bilateral aid.

There was a brief discussion of the uses of foreign currencies. Stimulation of "triangular" deals with local currencies was encouraged, and the expectation of increases in the amount of these curriencies was emphasized. Problems mentioned in the hearings were acknowledged, and the relationship between IDA and the World Bank was defined.

Senators Capehart and Bricker, in their minority report, criticized the generality of the resolution's language and argued that the Senate ought to know more exactly the policy before it. They called the sense resolution an attempt "to usurp the usual diplomatic procedure employed in negotiating the formation of a new international institution. The resolution does not urge any course of action that the State Department could not initiate itself through ordinary channels. Apparently, the purpose is to force the administration to adopt a policy that it has not deemed wise heretofore." The two Republican dissenters did not believe the three days of public hearings justified "this unusual procedure." Furthermore, they did not believe an additional foreign lending program was needed to supplement the Export-Import Bank, the Development Loan Fund, the World Bank, the International Finance Corporation, and the International Monetary Fund.

An advance copy of the report and a preliminary draft of a speech Monroney would make on the floor were furnished the Washington bureau of *The Times* several days before official release. After Wallace consulted a *Times* correspondent, who offered to send a messenger for the documents, I delivered them to the bureau's office in

the hope that the paper might carry an extensive background piece or perhaps print the report in full when it was released.

JULY: RELEASING THE REPORT

By July 9 the report, including the minority views, was finished. A decision now had to be made about filing it with the Clerk of the Senate. Monroney hoped to build up additional support upon its release and preferred to time the announcement to make the Sunday *Times* since it had shown interest. But a Sunday release would ordinarily require filing the report on Saturday, and as the week end approached it became clear that the Senate would not meet after Friday. To file the report that day would mean that newspaper reports would appear on Saturday, a day when it is believed that papers are not so widely distributed or carefully read in Washington, and, of course, the advantages of the worldwide circulation of the Sunday *Times* would be missed.

The dilemma was resolved on Friday. A telephone eall to the Parliamentarian's office confirmed the feasibility of my suggestion that Monroney ask for unanimous consent to have until midnight Saturday to file the report. He could then date it for Saturday release. As soon as the Senate adjourned on Friday, copies were made available to the press, and on Saturday morning the committee counsel delivered the official copy to the Senate clerk.

Actually the publicity given the report was not as great as had been hoped. For the first time *The Times* carried IDA on an inside page, but both major Washington papers gave it rather prominent display. The *Post* and *Times-Herald* put it in the financial section and the *Star* placed it at the top of column one on page three. The wire services carried brief accounts and in various parts of the country favorable editorials appeared.

ACTION ON THE SENATE FLOOR

When the committee report had been filed, the push for Senate approval began. To this end Monroney attempted to obtain several cosponsors. When he asked unanimous consent to have until midnight Saturday, July 12, to file the report, he also asked that the resolution "lie on the table" until Monday for cosponsors to affix their signatures. The Senator asked a few close friends to join him in offering the revised version and the committee's staff director and I made known to several friends, who were legislative assistants to Senators, that the resolution was open to cosponsorship. Twelve colleagues, including a few from the Committee on Foreign Relations, joined Monroney.

Next the Senator had to work out with the Senate "leadership"—namely the Democratic Policy Committee through Majority Leader Lyndon Johnson—a time for scheduling debate and vote. Not every resolution favorably reported by a committee is automatically considered by the Senate: conversely, noncontroversial items may pass by unanimous consent. But it was assumed that Capehart would object to such a procedure in the case of Senate Resolution 264, and Monroney himself did not want the resolution to pass without debate. If the Senate spent time seriously considering the matter, he believed it would carry more weight with the administration, as such consideration would be evidence that the action had been take deliberately and not as a matter of course.

For awhile some Senators thought about using the debate on the resolution as an opportunity to criticize administration policies in the Near East. Simultaneous developments in Lebanon and Iraq provided many Democrats with the occasion to say that what was really needed was more fundamental economic development, as envisaged by IDA. But this tactic was rejected.

At another time the "leadership" was ready to call up the resolution to fill a gap in the Senate's business. But the minority leader, then William Knowland (Calif.), who was regularly consulted about the Senate's agenda, had to object because Capehart and Bricker were absent that day.

Late on the night of Tuesday, July 22—about 11:00 P.M.—just before the Senate adjourned, Senate Resolution 264 was made the pending business. Thus, as soon as the "morning business" was concluded on July 23, IDA came up for debate. The morning business, as usual, contained announcements by the majority leader, reports of committees, introduction of bills, some unanimous consent business, and a few short speeches. Shortly before 11:00 A.M. the presiding officer laid Senate Resolution 264 before the Senate and Monroney began his appeal for Senate endorsement of IDA.

A draft of this speech prepared by the committee staff director and me had been in Monroney's hands for over a week before IDA reached the floor, but only the night before the debate did he have a chance to work on it. Working late with Finney, he took part of the draft, added the Brookings speech to it, and welded them together.

The Senators who participated in the debate were mostly members of the Banking Committee except four or five from the Foreign Relations Committee. It is customary that committee members, who considered the resolution in its early stages, should lead the discussion, unless one's constituency is particularly affected by the pending business. Often there were no more than a half dozen Senators on the floor. A count of these who drifted in and out at various times between 11:00 A.M. and 4:00 P.M. did not exceed thirty.

The issues raised in the hearings and in the committee report were subjected to similar discussion on the floor. Senator Bush opened a new and minor controversy when he asked to insert in the *Record* a letter from Eugene Black endorsing Senate Resolution 264. Bush revealed that he had gone to Black's home two evenings before and asked for a letter approving the resolution. The World Bank president agreed to write the letter, providing Bush first would put the request in writing. Capehart objected to using Black's informal testimony when he would not appear before the Committee. When reminded that Black had spent an informal evening with several Senators, Capehart asked, "Are we going to start running the government by holding meetings in a basement, or a cellar, or a living room?"

The debate lasted much longer than Monroney had ex-

pected. He had predicted to the majority leader that a vote could be had within a hour and a half or two hours. Senator Capehart admitted on the floor that he did not have the votes to defeat the resolution, but he wanted to offer an amendment to require that the study should include "all existing international loan agencies in relationship to the proposed International Development Association."

The amendment came as a surprise to most people, including Monroney and the Senate leadership. In such cases it is up to the author of the original resolution whether to accept the amendment. Monroney asked whether Capehart would vote for the resolution if the amendment were adopted. The Indiana Senator would only say, "That is a matter for the Senator himself to decide when the time comes."

Monroney quickly decided to reject the amendment. He gave the Senate three reasons for doing so. First, it was not considered by the Banking Committee or the Subcommittee on International Finance. Second the amendment had not been printed and he had not seen it until just a few minutes before. Third, he believed the new language was unnecessary and might only complicate the resolution whose wording had carefully been worked out with the administration.

At the back of the chamber, aids to the majority leadership were asking committee staff what the amendment "meant." They did not want to know its substance, but as one Democratic aide asked, "Will any of our people get hurt by voting against it?" One by one Senators came in for the vote and looked to their party's staff to learn whether this was a party vote. Republican Senators found it difficult to oppose their leadership on the committee, and only eight Republicans voted against Capehart's amendment. They were Senators George Aiken (Vt.), Wallace Bennett (Utah), Prescott Bush (Conn.), Frank Carlson (Kan.), Clifford Case (N.J.), Francis Case (S.D.), Ralph Flanders (Vt.), and William Langer (N.D.). Senator Jacob Javits (N.Y.) expressed the Republicans' reluctance to oppose their party colleague's proposed amendment:

> A few of us who are very much in favor of the resolution do not understand why the Senator from Oklahoma cannot accept the amendment of the Senator from Indiana, because in this body, as I understand, an amendment will be accepted, even if it provides what is already in the bill, simply to accommodate a Senator who thinks his proposal is not spelled out in the bill.

Only four Democrats broke party ranks to vote for the amendment, Harry Byrd (Va.), Allen Ellender (La.), Frank Lausche (Ohio), and Strom Thurmond (S.C.). The vote was 40 yeas and 47 nays.

On the question of agreeing to the resolution as reported by the Committee, the vote was 62-25; the majority contained 39 Democrats and 23 Republicans. Among the minority Byrd and Ellender were the only Democrats.

By 4 P.M. the debate which was to last an hour and a half but consumed five hours, was completed. The committee staff director of the Banking Committee and I left the Senate chamber and walked down the corridor to the office of the Official Reporters of Debates, and around a large round mahogany table, amidst official reporters dictating notes, began to edit Monroney's speech. In a few minutes the Senator's administrative assistant invited us to the Senate restaurant and there Monroney and four assistants shared the pleasure of victory over soup, sandwiches, and coffee. Meanwhile the Senate turned to other business and a few minutes later Finney, Wallace, and I from the committee staff went back to revising the victorious Senator's grammar and style. At 7 P.M. we had finished going over the transcript of the debate and returned to our offices.

That night the Senate did not adjourn until 10:22 P.M. It had other business to transact, all significant for one reason or another. But none was quite so unusual as Senate Resolution 264, for in adopting that measure the Senate had assumed the initiative and advised the President about foreign policy, something that rarely happens in a system in which, it is said, the President proposes and Congress disposes.

Within a month after the Senate passed the Monroney Resolution, Treasury Secretary Anderson informed the President that the National Advisory Council on International Monetary and Financial Problems intended to engage in "informal discussions with other members of the Bank" concerning an IDA. The Secretary asked the President's guidance on whether to pursue the matter formally if study proved the proposal to be a promising one. The President replied: "If the results indicate that the creation of the International Development Association would be feasible, I request that . . . you initiate promptly negotiations looking toward the establishment of such an affiliate of the Bank."

In October Secretary Anderson discussed the subject with other delegates to the annual meeting of the governors of the World Bank in New Delhi. He announced that "if these informal studies and conversations lead to encouraging conclusions, it would be appropriate to undertake more formal study and negotiation, looking to establishment of such an association." *The New York Times* reported from New Delhi that representatives of underdeveloped countries were very interested in the proposal but that there was not much enthusiasm among the officials of nations which would have to put up the money, namely the United States, West Germany, and Great Britain. At the final session of the conference, President Eugene Black called the IDA proposal "both imaginative and constructive."

In his speech to the annual conference of the Colombo Plan nations in Seattle on November 10, President Eisenhower listed IDA as one of several new developments the United States was interested in pursuing.

On December 8, 1958, *The New York Times* ran a front-page story saying, "The odds are that the new agency will come into being." According to finance reporter, Edwin L. Dale, the New Delhi and subsequent conversations had resolved the doubts of several countries and United States officials had become reasonably confident about establishing the new agency.

Members of the Eagleton Foundation Advisory Board

Eagleton Foundation Staff

The Wells Phillips and Florence Peshine Eagleton Foundation, established in 1954 at Douglass College of Rutgers, the State University of New Jersey, is a unique educational experiment. The Foundation originated in the settled conviction of the donor that "the cultivation of civic responsibility and leadership among the American people in the field of practical political affairs is of vital and increasing importance to our state and nation." The Foundation is a nonpartisan educational organization dedicated exclusively to the advancement of learning in the field of practical political affairs and government within the framework of the two-party system, and is especially concerned with the development of and education for responsible leadership in civic and governmental affairs. As one means to this objective, the Foundation, in collaboration with Henry Holt and Company, has sponsored a program of case studies in practical politics.

Cases in the Eagleton Foundation Series

"Nonpartisan Election: A Political Illusion?" by Marvin A. Harder, University of Wichita.

"Congressional Campaign: Maine Elects a Democrat" by John C. Donovan, Bates College.

"The Rise of the Democratic Clubs in California" by Francis Carney, University of California, Riverside.

"Republican Primary Fight: A Study in Factionalism" by Rhoten A. Smith, New York University, and Clarence J. Hein, University of Kansas.

"The Nomination of Chip Bohlen" by James N. Rosenau, Douglass College.

"The Purge That Failed: Tammany v. Powell" by David Hapgood.

"Connecticut's Challenge Primary: A Study in Legislative Politics" by Duane Lockard, Connecticut College.

"Candidate" by Joseph P. Lyford.

"A Legislative Campaign for a Federal Minimum Wage (1955)" by Gus Tyler.

"Meade Alcorn and the 1958 Election" by Phillip S. Wilder, Jr., Wabash College.

Management position on IDA

IDA General

FORM NO. 59
(2-55)

CROSS REFERENCE SHEET

COMMUNICATION: Memorandum

DATED: October 12, 1959.

TO: Mr. S.R. Cope

FROM: Mr. A.M. Kamarck

FILED UNDER: Development General

SUMMARY: Some thoughts on coordination of international lending and aid activities.

Excerpt from paras: 4 & 5

"With I.D.A. we will no longer be able to indulge ourselves in thinking we are primarily a Bank but will have to give a greater priority to our responsibility as a development institution. A logical part of this responsiblility should be to help in the development process through giving more attention to the economic development policies and programs followed by our member countries. If we do so, our availability to help in coordinating the economic aid given to our member countries can come as a natural by-product.

With I.D.A. coming and to make possible some measures of coordination, Bank economists would have to take a look at our under-developed member countries more often than we have, perhaps once a year. In most countries, at least initially, the best that probably can be done would be to assemble, as effectively as possible, an outline program out of the disparate bits and pieces of development under way or being planned. But over the years the countries themselves, with more or less help, would gradually do a better job of this and the task would become easier."

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR EXECUTIVE DIRECTORS' MEETING

CONFIDENTIAL

IDA/R59-1
(For consideration by the Executive Directors on October 15, 1959)

FROM: The President

October 9, 1959

INTERNATIONAL DEVELOPMENT ASSOCIATION

At the recent Annual Meeting, the Board of Governors adopted the following resolution:

> "Resolved: That with respect to the question of creating an International Development Association as an affiliate of the Bank, the Executive Directors, having regard to the views expressed by Governors and considering the broad principles on which such an Association should be established and all other aspects of the matter, are requested to formulate articles of agreement of such an Association for submission to the member Governments of the Bank." (Resolution No. 136)

As I visualize the consideration of this proposal, it is likely to fall into at least the following phases:

a) A preliminary discussion by the Executive Directors of each of the important questions involved in the proposal, with a view to reaching as wide a consensus as possible.

b) Preparation by the staff of a draft charter reflecting the preliminary discussion, possibly with alternative provisions on matters on which substantial agreement has not been reached, and accompanied by an explanatory memorandum setting forth the understanding of the Executive Directors of how various charter provisions might operate.

Distribution

Executive Directors and Alternates
President
Vice Presidents
Department Heads

c) Detailed consideration by the Executive Directors of each provision of the draft charter and explanatory memorandum, with revisions drafted as necessary.

The attached memorandum is designed to serve as a basis for the Executive Directors' discussions during the first phase of the study, as outlined above. In drafting the memorandum, the staff has taken into account (a) the proposed "Guidelines for Use in IBRD Executive Directors' Study of a Proposed International Development Association (IDA)", which was transmitted to the Bank by the Governor for the United States as an attachment to his letter of July 31, 1959, and, at his request, circulated by me to the other Governors; (b) comments made on the proposal by various Governors at the Annual Meeting; and (c) views informally expressed to the Bank management by Executive Directors and other representatives of various member governments.

In addition to the points raised in the attached paper, the Executive Directors will wish to consider a program of work and a tentative time schedule; these will presumably include an opportunity for informal consultation with governments before the Executive Directors take definitive action on the draft charter. I suggest, however, that we defer this matter until after preliminary discussion of the issues raised in the attached memorandum, except for reaching agreement on an initial series of meetings.

PRINCIPAL POINTS FOR CONSIDERATION IN CONNECTION WITH PROPOSED INTERNATIONAL DEVELOPMENT ASSOCIATION

PURPOSE

1. There is general agreement that the essential role of IDA would be to promote economic development in the less-developed areas by providing financing on terms which bear less heavily on the balance of payments of the borrowing country than do loans granted by the International Bank.

2. Any more precise statement of the purpose of IDA would involve answers to a number of questions of organizational structure and operational principle. It is suggested, therefore, that consideration of a statement of purpose be deferred until after the questions raised in this memorandum have been discussed, and a draft charter has been prepared to reflect the discussions.

ORGANIZATIONAL STRUCTURE

Membership

3. The United States proposal would restrict membership in IDA to members of the Bank. The Governor for Sweden (speaking in behalf of the Governments of Denmark, Finland, Norway and Sweden) suggested that in drafting the charter of IDA, account should be taken of the views expressed by governments in the United Nations during the debates on SUNFED; it is understood that this was designed, among other things, to raise for

discussion the question of opening IDA membership to non-members of the Bank. The Governor for the Netherlands stated that it would be acceptable to the Netherlands if non-members of the Bank were allowed to be associated with IDA in some way.

4. Thus the question is presented whether countries eligible for membership in IDA should be only those which are, or become, members of the Bank, or whether other countries should be permitted to join IDA or become associated with it in some way.

Organization

5. Under the resolution of the Governors, IDA would be a close affiliate of the Bank, and the charter will be drafted on that basis.

6. As to the manner of affiliation, it has been assumed by most of those who have expressed views to the Bank that affiliation on the level of the Governors and Executive Directors should be achieved by following the IFC pattern, but that, unlike IFC, IDA would have the same President as the Bank and that its operations would be carried on by Bank staff. Unless any Executive Director holds a different view, the draft charter will reflect this assumption.

7. Several Governors emphasized the importance of coordinating IDA's activities with those of other international organizations. It is assumed that techniques for such cooperation should be worked out in practice, rather than being spelled out in the charter. Under this assumption, the relevant charter provision would be similar to that of the IFC charter, i.e., that IDA, acting through the Bank, shall enter into formal

arrangements with the United Nations, and may enter into arrangements with other public international organizations having specialized responsibilities in related fields. Unless any Executive Director holds a different view, the charter will be drafted accordingly.

CAPITAL STRUCTURE

Size of Capital

8. The United States has proposed that the initially authorized capital should be $1 billion equivalent. The only Governor who spoke directly to the question of the size of IDA's capital was the Governor for Ghana, who expressed the view that since IDA, unlike the Bank, would probably not be able to supplement its capital resources by public borrowing, an initial capital of $1 billion was likely to be insufficient and should be substantially increased or possibly doubled.

9. Under the other terms of the United States proposal (the provisions respecting convertibility (para. 14 of this memorandum) and replenishment of capital at 5-year intervals (para. 35)), it has been estimated that IDA's lendable resources would permit lending at an average rate of about $150 - $160 million per year. Several Governors suggested that in the circumstances replenishment of capital at less than 5-year intervals would be desirable.

10. The question is thus presented of the appropriate size of IDA's initial resources, taking into consideration whatever decision may be reached on the matter of periodic replenishment.

Basis of Determining Members' Subscriptions

11. No formal proposal has been advanced by the representative of any member on this matter. The Governors for the United States, the United Kingdom and Germany stated that their governments would expect to subscribe amounts proportional to their subscriptions to the Bank. The Governors for the Netherlands, South Africa and Belgium, on the other hand, were opposed to rigid application of the Bank subscription formula.

12. The principal questions presented, which are closely bound up with the question of the useability of subscriptions discussed in paragraphs 13 - 18, are the following:

(a) Should the amount of the subscription of each member be fixed in the charter?

(b) If so, should all IDA subscriptions be proportional to Bank subscriptions, should they be individually negotiated as part of the negotiations on the charter, or should they be fixed in some other way?

(c) If subscriptions are not to be fixed in the charter, should the charter in any way limit the amount which may be subscribed by any member?

Timing, Currency and Useability of Payments on Subscriptions

13. The United States has proposed that members should pay in 50% of their subscriptions initially and the remainder in equal instalments over 5 years. It has further been proposed that 20% of each payment should be

in gold or fully convertible currencies freely disposable by IDA, and that the remaining 80% should be in national currencies.

14. With respect to the useability of national currencies, the United States has suggested the following:

> "Twenty percent of each payment by each member should be in gold or in fully convertible currencies which would be freely disposable by IDA. The remaining 80 percent should be in national currencies and should be usable at a minimum for procurement of nationally-produced goods and services for use in connection with IDA-financed development projects within the country concerned, or for procurement of nationally-produced goods and services for export and use elsewhere in connection with IDA-financed projects. In no event would IDA engage in financing trade in commodities not related to IDA-financed development projects.
>
> In addition to the basic minimum usability of the 80 percent of subscriptions paid in national currency, there should be provision in regard to this 80 percent for:
>
> (a) The convertibility of 30 percent as required by IDA. The obligation to make this portion of its national currency convertible on demand should extend to all members except those to whom IDA granted a suspension of the obligation. This suspension would not be given to any of the industrialized countries, and countries receiving suspensions should not have an aggregate of more than about a quarter of total subscriptions.
>
> (b) The convertibility of the remaining 50 percent of subscriptions paid in national currency by the industrialized countries if and when all of the industrialized countries agree to such a move. The United States would make this portion of its subscription available on a fully convertible basis so long as the other industrial countries do the same.
>
> Under these arrangements, the IDA would have the responsibility for taking account of the economic position of a less-developed country in using such a country's currency, from whatever source acquired. An operating principle of IDA would be that IDA would maintain reasonably uniform rates of usage among the subscriptions in national currencies which become convertible as provided in (a) or (b) above, after first using the holdings of the currency of the country of procurement."

15. Several Governors (United Kingdom, Germany, Sweden and Malaya) expressed the view that the subscriptions of the industrialized countries should be fully convertible.

16. Various views were expressed with respect to the convertibility obligations of the less developed countries: these countries should be permitted to subscribe initially entirely in their national currencies (India); only token subscriptions in convertible currencies should be required (Pakistan); subscriptions might be made fully convertible, with most of the subscription remaining uncalled until the development of the subscribing country reached a stage at which a call could reasonably be demanded (United Kingdom). The Governor for Pakistan expressed the view that it should rest with the country concerned, rather than with IDA, to determine when this stage had been reached.

17. The proposal to distinguish between "industrialized" and "less developed" countries was endorsed by the Governors for Israel and China. The Governor for Australia commented that many countries fell into an intermediate category.

18. The following questions are presented for consideration:

(a) How much of each subscription should be required to be paid immediately, and over what period should the remainder be payable?

(b) What portion of each subscription should be required to be paid in gold or fully convertible currencies?

(c) Should the charter draw any distinctions among members in respect of the convertibility or useability by IDA of the

remaining portion of subscriptions?

(d) If so, what should be the basis for the distinction?

(e) If a distinction is to be drawn between the convertibility or useability of currencies paid in by the industrialized countries on the one hand, and by the less-developed countries on the other, which countries should be considered "industrialized" for this purpose? Should they be named or defined in the charter? Should there be two categories of subscribers only, or should provision be made whereby members in various stages of development might be expected to assume varying obligations with respect to the useability of their subscriptions?

(f) What in fact should be the obligation of each group in this respect?

Voting Rights

19. The Governors for Libya and Malaya expressed the view that voting rights should not follow the Bank pattern, but should give the less developed countries a greater voice in the conduct of IDA's operations. The Governor for Yugoslavia urged that the Executive Directors take into consideration "the desirability of securing full and equal participation of underdeveloped countries in recommending the choice of proposed projects". The Governor for the Netherlands stated that the Netherlands had an open mind on the question of voting rights.

20. The questions for consideration are:

(a) Should voting rights on IDA stock follow the Bank and IFC pattern, i.e., each member to have a specified minimum number of votes plus additional votes based on shares of stock held?

(b) If so, what minimum number of votes should be specified, what should be the par value of each share of stock, and how many votes should each share carry?

(c) If the Bank/IFC pattern is not followed, on what basis should voting rights be determined?

OPERATIONAL QUESTIONS

21. There is wide agreement that IDA's charter should be so drafted as to give the new institution great flexibility in shaping the character of its operations and in fixing the terms of its financing. Virtually every Governor who spoke on the proposal emphasized the importance of charter provision which would not tie the hands of the organization. Most of the important operational questions, therefore, are not matters which need to be decided for purposes of preparing a draft charter. However, the Executive Directors will no doubt wish to consider how the charter powers are likely to be exercised in practice, and they will probably also wish to include in the explanatory memorandum some illustrative examples for the benefit of governments asked to approve the charter.

22. The principal questions for discussion are set forth below. It

should be noted that these questions do not relate to the use of any supplementary contributions which may be made by any member as suggested in paragraph 10 of the United States "Guidelines" paper. Questions relating to the use of such supplementary contributions are set forth in the next part of this memorandum, entitled "Additions to Resources."

Area of Operations

23. It has been implicit in discussions of IDA that, like the Bank and IFC, IDA would operate only in the territories of its members. Several Governors (United Kingdom, Belgium and Australia) urged that dependent territories of members should not be excluded; no Governor disagreed. Unless any Executive Director wishes to discuss the point, the draft charter will define the area in which IDA may operate in terms sufficiently broad to include the dependent territories of members.

24. There appears to be general agreement that IDA's financing should be confined to the less developed areas. Unless a contrary view is expressed, therefore, the draft charter will so provide.

25. It also appears to be generally agreed that the principal consideration governing decision to extend IDA assistance should be the inability of the borrowing country to finance a satisfactory rate of development on the basis of appropriate use of its own resources and of Bank loans and comparable foreign borrowing, but that considerations related to the nature of a particular project should not be excluded. Unless a contrary view is expressed, however, it will be assumed, for charter drafting purposes, that no specific or rigid rules should be prescribed in the charter on this matter.

Objects of Financing

26. The U. S. proposal is that IDA should finance "sound projects of high priority." Several Governors (Viet-Nam, the Sudan and Ecuador) urged that IDA finance "social" projects as well as "productive" projects. The Governors for India and Ghana suggested that IDA should finance general development programs as well as specific projects.

27. The following appear to be the main questions for consideration:

(a) Should the charter or explanatory memorandum indicate that IDA's financing will be concentrated on "productive" projects of the type normally financed by the Bank, or that it may also be expected to finance "social" projects, such as water supply, sanitation, pilot housing schemes and perhaps health and education?

(b) Should the charter or explanatory memorandum limit IDA's financing to specific projects or expressly permit the financing of "general development programs"?

Types of Expenditures to be Financed

28. There appears to be general agreement that IDA should not be precluded from financing local expenditures from its foreign exchange or local currency resources. Several Governors (Malaya, Libya and the Sudan) urged that IDA be prepared to finance such expenditures. If no Executive Director wishes to raise a question on this point, the charter will be drafted to permit such financing.

Terms of Financing

29. It appears to be generally agreed that IDA should provide financing on terms which bear less heavily on the borrowing country's balance of payments than conventional Bank loans. The "softness" of IDA financing might be accomplished by providing for lenient terms of repayment (e.g., loans

repayable in foreign exchange with long maturities or long periods of grace, or both; loans repayable wholly or partly in local currency), by including provisions giving loans a junior character in relation to other foreign exchange obligations, by lending free of interest or at a low rate of interest, or by some combination of the foregoing.

30. Several governments have expressed views with respect to certain of these methods. The Governor for the United Kingdom expressed doubt as to the desirability of loans repayable in local currency, and representatives of other governments have informally expressed the same doubt. On the other hand, several Governors endorsed loans repayable in local currency. The Governor for the United Kingdom expressed doubt that concessionary rates of interest were desirable. The Governors for India and the Netherlands expressed the view that IDA should be permitted to make grants.

31. Notwithstanding these differing views, there was general agreement that the charter should not tie IDA to any particular pattern of financing, and that it should be drafted to give IDA wide latitude in this respect.

32. The Executive Directors may nevertheless wish to consider the following questions:

(a) Should the charter or explanatory memorandum indicate that IDA will normally follow any particular pattern of financing?

(b) If so, what should be the pattern?

(c) Should the level of interest or other charges be left open as a policy matter or should the charter or explanatory memorandum prescribe or emphasize any particular line, as for example "low" interest rates? Should loans without interest be excluded?

Comment: If low interest or no interest were to be charged, a problem would arise where the project to be financed by IDA is to be carried out by an entity other than the government. It

has been suggested that in this situation the loan should be made to the government or a government intermediary, and the local currency equivalent should then be relent to the ultimate borrower on normal terms, except perhaps in special cases of non-revenue-producing projects. It has also been suggested that any loans made without interest might carry a small service charge.

(d) Should the charter make clear an intention that service on IDA loans should not interfere with service on loans from the Bank or comparable loans from other sources or from the market?

(e) Should IDA's charter powers be cast in terms broad enough to permit it to make grants?

(f) If so, should the charter or explanatory memorandum indicate the circumstances under which IDA might be expected in practice to exercise this authority?

Government Guarantees

33. There appears to be general agreement that IDA, like the Bank, should be authorized to lend not only to governments but also to political sub-divisions of governments and to business, industrial and agricultural enterprises within the territories of a member. Unless any Executive Director wishes to discuss this point, the draft charter will be drafted to permit this.

34. There remain for discussion the following questions:

(a) When the member is not itself the borrower, should IDA be required, like the Bank, to obtain a government guarantee?

(b) If not, should IDA in any event be authorized in its discretion to insist upon such a guarantee?

Comment: It is assumed that, even if a government guarantee is not required, provision should be made to assure that IDA will not finance any project to which the government concerned objects.

ADDITIONS TO RESOURCES

Periodic Replenishment

35. The United States has proposed the following basis for periodic replenishment of IDA's capital: At five-year intervals the Board of Governors would consider the desirability of a capital increase. Any increase would require the approval of three-fourths of the total voting power. Each member would have the right, although not the obligation, to subscribe to a portion of the increase in accordance with its proportion of the initial capital. The Board of Governors might also, by the same three-fourths vote, approve a capital increase at any other time, provided that prior capital obligations of members had been substantially discharged. The proposal does not suggest any restriction on the power of the Board of Governors to prescribe the terms on which the increased capital might be offered for subscription.

36. No other government has proposed any specific provision for capital replenishment, although several Governors emphasized the importance of replenishment in view of the size of IDA's initial resources. The Governors for Canada and Libya expressed the view that each member's commitment should be limited to amounts initially subscribed. The Governor for Malaya suggested that a strict requirement of discharge of prior capital obligations might be undesirable.

37. The following appear to be the principal questions for discussion:

(a) Should the charter prescribe periodic consideration of replenishment of IDA's capital resources?

(b) If so, how frequently?

(c) To the extent that replenishment takes the form of a capital increase should an increse be permitted at other than stated intervals?

(d) If so, should it be a condition of any such increase that prior capital obligations have been substantially discharged?

(e) If IDA's capital is to be replenished by an increase in capital stock, should the basis for (i) subscription, (ii) voting rights and (iii) timing, currency and useability of subscription payments necessarily be the same as in the case of the initial capital, or should the terms be left to decision of the Board of Governors at the time any increase is approved?

Supplementary Contribution by One Member in the Currency of Another

38. The United States has proposed that IDA be permitted to accept supplementary contributions from one member in the currency of another member. It has further suggested that members making such contributions receive non-voting "Special Development Certificates" in exchange for the currency contributed. These certificates would carry a right of recovery of any contributed currency remaining upon liquidation of IDA. In addition, holders of certificates would be eligible to receive one-half of the net operating profits derived from use of the resources contributed. The United States has further proposed that currencies transferred be available on terms which impose no greater restriction on their use by IDA than previously applied to their use by the donor country.

39. The Governor for the United States stated that it was contemplated that such supplementary contributions would be made pursuant to agreements reached from time to time between the donor member, IDA and the member whose currency was involved.

40. Several Governors expressed reservations on this proposal. They were concerned that inflationary pressures might be created by use of the funds within the country whose currency was concerned, and that exchange problems and a distortion of foreign trade might result if such funds were used to finance exports.

41. The following questions are thus presented for consideration:

(a) Should IDA be expressly authorized to accept such supplementary contributions?

(b) Should the charter prescribe the rights conferred on members making such supplemental contributions, and, if so, should the United States' proposal for Special Development Certificates be accepted?

42. It has been generally assumed that IDA would not be precluded from accepting other types of contributions.

ENTRY INTO FORCE

43. It is assumed that the charter should provide that it shall come into force only when signed on behalf of not less than a specified number of governments whose subscriptions comprise not less than a stated percentage of the total initial capital. Unless any Executive Director wishes to discuss this point, the draft charter will be cast in that form.

44. There remain for discussion the questions of what minimum number of governments must accept the charter, and what minimum amount of capital must be subscribed, for the charter to enter into force.

OTHER PROVISIONS

45. It is suggested that discussion of other provisions, including particularly formal and legal matters such as suspension, withdrawal, status, privileges and immunities, dividends, interpretation and amendment, should be postponed until after preparation of a draft charter.

October 13, 1959

MANAGEMENT POSITION ON IDA

(Comments on "Principal Points" Paper circulated as IDA/R 59-1)

PURPOSE

We should stress the purpose of IDA as supplemental to the activities of the Bank, and emphasize its role in the less-developed areas.

ORGANIZATIONAL STRUCTURE

Membership

We favor limiting IDA membership to Bank members.

Organization

Although we would prefer to have IDA set up as a fund under Bank administration, we do not intend to press for this. We accept the concept of a separate organization.

We favor the IFC pattern of affiliation with the Bank at the Governor and Executive Director level, but we would want neither a separate President nor any separate regular staff.

We feel it essential that the investment market be impressed with the separateness of IDA as a financial entity. IDA's funds should be segregated and IDA should not be authorized to borrow from the Bank (although it should not be precluded from investing idle funds in Bank bonds). IDA lending to IFC, from supplementary contributions, should not be prohibited.

While IDA's separate financial character should be publicly emphasized, we would want IDA operations in general to be run as part of Bank operations, with Bank staff.

CAPITAL STRUCTURE

Size of Capital

Although we favor having IDA start on a scale substantially

smaller than the Bank, we believe that the $1 billion figure proposed by the United States is near the lower limit of acceptability. We would prefer a larger capitalization of up to, say, $2 billion over the same period. However, we would not take the initiative in asking for this.

Basis of Determining Members' Subscriptions

We have no preference whether subscriptions are based upon Bank subscriptions, except as may follow from the decision taken under the next section. We think that initial subscriptions, however fixed, will have to be specified in the charter, at least as a minimum figure.

Timing, Currency and Useability of Payments on Subscriptions

We agree with the basic idea of the United States proposal that the useable contributions of the poor countries should be small and that those of the rich countries should be large.

We think, however, that the proportion of 20% payable by all members in gold or convertible currencies would press too heavily on the poor countries. On the other hand, we strongly favor 100% convertibility by the industrialized countries.

We think that the classification of all countries as either "industrialized" or "less developed" fails to give clear recognition to the fact that potential subscribers actually range from the group whose contribution should be fully convertible, through countries which could put up varying proportions of convertible currency, down to the poorest countries whose effective contribution might properly be as low as 10%. We think consideration should be given to some device which would permit more flexibility for the middle group of countries.

We would favor the following alternative proposal: There would be three categories of subscribers. Countries in category I would subscribe 100% on a convertible basis. Category II countries would pay in, say, 40% on a convertible basis; the balance of their subscriptions to be paid in in convertible currencies as their economic positions permitted. Category III countries would make only a nominal payment, say, 10%, on a convertible basis, and would pay in the balance in convertible currencies if and as their economic positions permitted. There would be no payments in national currencies which were not fully convertible.

Given the capital structure proposed by the United States, we favor the general principle that there should be a reasonably uniform rate of usage of currencies put up in convertible form.

Voting Rights

We agree that provisions respecting voting rights must follow

the Bank and IFC pattern.

OPERATIONAL QUESTIONS

We favor maximum latitude in the charter and do not wish to tie IDA to any "normal" pattern by a reference in the explanatory memorandum unless members insist, except as indicated below.

Area of Operations

We agree that IDA should operate only in the territories of member countries. The charter language should be broad enough so that dependent territories are not excluded per se. We think IDA might in practice normally lend to a dependent territory where the metropolitan country's creditworthiness was limited, and might, in special circumstances (e.g., in anticipation of independence) lend, without the metropolitan country's guarantee, to a dependent territory which was not itself creditworthy.

We would prefer that the explanatory memorandum contain general language of the kind set forth in paragraphs (a) - (c) of the "Principal Points" paper. We would not want any provisions of this kind in the charter.

We think the charter should explicitly provide that IDA financing will be restricted to the less developed areas.

Objects of Financing

We do not think the charter or explanatory memorandum should indicate that IDA would emphasize joint financing with the Bank.

We favor an indication in the explanatory memorandum that IDA's financing would be largely concerned with projects of the type normally financed by the Bank, but that social projects would not be excluded. We would prefer to avoid any reference to health and education projects.

We do not favor attempting to set forth principles to be applied in deciding what kind of projects to finance, except as indicated above.

We oppose any reference to "general development programs" in a way which suggests that IDA will engage in financing such programs.

Types of Expenditures to be Financed

We believe IDA should be permitted and prepared to finance local currency expenditure, both out of its foreign exchange and local currency resources.

Terms of Financing

We would favor giving IDA authority to make grants. We do not believe the circumstances should be spelled out, but think that some limitation, as "in special circumstances", should be included. We do not intend to press for grant authority if there should be opposition, except that we should reserve our position in regard to supplemental contributions.

With respect to the British point of view regarding equity financing, we do not favor giving IDA this power explicitly, but would not oppose language sufficiently broad to leave the matter open.

We would prefer that the charter and explanatory memorandum not indicate any normal pattern of financing terms. If pressed, we would prefer that long-term loans repayable in foreign exchange with a small charge, preferably not described as interest, be indicated as the normal pattern, with clear indication that exceptions may be liberally made.

Government Guarantees

We favor leaving the government guarantee to be obtained as a matter of policy rather than a statutory requirement. We would not favor any formula about IDA's normal policy in this regard.

ADDITIONS TO RESOURCES

Periodic Replenishment

We favor a specified period for capital replenishment and think that anything less than five years as a normal period should be resisted. Otherwise there would be no basis for long-term planning, and there would be a danger that IDA would lapse into a year-by-year operation.

We do not object to a provision for earlier replenishment by special vote but think this should be regarded as exceptional.

We favor the maximum possible flexibility as to the characteristics of future replenishments.

Supplementary Contribution by One Member in the Currency of Another

We favor the maximum latitude as to the terms which IDA may negotiate in respect of the supplemental contributions, and strongly favor letting IDA have a say on the amounts which it would accept and the terms and purposes of their use.

We favor having the charter broad enough to permit supplemental contributions in any currency.

ENTRY INTO FORCE

We assume that it will be necessary to condition the charter's entry into force on the amount of subscriptions and the number of subscribers. We favor a reasonably high proportion of total capital, e.g., 75%, and a reasonably low number of countries.

FORM No. 75
(5-58)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date 10/8

NAME	ROOM NO.
~~Mr. MacDiarmid~~	~~611~~
Mr Rafinski	
~~Mr. Thorburn~~	
Files. 10.8.59	

	Action		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		To Handle

REMARKS

see comment on page 2 of m

From

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Joseph Rucinski

DATE: October 8, 1959

FROM: O. J. McDiarmid

SUBJECT: Comments on IDA

10.8.59 Mr McDiarmid please see page 2.

1. It may be of interest to consider some of the Annual Meeting comments on certain aspects of the U.S. proposal for IDA particularly in the light of SLC discussion of the same points which I summarized in a memorandum of September 8.

(a) Basis of subscription. This point was not mentioned by many countries. The U.K. offered to subscribe to IDA in proportion to its Bank subscription and probably most countries assumed that IDA's capital would be subscribed on this basis. The Netherlands was an exception because of its relatively large Bank subscription. There was little reference to voting and no one took a definite position on this point. It was probably assumed that the Bank-Fund precedent would apply.

(b) Convertibility of Contribution. The U.K. offered 100% convertibility of its subscription and no indication of less than 100% convertibility came from any of the industrialized countries. Rather than making only a small part of the subscription of underdeveloped countries convertible, the U.K. proposed it all be convertible but only a small part be drawn or paid in.

(c) Eligibility. The U.K. mentioned that the dependent territories should be eligible to borrow. South Africa, generally cool to IDA, assumed that it would not be eligible to borrow.

(d) Interest Rate. U.K. was not in favor of rates below the market. U.A.R. said that even the IBRD rates should be subsidized.

(e) Use of Local (PL-480) Currencies by IDA. Only the U.S. seems to favor this for both financing local currency costs and, in some cases not specified, for financing imported goods from countries where the local currencies have been accumulated. India and Pakistan indicated concern over the unrequited exports that would result. On the other hand the Netherlands and other industrialized countries were concerned about the trade distortion resulting from the U.S. proposal. It seems likely that PL-480 currencies will be used only for local cost financing, not to buy goods for export.

(f) Repayment in Local Currencies. All those that might be eligible for loans from IDA assumed that repayment in local currency would be standard IDA procedure. None of the contributing countries except the U.S. gave any support to the idea and most would actively oppose it. This point will probably be left open in the charter.

bankable

(g) Type of Project. All assumed IDA would finance only "sound" projects but Ecuador, India and some others expect it to finance social projects, e.g. education and health.

2. Conclusion. The views of the other (except U.S.) principal capital supplying countries seem to coincide with those of the SLC on all important points. The main problem in drafting the charter will probably be to give enough consideration to the U.S. position on local currency transactions to make IDA acceptable to the U.S. Congress.

Mac:
Pls explain what is US position on this and why? (Sorry about my ignorance) 10.8.59

cc: Messrs. Larsen, Gordon

The original Monroney Resolution in 1957 proposed loans repayable at least in part in local currencies. Now I understand Monroney and probably others in Congress are becoming disillusioned about such loans as they see local currency balances accumulating under PLF and PL 480 programs. There is still a feeling however that sometime in some way these balances will be useful either as currencies become convertible or for financing strategic materials purchases, private investment etc. IDA was regarded as a vehicle for working off some of these funds. It is the old "double duty dollar" idea which has always had a great appeal in Congress.

IDA

October 5, 1959

Dr. I. O. Dina
Office of the Commissioner
Western Region of Nigeria
178/202 Great Portland Street
London, W. 1, England

Dear Dr. Dina:

Thank you for your letter of September 24. We are putting you on the mailing list of our Department of Information, as you requested.

The Annual Meeting of the Board of Governors of the Bank has just concluded. It passed a resolution instructing the Executive Directors of the Bank to proceed to prepare the Articles of Agreement for the setting up of the International Development Association. The hope is that this will be done rapidly enough so that the member governments would be able to present a request for necessary appropriations to their legislative sessions sometime early in 1960. The initial amount proposed is around $1 billion nominal capital. The U.S. initial proposal has been that at the end of five years this capital might be replenished. While it is still too early to know how much money will be available, the tentative estimates are that perhaps around $150 million a year will be available for lending to the member countries in the initial five-year period. As you can see, from these figures one should not have high hopes of substantial amounts being available to any one country.

It was very nice to have had an opportunity to meet you on your trip to Washington. I am looking forward to seeing you again in the future.

Sincerely yours,

Andrew M. Kamarck
Economic Adviser
Department of Operations
Europe, Africa and Australasia

AMK/vhw

IDA

Mr. Davidson Sommers

October 2, 1959

S. R. Cope

Belgium - IDA

1. At the meeting between Mr. Black and the Belgian delegation yesterday afternoon, Mr. Ansiaux, Governor of the National Bank, made two points regarding IDA. The first was to the effect that Belgium did not think that subscriptions to IDA should be in the same proportion as subscriptions to the Bank. He pointed out that Belgium had already made substantial contributions to the overseas development fund of the Common Market and would have to continue to provide the Belgian Congo with capital. In these circumstances, Belgium would not be prepared to make its effective contribution in the same proportion as its share holding in the Bank.

2. The second point was that it would be impossible for Belgium to join IDA if there were any limitation on IDA's ability to lend to dependent overseas territories. He did not think any such limitation was justifiable and, in any case, it would be impossible to get legislation through unless the Belgian Congo were eligible. Not only should the charter make it clear that dependent territories were eligible, but there should be no tacit understanding that they would be excluded and Belgium would join IDA on that basis. Mr. Black said that he agreed with Mr. Ansiaux's position but warned him that this was a delicate issue and counselled him to keep it in the background and avoid public debate on it.

SRCope:mmr

cc: Mr. R. H. Demuth

Drafts of Provisions Based on
U.S. Proposals for IDA Oct 2/59

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Davidson Sommers

DATE: October 2, 1959

FROM: S. R. Cope

SUBJECT: Belgium - IDA

1. At the meeting between Mr. Black and the Belgian delegation yesterday afternoon, Mr. Ansiaux, Governor of the National Bank, made two points regarding IDA. The first was to the effect that Belgium did not think that subscriptions to IDA should be in the same proportion as subscriptions to the Bank. He pointed out that Belgium had already made substantial contributions to the overseas development fund of the Common Market and would have to continue to provide the Belgian Congo with capital. In these circumstances, Belgium would not be prepared to make its effective contribution in the same proportion as its share holding in the Bank.

2. The second point was that it would be impossible for Belgium to join IDA if there were any limitation on IDA's ability to lend to dependent overseas territories. He did not think any such limitation was justifiable and, in any case, it would be impossible to get legislation through unless the Belgian Congo were eligible. Not only should the charter make it clear that dependent territories were eligible, ~~but~~ there should be no tacit understanding that they would be excluded and Belgium would join IDA on that basis. Mr. Black said that he agreed with Mr. Ansiaux's position but warned him that this was a delicate issue and counselled him to keep it in the background and avoid public debate on it.

cc: Mr. R. H. Demuth

IDA

Mr. Sommers
1003

LEGAL DEPARTMENT
CONFIDENTIAL
Drafts of Provisions
Based on U.S. Proposals
for an IDA
Oct. 2, 1959

Oct 12 draft

ARTICLE I

Purpose

The purpose of the Association is to further the objectives and to supplement the activities of the International Bank for Reconstruction and Development (hereinafter called the Bank) by financing economic development in the less-developed areas in the territories of members on terms which bear less heavily on the balance of payments than loans of the type granted by the Bank.

?

The Association shall be guided in all its decisions by the provisions of this Article.

ARTICLE II

Membership; Capital

Section 1. Membership

(a) The original members of the Association shall be those members of the Bank listed in Schedule A hereto which shall, on or before the date specified in Article ___, Section ____, accept membership in the Association.

(b) Membership shall be open to other members of the Bank at such times and in accordance with such terms as may be prescribed by the Association.

Section 2. Capital Stock

(a) The initially authorized capital stock of the Association shall be $_____, in terms of United States dollars of the weight and fineness in effect on _____.

(b) The initially authorized capital stock shall be divided into _____ shares having a par value of _____ United States dollars each. Any such shares not initially subscribed by original members shall be available for subsequent subscription in accordance with Section 3 (d) of this Article.

(c) The amount of authorized capital stock may be increased by the Board of Governors by a three-fourths majority of the total voting power.

(d) Shares issued pursuant to an increase under paragraph (c) above, shall be so classified, shall have such preferences and privileges and shall be subscribed on such terms and conditions as to the time and method of payment and the use of the currencies paid on the purchase thereof, as the Board of Governors by a three-fourths majority of the total voting power

shall determine, subject, however, to the provisions of this Article.

(e) In the case of an increase authorized pursuant to paragraph (c) above, each member shall have a reasonable opportunity to subscribe, under such conditions as the Association shall decide, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total previously authorized capital stock of the Association, but no member shall be obligated to subscribe to any part of the increased capital.

Section 3. Subscriptions to Stock Initially Authorized.

(a) Each original member shall subscribe to the number of shares of stock set forth opposite its name in Schedule A. The number of shares of stock to be subscribed by other members shall be determined by the Association.

(b) The initial subscription of each original member shall be payable in instalments (each of which shall be in the proportions set forth in paragraph (c) below) as follows:

(i) fifty percent within thirty days after either the date on which the Association shall begin operations pursuant to Article ___, Section _____, or the date on which such original member becomes a member, whichever shall be later;

(ii) ten percent one year after the beginning of operations of the Association; and

(iii) ten percent each year thereafter at annual intervals until the subscription shall have been paid in full.

(c) Payment of subscriptions for shares of the initially authorized capital stock shall be made as follows:

(i) twenty percent shall be payable in gold or fully convertible currencies;

(ii) thirty percent shall be payable in the currency of the member making the payment, and shall be usable as set forth in Article III, Section 1 (a) and (b)(ii); and

(iii) the remaining fifty percent shall be payable in the currency of the member making the payment, and shall be usable as set forth in Article III, Section 1(a).

(d) Shares of stock initially subscribed by original members shall be issued at par. The price and other terms of subscription of shares of stock to be subscribed, otherwise than on initial subscription by original members, shall be determined by the Association.

Section 4. Limitation on Liability

Liability on shares shall be limited to the unpaid portion of the purchase price thereof, and no member shall be liable, by reason of its membership, for obligations of the Association.

Section 5. Restriction on Transfers and Pledges of Shares

Shares of stock shall not be pledged or encumbered in any manner whatever, and shall be transferable only to the Association.

5 years

ARTICLE III

Currencies

Section 1. Use of Currencies

(a) The currency of any member acquired by the Association may be used without restriction my the member, for the payment of administrative expenses incurred by the Association in the teritories of such member and for the payment of goods and services produced in the territories of such member and required for projects financed by the Association, whether located in such territories or in the territories of other members. In using the currency of any less-developed member, the Association shall take into account the economic position of such member and the burden which would be imposed by the use of its currency.

(b) Members shall not maintain or impose restrictions upon the use, for payments in any country, of:

(i) ~~gold and fully convertible~~ currencies received by the Association in payment of the twenty percent portion of each member's capital subscription pursuant to the provisions of Article II, Section 3 (c) (i);

(ii) currencies received by the Association in payment of the thirty percent portion of each member's capital subscription pursuant to the provisions of Article II, Section 3 (c) (ii), provided that the Association may decide, in respect of members whose capital subscriptions aggregate not more than ___ percent of the initially authorized capital, and which

shall not include any of the highly industrialized members of the Association, to limit its use of the currencies of such members so received to the uses set forth in paragraph (a) of this Section; and

(iii) currencies received by the Association in payment of principal of, and interest and other charges on, loans made by the Association; provided that the foregoing shall not preclude the Association from entering into any arrangements with the member in whose territories any project financed by the Association is located restricting the use by the Association of such member's currency so received.

(c) The provisions of paragraphs (a) and (b) (iii) of this Section shall not apply to currencies received by the Association in payment of any supplementary contributions pursuant to the provisions of Article ___ or to currencies derived therefrom.

Section 2. Valuation of Currencies

Whenever it shall become necessary under this Agreement to value any currency in terms of another currency, or in terms of gold, such valuation shall be determined by the Association after consulting with the International Monetary Fund.

Section 3. Maintenance of Value of Currency Holdings

(a) Whenever the par value of a member's currency is reduced or the foreign exchange value of a member's currency has, in the opinion of the Association, depreciated to a significant extent within that member's territories, the member shall pay to the Association within a reasonable time an

additional amount of its own currency sufficient to maintain the value, as of the time of subscription, of the amount of the currency of such member paid in to the Association by the member under Article II, Section 3 (c) (ii) and (iii), and currency furnished under the provisions of the present paragraph provided, however, that the foregoing shall apply only so long as and to the extent that such currency shall not have been initially disbursed or exchanged for the currency of another member.

(b) Whenever the par value of a member's currency is increased, the Association shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency to which the provisions of (a) above are applicable.

(c) The provisions of the preceding paragraphs may be waived by the Association when a uniform proportionate change in the par value of the currencies of all its members is made by the International Monetary Fund.

Section 4. Form of Currency Holdings

The Association shall accept from any member, in place of any part of the member's currency paid in to the Association under Article II, Section 3 (c) (ii) and (iii) and not needed by the Association in its operations, notes or similar obligations issued by the government of the member or the depository designated by such member, which shall be non-negotiable, non-interest bearing and payable at their par value on demand to the account of the Association in the designated depository.

ARTICLE IV

Operations

Section 1. Use of Resources

The resources and facilities of the Association shall be used exclusively for the benefit of members.

Section 2. Conditions of Financing

(a) The Association shall provide financing only to further the development of the less-developed areas in the territories of members.

(b) Financing provided by the Association shall be for purposes which in the opinion of the Association are of high developmental priority, and, except in special circumstances, shall be for specific projects.

(c) The Association shall not provide financing if in its opinion such financing is available on reasonable terms through market channels or should appropriately be provided by a loan of the type made by the Bank.

(d) The Association shall not provide financing unless such financing has been recommended in a report by a competent committee, written after a careful study of the merits of the project. Committees required to report on financing shall be appointed by the Association. Each such committee shall include an expert selected by the Governor representing the member in whose territories the project is located and one or more members of the technical staff of the Association.

(e) The Association shall impose no conditions that the proceeds of its financing shall be spent in the territories of any particular member or members.

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

(g) Funds to be provided under any financing operation shall be made available to the recipient only to meet expenses in connection with the project as they are actually incurred.

Section 4. Form and Terms of Financing

(a) The Association may provide financing in such form or forms as it may deem appropriate, having regard to the economic position of the member in whose territories the project is located and to the nature and requirements of the project [, including loans repayable in foreign exchange with long maturities or long periods of grace, or both, loans repayable wholly or partly in local currency and, in special circumstances, grants.]

[(b) Loans shall bear interest or other charges payable at such rate and in such currency as the Association may deem appropriate to the circumstances of the borrower and the project, or may be made free of interest or other charges.]

(c) When, in the case of a loan, the member in whose territories the project is located is not itself the borrower, the Association may, in its discretion, require a suitable guarantee by the member or a governmental agency of the member acceptable to the Association.

all relevant & circumstances, including

Section 5. Modifications of Terms of Loans

The Association may, when and to the extent it deems appropriate in the light of ~~its purposes~~ the financial and economic situation of the member concerned, relax or otherwise modify, on such conditions as it may determine, the terms on which any of its loans shall have been granted. The Association shall exercise this discretion ~~in relation~~ to ~~payments required to be made in foreign~~ or converted into exchange when and to the ~~extent~~ necessary in the judgment of the Association to enable the member concerned to maintain service on loans payable in foreign currencies or converted through normal market channels from the Bank or other comparable lending agencies ~~or the market.~~ on the credit of the member.

Section 6. Miscellaneous Operations

In addition to the operations specified elsewhere in this Agreement, the Association may:

(i) borrow funds;

(ii) guarantee securities in which it has invested in order to facilitate their sale;

(iii) buy and sell securities it has issued or guaranteed or in which it has invested; and

(iv) exercise such other powers incidental to its business as shall be necessary or desirable in furtherance of its purposes.

Section 7. Political Activity Prohibited

The Association and its officers shall not interfere in the political affairs of any members; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the

the purposes stated in this agreement

ARTICLE V

Organization and Management

Section 1. Structure of the Association

The Association shall have a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Association may determine. To the extent practicable the officers and staff of the Association shall consist of officers and staff of the Bank.

Section 2. Board of Governors

(a) All the powers of the Association shall be vested in the Board of Governors.

(b) Each Governor and Alternate Governor of the Bank appointed by a member of the Bank which is also a member of the Association shall *ex officio* be a Governor or Alternate Governor, respectively, of the Association. No Alternate Governor may vote except in the absence of his principal. The Board of Governors shall select one of the Governors as Chairman of the Board of Governors. Any Governor or Alternate Governor shall cease to hold office if the member by which he was appointed shall cease to be a member of the Association.

(c) The Board of Governors may delegate to the Executive Directors authority to exercise any of its powers, except the power to:

(i) admit new members and determine the conditions of their admission;

(ii) increase or decrease the capital stock;

(iii) suspend a member;

(iv) decide appeals from interpretations of this Agreement given by the Executive Directors;

(v) make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary and administrative character);

(vi) decide to suspend permanently the operations of the Association and to distribute its assets;

(vii) declare dividends; and

(viii) amend this Agreement.

(d) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board of Governors or called by the Executive Directors.

(e) The annual meeting of the Board of Governors shall be held in conjunction with the annual meeting of the Board of Governors of the Bank.

(f) A quorum for any meeting of the Board of Governors shall be a majority of the Governors, exercising not less than two-thirds of the total voting power.

(g) The Association may by regulation establish a procedure whereby the Executive Directors may obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

(h) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Association.

(i) Governors and Alternate Governors shall serve as such without compensation from the Association.

Section 3. Voting

(a) Each member shall have ____ votes plus one additional vote for each share of stock held except for any stock which shall have been issued specifically without voting rights.

(b) Except as otherwise expressly provided, all matters before the Association shall be decided by a majority of the votes cast.

Section 4. Executive Directors

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Association, and for this purpose shall exercise all the powers given to them by this Agreement or delegated to them by the Board of Governors.

(b) The Executive Directors of the Association shall be composed *ex officio* of each Executive Director of the Bank who shall have been either (i) appointed by a member of the Bank which is also a member of the Association, or (ii) elected in an election in which the votes of at least one member of the Bank which is also a member of the Association shall have counted toward his election. The Alternate to each such Executive Director of the Bank shall *ex officio* be an Alternate Director of the Association. Any Director shall cease to hold office if the member by which he was appointed, or if all the members whose votes counted toward his election, shall cease to be members of the Association.

(c) Each Director who is an appointed Executive Director of the Bank shall be entitled to cast the number of votes which the member by which he was so appointed is entitled to cast in the Association. Each Director who is an elected Executive Director of the Bank shall be entitled

to cast the number of votes which the member or members of the Association whose votes counted toward his election in the Bank are entitled to cast in the Association. All the votes which a Director is entitled to cast shall be cast as a unit.

(d) An Alternate Director shall have full power to act in the absence of the Director who shall have appointed him. When a Director is present, his Alternate may participate in meetings but shall not vote.

(e) A quorum for any meeting of the Executive Directors shall be a majority of the Directors exercising not less than one-half of the total voting power.

(f) The Executive Directors shall meet as often as the business of the Association may require.

(g) The Board of Governors shall adopt regulations under which a member of the Association not entitled to appoint an Executive Director of the Bank may send a representative to attend any meeting of the Executive Directors of the Association when a request made by, or a matter particularly affecting, that member is under consideration.

Section 5. President and Staff

(a) The President of the Bank shall be *ex officio* President of the Association. The President shall be Chairman of the Executive Directors of the Association, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote at such meetings.

(b) The President shall be chief of the operating staff of the Association. Under the direction of the Executive Directors he shall

conduct the ordinary business of the Association and under their general control shall be responsible for the organization, appointment and dismissal of the officers and staff.

take in from p. 9.

(c) The President, officers and staff of the Association, in the discharge of their offices, owe their duty entirely to the Association and to no other authority. Each member of the Association shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

Section 6. Relationship to the Bank

(a) The Association shall be an entity separate and distinct from the Bank and the funds of the Association shall be kept separate and apart from those of the Bank. The Association shall not borrow from the Bank. The Association shall make arrangements with the Bank regarding facilities, personnel and services, and arrangements for reimbursement of administrative expenses paid in the first instance by either organization on behalf of the other.

(b) Nothing in this Agreement shall make the Association liable for the acts or obligations of the Bank, or the Bank liable for the acts or obligations of the Association.

Section 7. Relations with Other International Organizations

The Association, acting through the Bank, shall enter into formal arrangements with the United Nations and may enter into such arrangements with other public international organizations having specialized responsibilities in related fields.

Section 8. Location of Offices

The principal office of the Association shall be at the principal office of the Bank. The Association may establish other offices in the territories of any member.

Section 9. Depositories

Each member shall designate its central bank as a depository in which the Association may keep holdings of such member's currency or other assets of the Association or, if it has no central bank, it shall designate for such purpose such other institution as may be acceptable to the Association.

Section 10. Channel of Communication

Each member shall designate an appropriate authority with which the Association may communicate in connection with any matter arising under this Agreement.

Section 11. Publication of Reports and Provision of Information

(a) The Association shall publish an annual report containing an audited statement of its accounts and shall circulate to members at appropriate intervals a summary statement of its financial position and of the results of its operations.

(b) The Association may publish such other reports as it deems desirable to carry out its purposes.

(c) Copies of all reports, statements and publications made under this Section shall be distributed to members.

Section 12. Dividends on Shares

(a) The Board of Governors may determine from time to time what part of the Association's net income and surplus, after making appropriate provision for reserves, shall be distributed as dividends.

(b) Dividends shall be distributed to each member in proportion to the part of such member's subscription to capital stock ~~paid in accordance with Article II, Section 3 which has been used~~ paid in & used in the Association's operations.

(c) Dividends shall be paid in such manner and in such currency or currencies as the Board of Governors shall determine. If payments are made to a member in currencies other than its own, the transfer of such currencies and their use by the recipient country shall be without restriction by any member.

ARTICLE VI

Supplementary Contributions by One Member in the Currency of Another Member

Section 1. Arrangements for Supplementary Contributions; Special Development Certificates

(a) The Association may enter into arrangements from time to time to receive from any member, in addition to the amounts payable by such member on account of its subscription to the capital stock, supplementary contributions in the currency of another member for use in its operations. Such arrangements may prescribe the purposes, provided not inconsistent with the provisions of Article I, for which, and the terms on which, such supplementary contributions may be used by the Association, should not be given effect to unless consistent with provisions of Article I.

(b) The Association shall deliver to the member for each supplementary contribution made by it a certificate (hereinafter called Special Development Certificate) setting forth the amount and the currency of the supplementary contribution. A Special Development Certificate shall not carry any voting rights and shall be transferable only to the Association.

~~Section 2. Separate administration~~

~~Each supplementary contribution shall be administered separately from the other assets of the Association.~~

Section ~~3~~. Distributions

The arrangements referred to in Section 1 may include provisions under which there shall be paid to a member, from time to time, in respect of its supplementary contribution up to one-half of the net income, as determined by the Association, earned in respect of such contribution.

[Add provisions covering rights on withdrawal and liquidation]

ARTICLE VII

Withdrawal; Suspension of Membership; Suspension of Operations

Section 1. Withdrawal by Members

Any member may withdraw from membership in the Association at any time by transmitting a notice in writing to the Association at its principal office. Withdrawal shall become effective upon the date such notice is received.

Section 2. Suspension of Membership

(a) If a member fails to fulfill any of its obligations to the Association, the Association may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by the same majority to restore the member to good standing.

(b) While under suspension, a member shall not be entitled to exercise any rights under this Agreement except the right of withdrawal, but shall remain subject to all obligations.

Section 3. Suspension of Cessation of Membership in the Bank

Any member which is suspended from membership in, or ceases to be a member of, the Bank shall automatically be suspended from membership in, or cease to be a member of, the Association, as the case may be.

Section 4. Rights and Duties of Governments Ceasing to be Members

(a) When a government ceases to be a member, it shall have no rights under this Agreement except as provided in this Section and in Article IX (c), but it shall, except as in this Section otherwise provided, remain liable for all financial obligations undertaken by it

to the Association, whether as a member, borrower, guarantor or otherwise.

(b) When a government ceases to be a member, the Association and the government shall proceed to a settlement of accounts. As part of such settlement of accounts, the Association and the government may agree on the amounts to be paid to the government against surrender of its capital stock, and on the time and currencies of payment.

(c) If no such agreement is reached within ___ months from the date that the government has ceased to be a member, or such other time as may be agreed upon by the Association and the government, the following provisions shall apply:

(i) The government shall be relieved of any further liability to the Association on account of its subscription to capital stock, except that the government shall pay to the Association forthwith amounts due and payable on the date when the government ceased to be a member and committed by the Association as of that date.

?

(ii) The Association shall, against receipt of any payments due under clause (i) above, return to the government amounts paid in by the government on account of its subscription to capital stock remaining unused and uncommitted on the date when the government ceased to be a member.

(iii) The Association shall pay over to the government a pro rata share of all principal repayments received by the Association after the date on which the government ceases to be a member on loans contracted prior thereto. Such share shall be

such proportion of the total principal amount of such loans as the total amount paid by the government on account of its subscription to capital stock and not returned to it pursuant to clause (ii) above shall bear to the total amount paid by all members on account of their subscriptions to capital stock which ~~has~~ shall have been used or committed in the Association's operations. Such payment by the Association shall be made without interest, in instalments when and as such principal repayments are received by the Association, but not more frequently than annually. Such instalments shall be made in the currencies received by the Association except that the Association may in its discretion make payment in the currency of the government concerned.

(iv) In no event shall the government receive under this paragraph (c) an amount greater in the aggregate than (a) ~~the lesser~~ the par value of its shares or (b) their value as shown on the books of the Association as of the date on which it ceased to be a member, whichever is less.

(v) All calculations required hereunder shall be made on such basis as shall be reasonably determined by the Association.

(d) In no event shall any amount due to a government for its capital stock under this Section be paid until six months after the date upon which the government ceases to be a member. If within six months of the date upon which any government ceases to be a member the Association suspends operations under Section 5 of this Article, all rights

of such government shall be determined by the provisions of such Section 5 and such government shall be considered still a member of the Association for purposes of such Section 5, except that it shall have no voting rights.

Section 5. Suspension of Operations and Settlement of Obligations

(a) The Association may permanently suspend its operations by vote of a majority of the Governors exercising a majority of the total voting power. After such suspension of operations the Association shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations. Until final settlement of such obligations and distribution of such assets, the Association shall remain in existence and all mutual rights and obligations of the Association and its members under this Agreement shall continue unimpaired, except that no member shall be suspended or withdrawn and that no distribution shall be made to members except as in this Section provided.

(b) No distribution shall be made to members on account of their subscriptions to the capital stock held by them until all liabilities to creditors shall have been discharged or provided for and until the Board of Governors, by vote of a majority of the Governors exercising a majority of the total voting power, shall have decided to make such distribution.

(c) Subject to the foregoing, the Association shall distribute the assets of the Association to members pro rata in proportion to amounts paid in by them on account of their capital stock. Any distribution pursuant to the foregoing provision of this paragraph (c) is

subject, in the case of any member, to prior settlement of all outstanding claims by the Association against such member. Such distribution shall be made at such times, in such currencies, and in cash or other assets as the Association shall deem fair and equitable. Distribution to the several members need not necessarily be uniform in respect of the type of assets distributed or of the currencies in which they are expressed.

(d) Any member receiving assets distributed by the Association pursuant to this Section shall enjoy the same rights with respect to such assets as the Association enjoyed prior to their distribution.

Section 4

ARTICLE VIII

Status, Immunities and Privileges

Section 1. Purposes of Article

To enable the Association to fulfill the functions with which it is entrusted, the status, immunities and privileges provided in this Article shall be accorded to the Association in the t erritories of each member.

Section 2. Status of the Association

The Association shall possess full juridical personality, and, in particular, the capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property;

(iii) to institute legal proceedings.

Section 3. Position of the Association with regard to judicial process

Actions may be brought against the Association only in a court of competent jurisdiction in the territories of a member in which the Association has an office or has appointed an agent for the purpose of accepting service or notice of process. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Association shall, wheresoever located and by whomsoever held, be immun from all forms of seizure, attachment or execution before the delivery of fina judgment against the Association.

Section 4. Immunities and Privileges

The provisions of Article VII, Sections 4 through 9, of the Articles o Agreement of the Bank shall, mutatis mutandis, be deemed to be part of this Agreement as though fully set forth herein.

Section 4. Immunities and Privileges

The immunities and privileges to be accorded to the Bank under the provisions of Sections 4 through 9 inclusive of Article VII of the Articles of Agreement of the Bank shall be accorded to the Association in respect of the Association's property, assets, income, operations and transactions authorized by this Agreement, its archives, communications, obligations and securities, its Governors, Executive Directors, Alternate Executive Directors, Officers and Employees and their salaries and emoluments, with the same force and effect as if such Sections were fully set forth herein with the word "Association" substituted for the word "Bank" as it appears therein.

ARTICLE VIII

Status, Immunities and Privileges

Section 1. Purposes of Article

To enable the Association to fulfill the functions with which it is entrusted, the status, immunities and privileges provided in this Article shall be accorded to the Association in the t erritories of each member.

Section 2. Status of the Association

The Association shall possess full juridical personality, and, in particular, the capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property;

(iii) to institute legal proceedings.

Section 3. Position of the Association with regard to judicial process

Actions may be brought against the Association only in a court of competent jurisdiction in the territories of a member in which the Association has an office or has appointed an agent for the purpose of accepting service or notice of process. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Association shall, wheresoever located and by whomsoever held, be immun from all forms of seizure, attachment or execution before the delivery of fina judgment against the Association.

Section 4. Immunities and Privileges

The provisions of Article VII, Sections 4 through 9, of the Articles o Agreement of the Bank shall, mutatis mutandis, be deemed to be part of this Agreement as though fully set forth herein.

Section 5. Application of Article

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Association of the detailed action which it has taken.

ARTICLE IX

Amendments

(a) This Agreement may be amended by vote of three-fifths of the Governors exercising four-fifths of the total voting power.

(b) Notwithstanding paragraph (a) above the affirmative vote of all Governors is required in the case of any amendment modifying:

(i) the right to withdraw from the Association provided in Article VI, Section 1;

(ii) the pre-emptive right secured by Article II, Section 2 (e); and

(iii) the limitation on liability provided in Article II, Section 5.

(c) Any proposal to amend this agreement, whether emanating from a member, a Governor or the Board of Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board of Governors. When an amendment has been duly adopted, the Association shall so certify by formal communication addressed to all members. Amendments shall enter into force for all members three months after the date of the formal communication unless the Board of Governors shall specify a shorter period.

ARTICLE X

Interpretation and Arbitration

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Association or between any members of the Association shall be submitted to the Board of Directors for its decision. If the question particularly affects any member of the Association not entitled to appoint an Executive Director of the Bank, it shall be entitled to representation in accordance with Article V, Section 4 (g).

(b) In any case where the Board of Directors has given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board of Governors, the Association may, so far as it deems necessary, act on the basis of the decision of the Board of Directors.

(c) Whenever a disagreement arises between the Association and a country which has ceased to be a member, or between the Association and any member during the permanent suspension of the Association, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Association, another by the country involved and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the International Court of Justice or such other authority as may have been prescribed by regulation adopted by the Association. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

ARTICLE XI

Final Provisions

Section 1. Entry into Force

This Agreement shall enter into force when it has been signed on behalf of not less than __ governments whose subscriptions comprise not less than __ percent of the total subscriptions set forth in Schedule A and when the instruments referred to in Section 2(a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before _____.

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Bank an instrument setting forth that it has accepted this Agreement without reservation in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Association as from the date of the deposit on its behalf of the instrument referred to in paragraph (a) above except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) This Agreement shall remain open for signature until the close of business on _____, at the principal office of the Bank on behalf of the governments of the countries whose names are set forth in Schedule A.

(d) After this Agreement shall have entered into force, it shall be open for signature on behalf of the government of any country whose membership has been approved pursuant to Article II, Section 1 (b).

Section 3. Inauguration of the Association

(a) As soon as this Agreement enters into force under Section 1 of this Article the President shall call a meeting of the Board of Directors.

(b) The Association shall begin operations on the date when such meeting is held.

(c) Pending the first meeting of the Board of Governors, the Board of Directors may exercise all the powers of the Board of Governors except those reserved to the Board of Governors until this Agreement.

Section 4. Registration.

The Bank is authorized to effect registration of this Agreement with the Secretariat of the United Nations in accordance with Article 102 of the Charter of the United Nations and the Regulations thereunder adopted by the General Assembly.

DONE at Washington, in a single copy which shall remain deposited in the archives of the International Bank for Reconstruction and Development, which has indicated by its signature below its agreement to act as depository of this Agreement, to effect registration of this Agreement with the Secretariat of the United Nations and to notify all governments whose names are set forth in Schedule A of the date when this Agreement shall enter into force under Article X, Section 1 hereof.

SCHEDULE A

Subscriptions to Capital Stock
of the International Development Association

Country	Number of Shares	Amount (in United States dollars)

[To be inserted]

Mr Black

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL MONETARY FUND
INTERNATIONAL FINANCE CORPORATION

BOARDS OF GOVERNORS 1959 ANNUAL MEETINGS WASHINGTON 25, D.C. CABLE ADDRESS: BANKFUNDIFC

September 28, 1959

MEMORANDUM

To: Files

From: Davidson Sommers

Subject: IDA -- Mr. Black's dinner for Finance Ministers on September 26, 1959

The following were present:

United States:	Mr. Anderson, Mr. Dillon;
United Kingdom:	Sir Roger Makins;
France:	Mr. Pinay, Mr. Baumgartner;
Germany:	Professor Erhard;
Canada:	Mr. Fleming;
Netherlands:	Mr. Zijlstra;
Belgium:	Mr. van Houtte;
Italy:	Dr. Medici;
Japan:	Mr. Sato;
Australia:	Mr. Holt;
IBRD:	Mr. Black, Mr. Sommers

Mr. Black made a brief statement saying that in view of the importance of the U.S. proposal, he thought it useful to have a preliminary exchange of views among the potential major contributors. Each of the Finance Ministers made a statement, in turn. Each expressed full support for IDA, and most said expressly that affiliation with the Bank was an essential element. Points made by the various Ministers included the following:

Mr. Anderson -

Stressed the importance of flexibility. He made some reference to need for protecting the interests of "industrialists" but this was not directly in the context of convertibility, which he did not stress except by saying that in the U.S. view there were two classes of membership.

Sir Roger Makins -

Mentioned several points which required further consideration: first, an essential point for him, was the inclusion of the dependent territories who should receive a fair portion of the benefits; second,

he stressed the desirability of 100 per cent convertibility by the major contributors; and, third, he said that the proper contribution by the underdeveloped countries needed further study; and, fourth, he mentioned without elaboration that further consideration should be given to the problem of "local currency".

Mr. van Houtte -

Strongly stressed the need for allowing dependent territories to receive some of the benefits and stressed the contribution the Colonial powers were already making.

Mr. Holt -

Supported the reservations of Sir Roger Makins.

Dr. Medici -

Gave unqualified support (privately he told me Italy was willing to make a larger contribution).

Mr. Fleming -

Supported Sir Roger Makins' statement and said that he understood from Mr. Anderson that the American resolution was not intended to commit governments and the Executive Directors would report back to Governors, at which time governments would have a chance to consider their positions. (This was not explained by Mr. Fleming nor was any mention made of the point by other speakers).

Mr. Pinay -

Placed strong emphasis on the necessity of including the dependent overseas' territories.

Mr. Sato -

Said that IDA should have understanding and tact in its relationship with the underdeveloped countries like that displayed by the Bank.. (The point of this seemed to be that IDA should not have separate officers or staff).

Mr. Zijlstra -

Expressed reservations about the size of the Dutch quota and said that care should be taken about local currency contributions, that their use should not have an inflationary effect.

Professor Erhard -

Merely expressed support for IDA and used this as a jumping-off point for discussing coordination (see below).

Mr. Dillon answered some of the points made in a very conciliatory way. Particularly he indicated that the U.S. generally concurred in the statements made about the dependent overseas' territories.

On coordination, Dr. Erhard made a strong plea for further information, consultation and coordination, but emphasized that he did not have in mind formal institutions or binding commitments. There was a general favorable response in regard to information and consultation, but the U.S., the U.K., the Dutch and others expressed caution about coordination.

S. V. RAYAN
EDITOR
COMMERCE

OCT. 5 REC'D

BRADY HOUSE
VEER NARIMAN ROAD
POST BOX 840
BOMBAY-1

26th September, 1959

Dear Mr. Black,

I am writing this to invite your kind attention to our comments on the proposed International Development Association in our current issue.

A press cutting of our article is enclosed for your ready reference.

With kind regards,

I am,
Yours sincerely,

Encl:

Eugene R. Black, Esqr.,
President,
International Bank for Reconstruction
and Development,
1818 H Street,
Washington 25 D.C.

Please acknowledge
EWS

ack. Oct. 16.

S. V. RAYAN
EDITOR
COMMERCE

BRADY HOUSE
VEER NARIMAN ROAD
POST BOX 840
BOMBAY-1

OCT 5 REC'D

26th September, 1959

Dear Mr. Black,

I am writing this to invite your kind attention to our comments on the proposed International Development Association in our current issue.

A press cutting of our article is enclosed for your ready reference.

With kind regards,

I am,
Yours sincerely,

Encl:

Eugene R. Black, Esqr.,
President,
International Bank for Reconstruction
and Development,
1818 H Street,
Washington 25 D.C.

ack. Oct. 16.

COMMERCE

*"For Commerce, though the child of Agriculture, fosters his parent
Who else must sweat and toil and gain but scanty fare."*
William Blake.

VOL. XCIX. No. 2531 | BOMBAY, 26th SEPTEMBER 1959 | PRICE: Rs. 2

INTERNATIONAL DEVELOPMENT ASSOCIATION

THE move to establish a new financial institution, already named as the International Development Association, will figure prominently at the annual meeting of the International Bank for Reconstruction and Development—World Bank for short—due to be held at Washington on Tuesday, the 29th inst. The credit for taking the initiative in this direction goes to the United States of America. The idea was first mooted by Senator Monroney, with the object of helping underdeveloped countries seriously engaged in the task of raising their living standards, and won the approval of President Eisenhower later. For the first time, in August last, Mr. Eisenhower gave public expression to his support to the I.D.A. He included it as one of the three proposals for raising international liquidity and directed the Administration to study the feasibility of its implementation in co-operation with the members of the International Monetary Fund and the World Bank. The first two proposals pertained to a general increase in the quotas assigned to member-Governments of the I.M.F. and in the authorised and subscribed capital of the World Bank. Approval of the members for the latter two proposals was obtained at the last annual meetings of the Bank and the Fund held at New Delhi. They have now been practically implemented, so that only the idea of I.D.A. remains to be fulfilled.

Not much was said or done at the New Delhi meetings of the Fund-Bank about the I.D.A. For practical considerations, the U.S. delegation to these meetings did not take up the issue. It believed in the wise saying: "Do one thing at a time and do it well." It thought that it was better to get the increases in the capital of the Fund and the Bank first approved by the legislatures of member-countries, before confronting them with the demand for subscription to the capital of a new body. With the U.S. continuing to lose gold in favour of European countries, there was a misgiving whether the U.S. Congress would give permission for the I.D.A. also. Although the postponement of the idea caused some disappointment to the representatives of underdeveloped countries, it was doubtless a wise move. Apart from the consideration just mentioned, the Governments of several Western countries were not quite clear in their minds whether or not the I.D.A. should be supported. Even a few of the underdeveloped countries themselves were having a misgiving that the new move would adversely affect the prospects for receiving bilateral aid; they were, therefore, uncertain whether it was worthwhile supporting the move. Since then, however, the climate for the I.D.A. has distinctly improved. The U.S. Administration has come out strongly in favour of it and the Congress seems to be inclined to give its approval. The Governments of the U.K., India, and Pakistan have also expressed their willingness to support the idea in principle. The reactions of other Governments are not yet known, but the Commonwealth as a whole may be expected to rally behind it. Several Continental countries, notably France, West Germany, Belgium and the Netherlands, may still be having reservations—last year they were not very enthusiastic about it. Even they, however, may relent under persuasion from the U.S. They have all accepted, as a matter of principle, the idea that the interests of the free world will be best served if the underdeveloped countries get external help. There is thus good reason for assuming that Senator Monroney's idea will come to fruition, though how soon and with what reservations are questions to which answers are not known yet.

No official information on the I.D.A. has so far been made available by any of the member-Governments of the World Bank. Nor has the World Bank Secretariat issued any Press release. One has, therefore, to go only by the reports in the Press. It is, of course, well known that the idea of establishing the International Development Association is to help the underdeveloped countries by giving them what is generally described as "soft loans." By "soft loan" is meant a loan carrying a low rate of interest, even if it is uneconomical to the lender, and repayable after a fairly long period; the bulk, if not the whole, of repayment will be in the currency of the borrowing country. In other words, the loans will be something similar to those now being made available by the U.S. Development Loan Fund; indeed, if Senator Monroney's idea were to prevail, they should be more favourable than even the loans from the D.L.F. It is also well known that the I.D.A. would be an affiliate of the World Bank. That at any rate is the proposal of the U.S. Government. Mr. Eisenhower said, in August 1958, that the I.D.A. would be affiliated to the World Bank and could usefully supplement the lending activities of the Bank for accelerating the pace of economic development in the less-developed member-countries of the Bank. No opposition to this proposal has been discernible from the official side of any member-country.

Some economists of international repute, however, have been opposed to the I.D.A. being a part of the World Bank. They are of the view that the Bank should be kept out of it, as the provision of "soft loans" would impair the good work that is being done by it. They feel that Gresham's Law will operate in this sphere also. The soft loans imply a large element of subsidy to the borrowing countries. The doling out of such subsidies, they argue, is a politician's function and cannot be satisfactorily dealt with by an institution like the World Bank run on business principles and sound economics. They are afraid that soft loans will encourage the receiving countries to indulge in inflationary policies and undermine their economic stability. They say that a loan is a loan and not a gift; since it implies repayment, there cannot be a fine distinction between a soft loan and a hard loan. They are not opposed to donations being given to deserving projects of deserving countries. Only, they want a spade to be called a spade. They feel that a better proposition would be to encourage private enterprise in underdeveloped countries by establishing international investment trusts which, in turn, can give local currency loans and build revolving funds. They favour this course, because they think that it would lead economic development on sound lines.

In arguing thus, these sound-money theorists are clearly ignoring the political factors operating in underdeveloped countries. Although it must be conceded that there is a lot of force in what they say, they are not realistic in their approach, in that one cannot overlook considerations of political feasibility. Statesmanship demands that efforts should be made to devise a scheme whereby the aspirations of underdeveloped countries can be satisfied, without necessarily sacrificing sound economics and without trying to impose on them an economic dichotomy which they are not prepared to follow. It is not surprising, therefore, that the aforesaid arguments have not carried much conviction to either the U.S. Administration or the top officials of the World Bank. Mr. Eugene Black, President of the Bank, would not have entertained the proposal to have the I.D.A. as an affiliate of the Bank had he reasons to feel that it cannot be worked on sound lines. It is obvious that Mr. Black must be of the view that, by having the I.D.A. under the wing of the World Bank, it would be easier to ensure that "soft loans" were given to finance only sound and essential projects than would be the case if the Association were in the hands of some other U.N. agency. It is true that the I.D.A. is meant to supplement the financial efforts of the World Bank, but that does not necessarily mean that the development projects in underdeveloped countries not taken up by the World Bank are all economically unsound. There are several State-owned industrial projects in India, as, for instance, the steel plants, fertiliser factories, heavy machine building plants and machine tool factories, for which the World Bank is not prepared to give a loan as a matter of policy. Surely, these are economically sound projects and there is no reason why the proposed I.D.A. should not finance them. Failure to do so will only compel the underdeveloped countries to lean more and more on the Communist countries for help. Then, there are several other projects for creating "social capital," such as construction of roads, bridges, slum clearance and urban development, the return on which is small and can be had only after a long time. These, too, are projects fit enough to be aided by the I.D.A. By participating in these projects, the I.D.A., under the auspices of the World Bank, can easily influence the borrowing countries to follow sound economic policies. The underdeveloped countries, on their part, will do well to realise that the loans taken by them from the I.D.A., though soft in terms, are still loans and not grants and that they will have to be gradually repaid after some years. This implies that they will have to use these loans in a manner which will be productive and ultimately lead to a surplus of wealth necessary to repay the interest, as well as the principal. Unless their representatives effectively create this impression among the leaders of Western countries attending the Fund-Bank meetings next week, the spokesmen of sound-money theory school may succeed in putting a spoke in the wheel and delay the fructification of the I.D.A.

If the establishment of the I.D.A. means supplanting, instead of supplementing, the existing sources of foreign aid to underdeveloped countries, or if it means a reduction in the scope for obtaining long-term credits through bilateral negotiations, there is surely no charm in it. To take the case of India alone. This country's foreign exchange needs for the third

Contents

Plan are estimated at $5,000 million. The whole of this, or even a substantial part of it, cannot be met by the I.D.A., which is expected to have a capital of only $1,000 million, contributed by the members of the Word Bank in the same proportion in which they have done to the Bank's capital. It cannot, therefore, be the idea of the promoters of the I.D.A. to curtail the scope and extent of aid now being given by them to India and other underdeveloped countries. There is also no convincing reason why they should do so. After all, on the proposed basis of contribution to the I.D.A.'s capital, the share of the U.S. Government will be no more than $332 million. The U.K. will be contributing only $136 million, West Germany a little less than $100 million and Canada about $80 million. It is inconceivable that these and other Western countries, which are in a far more enlightened mood now than before, think that their obligations to help the underdeveloped countries in their economic development can be fulfilled merely by making these contributions to the capital of the I.D.A. This does not necessarily mean that the Governments of underdeveloped countries can smugly assume that all they have to do is to negotiate with their counterparts in the U.S., the U.K. and other developed countries for large low-interest-bearing loans, repayable in easy instalments, and big grants. They have to realise that there is, particularly in the U.S., a growing opposition to such Government-to-Government assistance, the stress being increasingly on the export of private capital and loans repayable in hard currency. They have, therefore, to make some allowance for this trend in their calculations and revise the economic policies to facilitate a larger inflow of private capital. In the U.S., there is a serious move to encourage private capital investment in foreign countries through tax concessions. The Governments of underdeveloped countries should reciprocate this move by making suitable concessions in their policies. This will also encourage other developed countries to emulate the U.S.

THE THIRD PLAN

IN retrospect, it will be generally admitted that the public discussion which preceded the second Five-year Plan was less animated than what the subject deserved. Perhaps, both the public and the Government were overwhelmed by the relative success of the first Plan into a sense of complacency, though, when the draft actually appeared, there were several voices of protest against the assumptions implicit in the Plan. The third Five-year Plan is, however, in no danger of inadequate preparation and advice. For one thing, the ground for it has been well prepared by the fact that the second Plan has been appraised and re-appraised. Secondly, the approach to the third Plan, by reason of the experience gained by the Government and the public in the implementation of the second Plan, has evoked lively discussion in many quarters. Among these expressions of opinion, a notable contribution is the one made by the Federation of Indian Chambers of Commerce and Industry.

In its memorandum, entitled *The Third Five-year Plan—A Tentative Outline*, the Federation has set forth the broad principles which should guide the next Plan and also the priorities which should govern the emphasis on different projects. The chief merit of the publication lies not so much in the arithmetical calculations in the outline but in the entire approach to the question of development. Thus, there is no disposition to over-emphasise the need for a conservative Plan, under the pretext of economic realism, which may well degenerate into a cloak for a policy of inactivity. Nor is there an exhibition of enthusiasm for a rate of progress which takes no note of what is practicable. An overall target of net investment at Rs. 10,000 crores has been set. This is a figure which has been most frequently mentioned in connection with all discussions in the Plan. But it is when it comes to the actual pattern of expenditure and the economic policy that should guide it that the Federation makes out a convincing case for a sense of moderation. Economic development, in general, and such development in underdeveloped countries, in particular, according to the Federation, is a matter for evolution and adaptation to changing social and economic requirements. Economically desirable results, it is stressed, cannot be ensured by forcing the pace of institutional changes on doctrinaire grounds; disruption of traditional channels could hold up development programmes. This is a sensible approach. Only, the Government does not always listen to the voice of reason.

Yet another general principle which deserves support is the emphasis on agriculture and consumer goods. It was all too readily assumed on the eve of the second Plan that agriculture could be safely relegated to a secondary, if not inferior, status and that all that the country needed was a bold programme of industrialisation. The country now faces the prospect of falling between two worlds—the world of agriculture, languishing, if not dead, and the world of industry, powerless to be born. Increase in foodgrains production has not kept pace with the increase in demand, whereas the pace of industrial production has shown distinct signs of slackening. The Federation rightly points out that the "emphasis on industry should in no way detract the attention of planners from the need to give sufficient consideration to the projects and administration for improved agricultural production." Again, it insists, in effect, that an exclusive preoccupation with austerity and savings and production of capital goods would be wrong. It argues that production has to be maintained by purchasing power and sustained by savings. Further, capital goods industries deserve encouragement. But equal attention should be given to the production of consumer goods and consumer durables. The Federation rightly observes: "This has to be emphasised, because the products of this group of industries are a direct evidence to the people regarding the results and objectives of planned development." Whatever may be the economic wisdom of concentration on producer goods industries in the centrally planned economies, the fact remains that this policy cannot be implemented in a democratic community which will not lightly sacrifice visible signs of prosperity at the altar of some vague concepts of building an enduring economic base.

To turn now to the investment pattern proposed by the Federation. The overall net outlay of Rs. 10,000 crores is sought to be distributed among the public and private sectors in the ratio of 55 : 45. This gives a slightly larger share to the private sector than the allocation in the second Plan in which the original proportions of the public and private sectors were 61:39. By 1960-61, national income, it is computed, will rise to Rs. 12,800 crores. On the basis of a capital output ratio of 2.5:1, national income is expected to rise to Rs. 16,800 crores by 1966. Between 1961 and 1966, population will have increased from 410 million to 445 million and *per capita* income from Rs. 310 to Rs. 375. The proposed breakdown of the total outlay (in percentages), with corresponding figures in the second Plan, is: agriculture and rural development 12(9); irrigation and power 16(14.5); industries and mining 40(24.5); transport and communications 11(22); social services 14(23) and miscellaneous 7(7). While investment in agriculture and rural development and irrigation and power are being maintained almost at the same level as in the first Plan, there is much greater emphasis on industries and mining in the third Plan. But it is not clear whether transport has not been unjustly treated, though the percentage proposed will give it a total allocation of Rs. 1,100 crores. So far as the impact of investment on employment is concerned, it has been computed that the total outlay will, on the basis of Rs. 7,000 per job, create 16 million new job opportunities.

The basic considerations and industrial priorities for the third Plan, on which the Federation lays emphasis, are: (1) increased production of fertilisers, both organic and inorganic, so as to relate industrial development to the primary need of bringing about a 30-40 per cent. rise in the production of foodgrains and substantial increase in cash crops; (2) the attainment of a level of near self-sufficiency in heavy machine building, as also of other types of industrial machinery, including machine tools, tractors, etc.; (3) sufficient emphasis on the processing and consumer goods industries which are the basic ingredients of a rising standard of living; these industries also need a high priority as a safeguard against inflation; (4) development in the small-scale sector; (5) considerable expansion in producer goods industries, including steel, chemicals and coal; (6) greater emphasis on the exploration, extraction and production of such raw materials as are making a large draft on foreign exchange such as exploration and exploitation of mineral oil, production of virgin non-ferrous metals, wood-pulp and chemical pulp, etc.; (7) modernisation of various industries, with special emphasis on export industries. A study of this list of priorities shows how balanced the Federation's approach is to the problem of industrial development.

Among the somewhat uncertain factors—no plan can fully insure against all uncertainties—which lie at the basis of the Federation's Plan, mention must be made of the feasibility of the target of Rs. 3,000 crores set for investment by the private sector. The Federation recognises that this is a high figure and admits that, "with existing conditions, the private sector may not even be able to muster investment resources of even half this amount." Given the better fiscal climate, for which the Federation pleads, it may be possible to make a near approach to this figure. The share of internal financing is kept at about 33 per cent. of the total outlay. This will be impossible of attainment, without a "taxation structure which positively assists ploughing back of corporate earnings." Liberalisation of certain restrictions imposed by the industrial finance institutions, the formation of unit trusts as in the U.K. and the U.S. and the creation of a proper climate for inflow of foreign capital are among the measures suggested by the Federation. Nevertheless, it may be wondered whether, barring the event of a remarkably favourable trend in the inflow of foreign private capital and management, the private sector will be able to make the contribution set for it in the Federation's outline of the third Plan.

As experience in the implementation of the second Plan has abundantly made clear, any inadequate appraisal of foreign exchange resources may well land all economic programmes in serious difficulties. The Federation rightly assumes that the paucity of foreign exchange will persist in the third Plan. It assesses the foreign exchange requirements at Rs. 2,400-2,500 crores, made up of foreign exchange needed to make repayments of past commitments (Rs. 550-600 crores), foreign exchange requirements of the Plan itself—on the basis of 20 per cent. for industrial investment and 10 per cent. for the rest—(Rs. 1,500 crores) and foreign exchange to meet a reasonable level of essential imports (Rs. 300 crores). The net total requirements, it is expected, will be reduced to the extent of Rs. 350-400 crores which will be carried over from the various credits in the second Plan. Discussing the question of inflow of foreign capital in relation to the foreign exchange requirements under the Plan, the Federation observes:

> "It should also be generally recognised that it would be imprudent to depend upon an unduly high proportion of loans and aid from foreign countries. The burden of repayment in such cases is bound to be cumulative and the various complications pertaining to repayment may mean increasing difficulties regarding foreign exchange budgeting. It has also been our experience in the past that the availability of such loans and grants fluctuates from year to year and much depends upon the vagaries of the political situation in each of those countries which desire to allow such financial accommodation to us. Even otherwise, most countries have to budget these funds on the basis of one financial year at a time and to base a long-term plan like ours on anticipations regarding such grants and loans would be somewhat insecure. It is for this reason that greater attention needs to be paid to the inflow of private foreign capital and various steps of policy and procedure which would be necessary to establish a climate which will ensure a steady and sufficient supply of foreign exchange resources in this form."

Little exception can be taken to the reasoning which has been set forth above in an effort to present the inflow of foreign capital in its national and international perspective. The Federation rightly holds that foreign capital is primarily attracted by the profitability of the enterprise with which it might associate itself. This is obviously related to larger fiscal and other questions. In this connection, the Federation makes a number of constructive suggestions. In the first place, the cumbrous procedures for licensing of enterprises involving foreign capital will have to be given up. Secondly, fiscal policies—personal as well as corporate—must provide incentives for investment. Thirdly, controversy and sweeping statements regarding the roles of public and private sectors should not be allowed to disturb the general economic climate. Fourthly, the vast opportunities available to foreign investors within the various lines open to the private sector should be more clearly indicated. To these suggestions, which deserve to commend themselves to the attention of the authorities, must be added the supreme importance of making the foreign investors feel that they are "wanted," for that alone will ensure a steady inflow of such capital.

FORM NO. 61
(3-54)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

STAFF LOAN COMMITTEE

SLC/M/762

September 25, 1959

Minutes of Staff Loan Committee Meeting held on Thursday, September 3, 1959 at 3:00 p.m. and on Friday, September 4, 1959 at 11:00 a.m. in Room 1005

1. Present:

Mr. Davidson Sommers, Chairman
Mr. J. Burke Knapp
Mr. S. R. Cope
Mr. A. Broches
Mr. G. N. Perry
Mr. I. P. M. Cargill
Mr. P. J. Ramm
Mr. O. J. McDiarmid
Mr. A. D. Spottswood
Mr. D. Avramovic
Mr. G. M. Wishart
Mr. H. G. A. Woolley, Secretary

In attendance:

Mr. W. A. B. Iliff 1/
Mr. M. M. Mendels 1*/
Mr. E. E. Clark
Mr. G. R. Young
Mr. H. R. Labouisse 1/
Mr. J. H. Adler 2/
Mr. C. Allardice 1/
Mr. A. Basch
Mrs. S. Boskey
Mr. J. H. Collier
Mr. D. Dresden
Mr. D. J. Fontein
Mr. B. B. King 1/
Miss A. L. Maher 1/
Mr. N. McKitterick
Mr. M. van der Mel
Mr. A. Wenzell 1/

1/ First session only.
2/ Second session only.
* Part only.

2. International Development Association (IDA)

The Committee considered Memorandum SLC/O/1018 on "Management Position on IDA," and

NOTED

that a revised draft of the Memorandum would be prepared.

3. The meeting adjourned at 5:15 p.m. on September 3, reconvened at 11:00 a.m. on September 4, and adjourned at 12:20 p.m.

TO: Mr. Sommers

9/25/59

In accordance with our telephone conversation.

E.A.

ELTING ARNOLD

TD - OAS - BC

9/24/59

PROPOSED RESOLUTION

INTERNATIONAL DEVELOPMENT ASSOCIATION

RESOLVED:

That with respect to the question of creating an International Development Association as an affiliate of the Bank, the Executive Directors, having regard to the views expressed by the Governors and considering the broad principles on which such an Association should be established and all other aspects of the matter, are requested to formulate articles of agreement of such an Association for submission to the member Governments of the Bank.

Telegrams: "Westregcom, London"
Telephone: LANgham 8611

All communications should be addressed
THE OFFICIAL SECRETARY,
OFFICE OF THE COMMISSIONER
FOR THE WESTERN REGION,
178/202 GREAT PORTLAND STREET, LONDON, W.1
and the number given above should be quoted.

No......

OFFICE OF THE COMMISSIONER,
WESTERN REGION OF NIGERIA.
178/202 GREAT PORTLAND STREET,
LONDON, W.1

September, 24 1959

Dr. Kammarck,
c/o International Bank for Reconstruction
and Development,
1818 H Street,
North West,
NEW YORK.

Dear Dr. Kammarck,

This is to thank you very much for the opportunity you gave me to hold brief discussions with you on the problems of our Economic Development of Western Region of Nigeria during my last visit to Washington. I am quite sure your suggestions will be of immense value to us and I shall do my best to present them to my Minister as well as to ensure that a draft copy of our new Development Plan is forwarded to you, as agreed, for your study and comments.

I shall be glad to know from you how far the proposal to establish an International Department Authority has progressed; and in doing so I hope you will not omit to let us know in what respects we could be benefitted by the new scheme. I shall be very grateful if you will kindly put us on your mailing list. My address in Nigeria is care of Ministry of Economic Planning, Western Region, Ibadan.

Yours sincerely,

I.O.Dina.

IOD/eff.

added | 14R7 all exc 4+7
2042 10/14 AR

BY AIR MAIL

PAR AVION

AIR LETTER

AEROGRAMME

LONDON 24 IX 53 W.1

GREAT BRITAIN POSTAGE 0/6 UG MR 329

Dr. Kammarck,

c/o International Bank for

~~Reconstruction and Development,~~

1818 H Street,

North West,

~~NEW YORK.~~

WASHINGTON D.C.

First fold here

Second fold here

Sender's name and address *THE OFFICIAL SECRETARY,*

OFFICE OF THE COMMISSIONER

FOR THE WESTERN REGION,

178/202 GREAT PORTLAND STREET,

LONDON, W.1

AN AIR LETTER SHOULD NOT CONTAIN ANY ENCLOSURE
IF IT DOES IT WILL BE SURCHARGED
OR SENT BY ORDINARY MAIL.

Form approved by the Postmaster General, No. 71995/2E

To open cut here

IDA

OUTGOING MESSAGE	BOARDS OF GOVERNORS ANNUAL MEETING	OUTGOING MESSAGE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL MONETARY FUND

DATE: September 23, 1959

CLASS OF SERVICE DESIRED

NIGHT LETTER ☒

FULL RATE ☐

TO: Giuseppe Medici
Ministro della Pubbica Istruzione
Viale Trastevere
Rome, Italy.

TEXT:

IMMEDIATELY BEFORE OPENING ANNUAL MEETING BOARD OF GOVERNORS I PLAN TO HAVE SMALL STAG DINNER FOR LEADING GOVERNORS. THIS OCCASION WILL PROVIDE OPPORTUNITY FOR USEFUL INFORMAL DISCUSSIONS OF VARIOUS MATTERS INCLUDING INTERNATIONAL DEVELOPMENT ASSOCIATION THAT WILL BE COMING UP AT ANNUAL MEETING. I WOULD BE GLAD THEREFORE IF YOU WOULD XXXX DINE WITH ME ON SATURDAY SEPTEMBER TWENTYSIX. I WOULD APPRECIATE REPLY BY CABLE. WARMEST REGARDS.

EUGENE BLACK
INTBAFRAD

AUTHORIZED BY:

NAME Mr. M.M. Mendels

DEPT. Secretary's

FILE COPY

OUTGOING MESSAGE	BOARDS OF GOVERNORS ANNUAL MEETING	OUTGOING MESSAGE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL MONETARY FUND

DATE: September 23, 1959

CLASS OF SERVICE DESIRED

NIGHT LETTER ☒

FULL RATE ☐

TO: Giuseppe Medici
Ministro delle Publiche Istruzione
Villa Trastevere
Roma, Italy.

TEXT:

IMMEDIATELY BEFORE OPENING ANNUAL MEETING BOARD OF GOVERNORS I PLAN TO HAVE SMALL STAG DINNER FOR LEADING GOVERNORS. THIS OCCASION WILL PROVIDE OPPORTUNITY FOR USEFUL INFORMAL DISCUSSIONS OF VARIOUS MATTERS INCLUDING INTERNATIONAL DEVELOPMENT ASSOCIATION THAT WILL BE COMING UP AT ANNUAL MEETING. I WOULD BE GLAD THEREFORE IF YOU WOULD XXXX DINE WITH ME ON SATURDAY SEPTEMBER TWENTYSIX. I WOULD APPRECIATE REPLY BY CABLE. WARMEST REGARDS.

EUGENE BLACK
INTERPARAD

Dip Lect

AUTHORIZED BY:

NAME Mr. M.M. Mendels

DEPT. Secretary's

FILE COPY

INTERNATIONAL MONETARY FUND
19th and H Streets N. W., Washington 25, D. C.

FOR IMMEDIATE RELEASE
September 22, 1959

Statement by Mr. Per Jacobsson

Chairman of the Executive Board and Managing Director

of the International Monetary Fund

* * *

"The current edition of a news-magazine published in the United States contains statements that incorrectly represent my views with regard to international financial assistance, and the proposed International Development Association. The publication alleges that I believe some of the less developed countries have had too much foreign assistance, and that I oppose establishment of the International Development Association. Neither of these statements has been made by me or on my behalf."

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
September 14, 1959	Memorandum

Correspondents / Participants
To: Mr. Eugene R. Black
From: Davidson Sommers

Subject / Title
I.D.A.

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

Copy

BANCA D'ITALIA

Rome, September 14, 1959

Dear Mr. President,

I have received your letter of August 3 with the attachments regarding the establishment of an International Development Association.

I find myself in full agreement with the conviction that the problems related to the struggle of the less-developed countries for a higher standard of living deserve our full attention. Therefore, I can assure you that the outlines of the United States project for the establishment of an International Development Association are being taken into consideration and carefully studied in view of the decisions to be adopted at the coming annual meeting of the Bank.

Yours sincerely,

(signed)

Donato Menichella

Mr. Eugene R. Black
President, International Bank
for Reconstruction and Development

WASHINGTON, D.C.

Copies made for: Messrs. Demuth
Broches
Nurick
Fontein
Cavanaugh
Mrs. Boskey

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
September 11, 1959	Memorandum

Correspondents / Participants
To: Messrs. Sommers, Cope, Demuth, Cavanaugh, Mrs. Boskey, Mr. Fontein
From: A. Broches

Subject / Title
Charter Provision for IDA authorizing Bank to register Charter with UN

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

Archives P-100

FORM No. 61
(3-54)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

STAFF LOAN COMMITTEE

SLC/O/1023

MEMORANDUM TO THE STAFF LOAN COMMITTEE

International Development Association (IDA)

A revision of the draft (distributed at the Committee meeting on September 3), showing the three groups in which member countries of the Bank might be placed from the point of view of their role in IDA, is attached for information.

Herbert G. A. Woolley
Secretary
Staff Loan Committee

September 9, 1959

CONFIDENTIAL
Second Draft
September 9, 1959

International Development Association (IDA)

The member countries of the Bank might be placed in the following three groups from the point of view of their role in IDA. The listing is roughly in the order of their per capita national incomes; the principal departures from this principle are indicated by the footnotes.

Group I	(Percent)1/	Group II	(Percent)1/	Group III
U. S.	31.89	**Venezuela	.70	Turkey
Canada	3.77	**Israel	.17	El Salvador
Sweden	1.00	**Iceland	.08	Philippines
Australia	2.01	Ireland	.30	Nicaragua
Luxembourg	.15	Colombia	.35	Honduras
France	5.27	Argentina	1.88	Ecuador
U. K.	13.06	Yugoslavia	.40	Guatemala
Norway	.67	Chile	.35	Morocco
Belgium	2.26	Cuba	.47	Korea
Denmark	.87	Costa Rica	.04	Tunisia
Finland	.38	Lebanon	.08	Iran
Germany	5.27	Greece	.25	Peru
Netherlands	2.76	Spain	1.00	U. A. R.
Austria	.50	Portugal		Ceylon
*Japan	3.35	Brazil	1.88	China (Taiwan)
*Italy	1.81	Malaya	.25	Iraq
*S. Africa	1.00	Panama	.03	Saudi Arabia
		Dominican Rep.	.04	Ghana
	76.02	Uruguay	.14	Haiti
		Mexico	.87	Bolivia
				Thailand
			9.28	Paraguay
				Viet-Nam
				Laos
				Jordan
				Sudan
				Libya
				Indonesia
				Ethiopia
				India
				Pakistan
				Burma
				Afghanistan

1/ Figure shown in each case is the percentage of the total of members' subscriptions to the Bank, assuming that all members subscribe the approved increases. Possible new members, e.g., Portugal and Laos, have not been included.

* Placed higher than per capita national income would indicate.

** Placed lower than per capita national income would indicate.

FORM N. 9
(2-57)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Sept 10, 1959

OFFICE OF THE PRESIDENT

NAME	ROOM NO.
~~Mr Demuth~~	506
~~Mr Broskey~~	
Files, P.	100

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

From Davidson Sommers

IDA

FORM No. 58
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

COPY

OFFICE MEMORANDUM

TO: Messrs. Sommers, Knapp, Mendels and Demuth DATE: September 9, 1959

FROM: Orvis A. Schmidt

SUBJECT: Argentina's position on IDA.

Attached is a translation of a copy of a letter of September 3 stating Argentina's position on IDA, which we recently received from Mr. Brignone.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
September 3, 1959	Letter

Correspondents / Participants

To: Mr. Carlos S. Brignone, Executive Director, IBRD

From: Eusebio Campos, Vice President, Acting President

Subject / Title

Argentina's position on IDA

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

C O P Y

SM WUJ064 RIODEJANEIRO 4 1605 ETAT GHR BZLG PD INTL FR

INTERFUND TO MR EUGENE BLACK WASHINGTONDC

(VIA WU CABLES)

N 09506 SET 4 59 I AM GLAD TO ACKNOWLEDGE RECEIPT YOUR

LETTER AUGUST 3 AND REQUEST TO EXPRESS CONGRATULATIONS

GOVERNOR UNITED STATES FOR HIS PROPOSAL CONCERNING

INTERNATIONAL DEVELOPMENT ASSOCIATION PT

SEBASTIAO PAES ALMEIDA MINISTER OF FINANCE

BRAZIL

322PME

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
September 3, 1959	Letter

Correspondents / Participants

To: Mr. Carlos S. Brignone, Executive Director, IBRD

From: Eusebio Campos, Vice President, Acting President

Subject / Title

Argentina's position on IDA

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
September 8, 1959	Memorandum

Correspondents / Participants
To: Messrs. Sommers, Cope, Demuth, Cavanaugh, Mrs. Boskey, Mr. Fontein
From: A. Broches

Subject / Title
Comments on some of the provisions of the August 26th draft of IDA charter

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

FORM No. 75
(5-58)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Sept. 9/59
NAME	ROOM NO.
Mr. Knapp	1024
Operational Files	P-100

	Action		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
	Information		Signature
	Initial		To Handle

REMARKS

You may be interested in attached table that shows relation between possible IDA convertible contributions and foreign exchange reserves and national incomes of South Asia - Middle East countries.

Returned with thanks.

FR O. J. McDiarmid

IDA

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: September 8, 1959

FROM: O. J. McDiarmid

SUBJECT: SLC Discussion on IDA - September 3

1. Eligibility. It was agreed that IDA's resources should be used for its less developed member countries. In the case of dependent territories, if the mother country was creditworthy for IBRD type loans, the dependencies would not normally qualify for IDA assistance. In any case, dependent territories should look first to the capital markets of the mother country. Some countries, such as South Korea, might be considered too dependent on the U.S. to qualify for IDA loans. IDA should not simply replace other types of foreign aid, as might happen if IDA loans were made to South Korea. Despite all limitations that might be imposed on economic grounds to IDA's lending in particular countries, some sort of allocation by country of IDA funds seems inevitable in view of the relatively small amount of capital involved and the desirability of not endeavoring to replenish the capital within five years. Other points on eligibility were:

(a) IDA, no more than IBRD, should lend to a country in default of its international obligations or that was unwilling to take appropriate economic actions required to improve its balance of payments.

(b) Countries should not feel themselves entitled to get back their contribution.

2. Projects. The normal IDA projects would be the same as IBRD's. Only in rare cases would "social" projects, such as education and health, be considered. However, in contrast to IBRD, IDA would be prepared to finance local currency as well as foreign exchange costs. However, IDA would not normally finance local currency costs in a country creditworthy enough to qualify for IBRD loans (DIF and the Ethiopian case).

3. Terms. Long-term (30 to 40 years), low interest (as low as one-half of one percent), foreign exchange repayment would be the normal IDA loan. Probably about the same terms would apply in all cases. Long grace periods (up to 10 years) might also be considered. Where the ultimate borrower is in the private sector or the loan is for a self-liquidating public sector project, an intermediary would have to be used to avoid distortion of domestic prices and costs. The discussion on guarantees was inconclusive but guarantees probably would not be required on IDA foreign exchange loans.

4. Contributions. The U.S. proposal, in fact, contemplates 4 groups of countries.

(1) About 15 industrialized countries which would put up 100% (payable over 5 years) of their subscriptions in convertible currency. The total subscription of this group would be about 74% of IDA's subscribed capital.

(2) A small group of reasonably well-off countries that would put up 50% in convertible currency and 50% in currencies usable for exports from the contributing country.

(3) Another small group with 20% contribution in convertible currency and 80% in currency usable for exports. This and group (2) would have about 10% of IDA's capital.

(4) The remaining membership (really poor countries) would put up 20% of their subscriptions in convertible currency and 80% in local currency usable only for local currency lending within the country subscribing.

The U.S. proposal involved both tied currency and local currency financing. Neither of these features is considered desirable. It was proposed instead that three groups of countries be established, namely:

(1) 100% convertible
(2) 40% convertible
(3) 10% convertible.

The IDA would receive no local currency or tied money. If countries in groups 2 and 3 wish to do so at some later time, they could put up additional convertible currency. Attached is the grouping proposed by Mr. Knapp. Some formula other than per capita national income might be used as a basis for classification. This grouping would be to determine contributions, not eligibility for IDA financing. I have calculated the distribution of IDA capital assuming the same proportional distribution as the Bank and computed the convertible currency contributions of countries in the SA&ME area using both the U.S. proposal and the alternative favored by SLC (Col. 4 of attachment). Insofar as possible, I have also shown the convertible currency contributions a percentage of foreign exchange reserves and of national income (Cols. 5 and 6) for SA& ME countries. Obviously the percentages are very small but may throw some light on order in grouping. It would seem worthwhile to do this for all member countries.

5. Supplementary Contributions. The U.S. proposal to use PL 480 and other local currencies to make contribution to IDA is likely to be opposed by other members. There is a possibility that such supplementary contributions might be used by IFC (to a very limited amount) or be loaned to development banks. IDA would want to limit its acceptance of such funds and to attach conditions to such acceptance.

Attachment

cc: Knapp, Broad'homme, Kruithof, Jeffries, Wiese/Kapur, Brakel.

Attachment

(Millions $ except as noted)

1	2	3	4		5			6	
Country	IBRD Capital	Assumed IDA Capital	Contributions Convertible (a) U.S. Plan	(b) Knapp Plan	Foreign Exchange Reserves Amount	%	of:	National Income Amount	% 4b of: NI
						4a	4b		
Group 1									
U.S.	6,350	326	325	325					
Canada	750	38	38	38					
Sweden	200	10	10	10					
Australia	400	20	20	20					
Luxembourg	20	1	1	1					
France	1,050	55	54	54					
U.K.	2,600	134	133	133					
Norway	100	5	5	5					
Belgium	450	23	23	23					
Denmark	136	8	8	8					
Finland	76	4	4	4					
Germany	1,050	54	53	53					
Netherlands	550	29	28	28					
Austria	100	5	5	5					
Japan	666	34	33	33					
Sub-total	14,498 (74%)	745	740	740					
Group 2		(Thousands)	(Thousands)						
Venezuela	21	1,075							
Israel	9	461	92	184	169	0.9	1.8	1,330	.014
Iceland	2	102							
Ireland	60	3,072							
Colombia	70	3,584							
Argentina	300	15,360							
Yugoslavia	80	4,096							
Italy	360	18,430							
Chile	70	3,584							
Cuba	70	3,584							
S. Africa	200	10,240							
Costa Rica	4	205							
Lebanon	9	461	92	184	115	0.8	1.6	690	.027
Greece	50	2,560							
Spain									
Portugal									
Brazil	300	15,360							
Malaya	50	2,560							
Panama	0.4	20							
Dom. Republic	8	410							
Uruguay	21	1,075							
Mexico	170	8,700							
Sub-total	18,744 (10%)	95 (Mil.)							

(Millions $ except as noted)

1	2	3	4		5			6	
Country	IBRD Capital	Assumed IDA Capital	Contributions Convertible (a) U.S. Plan	(b) Knapp Plan	Foreign Exchange Reserves Amount	% of: 4a	4b	National Income Amount	% 4b of: N I
Group 3		(Thousands)	(Thousands)						
Turkey	86	440							
El Salvador	2	102							
Philippines	30	1,546							
Honduras	2	102							
Ecuador	13	666							
Guatemala	4	204							
Morocco	70	3,584							
So. Korea	25	1,280							
Tunisia	24	1,229							
Iran	67	3,430	686	343	209	0.3	0.15	2,400	.014
Peru	35	1,792							
U.A.R.	120	6,144	1,229	614	420	0.3	0.15	3,416	.018
Ceylon	30	1,546							
Taiwan	1,200	62,470							
Iraq	12	614	123	61	284	0.4	0.2	1,330	.005
Saudi Arabia	20	1,024	205	102					
Ghana	30	1,546							
Haiti	4	204							
Bolivia	14	717							
Thailand	25	1,280							
Paraguay	3	154							
Viet Nam	25	1,280							
Laos									
Jordan	6	307	61	31	47	0.1	0.05	156	.019
Sudan	20	1,024	205	102	33	0.6	0.3		
Libya									
Indonesia	220	12,260							
Ethiopia	6	307							
India	800	41,960	8,390	4,196	741	1.1	0.6	26,000	.011
Pakistan	200	10,240	2,048	1,020	274	0.8	0.4	4,200	.024
Burma	30	1,546							
Afghanistan	20	1,024	205	102					
Sub-total	3,143 (16%)	160 Mil.							
Total	19,515	1,000							

IDA

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: September 8, 1959

FROM: G. Stewart Mason

SUBJECT: Meetings with Delegations - IDA

There are no meetings scheduled for the Austrian, Italian or Turkish delegations which leaves only the possibility of IDA being raised in a meeting with the Yugoslav or Greek delegation.

With regard to Yugoslavia, Mr. Miljanic says that he will only know when the Yugoslav delegation gets here whether they will wish to discuss IDA. He says that they are in favor of the establishment of IDA and will probably discuss it in the general debate. He will get in touch with me again when Mr. Tasic arrives on the 22nd. On balance, I would imagine we might want Mr. Sommers to be present at the Yugoslav meetings.

With regard to Greece, I can get no confirmation of the delegation's attitude. I would imagine the Greeks are much more interested in obtaining Bank loans and would not wish to raise any questions about IDA. Mr. Gragnani agrees with this assessment. I would think, therefore, there is no reason for Mr. Sommers to be present at the meeting with the Greek delegation.

GSMason:vmc

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
September 8, 1959	Memorandum

Correspondents / Participants
To: Messrs. Sommers, Cope, Demuth, Cavanaugh, Mrs. Boskey, Mr. Fontein
From: A. Broches

Subject / Title
Comments on some of the provisions of the August 26th draft of IDA charter

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

File P-100

Divisions

September 4, 1959

S. R. Cope

Meetings with Delegations

Mr. Sommers has asked that he should be invited to any meetings with delegations at which IDA matters are to be discussed in a substantive way. Will divisions try to find out in advance whether delegations from their countries which are to meet with the Management wish to discuss IDA.

cc: Mr. M. L. Lejeune

The member countries of the Bank might be placed in the following three groups from the point of view of their role in I.D.A. The listing is roughly in the order of their per capita national incomes; the principal departures from this principle are indicated by the footnotes.

Group I	Group II	Group III
U.S.	Venezuela **	Turkey
Canada	Israel **	El Salvador
Sweden	Iceland **	Philippines
Australia	Ireland	Nicaragua
Luxembourg	Colombia	Honduras
France	Argentina	Ecuador
U.K.	Yugoslavia	Guatemala
Norway	Italy	Morocco
Belgium	Chile	South Korea
Denmark	Cuba	Tunisia
Finland	South Africa	Iran
Germany	Costa Rica	Peru
Netherlands	Lebanon	U.A.R.
Austria	Greece	Ceylon
Japan *	Spain	Taiwan
	Portugal	Iraq
	Brazil	Saudi Arabia
	Malaya	Ghana
	Panama	Haiti
	Dominican Republic	Bolivia
	Uruguay	Thailand
	Mexico	Paraguay
		Viet Nam
		Laos
		Jordan
		Sudan
		Libya
		Indonesia
		Ethiopia
		India
		Pakistan
		Burma
		Afghanistan

---

* Placed higher than per capita national income would indicate.
** Placed lower than per capita national income would indicate.

September 3, 1959

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

[redacted]

Guru:

Please have copies of the attached letter & memo sent to to

- Demuth
- Cope ✓
- Mendels ✓
- my IDA "positive" file

No hurry about it - when original to hand

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IDA position

OFFICE MEMORANDUM

TO: Mr. Davidson Sommers

DATE: September 1, 1959

FROM: P. S. N. Prasad

SUBJECT: Reaction to IDA Proposals

You might be interested to see a sample reaction to our proposals on the IDA - this one, from the Governor of the National Bank of Libya. One would have thought that Libya precisely would be the one that would feel more interested in the IDA, and from that point of view the reaction is a curious one. Does it emphasize the need for more clarification of the benefits of the IDA as against its obligations? I do not propose to write any comments to him at the moment, but would value an opportunity to have a word with you on this.

attachment

C O P Y

NATIONAL BANK OF LIBYA

BENGHAZI - LIBYA

P.O.Box No.249

CABLES

Banklibya, Benghazi

27th August 1959

Office of the Governor

My dear Mr. Prasad,

I am enclosing a memorandum on the International Development Association which gives my first thoughts on this proposal and on which I should welcome your comments. I also hope to discuss it with you in Washington when I look forward to meeting you again.

Yours sincerely,

(Sgd.) A.N.ANEIZI
Governor

Mr. P.S.N. Prasad

Note: I presume this may be a copy of a note which may have been sent by Aneizi to Mr. Ismail, the director representing Libya.

C O P Y

26.8.59

DEPUTY GOVERNOR.

cc: General Manager
Economic Adviser

International Development Association

In view of the fact that the U.S. proposal for the establishment of the International Development Association is likely to be placed on the Agenda at the next Annual Meeting of the Board of Governors of the World Bank in September 28th 1959 it would be desirable to clarify and determine Libya's attitude to this proposal.

Its main attraction - in fact its only attraction - is the provision for partial repayment of development loans in softer currencies. This, no doubt, should be welcome to many under-developed countries. We understand that the World Bank in the past has had to disapprove applications for loans not because the projects concerned were technically or economically unsound, but because the amortization and servicing of the loans entirely in hard currency would have placed an undue strain on the borrowing country.

While this provision for partial repayment in softer currencies is certainly welcome, Libya and I would guess other countries like ours will have to be fully aware of all the pros and cons before considering the U.S. proposal. Firstly, Libya has only recently participated in the enlargement of the capital of the World Bank and is also virtually committed to participate in the Arab Development Bank which will also be a body functioning more or less in collaboration with the World Bank. In view of these commitments, Libya will have to consider whether participation in one more international financial organisation has much to commend it from the Libyan point of view. As it is, it will be quite some time before Libya will draw upon the facilities of either the World Bank or the Arab Bank and there would not be, therefore, much point in merely increasing our capital participation in a new international financial institution so soon after the increase in the capital of the I.M.F. and I.B.R.D. and the commitment to the Arab Development Bank. It will be rather difficult for the National Bank to prove to Government and Parliament the need for Libya's participation in the International Development Association when to date Libya has not been able to derive any tangible benefit from membership of the international organisations. It is always possible to overwork the "prospective requirements" argument. Secondly, it is difficult to appreciate the need for a separate organisation merely to satisfy the need for part payment of development loans in soft currencies, particularly when the intention is that the I.D.A. would be an affiliate of the I.B.R.D. and be manned by the I.B.R.D. personnel even though it would be a separate financial entity. Even if the intention is to obviate the difficulties caused by the other lending criteria of the I.B.R.D. a more promising constructive approach to the problem would be to examine whether some partial modification of the existing I.B.R.D. loans policy in respect of insistence on full payment in hard currency and other conditions is possible. It is always preferable as far as possible to make some modifications in existing institutions rather than to set up a wholly new body to satisfy a comparatively subsidiary requirement. Such an approach will also have the merit of not subjecting the already strained resources of poorer countries by calling upon them to make further contributions for capital participation and also help to avoid excessive proliferation of international financial and economic institutions which substantially overlap in their objectives. Admittedly, the proposed capital subscriptions would not be too onerous but then the case for the I.D.A. is not

self-evident.

The recent negotiations of the Libyan Government with the Development Loans Fund on the Tripoli Power Project which has provision for repayment in local currency is illustrative of the potentialities of Libya benefitting from existing arrangements for soft currency finance for some of the more pressing development projects in Libya. Of course, many countries might prefer incurring soft currency obligations to an international organisation like the I.D.A. rather than to any particular country.

For a long time to come foreign assistance to Libya will necessarily have to be on a grant basis rather than on a loan basis especially because Libya, like many other under-developed countries, will have to incur substantial outlays on essential projects whose benefits to the economy far transcend the financial aspects and which would not satisfy the lending criteria of both the I.B.R.D. and the I.D.A.

In view of the foregoing, it is questionable whether there is any net advantage to be derived by Libya from joining the proposed International Development Association.

A.N.ANEIZI
Governor

26th August 1959

FORM NO. 60
(12-57)

Archives

IDA

International Bank for Reconstruction and Development

CONFIDENTIAL

P-100

STAFF LOAN COMMITTEE

SLC/A/762/2

FROM: Secretary, Staff Loan Committee

September 1, 1959

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Thursday, September 3, 1959, at 3:00 p.m. in Room 1005.

AGENDA

International Development Association (IDA)

The Committee will consider the draft (SLC/O/1018) on "Management Position on IDA," distributed on August 26.

DISTRIBUTION

Chairman
Directors of Operational Departments
Director, Legal Department
Director, Economic Staff
Treasurer
Director, Technical Assistance and Liaison Staff

Copies for information to:

President
Vice Presidents
Secretary
Director, Office of Information
Director, Economic Development Institute
Special Representative in Europe (Agenda only)

Mr. Labouisse
Mr. Basch
Mr. Haskell (IFC)
Mrs. Boskey

Report on proposed IDA by
Nat'l Advisory Council

National Advisory Council

ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

Report on the Proposed International Development Association

★ ★ ★

August 1959

86TH CONGRESS, 1st Session | SENATE | DOCUMENT No. 45

PROPOSED INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT

OF THE

NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

PRESENTED BY MR. FULBRIGHT

AUGUST 19 (legislative day, AUGUST 18), 1959.—Ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
45066 WASHINGTON : 1959

LETTER OF SUBMITTAL

THE SECRETARY OF THE TREASURY,
Washington, August 14, 1959.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Foreign Relations,
New Senate Office Building, Washington, D.C.

MY DEAR MR. CHAIRMAN: There is submitted herewith, on behalf of the National Advisory Council on International Monetary and Financial Problems, a report on the proposed International Development Association. This report is in accordance with the request contained in Senate Resolution 264, 85th Congress, 2d session, for a study by the Council with respect to the establishment of an International Development Association as an affiliate of the International Bank for Reconstruction and Development.

Yours very truly,

ROBERT B. ANDERSON,
Chairman, National Advisory Council on International Monetary and Financial Problems.

(Enclosure: National Advisory Council report on the proposed International Development Association.)

CONTENTS

REPORT OF THE NATIONAL ADVISORY COUNCIL ON THE PROPOSED INTERNATIONAL DEVELOPMENT ASSOCIATION

I. Introduction

The National Advisory Council submits this report on the proposed International Development Association (IDA) in accordance with Senate Resolution 264, 85th Congress, 2d session, which provided:

Resolved, That, recognizing the desirability of promoting a greater degree of international development by means of multilateral loans based on sound economic principles, it is the sense of the Senate that prompt study should be given by the National Advisory Council on International Monetary and Financial Problems with respect to the establishment of an International Development Association, as an affiliate of the International Bank for Reconstruction and Development.

In order to achieve greater international trade, development, and economic well-being, such study should include consideration of the following objectives:

(1) Providing a source of long-term loans available at a reasonable rate of interest and repayable in local currencies, or partly in local currencies, to supplement International Bank lending activities and thereby permit the prompt completion of worthwhile development projects which could not otherwise go forward.

(2) Facilitating, in connection with such loans, the use of local and other foreign currencies, including those available to the United States through the sale of agricultural surpluses and through other programs.

(3) Insuring that funds for international economic development can be made available by a process which would encourage multilateral contributions for this purpose.

LEGISLATIVE HISTORY

Senator Monroney submitted a resolution concerning an International Development Association in a statement on the Senate floor on February 24, 1958, in which he outlined his views in some detail. The resolution was considered by the Subcommittee on International Finance of the Senate Committee on Banking and Currency in hearings on March 18, 19, and 20, 1958. Secretary of the Treasury Anderson, Under Secretary of State for Economic Affairs Dillon, Assistant Secretary of Commerce Kearns, Assistant Secretary of Agriculture Paarlberg, and representatives of the Bureau of the Budget and International Cooperation Administration appeared as witnesses.

The Government witnesses indicated interest in the proposal but raised certain questions to be explored before its practicability could be determined. They pointed out that the local currencies held by the United States as a result of operations under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, 83d Cong.) and other programs would not in general be usable to foster development except in the country issuing the currency. Most of the currencies held by the United States were those of less developed countries which could not make real resources available to further development in other countries. Accordingly, it would be basic to

the success of the International Development Association that countries able to subscribe substantial amounts of hard currencies be prepared to participate. It was thought that the international discussion of the International Development Association proposal might take considerable time. In this connection it was further pointed out that since the International Development Association presumably would largely make loans repayable in local currencies it would require additional hard currency contributions from time to time in future years.

The executive branch witnesses favored a study of the International Development Association proposal provided changes were made in the resolution to indicate that the International Development Association would be an affiliate of the International Bank for Reconstruction and Development and that such a study should be conducted by the National Advisory Council. In response to a letter from Senator Monroney of May 8, 1958, asking for comments on a committee print of an amended resolution, a suggested revision of the resolution was submitted by the Departments of State and Treasury. With one minor change, the revised proposal was reported favorably by the subcommittee to the full committee, which in turn reported the resolution favorably to the Senate on July 12, 1958. The Senate on that date approved the resolution by a vote of 62 to 25.

SUBSEQUENT DEVELOPMENTS

Just prior to the annual meeting of the International Monetary Fund and the International Bank in the fall of 1958, an exchange of of letters took place between President Eisenhower and Secretary of the Treasury Anderson. In the exchange, Secretary Anderson proposed, and the President agreed, that informal discussions with other member governments of the International Bank be undertaken with a view to determining the reactions of these governments to the establishment of an International Development Association. At the annual meeting, held in New Delhi in October 1958, Secretary Anderson, as U.S. Governor of the International Bank, and Under Secretary of State Dillon, as Alternate U.S. Governor of the International Bank, both announced the willingness of the United States to discuss in informal fashion with other member governments the possibility of establishing an International Development Association as an affiliate of the International Bank. During the remainder of the meetings, and in the period following their conclusion, the views of many interested countries were received informally by the U.S. representatives.

On January 16, 1959, the National Advisory Council submitted, in the form of a letter to the chairman of the Senate Foreign Relations Committee, an interim report on the proposed International Development Association. This report reviewed the developments up to that time, and indicated that the Council's study of the matter was continuing, as were informal conversations with foreign governments. Since that time, the frequency of discussions with other governments has increased. These conversations have been with a considerable range of countries, including both advanced industrial nations, which would be among the principal contributors of funds, and underdeveloped countries, which would be net recipients of International Development Association financing. Useful views have been received by the United States as a result of these exploratory meetings, and under-

standing of the International Development Association proposal in other countries has been enhanced. The National Advisory Council has taken the views of other potential members, as they have been received to date, into account in formulating this report on the International Development Association.

II. Institutions for Development Financing

The Council intends to continue its examination within the U.S. Government. Conversations with other governments concerning the International Development Association proposal will also proceed. On the basis of its studies thus far, however, the Council is convinced that the International Development Association would form a valuable adjunct to the International Bank, and would effectively extend the field of operations of the latter. With the International Development Association, the World Bank would be enabled to bring to fruition projects which are now held in abeyance because appropriate financing is not available. In some cases the borrowing country may not be in a position to assume the full foreign exchange obligation for servicing a loan from the Bank under its normal lending terms. In other cases projects may not have been brought to fruition because for various reasons the borrowing country did not find it administratively feasible to make available the local currency required in conjunction with the foreign exchange financing of the project provided by the International Bank.

Underdeveloped countries seeking financing on a multilateral basis at the present time can obtain development capital from public sources only on terms which involve repayment in the currency borrowed and which correspond to the requirements of the International Bank. When they seek financing from certain U.S. institutions, they are in a position to present their applications, under appropriate conditions, for financing on more liberal terms than those generally referred to as "bankable" loans. The creation of an International Development Association would provide a multilateral institution which would have greater flexibility in lending operations and which would utilize not only the resources of the United States but those of other countries as well.

It has been the policy of the International Bank to impose normal banking requirements on the borrowing country both as to the terms of loans and as to the development projects that it finances. This policy is not an arbitrary requirement but rather one that springs directly from the nature of the International Bank's financing. The Bank now obtains the bulk of its funds from the sale of its own bonds in financial markets in the United States and abroad. The ability of the Bank to continue to borrow depends in large part on the soundness of its lending policies. If the Bank is to maintain itself successfully, it must lend at rates that are realistic and sufficiently high to cover the Bank's borrowing and administrative costs. The Bank's interest rate represents the approximate cost of money to it at the time the loan is made plus a charge of 1¼ percent to cover the Bank's operating costs and its allocation to reserves. International Bank loans, if made in dollars, are repayable in dollars. In short, the Bank's loans necessarily are made on a bankable basis. Most of the Bank's loans have had maturities of 10 to 25 years, depending on the nature

and economic life of the project. Its most recent loans have been made at an interest rate of 6 percent, reflecting recent increases in the cost of money to the Bank. Moreover, the Bank places under careful scrutiny the overall credit-worthiness of the respective borrowers, and has been obliged on occasions to refrain from lending to countries whose ability to service external debt has been seriously impaired.

The Export-Import Bank makes loans primarily to promote U.S. foreign trade. Its loans, which also are made on a bankable basis, must offer reasonable assurance of repayment, and may generally be used only for purchase of U.S. goods and services. The Bank may loan to either public or private borrowers in any free world country and need not obtain government guarantees on loans to private entities. Its development loans are made for maturities essential to the purpose of the financing and have been for terms as long as 20 years or more. The interest rate on development loans is currently about 5¾ percent. Thus, Export-Import Bank loans would not be a useful source of capital for countries with the prospect of insufficient dollars to meet service payments.

The Development Loan Fund (DLF) was created within the context of the Mutual Security Program and is separately incorporated but under the supervision, direction, and foreign policy guidance of the Secretary of State. It lends development funds for projects in less-developed countries on a basis which may afford relief from the foreign exchange burden. The interest rate on loans for economic overhead projects is currently 3½ percent per annum, and for profit-earning types of project, 5¾ percent. Maturities on DLF loans range up to 35 years. Most dollar loans made by the Development Loan Fund are repayable in local currencies. The operations of this fund would be closely coordinated with the operations of the International Development Association when established.

A multilateral organization such as the proposed International Development Association could, in addition to combining certain desirable aspects of present institutions, afford an important opportunity to enlist the resources of the industrially advanced nations in the task of accelerating the economic progress of the underdeveloped world. The countries which would benefit from International Development Association financing would be given access to capital funds on appropriate repayment terms, and these funds would be supplied, not by the United States alone but also by the nations of Western Europe and elsewhere whose economies are strong and many of which have large and growing financial reserves. The Council feels that there can be little doubt that the economic and financial strength of the other free world industrial countries merits a larger share for those countries in the burdens of financing economic development on favorable terms. An International Development Association which embodies this idea would therefore clearly be in the interest of the United States.

III. The Proposal

Since the New Delhi meetings of the Fund and Bank, the study going on within the framework of the National Advisory Council has gradually been evolving an outline of the principal elements of an acceptable new organization in the field of international finance. On

the basis of this outline, the U.S. Executive Director in the Bank and other representatives of the United States carried on an extensive series of informal conversations with the other Executive Directors in the Bank, with the dual purpose of making known the views of the United States concerning the establishment of an International Development Association, and of eliciting any comments or suggestions the other Directors cared to make. In addition, the principles set forward in the outline were discussed by the Secretary of the Treasury and other officers with ministerial representatives of several other governments.

In the remainder of this section of the report there is reproduced the outline of the U.S. proposal for an International Development Association as it was formally transmitted to the International Bank by the U.S. Governor for forwarding to the other Governors. The letter of transmittal by the U.S. Governor is referred to on page 6, and is reproduced as annex A.

GUIDELINES FOR USE IN IBRD EXECUTIVE DIRECTORS' STUDY OF A PROPOSED INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

To facilitate the consideration of the IDA by the Executive Directors, the United States submits herein certain guidelines which it hopes will form the basic framework of the proposed organization.

1. *Purpose.*—The purpose of the International Development Association would be to promote, by financing sound projects of high priority, the economic development of less-developed member countries whose needs cannot be adequately met under International Bank lending programs.

2. *Structure.*—IDA should be a close affiliate of the IBRD; membership in IDA would be open to all members of the IBRD. IDA should be a separate financial entity, but should be manned by IBRD personnel.

3. *Voting.*—Voting should be on a weighted basis, according to capital subscribed.

4. *Size.*—The authorized capital of IDA should be $1 billion. Members would pay in 50 percent of their subscriptions initially, and the remainder in equal installments over 5 years.

5. *U.S. subscription.*—The U.S. subscription would be proportional to the U.S. subscription in the International Bank, taking into account the proposed increases in the IBRD. This would amount to about $320 million.

6. *Replenishment.*—At 5-year intervals the Governors of IDA should consider the desirability of increasing the capital of the institution. Any increase would require approval of three-fourths of the total voting power. Each member would have the right, although not the obligation, to subscribe to a portion of the increase in accordance with its proportion of the initial capital. The Board of Governors could also, by three-fourths vote, approve an increase in capital at any other time, provided prior capital obligations of members have been substantially discharged.

7. *Currency subscribed.*—Members would make their subscriptions in part in gold or fully convertible currencies, and in part in their own national currencies. Each payment made under the installment arrangements mentioned in paragraph 4 would consist in part of gold or fully convertible currencies, and in part of national currencies, in the proportions set forth in paragraph 8. The basis on which each part of a member's subscription may be used by IDA is also outlined in paragraph 8.

8. *Use of currencies subscribed.*—Twenty percent of each payment by each member should be in gold or in fully convertible currencies which would be freely disposable by IDA. The remaining 80 percent should be in national currencies and should be usable at a minimum for procurement of nationally produced goods and services for use in connection with IDA-financed development projects within the country concerned, or for procurement of nationally produced goods and services for export and use elsewhere in connection with IDA-financed projects. In no event would IDA engage in financing trade in commodities not related to IDA-financed development projects.

In addition to the basic minimum usability of the 80 percent of subscriptions paid in national currency, there should be provision in regard to this 80 percent for—

(*a*) The convertibility of 30 percent as required by IDA. The obligation to make this portion of its national currency convertible on demand should extend to all members except those to whom IDA granted a suspension of the obligation. This suspension would not be given to any of the industrialized countries, and countries receiving suspensions should not have an aggregate of more than about a quarter of total subscriptions.

(*b*) The convertibility of the remaining 50 percent of subscriptions paid in national currency by the industrialized countries if and when all of the industrialized countries agree to such a move. The United States would make this portion of its subscription available on a fully convertible basis so long as the other industrial countries do the same.

Under these arrangements, the IDA would have the responsibility for taking account of the economic position of a less-developed country in using such a country's currency, from whatever source acquired. An operating principle of IDA would be that IDA would maintain reasonably uniform rates of usage among the subscriptions in national currencies which become convertible as provided in (*a*) or (*b*) above, after first using the holdings of the currency of the country of procurement.

9. *Borrowing authority.*—IDA should have authority to borrow from member governments, or other sources.

10. *Special resources provided in local currencies.*—Arrangements should be made to permit IDA to receive from one member the currency of another member. Transfers of such currency would be over and above the member's subscription to the regular capital of IDA. Currencies so transferred should be available on terms which impose no greater restrictions on their use by IDA than previously applied to their use. Efforts would be made to secure the agreement of member countries, in accepting the IDA charter, to cooperate in facilitating reasonable transfers to IDA of their currency which another country wishes to make available.

The member would receive nonvoting "special development certificates" in exchange for currency provided. These certificates would carry a right of recovery of any such currency remaining upon liquidation of IDA. In addition, holders of certificates would be eligible to receive half of net operating profits derived from use of the resources provided.

IV. Negotiating Procedure

On July 31, 1959, the Chairman of the Council, in his capacity as U.S. Governor of the International Bank, transmitted a letter to the President of the Bank in which there was announced the intention of the United States to introduce a resolution concerning the International Development Association at the forthcoming annual meeting of the Bank's Governors. The letter is reproduced as annex A of this report. Annex B consists of a letter from the President of the Bank, dated August 3, 1959, transmitting the letter of the U.S. Governor to the other 67 Governors.

In view of the close relationship which would exist between the International Development Association and the International Bank, the Council has considered it logical that the process of negotiating an acceptable document for approval by governments should be carried on within the framework of the Bank itself. To this end representatives of the United States carried on the bulk of the preliminary discussions concerning the International Development Association with individual members of the Bank's Executive Board. As is pointed out in the Chairman's letter to Mr. Black, the performance of the Executive Board acting as a group in the elaboration of proposals for further action by governments has been outstanding. With this in mind, the U.S. Governor announced in his letter that the United States would introduce a resolution at the annual meeting of

the Board of Governors of the International Bank convening in Washington on September 28, calling upon the Executive Directors to study carefully the question of establishing an International Development Association and, if feasible, to formulate articles of agreement for appropriate submission to member governments. In requesting that this matter be placed on the agenda the Governor for the United States made clear that it is our hope that action by the Governors at this year's meeting will constitute a definite step looking toward the establishment of an International Development Association.

The Council hopes that the Executive Directors, after due consideration, can agree upon articles of agreement which would be in sufficient detail to permit the prompt establishment of the International Development Association upon the completion of approving action by governments. The U.S. Executive Director will undoubtedly play a prominent role in the negotiations carried on in the Executive Board. In this he of course will be assisted by interested agencies in the U.S. Government and will receive advice and guidance from the National Advisory Council.

V. U.S. Action: Legislative and Budgetary

If the U.S. resolution calling for recommendations by the Directors of the Bank concerning the International Development Association is approved by the Governors of the Bank, the Executive Directors should be in a position to begin their work promptly. The Council hopes that the Executive Directors will in fact be able to present a proposal in sufficient time for the administration to seek necessary legislation in the 1960 session. Initial financial provision for U.S. membership will probably have to be made in the budget year commencing July 1, 1960 (fiscal year 1961). The amount to be sought would not exceed 50 percent of the U.S. subscription.

VI. Discussions With Others

As early as the New Delhi meeting of the Board of Governors of the Bank, there were opportunities for discussion of the International Development Association proposal with representatives of foreign governments. Since that time, there have been additional conversations with representatives of many of the industrialized countries, and also with representatives of many of the less-developed countries. Some of these contacts took place at the ministerial level, and others at the official level. Moreover, all of the Executive Directors and Alternate Executive Directors of the International Bank who were available in Washington have been consulted by U.S. officials.

The general reaction of most countries has been a favorable one and it is on this basis that the Council has been encouraged to proceed with the proposal for an International Development Association. As was expected, there have been individual concerns expressed by a number of countries, and special efforts have been made to provide further explanation of the institution as conceived by the United States. Some of the concerns of other countries are of course not questions which can be answered in advance of the negotiating process, and many such questions have been deferred until the meetings of the Executive

Directors. Among the potential contributing nations, the extent of initial contributions and of subsequent replenishment of capital has been a major interest. Potential contributors who would be the probable recipients of International Development Association financing have expressed a desire for reassurance that their local currencies would not be utilized by the International Development Association in such a manner as to produce a foreign exchange drain, or disturb internal policies designed to restrain credit and mitigate inflation. The countries in which the United States has substantial accumulations of local currency have been especially interested in the safeguards concerning transfer of that local currency to the International Development Association. Between the two groups of obvious net contributors and obvious net recipients in the International Development Association, there lies a group of countries whose position is marginal. Typically, these countries have a sizable industrial capacity yet they are substantial importers of capital. Some of the countries in this position have indicated that they will wish to consider closely the balance of benefits and responsibility involved for them in the International Development Association before giving a commitment as to their membership.

During the discussions with other countries, consideration was also given to providing a means whereby countries whose recent growth warrants it could provide resources above and beyond their proportionate share of the International Development Association's capital. One such technique would involve the purchase by such countries of debentures issued by the International Development Association under its general powers to borrow. The discussions also revealed a feeling among certain countries that there was a need for improvement in the coordination of bilateral lending policies of creditor countries. Whether this can be done through the International Development Association or whether it could better be achieved through the International Bank will require considerable additional study.

In most cases, the Council realizes that the question of the International Development Association has not been the subject of Cabinet-level decision in other countries and that until very recently the proposal was a matter for technical studies within governments. The Council is certain that the accelerated series of discussions with Executive Directors has served to spur the consideration of the International Development Association within the principal governments, and that the letter of the U.S. Governor relayed by the Bank to the other Governors will have an impetus in the same direction. The Council is pleased to note that during debate in the House of Commons in the United Kingdom, the Economic Secretary to the Treasury stated that Her Majesty's Government was prepared to join in working out plans for an International Development Association, and that if acceptable plans come to fruition the United Kingdom would contribute to the capital of the Association as to the capital of the Bank.

VII. Conclusion

The National Advisory Council has carefully considered the proposal to establish an International Development Association, and believes that such an institution is both feasible and desirable. By

making development resources available from a multilateral organization on terms not hitherto offered by any such institution, the nations already joined in cooperative effort in the International Bank can significantly broaden the operations of the Bank and extend the usefulness of its funds.

There appears to be a sufficient measure of agreement among the nations as to the desirability of an International Development Association to warrant placing the subject on the agenda of the forthcoming meeting of the Governors of the Bank. It is hoped that as a result of the resolution which the U.S. Governor intends to offer, the Governors will assign to the Executive Directors of the Bank the task of drawing up satisfactory articles of agreement for the new institution. When such articles are submitted to governments for action, the Council will expect to submit a final report on the International Development Association, and will recommend that the President request legislation authorizing the United States to accept membership.

It is the Council's considered judgment that U.S. membership in such an institution could contribute significantly toward a solution of some of the urgent problems of underdeveloped areas. An International Development Association would also provide an opportunity for other industrial countries to take a more active role in financing the economic development of underdeveloped areas. For these reasons, the Council believes that it would be in the interest of the United States, and of the free world in general, to proceed with efforts to establish an International Development Association along the lines set forth in this report.

AUGUST 14, 1959.

ANNEXES

Annex A

The Secretary of the Treasury,
Washington, July 31, 1959.

Hon. Eugene R. Black,
President, International Bank for Reconstruction and Development,
Washington, D.C.

My Dear Mr. Black: At the opening joint session of the 1958 annual meeting of the International Bank for Reconstruction and Development and the International Monetary Fund at New Delhi, I called attention to the fact that the United States was studying a proposal to establish an International Development Association as an affiliate of the International Bank. President Eisenhower had earlier asked me to ascertain the attitudes of member governments toward the proposal, and, if the creation of an International Development Association appeared feasible, to initiate negotiations to that end.

The New Delhi meeting offered an opportunity for fruitful contacts among the Governors of the Bank, and the preliminary responses to the International Development Association proposal voiced there were encouraging. Since last October, we in the U.S. Government have been engaged in further study of the International Development Association in an attempt to formulate a more specific project. We have had subsequent discussions with other members of the Bank, and many members have shown a favorable attitude toward the concept of an International Development Association. We are continuing our discussions with other Bank members.

You will recall that as a basis for these discussions the U.S. Executive Director of the Bank recently circulated to all the other Directors an informal paper giving the major outlines of an International Development Association as we presently visualize it. We realized that in many cases a Director would be in a position to give only his personal views, and would not have the considered views of the government or governments he represents. Nevertheless, the reactions of Directors to this informal paper were useful and illuminating, and we have kept these in mind in drawing up the memorandum which I have attached to this letter.

We have been much impressed, as I am sure you also have been, with the role played by the Executive Board of the Bank in bringing to fruition several complex proposals in the recent past. The International Finance Corporation, for example, came into being after a proposal was formulated in the Board of Executive Directors and submitted to the member governments for approval. Just last year, the Executive Directors were charged with the task of submitting an appropriate proposal for increasing the Bank's resources. This task was successfully discharged, and governments are now acting on the resolutions drafted in the Executive Board. I believe the Executive Directors, in the case of the International Development Association, can again perform the invaluable function of taking the basic outline of an idea and fashioning it into a specific proposal. I am convinced that there exists a sufficiently broad base of support for an International Development Association among the member governments that a plan carefully worked out by the Executive Directors would meet with widespread acceptance.

It is my hope that this year's meeting of the Governors will be the occasion for taking definite steps looking toward the establishment of an International Development Association along the lines of the attached paper. As Governor for the United States, I am planning to place before the Board of Governors in September a resolution calling upon the Executive Directors to study carefully the question of establishing an International Development Association and, if feasible, to formulate articles of agreement for appropriate submission to the member governments. I would appreciate it, therefore, if you would place the subject of the International Development Association on the agenda for the September meeting.

The formal text of a resolution will be transmitted to the Bank by the United States at the proper time.

If the Executive Directors make their recommendations within a reasonable time and if these recommendations are expeditiously presented to member governments, the matter could be acted upon formally by member governments early in 1960. In the case of the United States, this would mean that the Congress would consider the International Development Association during the 1960 session.

I am certain you will agree with me that the question of establishing an International Development Association is a matter of the first importance, and that the assent of the Governors at the annual meeting to a resolution calling for a study and recommendations by the Executive Directors would be a significant step toward the desired goal. It is my hope that between now and September the idea will receive earnest consideration within the member governments, and that the Governors will be in a position to support the U.S. resolution when it is offered. In this connection, I request that you forward a copy of this letter to each of the Governors, together with any comments you might consider appropriate.

Sincerely yours,

ROBERT B. ANDERSON,
Governor for the United States,
International Bank for Reconstruction and Development.

Attachment: Guidelines for Use in IBRD Executive Directors' Study of a Proposed International Development Association.

(The text of the attachment to this letter appears on pages 5 and 6 of the body of the report.)

ANNEX B

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,
Washington, D.C., August 3, 1959.

MY DEAR GOVERNOR: The Governor for the United States has requested me to forward to you and the other Governors of the Bank the attached letter concerning the International Development Association. The letter expresses the Governor's intention to introduce a resolution on that subject at the next annual meeting and requests that the matter be placed on the agenda for that meeting.

I have often said that in many less-developed countries the achievement of reasonable rates of growth will require more external capital than can properly be provided by conventional loans of the kind which the International Bank is authorized to make, and that there would be substantial advantage in channeling a large part of such further external aid through a soundly organized international institution. This is the essential concept of the proposed International Development Association. It is my opinion that, given suitable resources and functions, such an institution would be a valuable supplement to the International Bank's efforts to meet the pressing problems of development financing in the world today.

Without expressing any views at this stage on specific aspects of the proposal, I can say that I am fully in accord with the suggestion of the Governor for the United States that our meeting in September should be the occasion for taking action looking toward its consideration and, as I would hope, toward the establishment of an International Development Association.

Yours sincerely,

EUGENE R. BLACK, *President.*

Attachments. (The attachments consist of the letter from the U.S. Governor to the President of the Bank and the "Guidelines" paper appended thereto. See annex A.)

O

FORM No. 198A
(6-59)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FROM: THE SECRETARY	
Date AUG 19 1959	SecM59-146
DISTRIBUTION	
Executive Directors and Alternates	
President	
Vice Presidents	
Department Heads	
Assistant Department Heads	
Division Chiefs	
Secretary, IMF	

I.D.A.

National Advisory Council

ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

Report on the Proposed International Development Association

★ ★ ★

August 1959

REPORT OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

ON THE

PROPOSED

INTERNATIONAL DEVELOPMENT ASSOCIATION

Prepared Pursuant to Senate Resolution 264,
85th Congress, 2nd Session

August, 1959

THE SECRETARY OF THE TREASURY
WASHINGTON

August 14, 1959

My dear Mr. Chairman:

There is submitted herewith, on behalf of the National Advisory Council on International Monetary and Financial Problems, a Report on the proposed International Development Association. This Report is in accordance with the request contained in Senate Resolution 264, 85th Congress, 2nd Session, for a study by the Council with respect to the establishment of an International Development Association as an affiliate of the International Bank for Reconstruction and Development.

Yours very truly,

Robert B Anderson

Chairman
National Advisory Council on
International Monetary and
Financial Problems

Honorable J. W. Fulbright
Chairman, Committee on
Foreign Relations
Room 4213, New Senate Office Building
Washington 25, D. C.

Enclosure:
National Advisory Council Report on the
proposed International Development Association

CONTENTS

REPORT OF THE NATIONAL ADVISORY COUNCIL ON THE PROPOSED INTERNATIONAL DEVELOPMENT ASSOCIATION

I. INTRODUCTION

The National Advisory Council submits this report on the proposed International Development Association (IDA) in accordance with Senate Resolution 264, 85th Congress, 2nd Session, which provided:

> "Resolved, That, recognizing the desirability of promoting a greater degree of international development by means of multilateral loans based on sound economic principles, it is the sense of the Senate that prompt study should be given by the National Advisory Council on International Monetary and Financial Problems with respect to the establishment of an International Development Association, as an affiliate of the International Bank for Reconstruction and Development.
>
> "In order to achieve greater international trade, development, and economic well-being, such study should include consideration of the following objectives:
>
> (1) Providing a source of long-term loans available at a reasonable rate of interest and repayable in local currencies, or partly in local currencies, to supplement International Bank lending activities and thereby permit the prompt completion of worthwhile development projects which could not otherwise go forward.
>
> (2) Facilitating, in connection with such loans, the use of local and other foreign currencies, including those available to the United States through the sale of agricultural surpluses and through other programs.
>
> (3) Insuring that funds for international economic development can be made available by a process which would encourage multilateral contributions for this purpose."

LEGISLATIVE HISTORY

Senator Monroney submitted a resolution concerning an International Development Association in a statement on the Senate floor on February 24, 1958, in which he outlined his views in some detail. The resolution was considered by the Sub-committee on International Finance of the Senate Committee on Banking and Currency in hearings on March 18, 19, and 20, 1958.

Secretary of the Treasury Anderson, Under Secretary of State for Economic Affairs Dillon, Assistant Secretary of Commerce Kearns, Assistant Secretary of Agriculture Paarlberg, and representatives of the Bureau of the Budget and International Cooperation Administration appeared as witnesses.

The government witnesses indicated interest in the proposal but raised certain questions to be explored before its practicability could be determined. They pointed out that the local currencies held by the United States as a result of operations under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, 83rd Congress) and other programs would not in general be usable to foster development except in the country issuing the currency. Most of the currencies held by the United States were those of less developed countries which could not make real resources available to further development in other countries. Accordingly, it would be basic to the success of IDA that countries able to subscribe substantial amounts of hard currencies be prepared to participate. It was thought that the international discussion of the IDA proposal might take considerable time. In this connection it was further pointed out that since the International Development Association presumably would largely make loans repayable in local currencies it would require additional hard currency contributions from time to time in future years.

The Executive Branch witnesses favored a study of the IDA proposal provided changes were made in the resolution to indicate that the International Development Association would be an affiliate of the International Bank for Reconstruction and Development and that such a study should be conducted by the National Advisory Council. In response to a letter from Senator Monroney of May 8, 1958, asking for comments on a committee print of an amended resolution, a suggested revision of the resolution was submitted by the Departments of State and Treasury. With one minor change, the revised proposal was reported favorably by the subcommittee to the full committee, which in turn reported the resolution favorably to the Senate on July 12, 1958. The Senate on that date approved the resolution by a vote of 62 to 25.

SUBSEQUENT DEVELOPMENTS

Just prior to the annual meeting of the International Monetary Fund and the International Bank in the fall of 1958, an exchange of letters took place between President Eisenhower and Secretary of the Treasury Anderson. In the exchange, Secretary Anderson proposed, and the President agreed, that informal discussions with other member governments of the International Bank be undertaken with a view to determining the reactions of these governments to the establishment of an International Development Association. At the annual meeting, held in New Delhi in October 1958, Secretary Anderson, as United States Governor of the International Bank, and Under Secretary of State Dillon, as Alternate United States Governor

of the International Bank, both announced the willingness of the United States to discuss in informal fashion with other member governments the possibility of establishing an International Development Association as an affiliate of the International Bank. During the remainder of the meetings, and in the period following their conclusion, the views of many interested countries were received informally by the U.S. representatives.

On January 16, 1959, the National Advisory Council submitted, in the form of a letter to the Chairman of the Senate Foreign Relations Committee, an interim report on the proposed International Development Association. This report reviewed the developments up to that time, and indicated that the Council's study of the matter was continuing, as were informal conversations with foreign governments. Since that time, the frequency of discussions with other governments has increased. These conversations have been with a considerable range of countries, including both advanced industrial nations, which would be among the principal contributors of funds, and under-developed countries, which would be net recipients of IDA financing. Useful views have been received by the United States as a result of these exploratory meetings, and understanding of the IDA proposal in other countries has been enhanced. The National Advisory Council has taken the views of other potential members, as they have been received to date, into account in formulating this report on the International Development Association.

II. INSTITUTIONS FOR DEVELOPMENT FINANCING

The Council intends to continue its examination within the United States Government. Conversations with other governments concerning the IDA proposal will also proceed. On the basis of its studies thus far, however, the Council is convinced that the International Development Association would form a valuable adjunct to the International Bank, and would effectively extend the field of operations of the latter. With IDA, the World Bank would be enabled to bring to fruition projects which are now held in abeyance because appropriate financing is not available. In some cases the borrowing country may not be in a position to assume the full foreign exchange obligation for servicing a loan from the Bank under its normal lending terms. In other cases projects may not have been brought to fruition because for various reasons the borrowing country did not find it administratively feasible to make available the local currency required in conjunction with the foreign exchange financing of the project provided by the International Bank.

Under-developed countries seeking financing on a multilateral basis at the present time can obtain development capital from public sources only on terms which involve repayment in the currency borrowed and which correspond to the requirements of the International Bank. When they seek financing from certain U.S. institutions, they are in a position to present their applications, under appropriate conditions, for financing on more liberal terms than those generally referred to as "bankable" loans. The creation of an International Development Association would provide a multilateral institution which would have greater flexibility in lending operations and which would utilize not only the resources of the United States but those of other countries as well.

It has been the policy of the International Bank to impose normal banking requirements on the borrowing country both as to the terms of loans and as to the development projects that it finances. This policy is not an arbitrary requirement but rather one that springs directly from the nature of the International Bank's financing. The Bank now obtains the bulk of its funds from the sale of its own bonds in financial markets in the United States and abroad. The ability of the Bank to continue to borrow depends in large part on the soundness of its lending policies. If the Bank is to maintain itself successfully, it must lend at rates that are realistic and sufficiently high to cover the Bank's borrowing and administrative costs. The Bank's interest rate represents the approximate cost of money to it at the time the loan is made plus a charge of 1-1/4 percent to cover the Bank's operating costs and its allocation to reserves. International Bank loans, if made in dollars, are repayable in dollars. In short, the Bank's loans necessarily are made on a "bankable" basis. Most of the Bank's loans have had maturities of 10 - 25 years, depending on the nature and economic life of the project. Its most recent loans have been made at an interest rate of 6 percent, reflecting recent increases in the cost of money to the Bank. Moreover, the Bank places under careful scrutiny the over-all credit-worthiness of the respective borrowers, and has been obliged on occasions to refrain from lending to countries whose ability to service external debt has been seriously impaired.

The Export-Import Bank makes loans primarily to promote U.S. foreign trade. Its loans, which also are made on a bankable basis, must offer reasonable assurance of repayment, and may generally be used only for purchase of U.S. goods and services. The Bank may loan to either public or private borrowers in any free world country, and need not obtain government guarantees on loans to private entities. Its development loans are made for maturities essential to the purpose of the financing and have been for terms as long as 20 years or more. The interest rate on development loans is currently about 5-3/4 percent. Thus, Export-Import Bank loans would not be a useful source of capital for countries with the prospect of insufficient dollars to meet service payments.

The Development Loan Fund (DLF) was created within the context of the Mutual Security Program and is separately incorporated but under the supervision, direction and foreign policy guidance of the Secretary of State. It lends development funds for projects in less developed countries on a basis which may afford relief from the foreign exchange burden. The interest rate on loans for economic overhead projects is currently 3-1/2 percent per annum, and for profit-earning types of project, 5-3/4 percent. Maturities on DLF loans range up to 35 years. Most dollar loans made by the Development Loan Fund are repayable in local currencies. The operations of this fund would be closely coordinated with the operations of the IDA when established.

A multilateral organization such as the proposed International Development Association could, in addition to combining certain desirable aspects of present institutions, afford an important opportunity to enlist the resources of the industrially advanced nations in the task of accelerating the economic progress of the under-developed world. The countries which would benefit from IDA financing would be given access to capital funds on appropriate repayment terms, and these funds would be supplied, not by the United States alone, but also by the nations of Western Europe and elsewhere whose economies are strong and many of which have large and growing financial reserves. The Council feels that there can be little doubt that the economic and financial strength of the other free world industrial countries merits a larger share for those countries in the burdens of financing economic development on favorable terms. An International Development Association which embodies this idea would therefore clearly be in the interest of the United States.

III. THE PROPOSAL

Since the New Delhi meetings of the Fund and Bank, the study going on within the framework of the National Advisory Council has gradually been evolving an outline of the principal elements of an acceptable new organization in the field of international finance. On the basis of this outline, the United States Executive Director in the Bank and other representatives of the United States carried on an extensive series of informal conversations with the other Executive Directors in the Bank, with the dual purpose of making known the views of the United States concerning the establishment of an International Development Association, and of eliciting any comments or suggestions the other directors cared to make. In addition, the principles set forward in the outline were discussed by the Secretary of the Treasury and other officers with ministerial representatives of several other governments.

In the remainder of this section of the report there is reproduced the outline of the U. S. proposal for an International Development Association as it was formally transmitted to the International Bank by the United States Governor for forwarding to the other governors. The letter of transmittal by the United States Governor is referred to on page 8, and is reproduced as Annex A.

* * * * *

Guidelines for Use in IBRD Executive Directors' Study of a Proposed International Development Association (IDA)

To facilitate the consideration of the IDA by the Executive Directors, the United States submits herein certain guidelines which it hopes will form the basic framework of the proposed organization.

1. Purpose. The purpose of the International Development Association would be to promote, by financing sound projects of high priority, the economic development of less-developed member countries whose needs cannot be adequately met under International Bank lending programs.

2. Structure. IDA should be a close affiliate of the IBRD; membership in IDA would be open to all members of the IBRD. IDA should be a separate financial entity, but should be manned by IBRD personnel.

3. Voting. Voting should be on a weighted basis, according to capital subscribed.

4. Size. The authorized capital of IDA should be $1 billion. Members would pay in 50 percent of their subscriptions initially, and the remainder in equal installments over five years.

5. U. S. Subscription. The United States subscription would be proportional to the U. S. subscription in the International Bank, taking into account the proposed increases in the IBRD. This would amount to about $320 million.

6. Replenishment. At 5-year intervals the governors of IDA should consider the desirability of increasing the capital of the institution. Any increase would require approval of three-fourths of the total voting power. Each member would have the right, although not the obligation, to subscribe to a portion of the increase in accordance with its proportion

of the initial capital. The Board of Governors could also, by three-fourths vote, approve an increase in capital at any other time, provided prior capital obligations of members have been substantially discharged.

7. Currency Subscribed. Members would make their subscriptions in part in gold or fully convertible currencies, and in part in their own national currencies. Each payment made under the installment arrangements mentioned in Paragraph 4 would consist in part of gold or fully convertible currencies, and in part of national currencies, in the proportions set forth in paragraph 8. The basis on which each part of a member's subscription may be used by IDA is also outlined in paragraph 8.

8. Use of Currencies Subscribed. Twenty percent of each payment by each member should be in gold or in fully convertible currencies which would be freely disposable by IDA. The remaining 80 percent should be in national currencies and should be usable at a minimum for procurement of nationally-produced goods and services for use in connection with IDA-financed development projects within the country concerned, or for procurement of nationally-produced goods and services for export and use elsewhere in connection with IDA-financed projects. In no event would IDA engage in financing trade in commodities not related to IDA-financed development projects.

In addition to the basic minimum usability of the 80 percent of subscriptions paid in national currency, there should be provision in regard to this 80 percent for:

(a) The convertibility of 30 percent as required by IDA. The obligation to make this portion of its national currency convertible on demand should extend to all members except those to whom IDA granted a suspension of the obligation. This suspension would not be given to any of the industrialized countries, and countries receiving suspensions should not have an aggregate of more than about a quarter of total subscriptions.

(b) The convertibility of the remaining 50 percent of subscriptions paid in national currency by the industrialized countries if and when all of the industrialized countries agree to such a move. The United States would make this portion of its subscription available on a fully convertible basis so long as the other industrial countries do the same.

Under these arrangements, the IDA would have the responsibility for taking account of the economic position of a less-developed country in using such a country's currency, from whatever source acquired. An operating

principle of IDA would be that IDA would maintain reasonably uniform rates of usage among the subscriptions in national currencies which become convertible as provided in (a) or (b) above, after first using the holdings of the currency of the country of procurement.

9. Borrowing Authority. IDA should have authority to borrow from member governments, or other sources.

10. Special Resources Provided in Local Currencies. Arrangements should be made to permit IDA to receive from one member the currency of another member. Transfers of such currency would be over and above the member's subscription to the regular capital of IDA. Currencies so transferred should be available on terms which impose no greater restrictions on their use by IDA than previously applied to their use. Efforts would be made to secure the agreement of member countries, in accepting the IDA charter, to cooperate in facilitating reasonable transfers to IDA of their currency which another country wishes to make available.

The member would receive non-voting "special development certificates" in exchange for currency provided. These certificates would carry a right of recovery of any such currency remaining upon liquidation of IDA. In addition, holders of certificates would be eligible to receive half of net operating profits derived from use of the resources provided.

IV. NEGOTIATING PROCEDURE

On July 31, 1959, the Chairman of the Council, in his capacity as United States Governor in the International Bank, transmitted a letter to the President of the Bank in which there was announced the intention of the United States to introduce a resolution concerning IDA at the forthcoming annual meeting of the Bank's Governors. The letter is reproduced as Annex A of this report. Annex B consists of a letter from the President of the Bank, dated August 3, 1959, transmitting the letter of the United States Governor to the other 67 Governors.

In view of the close relationship which would exist between IDA and the International Bank, the Council has considered it logical that the process of negotiating an acceptable document for approval by governments should be carried on within the framework of the Bank itself. To this end representatives of the United States carried on the bulk of the preliminary discussions concerning IDA with individual members of the Bank's Executive Board. As is pointed out in the Chairman's letter to Mr. Black, the performance of the Executive Board acting as a group in the elaboration of proposals for further action by governments has been outstanding. With this in mind, the United States Governor announced in his letter that the

United States would introduce a resolution at the annual meeting of the Board of Governors of the International Bank convening in Washington on September 28, calling upon the Executive Directors to study carefully the question of establishing an International Development Association and, if feasible, to formulate articles of agreement for appropriate submission to member governments. In requesting that this matter be placed on the agenda the Governor for the United States made clear that it is our hope that action by the Governors at this year's meeting will constitute a definite step looking toward the establishment of an IDA.

The Council hopes that the Executive Directors, after due consideration, can agree upon articles of agreement which would be in sufficient detail to permit the prompt establishment of the International Development Association upon the completion of approving action by governments. The United States Executive Director will undoubtedly play a prominent role in the negotiations carried on in the Executive Board. In this he of course will be assisted by interested agencies in the United States Government and will receive advice and guidance from the National Advisory Council.

V. U.S. ACTION: LEGISLATIVE AND BUDGETARY

If the United States resolution calling for recommendations by the Directors of the Bank concerning IDA is approved by the Governors of the Bank, the Executive Directors should be in a position to begin their work promptly. The Council hopes that the Executive Directors will in fact be able to present a proposal in sufficient time for the Administration to seek necessary legislation in the 1960 session. Initial financial provision for U.S. membership will probably have to be made in the budget year commencing July 1, 1960 (FY 1961). The amount to be sought would not exceed 50 percent of the U.S. subscription.

VI. DISCUSSIONS WITH OTHERS

As early as the New Delhi meeting of the Board of Governors of the Bank, there were opportunities for discussion of the IDA proposal with representatives of foreign governments. Since that time, there have been additional conversations with representatives of many of the industrialized countries, and also with representatives of many of the less developed countries. Some of these contacts took place at the ministerial level, and others at the official level. Moreover, all of the Executive Directors and Alternate Executive Directors of the International Bank who were available in Washington have been consulted by United States officials.

The general reaction of most countries has been a favorable one and it is on this basis that the Council has been encouraged to proceed with the proposal for an International Development Association. As was expected, there have been individual concerns expressed by a number of countries, and special efforts have been made to provide further explanation of the institution as conceived by the United States. Some of the concerns of other countries are of course not questions which can be answered in advance of the negotiating process, and many such questions have been deferred until the meetings of the Executive Directors. Among the potential contributing nations, the extent of initial contributions and of subsequent replenishment of capital has been a major interest. Potential contributors who would be the probable recipients of IDA financing have expressed a desire for reassurance that their local currencies would not be utilized by IDA in such a manner as to produce a foreign exchange drain, or disturb internal policies designed to restrain credit and mitigate inflation. The countries in which the United States has substantial accumulations of local currency have been especially interested in the safeguards concerning transfer of that local currency to IDA. Between the two groups of obvious net contributors and obvious net recipients in IDA, there lies a group of countries whose position is marginal. Typically, these countries have a sizable industrial capacity yet they are substantial importers of capital. Some of the countries in this position have indicated that they will wish to consider closely the balance of benefits and responsibility involved for them in IDA before giving a commitment as to their membership.

During the discussions with other countries, consideration was also given to providing a means whereby countries whose recent growth warrants it could provide resources above and beyond their proportionate share of IDA's capital. One such technique would involve the purchase by such countries of debentures issued by IDA under its general powers to borrow. The discussions also revealed a feeling among certain countries that there was a need for improvement in the coordination of bilateral lending policies of creditor countries. Whether this can be done through the IDA or whether it could better be achieved through the International Bank will require considerable additional study.

In most cases, the Council realizes that the question of IDA has not been the subject of cabinet level decision in other countries and that until very recently the proposal was a matter for technical studies within governments. The Council is certain that the accelerated series of discussions with Executive Directors has served to spur the consideration of IDA within the principal governments, and that the letter of the United States Governor relayed by the Bank to the other Governors will have an

impetus in the same direction. The Council is pleased to note that during debate in the House of Commons in the United Kingdom, the Economic Secretary to the Treasury stated that Her Majesty's Government was prepared to join in working out plans for an International Development Association, and that if acceptable plans come to fruition the United Kingdom would contribute to the capital of the Association as to the capital of the Bank.

VII. CONCLUSION

The National Advisory Council has carefully considered the proposal to establish an International Development Association, and believes that such an institution is both feasible and desirable. By making development resources available from a multilateral organization on terms not hitherto offered by any such institution, the nations already joined in cooperative effort in the International Bank can significantly broaden the operations of the Bank and extend the usefulness of its funds.

There appears to be a sufficient measure of agreement among the nations as to the desirability of an International Development Association to warrant placing the subject on the agenda of the forthcoming meeting of the Governors of the Bank. It is hoped that as a result of the resolution which the United States Governor intends to offer, the Governors will assign to the Executive Directors of the Bank the task of drawing up satisfactory articles of agreement for the new institution. When such articles are submitted to governments for action, the Council will expect to submit a final report on IDA, and will recommend that the President request legislation authorizing the United States to accept membership.

It is the Council's considered judgment that United States membership in such an institution could contribute significantly toward a solution of some of the urgent problems of underdeveloped areas. An International Development Association would also provide an opportunity for other industrial countries to take a more active role in financing the economic development of underdeveloped areas. For these reasons, the Council believes that it would be in the interest of the United States, and of the Free World in general, to proceed with efforts to establish an International Development Association along the lines set forth in this report.

August 14, 1959

THE SECRETARY OF THE TREASURY
Washington

July 31, 1959

My dear Mr. Black:

At the opening joint session of the 1958 annual meeting of the International Bank for Reconstruction and Development and the International Monetary Fund at New Delhi, I called attention to the fact that the United States was studying a proposal to establish an International Development Association as an affiliate of the International Bank. President Eisenhower had earlier asked me to ascertain the attitudes of member governments toward the proposal, and, if the creation of an International Development Association appeared feasible, to initiate negotiations to that end.

The New Delhi meeting offered an opportunity for fruitful contacts among the Governors of the Bank, and the preliminary responses to the International Development Association proposal voiced there were encouraging. Since last October, we in the United States Government have been engaged in further study of the International Development Association in an attempt to formulate a more specific project. We have had subsequent discussions with other members of the Bank, and many members have shown a favorable attitude toward the concept of an International Development Association. We are continuing our discussions with other Bank members.

You will recall that as a basis for these discussions the United States Executive Director of the Bank recently circulated to all the other Directors an informal paper giving the major outlines of an International Development Association as we presently visualize it. We realized that in many cases a Director would be in a position to give only his personal views, and would not have the considered views of the government or governments he represents. Nevertheless, the reactions of Directors to this informal paper were useful and illuminating, and we have kept these in mind in drawing up the memorandum which I have attached to this letter.

We have been much impressed, as I am sure you also have been, with the role played by the Executive Board of the Bank in bringing to fruition several complex proposals in the recent past. The International Finance Corporation, for example, came into being after a proposal was formulated in the Board of Executive Directors and submitted to the member governments for approval. Just last year, the Executive Directors were charged with the task of submitting an appropriate proposal for increasing the Bank's resources. This task was successfully discharged, and governments are now acting on the resolutions drafted in the Executive Board. I believe the Executive Directors, in the case of the International Development Association, can again perform the invaluable function of taking the basic outline of an idea and fashioning it into a specific proposal. I am convinced that there exists a sufficiently broad base of support for an International Development Association among the member governments that a plan carefully worked out by the Executive Directors would meet with widespread acceptance.

It is my hope that this year's meeting of the Governors will be the occasion for taking definite steps looking toward the establishment of an International Development Association along the lines of the attached paper. As Governor for the United States, I am planning to place before the Board of Governors in September a resolution calling upon the Executive Directors to study carefully the question of establishing an International Development Association and, if feasible, to formulate articles of agreement for appropriate submission to the member governments. I would appreciate it, therefore, if you would place the subject of the International Development Association on the agenda for the September meeting. The formal text of a resolution will be transmitted to the Bank by the United States at the proper time.

If the Executive Directors make their recommendations within a reasonable time and if these recommendations are expeditiously presented to member governments, the matter could be acted upon formally by member governments early in 1960. In the case of the United States, this would mean that the Congress would consider the International Development Association during the 1960 session.

I am certain you will agree with me that the question of establishing an International Development Association is a matter of the first importance, and that the assent of the Governors at the annual meeting to a resolution calling for a study and recommendations by the Executive Directors would be a significant step toward the desired goal. It is my hope that between now and September the idea will receive earnest consideration within the member governments, and that the Governors will be in a position to support the United States resolution when it is offered. In this connection, I request that you forward a copy of this letter to each of the Governors, together with any comments you might consider appropriate.

Sincerely yours,

/s/ Robert B. Anderson

Governor for the United States
International Bank for Reconstruction
and Development

Honorable Eugene R. Black
President, International Bank for
Reconstruction and Development
Washington 25, D. C.

Attachment:
Guidelines for Use in IBRD Executive
Directors' Study of a Proposed
International Development Association

(The text of the attachment to this letter appears on pages 6-8, of the body of the Report.)

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

1818 H STREET, N. W.

WASHINGTON 25, D.C.

August 3, 1959

My dear Governor:

The Governor for the United States has requested me to forward to you and the other Governors of the Bank the attached letter concerning the International Development Association. The letter expresses the Governor's intention to introduce a resolution on that subject at the next Annual Meeting and requests that the matter be placed on the agenda for that meeting.

I have often said that in many less-developed countries the achievement of reasonable rates of growth will require more external capital than can properly be provided by conventional loans of the kind which the International Bank is authorized to make, and that there would be substantial advantage in channeling a large part of such further external aid through a soundly organized international institution. This is the essential concept of the proposed International Development Association. It is my opinion that, given suitable resources and functions, such an institution would be a valuable supplement to the International Bank's efforts to meet the pressing problems of development financing in the world today.

Without expressing any views at this stage on specific aspects of the proposal, I can say that I am fully in accord with the suggestion of the Governor for the United States that our meeting in September should be the occasion for taking action looking toward its consideration and, as I would hope, toward the establishment of an International Development Association.

Yours sincerely,

/s/ Eugene R. Black
Eugene R. Black
President

Attachments

(The attachments consist of the letter from the U.S. Governor to the President of the Bank and the "Guidelines" paper appended thereto. See Annex A.)

IDA

Mrs. S. Boskey

August 31, 1959

G.C. Wishart

IDA

Operational Questions: E. Terms of Financing and
F. Government Guarantees

1. If IDA is authorized to lend not only to governments but also to business, industrial and agricultural enterprises direct, IDA could be swamped with a large number of "difficult" applications. This does not happen in the case of IBRD applications as it is well known that IBRD will only consider bankable projects and that a government guarantee is necessary. Once the idea gets around that IDA money can be on a grant basis or on "cheap" terms, many enterprises will want to tap these funds.

2. The suggestion that the benefit should accrue only to the government and that the ultimate beneficiary (other than a government) should pay the normal interest will not entirely get round this point. Sub-divisions of governments and enterprises will press their favorite projects for IDA consideration and may anticipate that, if accepted by IDA, they can then obtain preferential treatment from their own governments. I have in mind a very energetic man: Mr. Kent, City Treasurer of Nairobi.

3. Why not say that IDA, in the first instance, will only consider projects <u>sponsored</u> and/or <u>recommended</u> by governments? That would provide a first check on the desirability of a project. It would be in line with IBRD practice where we say that requests for technical assistance, etc. must be put forward by a member government.

What do you think?

FORM No. 60
(12.57)

International Bank for Reconstruction and Development

Archives
CONFIDENTIAL
P-100

STAFF LOAN COMMITTEE

SLC/A/762/1

FROM: Secretary, Staff Loan Committee

August 31, 1959

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Thursday, September 3, 1959, at 3:00 p.m. in Room 1005.

AGENDA

International Development Association (IDA)

The Committee will consider the draft (SLC/O/1018) on "Management Position on IDA," distributed on August 26, and the attached Memorandum SLC/O/1020 on the provisions in the U.S. Guidelines (SecM59-129 of August 3, 1959) on the use of currencies.

DISTRIBUTION

Chairman
Directors of Operational Departments
Director, Legal Department
Director, Economic Staff
Treasurer
Director, Technical Assistance and Liaison Staff

Copies for information to:

President
Vice Presidents
Secretary
Director, Office of Information
Director, Economic Development Institute
Special Representative in Europe (Agenda only)

Mr. Labouisse
Mr. Basch
Mr. Haskell (IFC)
Mrs. Boskey

CONFIDENTIAL

SLC/O/1020
August 28, 1959

MEMORANDUM TO THE STAFF LOAN COMMITTEE

Management Position on I.D.A.

1. The draft paper on the management's position (SLC/O/1018) contained a reference on p. 2 under the heading C(3) (4) (5) and (6) to the provisions in the U.S. "Guidelines" of July 31, 1959, regarding the usage of currencies.

2. Since the implications of these provisions are not immediately apparent, it seemed worth while to examine them in some detail.

3. Paragraph 8 of the Guidelines says in part: "...The remaining 80 percent should be in national currencies and should be usable at a minimum for procurement of nationally-produced goods and services for use in connection with IDA-financed development projects within the country concerned, or for procurement of nationally-produced goods and services for export and use elsewhere in connection with IDA-financed projects." In addition to this basic minimum, there is to be an obligation on the part of members to convert 30% into other currencies (sub-paragraph (a)). There are provisions whereby the so-called industrialized countries put up, presumably in usable form, the remaining 50% (sub-paragraph (b)). Finally, there are to be "reasonably uniform rates of usage among the subscriptions in national currencies which become convertible...after first using the holdings of the currency of the country of procurement."

4. These provisions seem to mean:

(a) IDA would be obligated to draw on the 80% portion of a member's subscription to finance:

(i) local expenditure on projects in that member's territories, and

(ii) purchases in that member's territories for a project elsewhere.

(b) This obligation would extend up to the full 80% except to the extent that IDA had required the conversion of the 30% (or a part thereof) into other currencies.

5. The effect of such an arrangement would be that the burden on any member of providing real resources to IDA would depend on at least three independent variables:

(a) The amount and timing of loans made in local currency for local expenditure. To the extent that IDA made local currency loans the member would be relieved of the obligation to put up foreign exchange, or provide exports.

(b) The amount and timing of purchases made in the territories of the member by borrowers in other member countries.

(c) The rate at which IDA exercised its right to require conversion of the 30%.

6. The arbitrary incidence of these provisions can be seen in the model set out on the next page which has been based deliberately on extreme cases in order to illustrate the point. The model purports to show the position of a member with a subscription of $100 million, under various assumptions. The term "external burden" means the part of the subscription put up in gold, foreign exchange and exports. "Member" means the member whose capital subscription is under discussion.

7. The table shows that, depending on the operation of various factors, a member's real contribution under the U.S. proposal may vary between 20% and 100% for reasons quite unrelated to his ability to provide a contribution in real terms.

	External Burden $ million			
	20% in gold	30% subject to conversion or for use for goods produced in own territories	50% for use for goods produced in own territories	Total burden
Case I				
IDA grants member loans of $80 million for local expenditure which are disbursed before either (a) any part of 30% is converted or (b) before other loans requiring exports from member are disbursed.	20	-	-	20
Case II				
IDA grants member loans of $80 million for local expenditure: before any amount of these loans is disbursed, call of $30 million is made for conversion, and $50 million is financed from the local currency subscription of the member.	20	30	-	50
Case III				
IDA makes member loans of $80 million for local expenditure, call of $30 million is made for conversion, loans made to other members require purchases in member's territories of $20 million, and $30 million is financed from local currency subscription of the member.	20	30	20	70
Case IV				
As in Case III above except that loans to other members require $50 million of purchases leaving no part of the 80% available for financing local expenditure.	20	30	50	100

8. Given that the U.S. Congress would want to see IDA's capital more or less fully "at work" before it granted a replenishment of IDA's capital, we shall probably have to accept the rather useless exercise of making local currency loans out of IDA's capital. I do not think, however, the use of any part of the 80% for this purpose should reduce the amount of convertible currency put up.

9. Moreover, since the use of the 80% to finance exports involves as great a burden as its conversion into foreign exchange would do, the member's obligation to provide convertible exchange should be reduced to the extent that its 80% is used to finance exports.

10. If we have to accept the U.S. basis, I would suggest that at a minimum we should press for the "reasonably uniform rate of usage" to apply not to "currencies which become convertible" but to "currencies which become convertible and currencies which are used for exports, taken together". This would mean in practice that IDA would have to work according to the following rules:

(a) not more than 50% of a country's subscription would be used for local currency loans.

(b) in calling for convertibility of the 30%, IDA would give credit to the member for amounts already provided by way of exports.

(c) purchases in a member's territories for export in excess of 30% of its capital subscription would be financed in foreign exchange and not out of the member's 80%, unless the member agrees otherwise.

These modifications would remove the anomalies illustrated in the table above.

11. Even if the modifications proposed under paragraph 10 above were accepted, there would still be the problem of the middle group of countries alluded to in the draft paper on the Management's position. These are countries which could reasonably be expected to provide more than 50% as under the U.S. proposal for the under-developed countries, but which are not so strong as the "industrialized countries" which have to put up 100%.

12. If for political reasons it is necessary to preserve the general framework of the U.S. proposals, a solution could be found in having, in addition to the group of industrialized countries providing 100%, a second group consisting of intermediate countries putting up, say, 75% in usable form.

13. A more flexible solution still would be to scrap the capitalization proposals put up by the U.S. and (as mentioned in the draft management position paper) have two classes of stock (Class A and Class B), each carrying different obligations as to convertibility.

Class A stock would be payable wholly in gold or convertible currencies. Class B stock would be payable wholly in the currency of the member, would be convertible only by agreement between the Bank and the member but would be usable without restriction for expenditure on projects in the member's own territories. Class A and Class B stocks would be held in varying proportions. The U.S. subscription, for example, would be wholly in A stock, whereas the subscription of, say, Libya might be 10% in A stock and 90% in B stock. Finland, for example, might hold equal amounts of A and B stock.

14. The merit of such a scheme is that it provides a great deal of flexibility. The disadvantage is that it would complicate the negotiations with individual members about the size of their subscriptions and the apportionment between A and B stock.

S. R. Cope
Director of Operations
Europe, Africa and Australasia

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: August 28, 1959

FROM: A. M. Kamarck

SUBJECT: Some Comments on SLC Draft Memorandum, "Management Position on IDA"

(Paragraph numbers refer to numbering of SLC Memorandum.)

II. B. Are we going to have a separate budget for IDA? Will Bank staff work for IDA at cost or shall the Bank charge a management fee? The important question that this raises is how will we decide the interest rate or "charge" to make on IDA loans? Will it be related to IDA's administrative costs, or what?

III. C. (2) I don't think we should make too much of the point that the 20% payable in gold or convertible currencies will press too heavily on the poor countries. This 20% will be only slightly higher than the original 2% payable on the Bank quotas. For Panama, the 20% would be around $4,000; for Paraguay, $28,000; El Salvador, $200,000; Ethiopia, $60,000, to pick a few at random. To a large extent the size of quotas is already largely influenced by the "ability-to-pay" consideration.

IV. C. (2) "directly productive projects of the type normally financed by the Bank", if language means anything, refers to the steel mill, paper mills and irrigation projects we have financed. We should either cut out the words "directly productive" or expand the description to something like "basic services (or public utility) and directly productive projects".

IV. C. (4) I assume that the statement "We oppose any reference to 'general development programs' " includes the meaning that we oppose any limitation which would prevent IDA from financing such programs, if necessary.

IV. E. (1) I do not think IDA should make grants out of its capital - if a project does not even repay its capital cost it should not be undertaken at all. It would be cheaper and more efficient to set up soup kitchens and pass out food directly. This objection does not apply to grants out of the "special contributions" where one can feel freer in embarking on social services and where one may have a special reason to reduce or eliminate the local currency holdings.

IV. E.
(2) Why the preference for "no interest" loans, with a small charge, over "low interest" loans? I should think the latter sounds better in most parts of the world. I agree that we should preserve as much flexibility as possible as to what the pattern of financing terms might be as it seems to me there are many possibilities to explore before we settle down on any kind of pattern. One idea: we might want to make loans with the interest rate depending upon a commodity price. That is, Chile might pay 5% when copper is at or above 35 cents and zero percent when copper is 20 cents or below. I believe I have heard that some of the British loans in the nineteenth century did something like this.

Does "foreign exchange loans" mean "loans made in foreign exchange and repayable in foreign exchange"? If so, I agree. We should oppose loans repayable in local currency.

cc: Mrs. Boskey

August 28, 1959

Mr. Davidson Sommers
c/o Henlopen Hotel
Rehoboth Beach, Delaware

Dear Dave:

I enclose two copies of the new draft of the IDA Articles. Before sending them to you, Shirley Boskey and I went over it and we have a number of questions which can wait until your return.

You may, however, wish to give some thought to the following:

1. Supplementary Contributions

(a) The U.S. letter states that holders of Special Development Certificates "would be eligible to receive half of net operating profits derived from use of resources provided". This would presumably require that the supplementary contributions be separately administered and accounted for.

We have tried to reflect the foregoing in the alternative Article II, Section 4 (d).

(b) In connection with the foregoing, we also have a question about the statement in the U.S. letter that the contributing member has a right to recover "any such currency [contributed] remaining upon liquidation of IDA". It is not clear whether this phrase should be interpreted to mean only any unused portion of a supplementary contribution or whether the member would also have a right to any monies or other assets received and held by IDA on account of loans made and other operations (e.g. investment of idle funds) conducted by IDA with such contribution.

In the present draft of Article VI, Section 5 (c)(i), I have only provided for the former.

2. Privileges and Immunities

In Article VII, Section 4, I attempted a shorthand version of the privileges and immunities. As Shirley points out, in presenting our case for a tax exemption in respect of the Bank transactions, we argued that the immunity was not that of the Bank but rather attached to the transaction itself. The present draft does not reflect this argument. It seemed to us that the only way of accomplishing this would be to enumerate all the various privileges and immunities which would result in a rather lengthy and unreadable provision. Under the circumstances, we wonder whether it would not be preferable to retain the original language of the Bank's Articles.

3. Withdrawal

Article VI, Section 4 (b) is a first draft of a withdrawal provision in accordance with your suggestion during our last meeting.

As in weeks past, I continue to hope that in the days ahead I shall have more time to devote to IDA, but with the department decimated, paltry things like bond issues, loans and capital increase keep interfering.

Shirley joins me in wishing you a restful and pleasant holiday.

With kind regards,

Sincerely yours,

Douglas J. Fontein

Enclosures

cc: Mrs. Boskey

DJFontein:ea

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
1818 H STREET, N.W.
WASHINGTON 25, D.C.
TELEPHONE EXECUTIVE 3-6360
CABLE ADDRESS-INTBAFRAD

August 28, 1959

Mr. Davidson Sommers
c/o Henlopen Hotel
Rehoboth Beach, Delaware

Dear Dave:

I enclose two copies of the new draft of the IDA Articles. Before sending them to you, Shirley Boskey and I went over it and we have a number of questions which can wait until your return.

You may, however, wish to give some thought to the following:

1. Supplementary Contributions

(a) The U.S. letter states that holders of Special Development Certificates "would be eligible to receive half of net operating profits derived from use of resources provided". This would presumably require that the supplementary contributions be separately administered and accounted for.

We have tried to reflect the foregoing in the alternative Article II, Section 4 (d).

(b) In connection with the foregoing, we also have a question about the statement in the U.S. letter that the contributing member has a right to recover "any such currency [contributed] remaining upon liquidation of IDA". It is not clear whether this phrase should be interpreted to mean only any unused portion of a supplementary contribution or whether the member would also have a right to any monies or other assets received and held by IDA on account of loans made and other operations (e.g. investment of idle funds) conducted by IDA with such contribution.

In the present draft of Article VI, Section 5 (c)(i), I have only provided for the former.

Remember - repayments are a liability

2. Privileges and Immunities

In Article VII, Section 4, I attempted a shorthand version of the privileges and immunities. As Shirley points out, in presenting our case for a tax exemption in respect of the Bank transactions, we argued that the immunity was not that of the Bank but rather attached to the transaction itself. The present draft does not reflect this argument. It seemed to us that the only way of accomplishing this would be to enumerate all the various privileges and immunities which would result in a rather lengthy and unreadable provision. Under the circumstances, we wonder whether it would not be preferable to retain the original language of the Bank's Articles.

3. Withdrawal

Article VI, Section 4 (b) is a first draft of a withdrawal provision in accordance with your suggestion during our last meeting.

As in weeks past, I continue to hope that in the days ahead I shall have more time to devote to IDA, but with the department decimated, paltry things like bond issues, loans and capital increase keep interfering.

Shirley joins me in wishing you a restful and pleasant holiday.

With kind regards,

Sincerely yours,

Douglas

Douglas J. Fontein

Enclosures

cc: Mrs. Boskey

Mr. Hector Prud'homme August 27, 1959

O. J. McDiarmid

SLC meeting on IDA

On most of the points the SLC memo takes the same position as my memorandum of August 25. The following are some questions on specific points:

(a) Para. B (2). The memorandum says that IDA would not be prohibited from lending to IFC, particularly from supplementary contributions. I suppose they mean for specific projects where IFC financing might be made in local currencies. I guess there would be no harm in IDA providing such currencies. This would probably be preferable to a joint operation of IDA and IFC.

(b) Para. C (2). Considering that the quotas of underdeveloped countries are relatively small, I do not know that 20% would be too burdensome, even in the case of India, which has an exceptionally high quota because it has a pre-partition basis. Assuming that the capital of IDA is one billion dollars, the Indian share in IDA would be about $45 million and 20% of this, $9 million. This would be roughly 1½% of India's foreign exchange reserves. I think the idea of 100% convertibility for most industrialized countries is good particularly if lending is to be mainly in long-term low interest foreign exchange loans. I think we should support that kind of financing in preference to soft currency loans. Of course, the supplementary contributions might be used for loans repayable in such soft currencies.

(c) Para. E (1). I do not know why IDA should make grants except possibly for certain administrative expenditures such as investigations along the lines of those financed by the United Nations Special Fund.

OJMcDiarmid:mm

Ca 4

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Sommers

DATE: August 27, 1959

FROM: Shirley Boskey SB

SUBJECT: Comments on "Principal Points" Paper

The attached memorandum collates the principal comments I have received on the IDA "Points" paper. Several suggestions, wholly editorial in nature, are not mentioned in the memorandum; they have been noted on the master copy of the paper which I am keeping. There are also attached the written comments of Messrs. Kamarck, Avramovic and McDiarmid to which reference is made in my memorandum.

Mr. Rosen had a general comment on the paper. He regards it as premature. As an agenda for an ED meeting it is too long and detailed, and as a statement of substantive views it is too brief. Moreover, on many points it suggests the existence of a greater degree of unanimity and clarity of view than presently does exist, in Mr. Rosen's opinion, or is likely to be achieved prior to discussions with governmental representatives at the Annual Meeting. There are many operational issues which eventually require full discussion but which are not presented by the memorandum. As I understood him, Mr. Rosen thinks the paper might be recast to address attention to the procedural issues and various others such as board composition, and voting rights, and to state that (1) there are many operational questions to be worked out; (2) it is intended to draft a charter in broad terms to give the greatest possible flexibility in operations; (3) the Directors will nevertheless wish to discuss the principal operational issues; (4) those issues are as follows (enumerating them without discussion or an indication of consensus of views); and (5) the staff will prepare and present papers setting forth the relevant considerations and suggesting alternative approaches to the issues.

cc: Messrs. Knapp
Cope
Demuth

Attachments to original

COMMENTS ON "PRINCIPAL POINTS" PAPER
(Headings and Letters Refer to "Points" Paper)

Covering Memorandum

1. On p.2, last paragraph, clarify reference to "informal clearance with Governors" (Knapp)

2. On p.2, last paragraph, insert "at an early stage" after "the Executive Directors will wish to consider". Substitute for last sentence of paragraph the following:

> "I suggest, however, that consideration of these matters be deferred until after the first discussions." (Demuth)

X

I. Purpose

p.1 1. Discussion puts too much emphasis on language of U.S. proposal, which was not designed as a description of IDA's purpose. Omit this section or, as an alternative, retain first paragraph, omit quotation of U.S. proposal, and substitute for last paragraph the following:

> "Any further definition of IDA's purpose necessarily involves answers to a number of questions of operational principle. It is suggested, therefore, that precise definition of IDA's purpose be treated as a drafting matter, to be taken up after the discussion of Part IV, and after a draft charter has been prepared to reflect that discussion." (Demuth)

ok

2. See also memorandum of McDiarmid.

X

II. Organizational Structure

p.1 A. Membership

1. Consider phrasing this affirmatively, e.g., "Membership would be open to all members of the Bank". (Wishart)

X

p.3 B. Basis of Determining Members' Subscriptions

1. Insert as "Comment" after first paragraph:

> "This question is closely bound up with the question of useability discussed under 'C' below." (Cope)

✓

III. Capital Structure

p.4 & 5 C. Timing, Currency and Useability of Payments on Subscriptions

1. Quotation in full of the U.S. proposal interrupts the thought. It might better be paraphrased. (Demuth)

2. Consider giving IDA right freely to re-use debt repayments in any currency. (Kamarck)

IV. Operational Questions

p.8 A. Area of Operations

1. Add explicit reference to dependent territories. (Kamarck)

2. If IDA's area of operations is expressed in terms of the territories of members, would this permit IDA to cooperate with regional authorities if that seemed desirable? (King)

B. Eligibility of Countries for Financing

p.8 1. Statements as to "general expectation" appear to be overstated. For example, is there really "general" expectation that IDA will be "selective" in operations? What does "selective" mean? E.g., would there be allocation on a country basis? Or on a project basis? Presentation of the topic of "eligibility" should either be expanded or omitted. (Rosen)

p.8 2. The first paragraph and subsections (a)-(c) take too much for granted and should be recast in the form of questions, to focus on issues and to elicit discussion on how IDA is intended to operate, e.g., "Should IDA be selective in its operations? If so, what should the basis of selectivity be? Should the charter or explanatory memorandum spell out the criteria?" (Demuth)

p.8 3. Reference in subsection (b) to "considerations of creditworthiness" should be to "considerations of need". (King; similar comment from Cope)

p.8 4. In subparagraph (b), there might be a reference to "urgency" as well as "nature" of projects. (Cope)

p.8 5. See Avramovic's suggested redraft of subsections (a) and (b), which suggests addition of reference to a country's development effort.

C. Objects of Financing

p.9 1. Questions 1 and 2 should be stated not merely in terms of whether the charter or explanatory memorandum should indicate that IDA will emphasize joint financing, but should first invite discussion of whether it is intended that IDA would emphasize such financing; then, if so, should the charter or memorandum so state. (See earlier comment under "Eligibility") (Demuth)

p.9 2. See Kamarck memorandum on reference to "directly productive projects of the type normally financed by the Bank" and "social" projects.

p.9 3. Would "general development programs" comprehend "balance of payments loans", e.g., type of loan made to Australia? (Kamarck)

D. Types of Expenditures to be Financed

p.10 1. The question should be put whether it is intended that IDA undertake local expenditure financing normally or on an exceptional basis. (Demuth)

E. Terms of Financing

p.10 1. There should be a reference in the last paragraph on the page to low or no interest among the possible terms of financing. (Demuth and Kamarck)

p.11 2. The "comment" to paragraph 3 might be made easier to read by striking out three lines beginning with "and that the ultimate beneficiary" through "revenue-producing" and substituting "- hence that, except in the case of a non-revenue-producing project administered by the government, the ultimate beneficiary of the funds should". (Knapp)

p.12 3. Paragraph (4) should either be omitted or be stated as an assumption that IDA would not finance a project if the government concerned objected. (Kamarck; Cope also suggests omission of the paragraph)

V. Additions to Resources

B. Supplementary Contributions

p.15 1. In paragraph (3), insert the reference to terms on which supplemental contributions may be excepted which now appears in paragraph (4), and rewrite the latter merely to put the question whether, if the terms are to be prescribed by charter, they should be those suggested by the U.S. (Knapp)

p.15 2. In paragraph (4), consideration might be given to adding "making it clear that any part of the net operating profits paid over to holders of certificates would be paid in the currency in which these profits had been held". (Kamarck)

Miscellaneous

1. There should be a reference somewhere to IDA's borrowing authority. (Kamarck)

2. Consider the desirability of giving IDA the right to obtain special loans from its members similar to the authority given to the European Investment Bank. (Kamarck)

SB:em
August 28, 1959

DRAFT-Management Position on IDA

FORM No. 60
(12-57)

International Bank for Reconstruction and Development

Mr. Graves 215

CONFIDENTIAL

STAFF LOAN COMMITTEE

Mr. Young

SLC/A/762

FROM: Secretary, Staff Loan Committee

August 26, 1959

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Thursday, September 3, 1959, at 3:00 p.m. in Room 927

AGENDA

International Development Association (IDA)

The Committee will consider the attached draft (SLC/O/1018) on "Management Position on IDA."

Mr. Bennett

Mr. Dresden

DISTRIBUTION

Chairman
Directors of Operational Departments
Director, Legal Department
Director, Economic Staff
Treasurer
Director, Technical Assistance and Liaison Staff

Copies for information to:

President
Vice Presidents
Secretary
Director, Office of Information
Director, Economic Development Institute
Special Representative in Europe (Agenda only)

Mr. Labouisse
Mr. Basch

Mr. Haskell (IFC)
Mrs. Boskey

SLC/O/1018

DRAFT
August 26, 1959

MANAGEMENT POSITION ON IDA

(Numbers and Letters refer to "Principal Points" Paper circulated as SLC/O/1015)

I. Purpose

We should stress the purpose of IDA as supplemental to the activities of the Bank, and emphasize its role in the less-developed areas.

II. Organizational Structure

A. Membership

We favor limiting IDA membership to Bank members.

B. Organization

Although we would prefer to have IDA set up as a fund under Bank administration, we accept the concept of a separate organization.

(1) We favor the IFC pattern of affiliation with the Bank at the Governor and Executive Director level, but we would want neither a separate President nor, as far as practicable, any separate regular staff.

(2) We feel it essential that the investment market be impressed with the separateness of IDA as a financial entity. IDA's funds should be segregated and IDA should not be authorized to lend to or to borrow from the Bank (although it should not be precluded from investing in Bank bonds, and IDA lending to IFC, particularly from supplementary contributions, should not be prohibited).

(3) While IDA's separate financial character should be publicly emphasized, we would want IDA operations in general to be run as part of Bank operations, with Bank staff.

III. Capital Structure

A. Size of Capital

Although we favor having IDA start on a scale substantially smaller than the Bank, we believe that the $1 billion figure proposed by the United States is near the lower limit of acceptability. We would prefer a larger capitalization of up to, say, $2 billion over the same period. However, we would not take the initiative in asking for this.

B. Basis of Determining Members' Subscriptions

We have no preference whether subscriptions are based upon Bank subscriptions, except as may follow from the decision taken under "C" below. We think that initial subscriptions, however fixed, will have to be specified in the charter, at least as a minimum figure.

C. Timing, Currency and Useability of Payments on Subscriptions

(1) We agree with the basic idea of the United States proposal that the useable contributions of the poor countries should be small and that those of the rich countries should be large.

(2) We think, however, that the proportion of 20% payable by all members in gold or convertible currencies would press too heavily on the poor countries. On the other hand, we strongly favor 100% convertibility by the industrialized countries.

(3)(4)(5)
& (6) We think that the classification of all countries as either "industrialized" or "less developed" fails to give recognition to the fact that potential subscribers actually range from the group whose contribution should be fully convertible, through countries which could put up varying proportions of convertible currency, down to the poorest countries whose effective contribution could properly be as low as 10%. We think consideration should be given to some device, for example two classes of stock, which would permit more flexibility for the middle group of countries.

Given the capital structure proposed by the United States, we favor the general principle that there should be a reasonably uniform rate of usage of currencies put up in convertible form. However, we think the complications of the provision regarding the priority to be given to holdings of the currency of the country of procurement require further consideration.

D. Voting Rights

We agree that provisions respecting voting rights must follow the Bank and IFC pattern.

E. Dividend Rights

We think the question of dividends is academic but do not oppose inclusion of a provision on the subject. We believe the dividend should be based on the amount of a given subscription actually used.

IV. Operational Questions

We favor maximum latitude in the charter and do not wish to tie IDA to any "normal" pattern by a reference in the explanatory memorandum unless members insist, except as indicated below.

A. Area of Operations

We agree that IDA should operate only in the territories of member countries. The dependent territories should not be excluded but in practice financing would be undertaken in those territories only in special circumstances.

B. Eligibility of Countries for Financing

(1) We would prefer that the explanatory memorandum contain general language of the kind set forth in paragraphs (a) - (c) of the "Principal Points" paper. We would not want any provisions of this kind in the charter.

(2) We think the charter should explicitly provide that IDA financing will be restricted to the less developed areas.

C. Objects of Financing

(1) We do not think the charter or explanatory memorandum should indicate that IDA would emphasize joint financing with the Bank.

(2) We favor an indication in the explanatory memorandum that IDA's financing would be largely concerned with directly productive projects of the type normally financed by the Bank, but that social projects would not be excluded. We would prefer to avoid any reference to health and education projects.

(3) We do not favor attempting to set forth principles to be applied in deciding what kind of projects to finance, except as indicated above.

(4) We oppose any reference to "general development programs".

D. Types of Expenditures to be Financed

We believe IDA should be permitted and prepared to finance local currency expenditure, both out of its foreign exchange and local currency resources.

E. Terms of Financing

(1) We would favor giving IDA authority to make grants. We do not believe the circumstances should be spelled out, but think that some

limitation, as "in special circumstances", should be included. We do not intend to press for grant authority if there should be opposition, except that we should reserve our position in regard to special contributions.

With respect to the British point of view regarding equity financing, we do not favor giving IDA this power explicitly, but would not oppose language sufficiently broad to leave the matter open.

(2) We would prefer that the charter and explanatory memorandum not indicate any normal pattern of financing terms. If pressed, we would prefer that long-term foreign exchange loans with a small charge, preferably not described as interest, be indicated as the normal pattern, with clear indication that exceptions may be liberally made.

F. Government Guarantees

We favor leaving the government guarantee to be obtained as a matter of policy rather than a statutory requirement. We would not favor any formula about IDA's normal policy in this regard.

V. Addition to Resources

A. Periodic Replenishment

(1) We favor a specified period for capital replenishment and think that anything less than five years as a normal period should be resisted. Otherwise there would be no basis for long-term planning, and there would be a danger that IDA would lapse into a year-by-year operation.

(2) We do not object to a provision for earlier replenishment by special vote but think this should be regarded as exceptional.

(3)(4) & (5) We favor the maximum possible flexibility as to the characteristics of future replenishments.

B. Supplementary Contributions

(1)(2)(3) & (4) We favor the maximum latitude as to the terms which IDA may negotiate in respect of the supplemental contributions, and strongly favor letting IDA have a say on the amounts which it would accept and the terms and purposes of their use.

(5) We favor having the charter broad enough to permit supplemental contributions in any currency.

VI. Entry into Force

We assume that it will be necessary to condition the charter's entry into force on the amount of subscriptions and the number of subscribers. We favor a reasonably high proportion of total capital, e.g., 75%, and a reasonably low number of countries.

August 25, 1959

Dear Mr. Hamilton:

In the absence of Mr. Hathaway, your letter of August 19 has been passed to me for reply. The proposal for the new International Development Association is being made by the United States Government, and will be submitted to the Annual Meeting of the Board of Governors of the World Bank at the end of September. If all goes according to plan, IDA might come into operation a little more than a year from now. You will therefore see that it is still too early to be thinking of consulting services. Moreover, there is still no definition of the kind of projects for which IDA finance will be provided. It seems probable, however, that the same situation will apply to consulting services on IDA loans as are described in the enclosed article reprinted from the CONSULTING ENGINEER.

Yours sincerely,

George R. Young
Assistant Director of Information

Attachment

Mr. Allen K. Hamilton
Hamilton Associates, Inc.
Woodstock, Illinois

GRY/js

cc: Mr. Hathaway

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: August 25, 1959

FROM: A. M. Kamarck

SUBJECT: Comments on Proposed Memorandum to the Executive Directors on I.D.A.

The following comments are keyed to the memorandum entitled "Principal Points for Consideration in Connection with Proposed International Development Association".

There is no mention anywhere in the memorandum of the U.S. proposal that I.D.A. have borrowing authority. This should be mentioned if only to dismiss it. Would it be worthwhile to consider giving I.D.A. the right to secure special loans from its members on the lines of authority given to E.I.B.?

Page 4, III, C

Shouldn't there be some provision giving I.D.A. the right to re-use freely debt repayments in any currency, even the most restricted?

Page 8, IV, A

Shouldn't some mention be made that the dependent territories are included in the territories of I.D.A.'s members?

Page 9, IV, C, (2), (3)

I think that some reworking of the language is necessary. The distinction drawn in the discussion between "directly productive projects of the type normally financed by the Bank" and "social projects" is inaccurate. One point one often has to make in discussions on the Bank is that the Bank does not discriminate against indirectly productive projects like roads. In fact, people often draw a distinction between "directly productive projects" by which they mean projects in the commodity-producing sector, like agriculture and manufacturing, and "indirectly productive projects", by which they mean the sort of things we usually finance: I would not classify water supply as a "social project". The Bank is planning to finance water supply in African rural areas in Rhodesia. Perhaps the distinction should be made between the social services, such as health and education, housing, research and administration, on one side, and basic services (or infrastructure) and commodity-producing projects, on the other.

Page 10, IV, C, (4)

How about "balance of payments" loans? Does the phrase "general development programs" include the sort of loans that we made to Australia? It would be ironical if I.D.A. were forbidden to make loans that the Bank has been able to make.

Page 10, IV, E, second paragraph

The first sentence should also include a mention along with long maturities and long periods of grace that I.D.A. would have a wide latitude in regard to low interest rates.

Page 12, IV, F, (4)

This paragraph should either be cut out or should be stated as an assumption that I.D.A. will not finance a project where the government concerned objects. If I were an Executive Director, the mere raising of this as a possible question would irritate me. This touches a most sensitive nerve. Obviously I.D.A. cannot operate in a country contrary to the government's wishes.

Page 15, B, (4)

One might add "making it clear that any part of the net operating profits paid over to holders of certificates would be paid in the currency in which these profits had been held".

cc: Mrs. Boskey

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

To: Ines Boskey
In response to request for comments on IDA paper
8/25/59

TO: Mr. Hector Prud'homme

DATE: August 25, 1959

FROM: O. J. McDiarmid

SUBJECT: Memorandum to SLC - IDA

1. Definition of purpose. For a reason that is not very clear to me, the memorandum proposes to defer defining the purpose of the Association until the draft charter is prepared. It seems, however, that most of the key questions raised in the memorandum, such as the relation of Association financing to Bank financing, financing of local currency costs, arrangements for replenishment of capital, etc., can best be dealt with when one has in mind the purpose of the Association. If the purpose of the Association is the same as that of the IBRD then only the balance of payments position of the borrower would determine whether a particular loan is to be made from IBRD or IDA funds. In the most rigorous interpretation this would mean that IDA would only come in after a country had exhausted its creditworthiness with IBRD and other hard lenders. It would not be logical for IBRD and IDA to have a joint operation or both to be financing projects in a given country at the same time if IDA's only reason d'être is lack of creditworthiness for Bank loans. However, as in the case of the practical operations of DLF and IBRD, I am sure the creditworthiness distinction will not be drawn so sharply. The question remains will there also be a difference in the projects to be financed by the two institutions? Considering the limited extent of IDA's resources and the little likelihood of its being able to borrow, its foreign exchange funds probably should be used only for productive projects in the Bank's sense. In that event the balance of payments situation of the borrower, alone, would determine the distinction between IBRD and IDA loans. On the other hand, considering the extent of "supplementary contributions" that IDA may be receiving from the United States in the form of local currencies, generally usable only for meeting local currency costs within the country of issue, it might be that IDA would have different standards and be willing to finance somewhat different projects where only local currency was involved than in the case of foreign exchange loans. Of course some "supplementary contributions" may be in reasonably usable currencies such as Japanese yen.

2. Organization. I wonder if there is not something to be said for permitting a few countries not members of the Bank (and the IMF) to be members of IDA? For example, Switzerland and New Zealand do not wish to come into the Bank because of the necessity of also joining the Fund. These countries might be useful and profitable members of IDA.

I should think IDA, like IFC, should not borrow from or lend to the Bank.

3. Size of capital. I suppose this is a settled point, but a lending rate of $150 million a year seems hardly to justify setting up a new organization.

4. Currency problems. IDA is likely to have some very difficult currency problems in respect of convertibility, maintenance of value, effective versus official or nominal exchange rates, etc. For example, if the United States donates PL-480 Pakistan rupees which are then loaned to Burma and repaid in Burmese currency, lots of maintenance of value and rate problems arise. These will probably have to be dealt with in the charter.

If a distinction is to be drawn between countries in respect of their relations with IDA ("less developed" and "industrialized") it seems clear that the countries should be named rather than reliance placed on a definition.

5. Eligibility and terms of financing. Section IV covers the most important points relating to the functions and operations of IDA. Para. B (c) points out that IDA will have to be selective in its operations. Selectivity may mean any number of things but I take it that (a) lack of creditworthiness and (b) good projects (if these two qualities are ever found together) will be IDA's principal requirements for making a loan. As noted above, I do not know how the emphasis on joint financing of projects with the Bank can be reconciled with using balance of payments criteria, but I suppose some commonsense modus operandi will be worked out.

6. On some small questions coming up in the memorandum, I would have the following thoughts.

(a) It seems best to have IDA subscriptions proportional to those of IBRD.

(b) Under the U.S. proposal regarding convertibility of the remaining 50%, one country could tie up half the total subscription of the industrialized countries by holding out on the convertibility of its shares. Some less rigid formula seems to be desirable on this point since unanimity might be quite hard to achieve.

(c) The charter should exclude IDA from making grants. (Page 11 (1).) Also I should think loans without interest should be excluded, although it might be desirable in certain cases to permit the interest to be payable in a different currency than the principal.

7. In general I should think IDA should best be conceived as a bloc of funds supplementary to those of the Bank and not as a separate organization. To avoid quick dissipation of capital long-term low interest loans repayable in the same currency as that loaned would be the best formula.

Mr. Cooley

Mr. S. R. Cope

August 25, 1959

A. M. Kamarck

Comments on Proposed Memorandum to the Executive Directors on I.D.A.

The following comments are keyed to the memorandum entitled "Principal Points for Consideration in Connection with Proposed International Development Association".

There is no mention anywhere in the memorandum of the U.S. proposal that I.D.A. have borrowing authority. This should be mentioned if only to dismiss it. Would it be worthwhile to consider giving I.D.A. the right to secure special loans from its members on the lines of authority given to E.I.B.?

Page 4, III, C

Shouldn't there be some provision giving I.D.A. the right to re-use freely debt repayments in any currency, even the most restricted?

Page 8, IV, A

Shouldn't some mention be made that the dependent territories are included in the territories of I.D.A.'s members?

Page 9, IV, C, (2), (3)

I think that some reworking of the language is necessary. The distinction drawn in the discussion between "directly productive projects of the type normally financed by the Bank" and "social projects" is inaccurate. One point one often has to make in discussions on the Bank is that the Bank does not discriminate against indirectly productive projects like roads. In fact, people often draw a distinction between "directly productive projects" by which they mean projects in the commodity-producing sector, like agriculture and manufacturing, and "indirectly productive projects", by which they mean the sort of things we usually finance: I would not classify water supply as a "social project". The Bank is planning to finance water supply in African rural areas in Rhodesia. Perhaps the distinction should be made between the social services, such as health and education, housing, research and administration, on one side, and basic services (or infrastructure) and commodity-producing projects, on the other.

Page 10, IV, C, (4)

How about "balance of payments" loans? Does the phrase "general development programs" include the sort of loans that we made to Australia? It would be ironical if I.D.A. were forbidden to make loans that the Bank has been able to make.

Page 10, IV, E, second paragraph

The first sentence should also include a mention along with long maturities and long periods of grace that I.D.A. would have a wide latitude in regard to low interest rates.

Page 12, IV, F, (4)

This paragraph should either be cut out or should be stated as an assumption that I.D.A. will not finance a project where the government concerned objects. If I were an Executive Director, the mere raising of this as a possible question would irritate me. This touches a most sensitive nerve. Obviously I.D.A. cannot operate in a country contrary to the government's wishes.

Page 15, B, (4)

One might add "making it clear that any part of the net operating profits paid over to holders of certificates would be paid in the currency in which these profits had been held".

cc: Mrs. Boskey

AMKamarck/vhw

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mrs. Shirley Boskey

DATE: August 24, 1959

FROM: Dragoslav Avramovic

SUBJECT: The President's Memorandum on IDA to the Executive Directors

With reference to the proposed memorandum from the President to the Executive Directors on International Development Association, attached please find a suggested revision of the four paragraphs dealing with the eligibility of countries for financing (p.8.). As you will notice, paragraphs (a), (b) and (i) do not depart much from the original draft, while (ii) contains a new idea which is submitted for consideration.

Attd.

cc: Mr. Rist
Mr. Prasad

Substitute for the first four paragraphs of Section B, page 8.

Eligibility of Countries for Financing

There appears to be general agreement that no specific or rigid rules of eligibility as among members should be contained in the charter. However, there appears to be general expectation

(a) that IDA financing will be for the relatively underdeveloped areas whose needs cannot be adequately met by conventional loans;

(b) that given the need for the most effective use of limited resources at its disposal, IDA will have to take into account

  (i) the economic soundness of projects submitted for its financing and the priority they command, and

  (ii) the development effort which the countries themselves are undertaking.

FORM No. 89
(2-57)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP	Date Sept 2, 1959

OFFICE OF THE PRESIDENT

NAME	ROOM NO.
Mr Mendels	1017
~~Mr. Bosher~~	
Files	P-100

	Action		Note and File
	Approval		Note and Return
	Comment		Prepare Reply
	Full Report		Previous Papers
	Information		Recommendation
	Initial		Signature

Remarks

From Dairdson Sommers

IDA

TF

AUG 31 REC'D

1525-FM/59

New Delhi

22nd August 1959

My dear Mr. Black,

I thank you for your letter of August 3, 1959 enclosing copy of the communication from the Governor for the United States regarding the International Development Association. There is undoubtedly need for an Agency which will make funds available to the less developed countries on a long-term basis and at low rates of interest. I am fully in accord with the suggestion of the Governor for the United States that the matter be discussed at the September meeting, and the Executive Directors requested to study the question in all aspects and to formulate a well-worked out scheme.

2. On first glance at the 'Guidelines', I think the proposals regarding the form in which member-governments have to subscribe to the capital of the I.D.A. are likely to prove onerous to the less-developed countries. However, this is only an initial reaction and there will be plenty of opportunities for this as well as other points to be examined carefully.

3. I share fully your hope that the September meeting will initiate action towards the fulfilment of the idea.

Yours sincerely,

Morarji Desai

(Morarji Desai)

Mr.Eugene R.Black,
President,
International Bank for Reconstruction & Development,
1818 H Street, N.W.,
WASHINGTON 25, D.C.

New Delhi

22nd August 1959

My dear Mr. Black,

I thank you for your letter of August 3, 1959 enclosing copy of the communication from the Governor for the United States regarding the International Development Association. There is undoubtedly need for an agency which will make funds available to the less developed countries on a long-term basis and at low rates of interest. I am fully in accord with the suggestion of the Governor for the United States that the matter be discussed at the September meeting, and the Executive Directors requested to study the question in all aspects and to formulate a well-worked out scheme.

2. On first glance at the 'Guidelines', I think the proposals regarding the form in which member-governments have to subscribe to the capital of the I.D.A. are likely to prove onerous to the less-developed countries. However, this is only an initial reaction and there will be plenty of opportunities for this as well as other points to be examined carefully.

3. I share fully your hope that the September meeting will initiate action towards the fulfilment of the idea.

Yours sincerely,

Morarji Desai

(Morarji Desai)

Mr. Eugene R. Black,
President,
International Bank for Reconstruction & Development,
1818 H Street, N.W.,
WASHINGTON 25, D.C.

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

IDA file "positions"

TO: Mr. Davidson Sommers

DATE: August 21, 1959

FROM: S. R. Cope

SUBJECT: IDA - Memorandum on management position

Seen by Mr Sommers in draft form

1. I have been thinking about the proposals set out under the third part of the draft memorandum dated August 18, 1959, headed "Capital Structure". The position set out in this part represents a great improvement on the U.S. proposals. Is it not worth while, however, to go farther and to propose a much simpler set up than the one envisaged in the draft paper?

2. I start from the position that no useful purpose is served by having large amounts of capital which although paid up are unusable. What is the use of the amount paid up in Libyan pounds for example? Unlike the Bank, which was set up on a long-term basis under conditions in which the usability of the 18% could not be foreseen, IDA's initial capitalization will not set a permanent pattern. We can judge pretty well now what amounts are likely to come in in useable form from all IDA members over the next five years. Why encumber the books of the IDA with amounts which we shall not be able to use?

3. Should we not consider having one class of stock only, payable in full in gold or convertible currencies by installments over a period of five years. The so-called industrialized countries would take up large amounts of this stock: the poor countries would take up this stock only in amounts representing the 10 or 20% that they would have paid in dollars or convertible currencies under the U.S. scheme, and the countries in the intermediate position would have their subscriptions fixed in accordance with their ability to pay.

4. This proposal need not involve any diminution of the relative voting rights of the poorer countries since the fixed quota of votes given to each member could be increased from 250 to any level deemed appropriate.

5. The setup is simple and realistic. Realism may have disadvantages, however. Under the U.S. proposal, the U.S., while nominally providing 30%, would in fact provide a higher proportion of the useable funds of IDA. If the U.S. considers it necessary for political reasons to disguise the fact that the poorer countries are making only a nominal contribution, I would suggest the following scheme based on the idea mentioned under IIIc(3) in the draft memorandum on the management position:

(a) Have two classes of stock: "A" stock which would be payable in gold or foreign exchange by installments over five years and "B" stock which would be payable wholly in local currency but convertible only with the consent of the member concerned.

(b) The rich countries would subscribe only "A" stock: the poor countries would subscribe 10% in "A" stock and 90% in "B" stock and intermediate countries would take "A" and "B" stock in proportions based on their ability to pay.

cc: Mr. R. H. Demuth

Mrs. Boskey

IDA

August 20, 1959

Dear Elting:

I am enclosing a preliminary draft of the paper we would propose to submit to the Executive Directors as soon as possible after the Annual Meeting. The purpose is threefold:

(1) to form the basis of preliminary discussions by the Executive Directors;

(2) to help Executive Directors in getting guidance from governments; and

(3) to make suggestions on procedure, as a basis for later proposals for a time table.

As I told you this draft is in very preliminary form and we still have to get comments from the Bank's staff. I would therefore appreciate your regarding it as highly preliminary and unofficial.

Yours sincerely,

Davidson Sommers
Vice President

Elting Arnold, Esq.
Assistant General Counsel
United States Treasury Department
Washington, D.C.

Enclosures - 3
DS/km
Via Messenger

ALLEN K.

HAMILTON ASSOCIATES, INC.

CONSULTANTS - SYSTEMS ENGINEERS
GENERAL ENGINEERS

WOODSTOCK, ILLINOIS TELEPHONE FEDERAL 8-2400

TELECOMMUNICATIONS DIVISION

CENTRAL OFFICE EQUIPMENT
OUTSIDE PLANT
CABLE SYSTEMS
MICRO-WAVE SYSTEMS
SCATTER-WAVE SYSTEMS
RADIO AND TV SYSTEMS
INTERCOMMUNICATION SYSTEMS
NURSE CALL SYSTEMS
FIRE ALARMS
CRASH ALARM SYSTEMS
ASSOCIATED BUILDINGS AND UTILITIES
PRELIMINARY EVALUATIONS
BUDGET ESTIMATES
FUNDAMENTAL PLANS
ADVANCE PLANNING

19 AUGUST 1959

MR. GAIL A. HATHAWAY, ENGINEERING CONSULTANT,
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT,
1818 H STREET N.W.
WASHINGTON 25, D. C.

DEAR MR. HATHAWAY:

Not sent to files

YOU WILL RECALL THAT WE WROTE YOU JUNE 9, 1959 GIVING YOU CERTAIN INFORMATION ABOUT OUR ORGANIZATION.

WE NOTE IN THE CURRENT PRESS THAT THERE IS UNDER WAY A PLAN TO ESTABLISH "THE INTERNATIONAL DEVELOPMENT ASSOCIATION" UNDER THE AUSPICES OF THE WORLD BANK. IT OCCURRED TO US THAT ANY PROJECTS EMBARKED ON WILL REQUIRE FIRST AN ADVANCE ENGINEERING PLAN TO ESTABLISH THE BUDGET OR LOAN REQUIREMENT. THIS PARTICULAR WORK IS ONE OF LEADING ITEMS AS WE PERFORM SUCH SERVICES CONSTANTLY FOR THE DEFENSE DEPARTMENT, PRIMARILY FOR THE NAVY DEPARTMENT.

WE SHOULD BE VERY PLEASED TO HAVE YOUR REACTION, ADVICE AND SUGGESTIONS.

YOURS VERY TRULY,

HAMILTON ASSOCIATES, INC.

Allen K Hamilton

ALLEN K. HAMILTON

AKH/NH

ack Aug. 25

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AUG 19 REC'D

OFFICE MEMORANDUM

TO: Mr. Eugene R. Black

DATE: August 18, 1959

FROM: J. Burke Knapp JBK

SUBJECT: I.D.A.

I thought you would be interested in seeing the attached article in the HERALD TRIBUNE which greeted the release of the report by the National Advisory Council on the subject of I.D.A. It sounds to me like somebody must have given Slevin a line.

Attachment

JBKnapp/js

THE NEW YORK TIMES
THE NEW YORK HERALD TRIBUNE
THE WALL STREET JOURNAL
THE NEW YORK JOURNAL OF COMMERCE
THE WASHINGTON POST
THE WASHINGTON STAR
THE TIMES HERALD
THE WASHINGTON NEWS
THE TIMES (LONDON)
THE FINANCIAL TIMES
AUG 16 1959

New Agency Eyed For World Loans

U.S. May Back Plan to Aid Other Lands

By Joseph R. Slevin
National Economics Editor

WASHINGTON, Aug. 16. — The Eisenhower administration is trying to launch a new $1,000,000,000 international lending agency that many government experts think is not worth the time and money it will take to get it into operation.

SLEVIN

The proposed institution is the International Development Association. The Administration announced last night that it hopes to get it under way by 1960.

The I. D. A. began as the brainchild of Sen. Mike Monroney, D., Okla., and it has retained a tenuous lease on life only because it has had the enthusiastic backing of Secretary of the Treasury Robert B. Anderson.

Present plans call for having the I. D. A. obtain $1,000,000,000 of loan funds from the sixty-eight member countries of the world bank. Each country's world bank quota will determine the size of its I. D. A. subscription. The largest contribution eventually is to come from the U. S. which has a 32 per cent quota and would be required to chip in $320,000,000.

Why Mr. Anderson is an ardent advocate of the I. D. A. is one of Washington's minor mysteries. The most likely explanation seems to be that he thinks it will ease the U. S. budget and balance of payments problems while providing needed help for underdeveloped countries.

The Secretary believes that the increasingly prosperous countries of Western Europe are not doing enough to help the underdeveloped nations. The I. D. A. is designed to make the Western Europeans do more.

But the best judgment of some of the government's ablest financial experts is that the I. D. A. won't fulfill Mr. Anderson's expectations.

They stress that the I. D. A. will ease the Administration's budget problems and reduce the heavy annual payments deficits that are draining off United States gold reserves only if the Western European countries pour enough money into the I. D. A. to allow the United States to slash its foreign spending.

The government experts see no prospect that the Western European contributions will be on so massive a scale.

Mr. Anderson got a frigid response from a number of Western European countries when he first proposed the I. D. A. last October at the New Delhi annual meeting of the World Bank and the International Monetary Fund. The objecting countries since have agreed to explore the plan further only under heavy pressure from the United States and on the clear understanding that the I. D. A. will be kept to a modest size.

The $1,000,000,000 institution that Mr. Anderson now is espousing meets their specifications. It will require little more than token contributions from most of the Western European countries.

Government financial officials figure that the I. D. A. will do well to lend as much as $75,000,000 a year to underdeveloped countries. Even if all sixty-eight World Bank members join—and that's doubtful—they will be at first required to put only 20 per cent of their contributions or $200,000,000 in

Continued on page 8, column 5

New Agency

(Continued from page five)

gold, dollars and other convertible currencies that can be spent in the industrial countries.

A $75,000,000 yearly lending volume is just about one-eighth of the amount that this country's loan development fund advances annually.

I. D. A. members are to be allowed to pay the bulk of their contributions in their own currencies such as Indian rupees, Burmese kyats, Bolivian bolivianos and Spanish pesetas. The sponsors of the I. D. A. plan argue that other I. D. A. members will be able to borrow rupees to buy jute, kyats to buy rice, bolivianos to buy tin and pesetas to buy olive oil.

But just about any international financial expert will tell you that there will be ice on the streets of Panama before any of the heavily indebted underdeveloped countries decide they are so strong that they can lend money instead of borrowing it. The only thing the I. D. A. will be able to do with the soft currencies will be to lend them to the issuing countries to help pay the local labor costs of I. D. A. projects.

One big objection to the I. D. A. is that it won't be quite what it pretends to be. It's to have the charter of a lending institution but actually most of the loans it makes will be very poor risks.

The I. D. A. will just lend to countries that are heavily burdened with foreign debts and that can take on additional "loans" only if they are long term obligations that they can repay in their own currencies. This means that the I. D. A. gradually will accumulate large quantities of weak currencies that it can either stash away in its vaults or lend back to the country that gave the I. D. A. the money in payment of a debt.

The Development Loan Fund now makes the type of soft loans that the I. D. A. is due to make. The United States used to help weak countries by giving them aid in the form of grants but shifted to loans when both Congress and the Administration decided that American help ought to be paid back.

Obtaining payment in a soft currency that isn't any good to the lender is just substituting a new I. O. U. for the original loan paper. It satisfies the political pressure for "loans not grants." But there's something more straight-forward about an outright grant that everybody knows won't be paid back.

August 17, 1959

Dear Mr. Pessoa:

Following our telephone conversation today, I enclose two copies of a letter addressed by the President of the Bank to members of the Board of Governors sending them a letter which he had received from the United States Secretary of the Treasury regarding the International Development Association.

Yours sincerely,

M. M. Mendels
Secretary

Enclosures

Mr. Albino Cabral Pessoa
Financial Counsellor
Portuguese Embassy
2125 Kalorama Road, N.W.
Washington 8, D.C.

MMM:P

FORM No. 61
(3-54)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

STAFF LOAN COMMITTEE

SLC/M/760

August 12, 1959

Minutes of Staff Loan Committee Meeting held on
Tuesday, August 11, 1959 at 3:30 p.m. in Room 927

1. Present:

Mr. J. Burke Knapp, Chairman
Mr. J. Rucinski
Mr. S. R. Cope
Mr. O. A. Schmidt
Mr. M. M. Rosen
Mr. S. Aldewereld
Mr. L. B. Rist
Mr. R. H. Demuth
Mr. E. E. Clark
Mr. R. W. Cavanaugh
Mr. H. G. A. Woolley, Secretary

In attendance:

Mr. Davidson Sommers
Mr. M. M. Mendels
Mr. G. N. Perry
Mr. I. P. M. Cargill
Mr. G. R. Young
Mr. H. G. Curran
Mr. H. R. Labouisse
Mr. Y. L. Chang
Mr. J. H. Collier
Mr. D. Dresden
Mr. D. J. Fontein
Mr. D. L. Gordon
Mr. A. M. Kamarck
Mr. M. van der Mel

2. International Development Association

The Committee discussed questions raised by Committee members on the guidelines which the U.S. has proposed for the basic framework of the proposed organization.

3. The meeting adjourned at 4:45 p.m.

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

Mr Sommers
~~Mr Vanek~~
(1) ~~Mr Vanek~~ (2) Mr Sommers
IDA file

TO: Mr. Rosen

DATE: August 11, 1959

FROM: Sen Matsuda

SUBJECT: Translation of a Japanese Newspaper Article, Participation in the Second World Bank Considered

(Nippon Keizai, July 8, 1959)

The Finance Ministry investigated on July 7 the proposal to establish the Second World Bank, and almost came to the decision to agree to the plan and to participate in it when it is established. Finance Minister Sato will make a speech to support the plan at the Annual Meetings of IMF and IBRD next autumn. At the Ministry conference, strong opinions were expressed that Japan should insist on placing priority of loans by the contemplated bank on the South East Asian areas, and it was also suggested that Japan may use, in some cases, ¥ 5 billion, set aside for the South East Asia Development Fund, for the capital subscription of the Second World Bank. The Ministry recognizes there may be a question on the proposition of loans repayable in local currencies, but since the details of the American proposals are not yet clear, further investigations will be made when more information has been received.

$14 million

{ Japanese share based on present capital subscription of $250 million would be $25 million

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. S. R. Cope

DATE: August 11, 1959

FROM: A. M. Kamarck

SUBJECT: Loans by I.D.A. from its Capital

This memorandum is not meant to be an exhaustive discussion but merely an outline of a few problems and suggested approaches to their solution that may arise in I.D.A.'s operations.

1. What is the real role of I.D.A.'s loans?

2. I do not think that I.D.A.'s loans should be regarded as disguised grants. That is, there will still be a need for government-to-government grants, which I.D.A. loans should not replace, in situations like the following:

a) to subsidize an ally in keeping a larger army than the latter could otherwise afford, e.g. U.S.-Turkey, U.S.-South Korea;

b) to subsidize the current operations of a government where the economy is still insufficiently developed to maintain a minimum of modern government, e.g. Italy-Somalia, U.S. and U.K.-Libya.

3. The main function of I.D.A. loans is to finance investment in countries where, because of poor resources, insufficiently developed people, etc., investment is in the area that lies between:

a) at one extreme, where investment provides a return at least sufficient to bear the normal IBRD interest and amortization charges; and

b) at the other extreme, where investment will only repay the capital invested with no interest return. (If the investment of capital does not even return the capital invested, it is better not to invest at all.)

That is, I.D.A. loans should all bear lower interest rates (to as low as just above zero) and have longer amortization periods than IBRD loans.

4. Another function I.D.A. loans could fulfill is to help moderate the burden of additional external debt in countries that the Bank regards as having entered the zone of excessive external debt, e.g. we might feel that while further Bank investment in Rhodesia would be able to bear normal Bank charges but that her existing annual debt service is already so large that in the event of an African take-over any further substantial increase in debt service might make it an attractive target in the event of difficulties.

5. I.D.A. should not make loans repayable in local currency:

a) Local currency loans are not a substitute for grants in the sense of paragraph 2 above. If you cannot squeeze the real resources for repayment of a loan out of the local inhabitants the fact that there is no foreign exchange transaction is irrelevant.

b) The main advantage of a local currency loan to a borrowing country is that local currency repayment traps the real resources these repayments represent within the country. I.D.A. must either re-lend them within the country or keep them on deposit in the banks which, economically, is practically the same thing because the banks can then increase their lending a corresponding amount. (A third choice, of course, is for I.D.A. to buy goods in the borrower's country for use in projects elsewhere. If the goods would have been bought by I.D.A. in any case this is the same as a loan repayable in foreign exchange. If I.D.A. would not have bought these goods otherwise because they cost more or were less suitable than goods bought elsewhere, the result is the same as a loan repayable in foreign exchange but at more favorable terms than the face terms.)

c) In the case of loans repayable in foreign exchange, I.D.A. probably would continue to lend in the borrowing country and would probably offset loan repayments. In this case, the main difference between such loans and local currency loans would be that I.D.A. would have continuing discretion as to whether to continue to lend or not.

IDA

Mr. M.M. Rosen August 11, 1959

H.E. Bachem

Comments on Mr. Anderson's Guide Lines
for International Development Association

1. Bring out clearer that IDA can do project financing only.

2. Stipulate clearly that IDA can make loans - under any terms suitable to the project and the country - or give grants.

4. Envisaging $500 million per year contribution after the initial two to three years IDA should have an initial capital of $1½ billion.

6. The provisions for subsequent capital increases are not clear to me. A 3/4 majority is required to vote an increase in the authorized capital. However, each member voting for it could decline to take up its individual subscription. Does this make sense?

Why is the restriction needed that interim capital increases can only be approved if prior capital obligations have been substantially discharged? If IDA runs out of cash because some members have failed to live up to their payment obligations, other members willing to put up more money should not be blocked by the defaulting members.

8. The 20-30-50% convertibility and use restrictions are bound to be a nuisance in the future. It is unavoidable that - at least in the long run - the developed countries will acquire practically all of IDA's capital. Therefore, it is of little use to start out by giving the underdeveloped countries capital shares proportionate to their IBRD holdings and trying to soften the financial impact by complicated provisions allowing them not to pay, not to convert or not to release it for practical uses. I should think a simple 50% gold, 50% local currency formula would be feasible. The 50% U.S. local currency quota could be tied to purchases in the U.S. as long as all developed countries have not made their own local currency subscription fully convertible. Underdeveloped countries should be free to fix their initial and subsequent subscriptions as they wish. Prestige will prevent too small subscriptions.

The provisions envisaging use of local currency subscriptions within the subscribing country is dangerous and unnecessary.

10. The provisions of 10) might make IDA act as agent for the U.S. IDA should only accept PL 480 funds if the use of such funds is not subject to contractual obligations between the U.S. and the country concerned.

HEBachem/mv

Mr. R. H. Demuth August 10, 1959

O. Myhrer

International Development Authority

On reading the outline of the IDA as submitted by the U.S. Governor, I noticed the emphasis was put on the question how to find the capital while little attention was paid to the operational side. I gather the reason is that this aspect is thought to be determined, at least in principle. The point I shall make is, however, concerned with the possible operations of IDA, and after having talked it over with my colleague, Mr. Collier, I shall pass it on.

I believe IDA is intended to make "soft" loans, but not to make grants. It struck me that it might be appropriate for the IDA also to take up export guaranteeing. In most developed countries today, export guarantee schemes have been established with a view to foster exports. The IDA could enter the same field with the purpose of fostering imports into under-developed countries.

Let me develop the idea in an example: if, say, India has to renounce imports of much needed investment goods by reason of payment difficulties, the IDA may, by guaranteeing the payment, make the imports available. With this guarantee a bank in the exporting country may be willing to put up the money on terms which India can accept; in this case no payments from the IDA will be needed - assuming, of course, no default. It may be that the conditions offered by the exporting country are unacceptable in spite of the guarantee. In this case the IDA may come in and participate more directly in the financing.

If the problem is that the lifetime of the credit is too short, the IDA may make a joint operation with the bank in the exporting country, so that India's requirements on this score can be met; in this case IDA will have to draw upon its own resources, but only for a part of the total amount involved in the transaction. If the problem is that the interest rate is considered too high, the IDA may subsidize the interest payments. The subsidy can be given in the form of a loan on easy terms.

An important consideration is whether the cooperation of the banks in exporting countries is attainable in such a scheme. I am not qualified to judge on this point, but in view of the eagerness shown by other banks to join in operations of the IBRD at present, and the proposed closed links between the IDA and IBRD, there should be scope for some optimism.

The advantage of operations of the kind suggested is that the limited resources of IDA - the problem which so far seems to have received most attention - will make available more goods and services from abroad to under-developed countries than if utilized solely for lending.

cc: Mr. S.R. Cope
Mr. M.L. Lejeune
Mr. J.H. Collier

OM.
OMyhrer:wmf

IDA

August 10, 1959

in Secretary's files

My dear Governor:

Thank you for your letter of August 6 enclosing a letter to the President of the Bank regarding the International Development Association. Your remarks will be brought to Mr. Black's attention at the earliest possible moment.

Yours sincerely,

M. M. Mendels

M. M. Mendels
Secretary

His Excellency
Sr. Dr. Don Celeo Davila
Ambassador of Honduras
4715 16th Street, N.W.
Washington 11, D. C.

MMM:P

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Tuesday
3:30

OFFICE MEMORANDUM

TO: Mr. M. L. Lejeune

DATE: August 7, 1959

FROM: A. M. Kamarck

SUBJECT: Possible questions on I.D.A. that might be considered for discussion by the Executive Directors

The proposed questions are listed according to the paragraph numbers in the U.S. Government's Guidelines Memorandum.

1. How narrowly should "sound projects" be interpreted? Does this include development banks, agricultural credit banks, productivity centers, technical schools, agricultural extension centers, etc.?

Will I.D.A. in lending in countries that are not yet fully independent such as the Belgian Congo, the autonomous republics of the French community, have to get a guarantee by the metropolitan government?

Will I.D.A. lend only to governments or with government guarantee? Should certain exceptions be made such as privately-owned development banks?

2. I.D.A. is to be opened to all members of IBRD. Should special provision be made to allow Switzerland, which may find it impossible to join the Bank because of having to join the IMF, to come in and make a contribution to I.D.A.? (One might have a provision that if three-fourths of I.D.A.'s members approve, a non-member of the Bank would be allowed to join without joining the Fund and the Bank.)

I.D.A. is to be manned by IBRD personnel. Does this phrase include the possibility of an organizational arrangement such as that of I.F.C. and the E.D.I.?

3. Voting power is to be according to the capital subscription of a country. As an additional means of inducement to countries to make money available, it might be worth considering whether voting might not depend on the capital subscription disbursed.

4. Size. Should the subscription payment of 50% in the first year be made up of the 20% gold and convertible currencies payment plus the 30% of convertible-on-demand payment? Should there be a provision giving the I.D.A. the right to accelerate the payments of the remaining 50% over a minimum requirement of 10% per year over 5 years? Should there be provision that if additional countries not now in IBRD join (or if countries take up a greater than proportional quota), that I.D.A.'s capital could be raised, if necessary, by an appropriate amount above $1 billion without the need to go through all the process of amending the Articles of Agreement?

5. Should the subscription of all countries be proportional to their capital subscription in IBRD? Should an option be provided allowing

countries that might want to provide a greater subscription than that proportional to their subscription in the Bank to do so within certain limits, say 50-100% of their proportional quota?

8. Instead of elaborate limitations on convertibility of the 80%, should the provision simply state that industrialized countries should give I.D.A. the same privilege of external convertibility on their subscriptions as currently given on external current payments?

For the countries considered as non-industrialized, should there be provisions laying down the minimum rights of I.D.A. in using ~~for~~ the capital subscription, e.g. the non-industrialized countries would permit I.D.A. to convert the 80% at the rate of 8 percentage points per year except when the three-quarters votes of I.D.A. grants a suspension?

Under the present procedures, who would decide on granting suspension of I.D.A.'s right to secure convertibility of the 30% of the 80% on demand? I.D.A.'s Board, or I.D.A.'s management? If I.D.A.'s Board, what voting majority would be necessary?

Should there be a provision that I.D.A. would have the right to use the subscription of any country to pay its local expenses in that country?

Who is to decide and by what vote what is an industrialized country? Should this be decided before or after I.D.A. is set up?

9. Is there to be a limit on the borrowing authority of I.D.A.? Should there be a limit?

If the U.S. and the other industrialized countries allow I.D.A. to utilize fully their capital subscription what value does the borrowing authority have in the light of our recent experience of the necessity to increase the U.S. unpaid-in capital subscription to provide a guarantee fund for Bank borrowing? Under the I.D.A. arrangements if I.D.A. were successful in getting all the capital of the industrialized countries paid in the only unpaid-in capital would be that of the "less developed" countries. How much would that help I.D.A. to borrow in the market? Does this mean that I.D.A. is only to borrow from governments? Should there, therefore, be an additional, say, $1 billion unpaid-in capital subscription callable in case of need to prevent default on I.D.A.'s borrowing and so provide some possibility for I.D.A. to borrow?

In the event that under the present suggestion not all the capital of the industrialized countries is paid in and available, would I.D.A. have the right to pre-call subscriptions in the event of need to prevent default on I.D.A.'s bonds?

Should I.D.A. have the power to borrow from the Bank, for example, from the Bank's accumulated reserves?

If I.D.A. were able to borrow successfully from the market should one accept the probability that the borrowed money may have to be lent at a rate less than its cost? (Borrowers presumably would be granted I.D.A. loans only if they cannot pay IBRD rates.)

10. Countries that turn over local currency deposits to I.D.A. would be eligible to receive half of the net operating profits derived from the use of the resources provided. In such a case, would I.D.A. have a commitment to convert the profits to be paid over or could it pay over these profits in the currency earned from the use of the local currency deposits? Does this provision include the possibility of I.D.A.'s taking over existing loans that have been made out of local currency deposits and are repayable in local currency?

Could I.D.A. take over D.L.F. loans which are being made currently repayable in local currency?

Will I.D.A. be allowed to hold its local currency deposits outside of central banks? To receive interest on them? Should members agree to extend to I.D.A. as a minimum the same interest rate on local currency deposits at the central bank as paid to other depositors, where such an arrangement exists?

Should I.D.A.'s members automatically have to give I.D.A. a maintenance-of-foreign exchange-value on its local currency deposits? Or should I.D.A. have to negotiate this separately?

Remarks on IDA

1. Structure (par. 2) "IDA should be manned by IBRD personnel" IBRD Articles of Agreement, Article V, Section 5(c): The President, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority.

2. Use of currencies subscribed (par. 8a) What criteria would be applied to define "industrialized countries" in order to find out what countries would be entitled to receive suspensions?

3. Special resources provided in local currencies (par. 10) "Currencies so transferred should be available on terms which impose no greater restrictions on their use by IDA than previously applied to their use". Does this mean that these currencies could still be used for purposes set in Section 104 of P.L. 480? If not how would it be possible to compare uses by IDA with former uses by U.S. Government?

G. Lefort

Mr. Sommers 100

FORM No. 60
(12-57)

International Bank for Reconstruction and Development

CONFIDENTIAL

STAFF LOAN COMMITTEE

SLC/A/760

FROM: The Secretary, Staff Loan Committee

August 10, 1959

NOTICE OF MEETING

A meeting of the Staff Loan Committee will be held on Tuesday, August 11, 1959 at 3:30 p.m. in Room 927.

AGENDA

International Development Association

The Committee will discuss any questions Committee members may have on the guidelines which the U.S. has proposed for the basic framework of the proposed organization (SecM59-129 dated August 3, 1959).

DISTRIBUTION

Chairman
Directors of Operational Departments
Director, Legal Department
Director, Economic Staff
Treasurer
Director, Technical Assistance and Liaison Staff

Copies for information to:

President
Vice Presidents
Secretary
Director, Office of Information
Director, Economic Development Institute
Special Representative in Europe (Agenda only)

Mrs. Boskey

1 6A

THE UNDER SECRETARY OF STATE
WASHINGTON

AUG 10 REC'D

August 6, 1959

File
8/11/59

Dear Gene:

Thank you very much for sending me your correspondence with Bob Anderson concerning the proposal for an International Development Association. I appreciate your keeping me informed.

Sincerely,

Doug

Douglas Dillon

The Honorable
Eugene R. Black, President,
International Bank for
Reconstruction and Development,
Washington 25, D. C.

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. M. M. Mendels

DATE: August 4, 1959

FROM: D. C. Gunesekera

SUBJECT: International Development Association

Ref letter of August 3rd from Mr. Black to Governors. I give below the comments of the Finance Minister of Ceylon on the original memorandum sent to Executive Directors by Mr. Upton. I have already sent Mr. Upton a copy of the comments made.

"The Honorable Minister wishes to say that he has noted the contents with considerable interest, as he welcomes the expansion of all finance facilities, both of the existing and proposed institutions, which can assist in the economic development of under-developed countries. However, he would urge, with particular reference to the proposal to set up an International Development Association on the lines suggested by the U.S. Government, that such an institutional device, in attempting to be more flexible than the I.B.R.D., should not only provide for repayment of loans in local currency but should also pay attention to two other difficulties which under-developed countries have experienced with regard to I.B.R.D. finance. The first difficulty relates to the cost of borrowing from the IBRD and it is suggested that the I.D.A. loans should carry an effective rate of interest comparable to that prevailing under various inter-governmental aid programmes which do not also carry an additional commission charge, as in the case of IBRD loans. The second difficulty regarding IBRD borrowing relates to the practice of the IBRD which has been confining its financing to the foreign exchange costs of a project. Most under-developed countries not only face a foreign exchange shortage but also suffer from a shortage of domestic capital. It is felt, particularly in view of the fact that provision has been made for a part of each member's subscription to finance the purchase of nationally produced goods and services, that the domestic costs of projects should also be financed by the new institution."

dcf.

Guidelines for Use in IBRD-ED's
Study of a Proposed IDA

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
August 3, 1959	Board Record

Correspondents / Participants
From: The Secretary

Subject / Title
IDA - Attached letters for the information of the Executive Directors

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

IDA

✓x 14 AM.

August 3, 1959

Dear Mr. Anderson:

I have received your letter dated July 31, 1959 regarding the proposal for an International Development Association and have taken note of your request that this subject be placed on the agenda of the Board of Governors for their Annual Meeting beginning next September 28.

In accordance with your further request, I have sent to all the Bank's Governors a copy of your letter, together with its attachment "Guidelines for Use in IBRD Executive Directors' Study of a Proposed International Development Association", and certain comments of my own. I enclose a copy of my letter and the attachments.

Yours sincerely,

(Signed) Eugene R. Black

Eugene R. Black

Attachments

The Honorable
Robert B. Anderson
Chairman
National Advisory Council
Treasury Department
Washington 25, D. C.

cc-Mr. Dillon

Mr. Finkel

MMMendels:P

IDA

Mr. Black

August 3, 1959

Richard H. Demuth

ECOSOC Discussion of IDA and SUNFED

In a letter from Dr. Lopez-Herrarte, dated July 28, he writes as follows about the discussions under the agenda heading "Financing of Economic Development":

"This debate started on Saturday and is still going on. The pattern is the same as ever. Much to be said about the good work of the Bank, but the volume of lending is not ample enough. Some delegations are still clamoring for SUNFED (especially the Latin Americans and the Dutch). Others, being very reserved, are hoping that perhaps IDA will be a reality soon and thereby bring them the kind of financial assistance they need most (in this group are the Afghans, Pakistanis and Sudanese). The Dutch have continued to stress that they prefer some type of SUNFED over IDA. In their statement, they expressed themselves as follows:

"We have readily cooperated in the increase of the capital of the IBRD. The necessary legislation was recently approved by the Parliament. We have, with full conviction, supported the Special Fund. And we are now very interested in the plans to establish an International Development Association, which has among its aims that of supporting the development of the social and economic infra-structure of the less developed countries by low-interest loans. Such an International Development Association could be an important landmark on the road leading from Technical Assistance, via the IBRD, the IFC and the Special Fund, into the future. Part of the SUNFED concept would thus be realized -- that part that concerns loans. To justify its qualifications as a landmark on this road, the IDA would have to fulfill certain basic conditions, conditions similar to those my Government had in mind for SUNFED: membership potentially no different from that of the U.N. and the specialized agencies and an equal partnership between contributing and receiving countries. An IDA that would be an affiliate of the International Bank, in the same manner as the IFC, would not be able to meet

those conditions. I say this without lacking in respect for the beneficial activities of the Bank. But the statute of the Bank, and its more limited membership, would, in case of the affiliation of the IDA, create problems that should preferably be avoided. It would perhaps be best to study the possibilities of a mixed structure, such as, for instance, an association both with the Bank and the U.N. That would, on the one hand, open the possibility of incorporating in the new institution the basic principles I have mentioned, and at the same time cause it to inspire enough confidence to be acceptable to the main contributing partners.'

"So far two draft resolutions have been presented on this item, one by the four Latin American members of the Council, which in effect suggests renewed consideration of the Sunfed proposal, and one by Afghanistan, Sudan and Pakistan which, although somewhat similar in approach, seems to key its recommendations more to IDA, without mentioning it. It is possible that there will be a merger of the two, especially as the U.S., U.K. and France have expressed displeasure with the first resolution and also because among the Latin Americans (specifically the Costa Ricans) there is certain doubt that their approach is the right approach at this time. The difficulty is that the Dutch have told the Latin Americans to hold their ground. I understand that the U.S. delegation has cabled Washington the uncompromising position of the Dutch. In any case the problem will be solved if not before the end of the week at the latest on Monday or Tuesday of next week. As soon as a solution has been achieved I will send you the resolution."

JUL 31 REC'D

THE SECRETARY OF THE TREASURY
WASHINGTON

JUL 31 1959

My dear Mr. Black:

At the opening joint session of the 1958 annual meeting of the International Bank for Reconstruction and Development and the International Monetary Fund at New Delhi, I called attention to the fact that the United States was studying a proposal to establish an International Development Association as an affiliate of the International Bank. President Eisenhower had earlier asked me to ascertain the attitudes of member governments toward the proposal, and, if the creation of an International Development Association appeared feasible, to initiate negotiations to that end.

The New Delhi meeting offered an opportunity for fruitful contacts among the Governors of the Bank, and the preliminary responses to the International Development Association proposal voiced there were encouraging. Since last October, we in the United States Government have been engaged in further study of the International Development Association in an attempt to formulate a more specific project. We have had subsequent discussions with other members of the Bank, and many members have shown a favorable attitude toward the concept of an International Development Association. We are continuing our discussions with other Bank members.

You will recall that as a basis for these discussions the United States Executive Director of the Bank recently circulated to all the other Directors an informal paper giving the major outlines of an International Development Association as we presently visualize it. We realized that in many cases a Director would be in a position to give only his personal views, and would not have the considered views of the government or governments he represents. Nevertheless, the reactions of Directors to this informal paper were useful and illuminating, and we have kept these in mind in drawing up the memorandum which I have attached to this letter.

We have been much impressed, as I am sure you also have been, with the role played by the Executive Board of the Bank in bringing to fruition several complex proposals in the recent past. The International Finance Corporation, for example, came into being after a proposal was formulated in the Board of Executive Directors and submitted to the member governments for approval. Just last year, the Executive Directors were charged with the task of submitting an appropriate proposal for increasing the Bank's resources. This task was successfully discharged, and governments are now acting on the resolutions drafted in the Executive Board. I believe the Executive Directors, in the case of the International Development Association, can again perform the invaluable function of taking the basic outline of an idea and fashioning it into a specific proposal. I am convinced that there exists a sufficiently broad base of support for an International Development Association among the member governments that a plan carefully worked out by the Executive Directors would meet with widespread acceptance.

It is my hope that this year's meeting of the Governors will be the occasion for taking definite steps looking toward the establishment of an International Development Association along the lines of the attached paper. As Governor for the United States, I am planning to place before the Board of Governors in September a resolution calling upon the Executive Directors to study carefully the question of establishing an International Development Association and, if feasible, to formulate articles of agreement for appropriate submission to the member governments. I would appreciate it, therefore, if you would place the subject of the International Development Association on the agenda for the September meeting. The formal text of a resolution will be transmitted to the Bank by the United States at the proper time.

If the Executive Directors make their recommendations within a reasonable time and if these recommendations are expeditiously presented to member governments, the matter could be acted upon formally by member governments early in 1960. In the case of the United States, this would mean that the Congress would consider the International Development Association during the 1960 session.

I am certain you will agree with me that the question of establishing an International Development Association is a matter of the first importance, and that the assent of the Governors at the annual meeting to a resolution calling for a study and recommendations by the Executive Directors would be a significant step toward the desired goal. It is my hope that between now and September the idea will receive earnest consideration within the member governments, and that the Governors will be in a position to support the United States resolution when it is offered. In this connection, I request that you forward a copy of this letter to each of the Governors, together with any comments you might consider appropriate.

Sincerely yours,

Robert B. Anderson

Governor for the United States
International Bank for Reconstruction
and Development

Honorable Eugene R. Black
President, International Bank for
Reconstruction and Development
Washington 25, D. C.

Attachment:
Guidelines for Use in IBRD Executive
Directors' Study of a Proposed
International Development Association

Guidelines for Use in IBRD Executive Directors' Study of a Proposed International Development Association (IDA)

To facilitate the consideration of the IDA by the Executive Directors, the United States submits herein certain guidelines which it hopes will form the basic framework of the proposed organization.

1. Purpose. The purpose of the International Development Association would be to promote, by financing sound projects of high priority, the economic development of less-developed member countries whose needs cannot be adequately met under International Bank lending programs.

2. Structure. IDA should be a close affiliate of the IBRD; membership in IDA would be open to all members of the IBRD. IDA should be a separate financial entity, but should be manned by IBRD personnel.

3. Voting. Voting should be on a weighted basis, according to capital subscribed.

4. Size. The authorized capital of IDA should be $1 billion. Members would pay in 50 percent of their subscriptions initially, and the remainder in equal installments over five years.

5. U. S. Subscription. The United States subscription would be proportional to the U. S. subscription in the International Bank, taking into account the proposed increases in the IBRD. This would amount to about $320 million.

6. Replenishment. At 5-year intervals the governors of IDA should consider the desirability of increasing the capital of the institution. Any increase would require approval of three-fourths of the total voting power. Each member would have the right, although not the obligation, to subscribe to a portion of the increase in accordance with its proportion of the initial capital. The Board of Governors could also, by three-fourths vote, approve an increase in capital at any other time, provided prior capital obligations of members have been substantially discharged.

cont./

7. Currency Subscribed. Members would make their subscriptions in part in gold or fully convertible currencies, and in part in their own national currencies. Each payment made under the installment arrangements mentioned in Paragraph 4 would consist in part of gold or fully convertible currencies, and in part of national currencies, in the proportions set forth in Paragraph 8. The basis on which each part of a member's subscription may be used by IDA is also outlined in Paragraph 8.

8. Use of Currencies Subscribed. Twenty percent of each payment by each member should be in gold or in fully convertible currencies which would be freely disposable by IDA. The remaining 80 percent should be in national currencies and should be usable at a minimum for procurement of nationally-produced goods and services for use in connection with IDA-financed development projects within the country concerned, or for procurement of nationally-produced goods and services for export and use elsewhere in connection with IDA-financed projects. In no event would IDA engage in financing trade in commodities not related to IDA-financed development projects.

In addition to the basic minimum usability of the 80 percent of subscriptions paid in national currency, there should be provision in regard to this 80 percent for:

(a) The convertibility of 30 percent as required by IDA. The obligation to make this portion of its national currency convertible on demand should extend to all members except those to whom IDA granted a suspension of the obligation. This suspension would not be given to any of the industrialized countries, and countries receiving suspensions should not have an aggregate of more than about a quarter of total subscriptions.

(b) The convertibility of the remaining 50 percent of subscriptions paid in national currency by the industrialized countries if and when all of the industrialized countries agree to such a move. The United States would make this portion of its subscription available on a fully convertible basis so long as the other industrial countries do the same.

cont./

Under these arrangements, the IDA would have the responsibility for taking account of the economic position of a less-developed country in using such a country's currency, from whatever source acquired. An operating principle of IDA would be that IDA would maintain reasonably uniform rates of usage among the subscriptions in national currencies which become convertible as provided in (a) or (b) above, after first using the holdings of the currency of the country of procurement.

9. Borrowing Authority. IDA should have authority to borrow from member governments, or other sources.

10. Special Resources Provided in Local Currencies. Arrangements should be made to permit IDA to receive from one member the currency of another member. Transfers of such currency would be over and above the member's subscription to the regular capital of IDA. Currencies so transferred should be available on terms which impose no greater restrictions on their use by IDA than previously applied to their use. Efforts would be made to secure the agreement of member countries, in accepting the IDA charter, to cooperate in facilitating reasonable transfers to IDA of their currency which another country wishes to make available.

The member would receive non-voting "special development certificates" in exchange for currency provided. These certificates would carry a right of recovery of any such currency remaining upon liquidation of IDA. In addition, holders of certificates would be eligible to receive half of net operating profits derived from use of the resources provided.

IDA

Harold N. Graves July 31, 1959

W.L. Bennett

Timing on the International Development Association

I lunched today with Mr. Mendels and Arnold Weiss, Legislative Counsel for the U.S. Treasury Department. In talking about IDA, Mr. Weiss gave the following timing for the various events that will bring it into being.

September 1959 - Annual Meeting - Resolution presented by the U.S. to the Board of Governors.

Oct-Nov-Dec. - Study and report by the Executive Directors for and to the Board of Governors.

January 1960 - Voting by the various Governors to indicate the views of the Board. (Similar to vote taken last January in connection with capital proposals.)

February 1, 1960 - Completion of above vote.

September 1-30, 1960 (estimate). Completion of legislation, administrative actions, etc. by various member countries and receipt of their contributions, etc. to the association. In regard to this, however, he indicated that for budget reasons the U.S. might wish to delay action to December 1960 or still later.

Early 1961 - depending on the timing of U.S. action - IDA beginning operation under the aegis of the World Bank.

WB:hbs

Mr. Sommers

July 28, 1959

Richard H. Demuth

Capital Structure of IDA

1. Following is a proposal for the capital structure of IDA designed to meet the U.S. desire for universality while still drawing a clear distinction between subscriptions of the advanced countries and the underdeveloped ones. The proposal has, I think, several desirable features; it obviates any necessity for distinguishing in the charter between advanced and underdeveloped countries; it permits distinctions between underdeveloped countries in different stages of development; it departs from rigid adherence to the Bank table of subscriptions and thus provides a flexible formula for the future; and it obviates the possibility that there will be a lot of apparently useable capital still available at the time that IDA goes back to its members for replenishment of its resources.

2. The proposal is this:

A. There would be two classes of stock --

Class A stock, subscriptions to which would be payable 20% per year, in fully convertible currencies, on call by IDA.

Class B stock, subscriptions to which would have the following characteristics:

10% would be payable in convertible currencies;

10% would be useable for IDA's administrative expenses or, at IDA's discretion, for the purchase of locally-produced goods for IDA-financed projects; and

80% would be represented by Certificates of Subscription on which calls could be made only by agreement between IDA and the subscribing country and on such terms as might be specified in such agreement.

B. Each member country would be entitled to subscribe to either Class A stock or Class B stock, or both, provided that the aggregate of its subscriptions to both classes of stock might not be less than 10% nor more than 15% of its subscription to the capital of the Bank.

C. IDA would not come into being unless and until at least the equivalent of $700 (?) million of Class A stock and an aggregate of at least the equivalent of $800 (?) million of both classes of stock had been subscribed.

RHD:tf

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: July 23, 1959

FROM: Davidson Sommers

SUBJECT: International Development Association.

I spoke today with Mr. Rasminsky and Mr. Read. Mr. Rasminsky expressed the following views, which he emphasized are personal:

1) He favors informal multilateral conversations among donor countries this summer.

2) He thinks the proposed Black letter to Governors is appropriate.

3) He thinks the government will be sympathetic to the essential concept of IDA.

4) His principal reservations are in regard to the local currency aspects, as follows:

   a) Capital subscriptions - he is afraid that this will put too much burden on the underdeveloped countries on one hypothesis or will be a mere sham on the other.

   b) He is definitely opposed to the whole special contribution feature, but thinks something of this kind is inevitable. He would hope to get a provision limiting the special contributions to, say, 50% of the same member's capital contribution. He would not reject, as an alternative, the idea of making the whole special contribution feature a matter of ad hoc arrangements from time to time.

   c) Repayments in local currency - he is strongly opposed to this. His preference is for relatively long-term loans, with long grace periods, repayable in foreign exchange.

   d) Interest - he has no clear solution to this. He does not like interest payable in local currency or interest at abnormally low rates. If loans were to be repayable

as to principal in local currency, he would prefer interest payable in foreign exchange at rates comparable to those charged by I.B.R.D. He is receptive to the idea of no interest being charged on loans repayable in foreign exchange if the ultimate borrower can be made to pay a reasonable interest rate in local currency, as would be accomplished by loans to a governmental intermediary, with relending at the interest levels prevailing in the particular country.

cc. Mr. Demuth
Mr. Fontein
Mr. Cavanaugh
Mr. Nurick
Mr Rist

DS/ga

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist

DATE: July 20, 1959

FROM: Marinus van der Mel

SUBJECT: Questions asked by Mr. Sommers

As you already know Mr. Sommers called me last week to ask for some information, relevant to IDA. The questions he asked concerned two things:

1) The best yardstick for the "degree of industrialization" of countries;

2) Assuming that income per capita would be adopted as the yardstick, what would be the most appropriate minimum to include the U.S., Canada, most of Europe and a few other countries like Australia, South Africa, and Japan as "industrialized" countries and exclude the remaining countries. (He was thinking of $500).

I saw Mr. Sommers this morning to answer his questions.

With respect to his first question I told him that it was very difficult to think of a criterion other than income per capita that would enable statistical comparisons among countries adequate for the purpose. One might think of the share of Manufacturing Industry in GNP, but there were many complications if this yardstick were used.

To answer his second question I showed him Table 2 of the recent paper of Mr. Hayes on "Suggested Estimates of Per Capita Incomes". I explained to Mr. Sommers briefly the objections there are against use of the UN and IMF estimates (as mentioned in para. 6 on page 4 of Mr. Hayes' paper). Mr. Sommers showed considerable interest in the paper and said he would like to talk to me once more to get familiarized with some of its details.

IDA

Files July 20, 1959

Davidson Sommers

International Development Association

List of comments made to Finckel and Willis on U.S. papers dated 7/8/59.

1) Draft letter for Black's signature.

We were sympathetic with the idea of a letter but would want to redraft it.

2) Draft letter for Anderson's signature.

a) Third paragraph; "dressing up" should be "drawing up".

b) Fourth paragraph - "submitted to the Governors for approval". This is wrong in fact.

c) Fourth paragraph - "for submission to the Governors". This should be considered as a matter of policy. Perhaps it would be best to omit it for the time being.

d) Fifth paragraph - "by the Governors". I made the same comment.

3) "Guidelines" paper.

a) Paragraph 1 - I pointed out that this excluded colonies. Finckel says the U.S. wants to leave it this way for the time being.

b) Paragraph 2 - I suggested inserting a provision that only IBRD members should be eligible for membership.

c) Paragraph 8 - second sentence. I suggested that the last part be redrafted for clarity.

d) Paragraph 8 - third sentence. I suggested that the phrase "and would not engage in the financing of ordinary trade commodities not related to IDA-financed development projects" should be omitted because of possible implications on local expenditure lending.

e) Paragraph 8 - second paragraph - clause (a).
I suggested the omission of the word "first".

f) Paragraph 8 - second paragraph - clause (b).
I raised the question whether the word "all" was necessary. In the charter a better way of dealing with this might be by a percentage of the capitalization. Otherwise a definition of "industrialized" would be needed.

g) Paragraph 8 - second paragraph - next to last sentence.
I pointed out that this sentence could be made more attractive to the underdeveloped countries by referring to financing local projects rather than purchasing other than nationally-produced goods.

g) Last paragraph - last sentence.
I suggested that the word "half" seemed unnecessarily precise.

cc. Mr. Broches
Mr. Demuth

DS/ga

IDA

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: July 17, 1959

FROM: Davidson Sommers

SUBJECT: IDA

I talked to Lord Cromer today about two points:

(1) The suggestion that there should be consultations before the U.S. paper is circulated to Governors. He thought this was absolutely out of the question because it would delay things too long.

(2) The suggestion that Mr. Black should send a favorable comment along with the notice to Governors. He thought that this was desirable and when I described to him the kind of letter I have in mind (draft of July 16, 1959) said he thought it sounded fine.

cc: Messrs. Demuth
Broches
Rist

DS/km

FORM NO. 57
(5.48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: July 17, 1959

FROM: Richard H. Demuth

SUBJECT: IDA - Views Expressed at Commonwealth Financial Conference

1. I met with Sir Denis Rickett in London on July 15 at his request. He told me that IDA had that morning been the subject of discussion at the Commonwealth Financial Conference then in session in London. He said that the discussion indicated the following:

(a) There was considerable general support for IDA.

(b) Equally general, however, was the feeling that IDA should not be burdened with vast amounts of local currencies. It was recognized that, for reasons of political necessity, IDA would have to accept some counterpart funds, but the delegations hoped that the amounts could be kept small.

(c) There was also very general opposition to the proposal that IDA should make loans repayable in local currency. It was felt that such loans were merely disguised grants and that it would be better for IDA to make grants directly. If IDA were to engage in lending rather than grant operations, the general view was that such loans should be in foreign exchange on liberal terms. The U.K. delegation, however, would not like to see such foreign exchange loans made at concessional rates of interest for fear of undermining normal commercial loans; it would rather have the "softness" take the form of long grace and repayment periods and generous waiver provisions. (I tried out on Sir Denis the idea of no-interest loans, possibly with a small charge to cover administrative expenses. He said that this had not been considered by them, but that he personally felt that such loans had many advantages over low-interest loans.)

(d) A number of delegations had expressed the view that IDA should adopt a program rather than a project approach.

(e) The Australians made the point that, in view of the weighted voting provisions, they would probably not have much opportunity to influence the operations of IDA after it had been established. They were therefore anxious to assure agreement on satisfactory operational principles during the course of negotiations on the establishment of IDA.

(f) There was general agreement that colonies should be eligible for IDA assistance.

2. In further discussion with Sir Denis, he indicated that he would welcome agreement on a table of contributions that would not necessarily follow the Bank's subscriptions. He also reacted affirmatively to the suggestion that a substantial portion of the contributions of the underdeveloped countries might be in the form of uncalled capital, to be paid up only as and when agreement was reached that the subscribing country was in a position to make such payments.

3. Sir Denis hopes that a working party will be set up (preferably under the chairmanship of Mr. Sommers) at an early date to go into various aspects of the IDA proposal. He believes that this working party should meet as long as possible ahead of the Annual Meeting. He expressed the hope that the U.S. would not circulate any further paper until after the working party had met.

cc: Messrs. Black, Iliff, Sommers and Knapp

FORM NO. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: July 16, 1959

FROM: Davidson Sommers

SUBJECT: IDA

Mr. Rist and I spoke to Dr. Lieftinck today. He expressed the following views:

(1) He is very much opposed to IDA's accepting special contributions in local currency, fearing that it will become an "engine of inflation". If it is necessary to yield, he would insist on either

(a) a limitation of the amount (as, e.g., by saying special contributions could not be in excess of the contributor's capital subscription) or

(b) a provision giving IDA a right to limit the amount. [I believe he would be satisfied by a provision leaving the matter open to ad hoc negotiation].

If IDA receives special funds, he hopes they can be used as a reserve against it to guarantee credits by local lending institutions and that they will not be used themselves as lendable funds. He would like a guarantee power expressly covered.

(2) He is also opposed to loans repayable in local currency. He favors long-term loans with a long grace period (he mentioned 10 years), repayable in foreign exchange. In response to my questions, he was not very clear about what to do with interest. On low-return infra-structure projects he favors interest-free loans. On other projects he said that he favors interest at normal rates and in foreign exchange, but I gathered that he had not really considered this thoroughly.

(3) He is concerned about having subscriptions proportional to Bank subscriptions, but treats this as a specifically Dutch concern rather than one that is of general applicability.

ds

cc: Messrs. Rist
Demuth
Broches

DS/km

Files

July 16, 1959

Davidson Sommers

International Development Association

I discussed IDA briefly with Mr. Black, Mr. Iliff and Mr. Knapp yesterday. There seemed to be general agreement that we should adopt the following positions:

(1) We must accept the "fund" idea as dead and proceed on the basis of an IDA as a separate organization.

(2) Mr. Black, in forwarding the U.S. notice to the Governors, should express himself as being in favor of the IDA idea and the proposal to discuss it at the annual meeting, but should not commit himself as to the details.

(3) We would favor more convertibility for the advanced countries and lighter burdens on the underdeveloped countries. In any case we should try to avoid tying replenishments of capital to the original formula either in respect of proportionality, payment provisions or usability. It would be best to leave all this as flexible as possible.

(4) As to P.L. 480 currency, we should try to limit the charter provisions to an authority to IDA to negotiate supplemental contributions from time to time on an ad hoc basis, the arrangements to be sufficiently flexible to permit IDA to obtain authority for terms (e.g. grants) and purposes (e.g. education, debt retirement) broader than those on which it can make normal loans.

(5) We should stress the essential point that IDA must be selective in its operations. However, we should avoid rigid allocation formulas in the charter.

(6) Similarly we should avoid as far as possible any precision as to lending terms. This should also be left as flexible as possible. We should avoid the expression "low" interest rates.

(7) As to colonies, we should agree to their being not excluded, but should resist any provision implying that they will receive aid as a matter of course. Our view is that special justification will be required.

(8) We should not initiate attempts to increase the size of IDA, but should welcome proposals for somewhat larger amounts.

cc. Mr. Iliff
Mr. Knapp
Mr. Broches
Mr. Demuth
Mrs. Bosley
Mr. Fontein

DS/ga

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
July 16, 1959	Letter

Correspondents / Participants

To: Mr. T. Graydon Upton, Assistant Secretary, Office of the Treasury

From: D.C. Gunesekera, Alternate Executive Director

Subject / Title

Regarding memorandum on I.D.A.

Exception(s)

Additional Comments

Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

IDA

July 14, 1959

Mr. Douglas Fontein
4219 N. 25th Street
Arlington, Virginia

Dear Douglas:

I am enclosing the "Summary Outline" of an IDA charter, about which we talked last week. A copy is with Dave, and I daresay there will be at least another version. However, this conforms sufficiently to the state of our discussions up to now so that it will not seriously mislead you. You will see that one of the principal points, "Operations", is just a blank; within the next day or two something will, I hope, have been worked out on that and I will send it on promptly, together with any new version of the enclosed that may be produced.

I hope you are enjoying your holiday, though I am afraid that if there are many other people who are behaving towards you as I am, it will be most unfair to charge these days of physical absence from the Bank against your leave.

Sincerely yours,

Shirley Boskey

Enc.

SEB:tf

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: July 1, 1959

FROM: Davidson Sommers

SUBJECT: I.D.A.

Mr. Iliff and I met today with Sir Denis Rickett, Mr. Arnold France, Lord Cromer and Mr. Wilson.

A number of points concerning I.D.A. were discussed:

a) P.L. 480 Currencies:

The U.K. recognizes that some currencies of this kind will probably have to be accepted, but agrees with us that the charter provision should be in general terms permitting I.D.A. to make arrangements to receive such currencies from time to time.

b) 30% and 50% Capital:

The U.K. strongly favors convertibility by all major contributors, even to the point of wanting to reconsider its attitude if this were not achieved. (We expressed agreement.) On the other hand, the U.K. fears that some smaller underdeveloped countries might be penalized (e.g. Paraguay) because their currencies can be used in I.D.A. operations. The U.S. has said that I.D.A. should not press for use of subscribed unconvertible currencies in this case. The U.K. thinks that this protection may not be enough and that the whole subject needs more consideration. (We agreed.)

c) Hard Currency Contributions:

The U.K. shares our concern that this might keep some countries out, but agrees that the greater concern is that the hard currency contribution, however large or small, should not prevent a high degree of selectivity by I.D.A. in allocation of its funds. We agreed with the view of the U.K. representatives that in talking to the U.S., the latter point should be emphasized. The U.K. is sympathetic to our "fund" approach, but has been told by the U.S., and believes, that this is not acceptable.

d) Terms:

The U.K. does not like loans repayable in local currency and is definitely opposed to low-interest loans. Long-term interest-free hard-currency loans are their preference. We all agreed that for charter purposes this subject should be left as flexible as possible.

e) Dependent Territories:

Sir Denis started out by insisting that the dependent territories must be "eligible" and must receive a "reasonable share" of the funds. We agreed that they should not be excluded but said we thought that they should receive loans only in special circumstances. This matter was left by saying that the colonies should not be excluded and that the eligibility of territories for loans should be considered on a case by case basis.

f) Working Party during the Summer:

The U.K. representatives would like us to press for informal discussions with the U.S. during the summer. They think that these should start with the major contributors, bringing in representatives of the underdeveloped countries as seemed desirable. They would hope that everything would be kept very informal and would like to start with a group consisting of, say, U.S., U.K., France, Germany, Canada and perhaps one or two others. They emphasized the importance of keeping in touch with the smaller European countries (e.g. Holland and Belgium). They were very much opposed to asking for special governmental representatives, feeling that the discussions should be kept within the Executive Directors' circle. We said we agreed with this.

g) July 15 Notice:

The U.K. representatives consider the July 15 notice desirable and recognize that it must be along the lines of the earlier U.S. outline. They favor keeping the notice as general as possible.

cc. Mr. Demuth
Mr. Broches

Mr. D. Sommers

June 24, 1959

J. Burke Knapp

I.D.A.

Dick Demuth is off for Pakistan, but is anxious to have a talk with us, together with Gene, on the subject of I.D.A. before Gene gets away again in mid-July. It looks like the evening of July 16 is about the only date when we all shall be able to get together. I should like to talk to you about this on your return.

c.c. Mr. D. H. Demuth

JBKnapp/js

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Files

DATE: June 10, 1959

FROM: S. R. Cope

SUBJECT: IDA

1. At the luncheon given by Mr. Black for Minister Erhard on Saturday, June 6, there was some discussion about IDA.

2. Professor Erhard said that although at first he had been somewhat against the IDA, he was now convinced that it should be supported and Mr. Black could count on German participation in it. As to the form in which "loans" by IDA should be made, Professor Erhard thought that the charter should give IDA complete freedom to use any technique it pleased, including loans repayable in local currency, loans at low interest rates and loans with very long amortization periods. Mr. Black agreed.

3. Professor Erhard suggested that it would be useful if the half dozen countries who would provide the bulk of the useable funds of IDA should meet together immediately before the annual meeting so as to reach an understanding about the main features of IDA. Mr. Black agreed that this was a good idea and said that he would try to arrange accordingly.

4. Professor Erhard also made a suggestion that the Bank might sponsor machinery to provide for consultation between the principal capital exporting countries before they made significant credits for projects in less developed countries. He thought this might also be placed on the agenda for the meeting referred to in paragraph #3. Mr. Black agreed that consultation was desirable, certainly between the Bank and the individual creditor countries, but was doubtful about the practicability of the Minister's suggestions.

SRCope:mmr

cc: Mr. Davidson Sommers
Mr. J. Burke Knapp
Mr. R. H. Demuth

IDA

FILES June 12, 1959

J. Burke Knapp

CHILE

I lunched with Felipe Herrera of Chile today, and heard some interesting views from him regarding the relations between the Inter-American Bank and IDA.

He started out by saying that he thought the soft loan department in the Inter-American Bank was a very important feature and that he expected this to be supported with substantial additional funds from the United States in the future. He said that he had now received a U.S. memorandum regarding I.D.A. and, as Governor for Chile in the Bank, was supposed to advise his Government on the subject. He was wondering what the relationship would be between I.D.A. and the soft loan department of the Inter-American Bank and whether indeed there would be any advantage to Chile in joining I.D.A.

I told him that I thought Chile certainly should join I.D.A. I said that whatever the resources of the soft loan department of the Inter-American Bank might be, it would certainly be advantageous for Chile to have access to two sources of soft loans rather than one. Furthermore I said that while I had no idea of how the actions of the two institutions would be coordinated, I thought that one possibility might be some kind of a division of labor which would leave I.D.A. handling certain kinds of projects, leaving others to the soft loan department of the Inter-American Bank. In such case, membership in I.D.A. would obviously be in the interests of Chile if she had projects falling in the I.D.A. categories.

Mr. Herrera seemed to be entirely persuaded by this and said he thought that the amount of money which Chile was being asked to put into I.D.A. was clearly worth their while. He remarked that Chile had already received $3 million worth of I.F.C. help in exchange for a mere $300,000 subscription. I suggested to him that Chile might apply the "profit" on this transaction to pay its subscription to I.D.A. (!!)

c.c. Messrs. Black
Iliff
Sommers
Demuth
Broches
Schmidt

JBK/js

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
May 27, 1959	Board Record

Correspondents / Participants
From: The Secretary

Subject / Title
Memorandum sent by United States Executive Director to other Executive Directors of the Bank Regarding the IDA

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

Mr. Davidson Sommers May 21, 1959

S. R. Cope

IDA Operating Principles

1. After our conversation the other day, I have been giving some thought to IDA's operating principles. While a number of points could be mentioned, one is of key importance: this is the technique by which IDA loans are rendered "soft".

2. IDA loans have clearly to be something between a gift and a commercial loan and to be nearer the former than the latter. The idea of their being repayable in the borrower's own currency appeared very early in the discussions and it is probably too late to eliminate it altogether. I have felt all along that the attractions of this technique were only superficial and that it has serious disadvantages. The main disadvantages of making interest and amortisation payable in local currency are the following:

(a) The local currency resulting from the payment of interest and repayments of principal will accumulate at an accelerating rate and could amount in a few years to large amounts in relation to the capital budget of the government or the assets of the central bank. If these payments were invested immediately they were received, there would be no deflationary or inflationary consequences in the economy. It is unlikely, however, that investment could be as 'continuous' as this. The danger is that payments would accumulate in an account with the central bank, during which time they would exercise a deflationary effect on the economy, only to have an inflationary effect when they were invested.

(b) The control by a foreign body (even an international institution) over the investment of local resources is likely to be a thankless task. A country will put up with a good deal of interference from outside if that is the price that has to be paid for getting foreign exchange. It is not likely to accept readily what is tantamount to a redirection of internal investment by an outside body involving no benefit in real terms. There is indeed no reason why the country should, since instead of asking for IDA local currency, it could get money from the central bank, which would be no more inflationary than the use of IDA local currency would be.

(c) It is not clear that it is even desirable for IDA to be responsible in perpetuity for the investment and reinvestment of a growing local currency fund. There is a good deal to be said for countries learning to manage their own internal funds.

(d) To direct effectively the investment of the local funds would require a considerable staff. (The size of the ECA local offices dealing with counterpart problems does not offer any reassurance on this point.) If, in order to avoid building up a big staff, IDA's control of reinvestment were purely nominal, IDA might be accepting responsibility for investments which later turn out to be bad.

3. I do not think that any solution to this problem is entirely satisfactory. In my mind, however, there is a good deal to be said for abandoning the 'local currency' idea as the main technique for making IDA loans soft.

4. As an alternative, I would advocate making IDA loans in foreign exchange repayable in foreign exchange in annuities spread over a long period of, say, 50 years. Ideally, the annunities would not include any interest charge. If for public relations reasons interest had to be charged, it should be at a low rate of 1/2% or 1%, and the annunities would be spread over a correspondingly longer period. But I think that the best course would be for them to be non-interest bearing.

5. I believe that this solution has the following advantages:

(a) It is simple.

(b) It gives IDA a trickle of usable funds which it can relend internationally.

(c) It avoids the accumulation of non-transferable funds which can distort the economy.

(d) It avoids the danger of IDA being involved indefinitely in problems of internal investment.

6. In view of the publicity which the feature of local currency repayment has received, I am not optimistic that it can be eliminated. Perhaps the best that can be hoped for is that IDA be permitted to choose its own techniques of making its loans soft.

SRCope:mmr

cc: Mr. King

May 18, 1959

Dear George:

Subject: I.D.A.

At the suggestion of Elting Arnold, I have revised the "Tentative Time-Table" to incorporate the various points which have been mentioned in our discussions. I enclose a copy for your files. I will be away for short periods of a few days at a time in the next week or two. If you want to talk about I.D.A. while I am away, I suggest you get in touch with Dick Demuth.

Yours sincerely,

Davidson Sommers
Vice President

Enclosure

Mr. George Willis
Director, Office of International Finance
Treasury Department
Washington, D. C.

cc: Mr. Demuth
DS/km

May 18, 1959

TENTATIVE TIME-TABLE FOR I.D.A.

To July 15, 1959	- U.S. talks with U.K., France, Germany, Canada (Japan? Benelux? India?)
July 15	- U.S. Governor writes to Chairman of Board of Governors to give advance notice of resolution to be introduced at Annual Meeting in September. Summary outline of IDA enclosed. Secretary of Bank circulates notice of resolution and outline to all Governors.
July 15 to Annual Meeting	- Remaining countries consider their positions, consulting with U.S. if desired. Bank staff prepares draft charter and outline with explanatory memorandum.
Annual Meeting	- U.S. Governor introduces resolution calling on Executive Directors to study IDA and prepare charter for submission to Governments.
October to December	- Executive Directors formulate charter on basis of outline and draft submitted by staff.
January 1960	- Charter submitted to Governments.

FORM No. 57
(5-48)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Messrs. Cope, Lejeune, Collier **DATE:** May 15, 1959

FROM: B. B. King

SUBJECT: IDA

May be the thing is to take a numerical example. Here is one. The opening (1959) balance sheets of the central and commercial banks (see appendix I) are in round and rough figures copied from IFS on Paraguay. They are not, therefore, academic.

IDA enters the picture. It makes two loans, exactly similar; one in June 1959 and the other in June 1962. Terms etc. are:

(i) Amount $2½ million
(ii) Interest rate 5%
(iii) Grace period 5½ years
(iv) Repayment period 25 years thereafter
(Annual payment approximately $175,000)
(v) Disbursement is such that interest payments are nil in first half year, $40,000 and $75,000 in next two years and full $125,000 for remaining three years.

The schedule of repayments into an IDA account is shown in Appendix II.

In 1967 IDA makes a loan of $1½ million out of counterpart funds, which will be disbursed in ~~two or~~ three years. What happens? Let us suppose that in the intervening eight years the government and the commercial banks have been borrowing from the central bank and the latter have been relending to the private sector. They have become accustomed to do this on a scale sufficient to offset the payments into IDA -account and add to the volume of money at a rate adequate to satisfy the normally increasing liquidity needs of the economy. Suppose this rate is about 2% p.a., i.e. an increase of 16% or from $25 to $29 million. There is no reason why they shouldn't do this. It creates no problem of inflation, no problem for the balance of payments - not yet.

Now IDA makes its $1½ million counterpart loan. As ~~first~~ repayments come in during the three years of disbursement, the account will stand at about $1 million in 1970.

Let us turn to the 1970 balance sheets. During these three years we have assumed a "permissible" increase in the volume of money of $2 million (about 2¼% p.a.). The increase is held to this by allowing the banks to continue the same increase in lending as before ($½ million p.a.) but stopping the government's borrowing from the central bank altogether.

Will the government accept this act of discipline? If they didn't they would lose $1 million or more of their reserves or have an inflation. May be the sacrifice is not so large (maximum $½ million a year) and they do accept. Might they not still grumble that they couldn't quite see the use of this IDA loan, which has to be negotiated and is

To: Messrs. Cope, Lejeune, Collier

rather bothersome? Why couldn't they forget it and borrow from the central bank as before (at a cheaper rate as the Burmese did)? And they would be right.

If they did this, they would, of course, be simply conforming to a de facto "deep-freeze" arrangement. In fact we can see that a deep-freeze arrangement, if the government and the banking system offset payments into the deep-freeze, is virtually the same as a "permissive" arrangement, in which the government does what it likes with repayments.

The worst thing, in my view, is to chop back and forth, the government getting used to offsetting and then having to stop when IDA dips into its frozen-food locker. I think there are all sorts of possibilities of trouble and I do not believe they are justified by the paternalistic advantages that some people advance for having extra "control", even if we are as good paternalists as some people like to think.

BBK:mhh

APPENDIX I

Balance sheets 1959 & 1967

($ million)

Central Bank

Assets	1959	1967	Liabilities	1959	1967
Foreign exchange	6	6	Money	14	16
Government bonds	8	10	Bank dep.	5	5½
Credit to commercial banks	20	22	Govt. dep.	3	3
Miscellaneous	2	2	Miscellaneous*	14	14
			IDA A/C	-	1½
	36	40½		36	40

Commercial banks

Central bank dep.	5	5½	Cent. Bk. credit	20	22
Govt. bonds	2	2	Deposits	11	13
Loans	25	28½	Miscellaneous	4	4
Miscellaneous	3	3			
	35	39		35	'39

Increase in credit to government		2
" " " " private sector		3½
		5½
Increase in volume of money -	currency	2
	deposits	2
		4

* Includes substantial importers' prepayments.

Appendix II

Repayments - ($1 million)

	Loan 1	Loan 2	Total	Accumulated
1960	40	-	40	40
1961	75	-	75	115
1962	125	-	125	240
1963	125	40	165	405
1964	125	75	200	605
1965-67	175	125	300	905
1966	175	125	300	1205
1967	175 101 5	125 490	300	1505
1968-1989	175 385 5	175 665	350	(n.a.)
1989-1992	- 487 0	175 700	175	(n.a.)
		1365		

Appendix III

Balance sheets - 1970

($ million)

Central Bank

Assets		Liabilities	
Foreign exchange	6	Money	17
Government loans	10	Bank deposits	6
Credit to commercial banks	23	Govt. deposits	3
Miscellaneous	2	Miscellaenous	14
		IDA A/C	1
	41		41

Commercial Banks

Assets		Liabilities	
Central bank dep.	6	Cent. Bk. credit	23
Govt. bonds	2	Deposits	14
Loans	30	Miscelleanous	4
Miscellaenous	3		
	40		40

1967/70 Increase in credit to government		0
" " " " private sector		1 ½
		1½
Increase in volume of money -	currency	1
	deposit	1
		2

The Earl of Cromer May 12, 1959

Davidson Sommers

As I explained to you, this was not prepared as a "proposal", but to clarify our own thinking on some of the essential problems. As such, I think it may be of interest to you even though the pure fund concept is not adopted. There are ways of accomplishing the same results under the IDA concept.

Attachment

IDA

Mr. D. Sommers

Richard H. Demuth

IDA Proposed Committee on Loan Policy

May 7, 1959

You asked me to suggest a committee of Bank staff who might consider various alternative methods of making IDA loans soft. Although the following list is too large, I find difficulty in omitting any of the names but you may want to prune the list yourself:

Sommers
Knapp
Broches (or Nurick)
Cavanaugh
Cope
Demuth
Gordon
Rist
Rosen

RHD:em

IDA
✓ + Liaison Memorandum

May 1, 1959

Mr. James A. Robinson
Department of Political Science
Northwestern University
Evanston, Illinois

Dear Mr. Robinson:

Mr. Black, who is on a short trip abroad, asked me before he left to reply to your letter to him of April 3, enclosing a copy of your study about the Monroney resolution. Mr. Black wants you to know that he read your manuscript with a great deal of interest (as did I) and that he has no objection to the references made to him on the pages listed in your letter.

Sincerely yours,

Richard H. Demuth
Director
Technical Assistance and Liaison Staff

RHD:tf

cc: Mr. Black

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
April 16, 1959	Memorandum

Correspondents / Participants
To: Files
From: Davidson Sommers

Subject / Title
IDA

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Organization - International Development Association [IDA] - General - Volume 2	30205491

Document Date	Document Type
April 14, 1959	Memorandum

Correspondents / Participants
To: Mr. Black, Mr. Knapp and Files
From: Davidson Sommers

Subject / Title
IDA

Exception(s)
Attorney-Client Privilege

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Shiri Alon	August 18, 2023

HARVARD UNIVERSITY
CENTER FOR INTERNATIONAL AFFAIRS

ROBERT R. BOWIE, *Director*
HENRY A. KISSINGER, *Associate Director*

6 DIVINITY AVENUE
CAMBRIDGE 38
MASSACHUSETTS

April 8, 1959

Dear Mr. Demuth:

Mr. Bowie has asked me to write you in his absence. He has returned from Paris, where he talked with Jean Monnet, but is away from Cambridge again this week.

As you requested in your letter of March 23, I am returning to you, herewith, the working papers prepared by the staff of the Bank on IDA. Mr. Bowie found the material very useful and appreciates your letting him read it.

Filed

Sincerely,

Sandra Bunt

Sandra Bunt
Secretary to Robert R. Bowie

Mr. Richard H. Demuth
Director, Technical Assistance and Liaison Staff
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D. C.

IDA

APR 13 REC'D

INTERNATIONAL DEVELOPMENT ASSOCIATES

405 PARK AVENUE • NEW YORK 22, N. Y.
TELEPHONE: PLAZA 5-5543

April 7, 1959

File
4/20/59

Mr. Eugene R. Black, President
International Bank For Reconstruction
And Development
1818 H. Street, N.W.
Washington 25, D.C.

Dear Mr. Black:

I am enclosing a copy of a letter I have written to Senator Mike Monroney, in which I took the liberty of using your name. As you see, I did so just in case he wished to find out more specifically about our firm, of which I wrote him.

I enjoyed seeing you on my last trip to Washington, and I found out the day after I saw you that I did not have either flu or pneumonia as expected, but, instead, hepatitis. I understand it is infectious rather than contagious, so I trust you shall not catch it. If so, however, you will not only have suffered from our mutual affliction in many of our favorite countries of the world, but also will have the distinction of catching something from me at one of our favorite places.

I hope your vacation in the South was pleasant, and I look forward to seeing you again soon.

Sincerely,

Hugh

HDA/nr

Hugh D. Auchincloss, Jr.

April 7, 1959

The Honorable A.S. Mike Monroney
The United States Senate
Washington, D.C.

Dear Senator Monroney:

I have been following with interest your recommendation to the Senate early last year "that a prompt study be given to establishing an International Development Association to make multi-lateral development loans at terms more liberal than those currently available," and I was pleased to note that the Senate passed your resolution by an overwhelming vote. My attention has recently been called to your fine article in the winter issue of World Affairs, and the commendable comments on your proposal by the press, which were placed in the Congressional Record on February 12th. I hope, if you have additional information on the International Development Association for distribution, you will kindly send it to me. I wholeheartedly support your proposal, and I sincerely hope for its early adoption by all governments of the free world.

Realizing your interest in the field of economic development overseas, I am writing to inform you of a firm formed last October in New York, International Development Associates, of which I am a partner. I am enclosing a brochure that is descriptive of the services we offer. As you see, the name is very similar to that of your proposal, and I am pleased to note that our interests are very closely allied; the difference being that we are a private organization designed to help arrange primarily private loans to, and investments in, less developed nations overseas, rather than an affiliate of the World Bank interested in making long term, low interest loans. We are therefore more of a means than an end.

We believe that the opportunities in the less developed lands are very great indeed, and that in some cases, there is still much to be done, in terms of building up the mutual trust that is necessary for confidence, and hence, development. We also believe that one serious impediment to the investment of private American capital abroad, particularly in newly developing areas, is the lack of effective communication between prospective borrowers with worthwhile projects and capital sources, both

public and private, in the United States.

We feel we can be helpful in three ways. First, through seeking to bridge this gulf by advising private investors in the United States on the soundness of foreign development projects; second, through affording objective analysis and providing advice on a consulting basis to foreign firms and governments that are interested in obtaining financial assistance in the United States; and finally, through independent and confidential studies, analyses, and reports on the past impact and effect of American business activities in selected countries, with the intention of improving the image created by United States business abroad.

We have acquainted Mr. Black of the International Bank for Reconstruction and Development, as well as members of the International Finance Corporation, the economic section of the Department of State, the International Cooperation Administration, The Development Loan Fund, the Export-Import Bank of Washington, with our establishment and our purpose, and we have in turn received encouragement in our enterprise. We hope to have a close working relationship with each of them. I have also informed my brother-in-law, Senator John F. Kennedy, of our existence and our interest, and in the past half year, we have corresponded with representatives of most of the governments of the free world, the Economic and Social Council of the United Nations, and many private firms overseas and corporations and banking institutions in the United States, telling them of our services.

I hope, when I am next in Washington, I may call you and possibly arrange a time at your convenience when we could discuss our mutual interests. I would very much look forward to meeting you. Please don't worry - the length of this letter does not necessarily imply that I would take up an excessive amount of your time.

Respectfully yours,

HDA/nr

Hugh D. Auchincloss, Jr.

APR 6 REC'D

NORTHWESTERN UNIVERSITY
EVANSTON, ILLINOIS

DEPARTMENT OF POLITICAL SCIENCE

PROGRAM OF GRADUATE TRAINING AND RESEARCH
IN INTERNATIONAL RELATIONS

April 3, 1959

Mr Demuth: Please see me on this EWB

Hon. Eugene Black, President
International Bank for Reconstruction
and Development
1818 H Street
Washington, D.C.

Dear Mr. Black:

Last autumn you did me the courtesy of seeing me about my study of the passage of Senator Monroney's resolution regarding an International Development Association. The study is virtually complete and the enclosed manuscript, with a few revisions, is about to go to the printer. On pages 4, 6, 7, 36, 37, 39, and 53, I have referred to you. Most of these references are based on public sources or interviews on the Hill, but I am much in debt to you for the background information you personally gave me. However, as we agreed, I have not quoted you directly, except, of course, from public records. If you should have any corrections or additions to suggest, I would be pleased to receive them. If you should have the opportunity to look at the whole manuscript, I would be deeply honored.

This will be published during the summer by Henry Holt and Company as one of a series of "Case Studies in Practical Politics," sponsored by the Eagleton Foundation of Rutgers University. I look forward to sending you the published version as soon as it is available.

Sincerely,

James A. Robinson

James A. Robinson, Instructor
and Research Associate

Ack'd

Enc.

JAR:ep

IDA

A. S. MIKE MONRONEY
OKLAHOMA

COMMITTEES:
APPROPRIATIONS
INTERSTATE AND FOREIGN COMMERCE
POST OFFICE AND CIVIL SERVICE

United States Senate

WASHINGTON, D. C.

MAR 27 REC'D

March 26, 1959

Files
4/20/59

The Honorable Eugene Black
President
International Bank for Construction
and Development
Washington 25, D. C.

My dear Gene:

From all I am able to pick up, things are beginning to move again on the International Development Association.

Since there would be some work that would need to be done in connection with getting modifications of our present surplus disposal account under PL 480, to simplify the conversion of local currencies into funds for IDA (if and when it is established), I would appreciate very much if you could give my friend Ned Kenworthy, of The New York Times, an off-the-record, background summary as to how the whole plan appears to be going. As you remember, Kenworthy broke the first story on IDA, and he has consistently been interested in following through this project.

Because of the great prestige of The New York Times, I feel it would be worthwhile to have him updated on what is happening, but without attribution to any person or organization. My experience has been that he is thoroughly trustworthy and would keep in confidence these news sources.

With best personal regards and good wishes, I am,

Yours very truly,

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM59-34

FROM: The Acting Secretary February 12, 1959

INTERNATIONAL DEVELOPMENT ASSOCIATION

The following letter regarding the proposed International Development Association which was printed in the Congressional Record of February 9,1959 is reproduced for the information of the Executive Directors:

"The Secretary of the Treasury,
Washington, January 16, 1959.

Hon. J.W. Fulbright,
Chairman, Committee on Banking and Currency,
Senate Office Building,
Washington, D.C.

My dear Senator:

Pursuant to Senate Resolution 264, 85th Congress, the National Advisory Council on International Monetary and Financial Problems is currently studying the feasibility of establishing an International Development Association. The report of your committee recommending the adoption of the resolution stated that "if the study is not completed by December 31, 1958, the committee would expect to be furnished with an interim report." The purpose of this letter is to supply such an interim report.

In August 1958, an exchange of letters took place between President Eisenhower and the Secretary of the Treasury dealing with increases in the resources of the International Monetary Fund, the International Bank for Reconstruction and Development, and consideration of an International Development Association. In substance, the President directed me, as U.S. Governor of the Fund and the Bank, to propose consideration of these matters at the annual meeting of the two institutions in October. Copies of these letters are attached for your information.

On October 6, 1958, in addressing the opening joint session at the annual meeting of the International Monetary Fund and the International Bank at New Delhi, in my capacity as Governor of the Fund and Bank for the United States, I included the following:

Distribution

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

Sec.59-65

"I should also like to say something about the International Development Association to which President Eisenhower referred in his August letter. We are now studying this proposal in my own government. I have no blueprint to offer at this time for such an association. Essentially, however, it would be an affiliate of the International Bank which would make long-term loans for economic development repayable in whole or in part in the currency of the borrowing country. As I have said, the U.S. Government is making its own studies of the feasibility and desirability of establishing an IDA. We hope that other countries will at the same time be giving thought to the matter, and we shall look forward to having informal conversations with you. If these informal studies and conversations lead to encouraging conclusions, it would be appropriate to undertake more formal study and negotiation looking to the establishment of such an association."

Under Secretary of State for Economic Affairs, C. Douglas Dillon, Alternate Governor for the United States, at the discussion of the bank's annual report on October 9, 1958, at New Delhi, stated:

"In his remarks at the opening session of this conference, Secretary Anderson referred to a proposal which is being studied in the U.S. Government for an International Development Association. While our Government does not as yet have a detailed plan to submit with reference to such an association, we believe that any plan should take account of the following factors:

1. As is well known, loans from the International Bank have to be repaid in hard currencies. We understand that in a number of cases the bank has had to disapprove applications for loans, not because the development project involved was without merit, but because repayment of the loan entirely in hard currency would have placed an undue strain on the borrowing country to repay. Now, if a percentage of the cost of such projects could come from a new institution affiliated with the bank which could make loans repayable at least in part with softer currencies, projects such as these might well become feasible.

2. Our suggestion that member governments of the bank study the possibility of an International Development Association does not mean that the United States would favor any lessening of the technical lending standards of the bank. Projects submitted to the International Development Association would be considered by precisely the same management and staff which now examines projects for the bank. In other words, while an International Development Association would provide capital on more flexible terms, in a balance of payments sense, than are now possible under International Bank standards, the establishment of an International Development Association as an affiliate of the bank would assure that the new lending authority would be in the hands of skilled financial management.

3. We ourselves are actively studying the ways and means in which an International Development Association might operate, and hope to arrive at our own conclusions within the next few months. We would meanwhile welcome the thinking of our associates in the bank on this subject. It is, of course, essential to the success of such an institution that it receive broad financial support from the industrialized countries which are members of the International Bank. Only in this way could it become an effective international instrument for development. If encouraging conclusions emerge from these studies and informal conversations, it will then be appropriate to undertake more formal negotiations.

I would like to emphasize our belief that the difficult and complex problems of development require that all of us contribute together to their solution both financially and with our best thinking. Only in this way can we make progress toward the goal of a better living for all the peoples of the world. No one country and no small group of countries can do the job alone."

In addition, informal discussions of the International Development Association were begun with representatives of a number of governments at the annual meeting of the Fund and the Bank. Meanwhile, study has also been given to the International Development Association proposal within the structure of the National Advisory Council. This study is not completed and, of course, cannot be until we know more closely the views of other governments who might be interested in the creation of an International Development Association.

When further progress has been made in our discussions with foreign governments and in our own studies, we will report again to your committee.

Sincerely yours,

ROBERT B. ANDERSON

Chairman, National Advisory Council on International Monetary and Financial Problems."

Sec. 59-65