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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

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Executive Directors and Alternates

President

Vice Presidents

Department Heads

Assistant Department Heads

Division Chiefs

Secretary, IMF

*Law*

# INTERNATIONAL DEVELOPMENT ASSOCIATION ACT

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## HEARINGS

BEFORE

### SUBCOMMITTEE NO. 1

COMMITTEE ON BANKING AND CURRENCY  
OF THE

## COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

EIGHTY-SIXTH CONGRESS

SECOND SESSION

ON

**H.R. 11001**

MARCH 15, 16, AND 17, 1960

Printed for the use of the Committee on Banking and Currency



UNITED STATES  
GOVERNMENT PRINTING OFFICE

WASHINGTON : 1960

HEARINGS

BEFORE

SUBCOMMITTEE NO. 1  
COMMITTEE ON BANKING AND CURRENCY

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H.R. 11001

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FLORENCE P. DWYER, New Jersey  
SEYMOUR HALPERN, New York



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 Source: Hon. Robert B. Anderson, Secretary of the Treasury

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# INTERNATIONAL DEVELOPMENT ASSOCIATION

TUESDAY, MARCH 15, 1960

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
SUBCOMMITTEE No. 1,  
Washington, D.C.

The subcommittee met at 10 a.m., Hon. Brent Spence (chairman of the subcommittee) presiding.

Present: Representatives Spence, Brown, Multer, Vanik, Moorhead, Inouye, Kilburn, Widnall, and Meses. Griffiths and Dwyer.

(The text of H.R. 11001 is as follows:)

[H.R. 11001, 86th Cong., 2d sess.]

A BILL To provide for the participation of the United States in the International Development Association

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## SHORT TITLE

SECTION 1. This Act may be cited as the "International Development Association Act".

## ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the International Development Association (hereinafter referred to as the "Association"), provided for by the Articles of Agreement (hereinafter referred to as the "Articles") of the Association deposited in the archives of the International Bank for Reconstruction and Development.

## GOVERNOR, EXECUTIVE DIRECTOR, AND ALTERNATES

SEC. 3. The Governor and Executive director of the International Bank for Reconstruction and Development, and the alternate for each of them, appointed under section 3 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286a), shall serve as Governor, Executive Director and alternates, respectively, of the Association.

## NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

SEC. 4. The provisions of section 4 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286b), shall apply with respect to the Association to the same extent as with respect to the International Bank for Reconstruction and Development and the International Monetary Fund. Reports with respect to the Association under paragraphs (5) and (6) of subsection (b) of section 4 of said Act, as amended, shall be included in the first report made thereunder after the establishment of the Association and in each succeeding report.

## CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

SEC. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States, (a) subscribe to additional funds under article III, section 1, of the articles; (b) accept any



amendment under article IX of the articles; or (c) make a loan or provide other financing to the Association, except that loans or other financing may be provided to the Association by a United States agency created pursuant to an Act of Congress which is authorized by law to make loans or provide other financing to international organizations.

#### DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Association shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

#### PAYMENT OF SUBSCRIPTIONS

SEC. 7. (a) There is hereby authorized to be appropriated, without fiscal year limitation, for the subscription of the United States to the Association, \$320,290,000.

(b) For the purpose of keeping to a minimum the cost to the United States of participation in the Association, the Secretary of the Treasury, after paying the requisite part of the subscription of the United States in the Association required to be made under the articles, is authorized and directed to issue special notes of the United States from time to time, at par, and to deliver such notes to the Association in exchange for dollars to the extent permitted by the articles. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection, but such notes shall bear no interest, shall be nonnegotiable, and shall be payable on demand of the Association. The face amount of special notes issued to the Association under the authority of this subsection and outstanding at any one time shall not exceed, in the aggregate, the amount of the subscription of the United States actually paid to the Association under the articles.

(c) Any payment made to the United States by the Association as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

#### JURISDICTION AND VENUE OF ACTIONS

SEC. 8. For the purpose of any action which may be brought within the United States, its possessions, or the Commonwealth of Puerto Rico, by or against the Association in accordance with the articles, the Association shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity to which the Association shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action. When the Association is a defendant in any such action, it may, at any time before the trial thereof, remove such action from a State court into the district court of the United States for he proper district by following the procedure for removal of causes otherwise provided by law.

#### STATUS, IMMUNITIES, AND PRIVILEGES

SEC. 9. The provisions of article VII, section 4(d), and article VIII, sections 2 to 9, both inclusive, of the articles shall have full force and effect in the United States, its possessions, and the Commonwealth of Puerto Rico, upon acceptance of membership by the United States in, and the establishment of, the Association.

Mr. SPENCE. The committee is meeting this morning to consider H.R. 11001, to provide for participation of the United States in the International Development Association, and our first witness is Secretary of the Treasury Anderson.

Mr. Secretary, you may proceed, and we will see that you are not interrupted until you get through with your statement. Then you may subject yourself to interrogation.

**STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE  
TREASURY**

Secretary ANDERSON: Thank you, Mr. Chairman. Mr. Chairman and members of the committee, the bill before you authorizes the President to accept membership for the United States in the proposed International Development Association. It would also give the necessary authorization, subject to later appropriation, of the funds necessary to pay the U.S. initial subscription. I wholeheartedly support enactment of this bill.

The Congress and the President have on many occasions expressed the great interest of the United States in the economic advancement of the less developed countries. In these countries there is a large and unsatisfied demand for the capital goods needed for the development of their resources and the effective utilization of their labor forces. These resources in the less developed countries of Asia, Africa, and Latin America cannot now be utilized effectively for lack of the capital equipment and industrial skill which would enable them to produce more efficiently.

While economic progress in the less developed countries must come in large part from their own efforts, they need outside assistance in financing their imports of capital goods. With increasing productivity they will be in a better position to utilize and mobilize their own resources. As President Eisenhower recently said in his state of the Union message, referring to the less developed countries, "These people, desperately hoping to lift themselves to decent levels of living, must not, by our neglect, be forced to seek help from, and finally become virtual satellites of, those who proclaim their hostility to freedom." This means that the economically stronger countries of the free world must, individually and collectively, provide a share of the capital goods needed.

The proposed International Development Association is intended to complement the development financing now provided by private investors and national and international agencies providing capital to the less developed countries. It will not finance projects which can be undertaken by private investors on reasonable terms, or which should be financed by the International Bank or other conventional lending agencies under their usual terms.

Our own Export-Import Bank has over the years loaned over \$10 billion, which have contributed enormously to economic advance abroad. The International Bank, maintained by its 68 member countries, has provided over \$4 billion in development loans. These two banks have represented a great advance in international financial relations. Their investments have not only paid off, in the sense that the borrowers have been able to meet interest and amortization, but in addition the banks have provided sound financing for some of the basic needs in terms of transportation, power, and communications. These investments have made possible as well the productive use of other equipment and the utilization of local resources. Their contribution to economic development is more than the record of dollars loaned and dollars repaid.

The terms of repayment and interest at which the Export-Import Bank and the International Bank can lend are determined in large part by the conditions under which the two banks obtain their funds for lending. The International Bank is now financed almost entirely by selling its securities in the financial markets of the United States and of the other industrialized countries. In making loans, the rate of interest charged must cover the Bank's interest and administrative costs and provide reserves. The term of its loans must bear some fairly close relationship to the maturities at which the Bank itself borrows. Similarly, the Export-Import Bank, which secures its funds from the Treasury, must cover the cost of money to the Treasury as well as other costs, and also provide for reserves.

To maintain their position as sound financial institutions, these banks make their loans only when there is reasonable prospect that the loans can be serviced at the terms which they can offer. They make loans for sound projects in countries which can be expected to repay the loans in the currency loaned. The Export-Import Banks must be repaid in dollars, and the International Bank in dollars or other hard currency. These banks can meet the requirements of many projects, but they cannot in practice deal with some important cases. Some countries are today in a balance-of-payments position which gives little prospect that they could in the foreseeable future repay hard-currency loans. Many of the less developed countries have needs for capital in excess of their capacity to repay on the terms at which the banks can lend. The International Development Association has been proposed as one means of dealing with some of these problems.

Undoubtedly, these factors were considered when the Senate, in July 1958, suggested that the National Advisory Council study the possibility of establishing an International Development Association, as an affiliate of the World Bank, to make loans for economic development which otherwise could not be made. The Council undertook this study and has submitted several reports to the Congress on the matter. The feasibility of an international agency of this sort depends in good part upon the willingness of other countries to contribute to its resources. In accordance with the President's direction, we in the Treasury have held discussions with other countries which are in a position to make resources available, and we were so encouraged by their responses that the Council, in the summer of 1959, suggested outlines of the project. In the fall, the United States introduced a resolution, which was unanimously adopted by the Board of Governors of the International Bank, calling upon the Executive Directors of the Bank to formulate articles of agreement for an International Development Association for submission to the member governments. The Directors completed their work on January 26, and their proposal has been put before you in the annex to the special report of the National Advisory Council.

The International Development Association represents a forward-looking step in international cooperation within the free world. All the member countries of the International Bank are expected to contribute to its resources, but the bulk of its convertible currency assets is to be paid by 17 member countries which today are the more advanced economically. I should like to stress the importance of this contribution by other countries. The United States is scheduled to

pay in \$320 million of the initial subscriptions, while the other more developed countries are scheduled to provide \$443 million.

These 16 countries have recovered from the effects of the war; they have expanded their trade; and they have acquired adequate, or more than adequate, monetary reserves. They are in a position today to help the less developed countries. Hitherto, capital on flexible terms of repayment has been provided almost entirely by the United States through the Development Loan Fund. In the International Development Association, other countries will provide a larger share of the convertible currency resources than will the United States. These countries will include most of the Western European countries as well as Canada, Japan, Australia, and South Africa, countries which are also in a favorable position to provide funds.

The International Development Association, it is hoped, will include all of the members of the International Bank. The countries which are most advanced economically—part I countries in schedule A of the articles—will make their payments entirely in gold or convertible currencies which the International Development Association may use for purchases in any country. The less developed countries, on the other hand, will pay 10 percent of their subscription in convertible currencies and the balance in their national currencies. They will participate to this extent as contributors of resources as well as borrowers. The International Development Association may thus have in a 5-year period at its disposal some \$785 million in freely convertible currencies from which it may make loans. The national currency contributed in its subscription by a less developed country will be usable to defray local-currency costs on projects in that country and may be used for exports for International Development Association-financed projects in other countries only with its consent. This provision appears reasonable. The less developed countries, which are expected to receive loans from the IDA, are not generally in a position to provide net resources for use in other countries. There will be, however, some occasions in which they can supply goods needed at reasonable cost, and in these instances their national-currency subscriptions can be used elsewhere on IDA projects by agreement.

The articles of agreement allow the Executive Directors a great deal of flexibility in setting the terms and conditions of the loans. The IDA will be empowered to make loans wholly or partly repayable in the borrower's own currency. It will also be empowered to make loans repayable in hard currencies, but with longer maturities than are possible for International Bank loans in view of the Bank's own financing conditions. Loans may be made at rates of interest which will be below the rate on Bank loans. In short, it must be understood that the International Development Association is to make loans which will bear less heavily on the balances of payments of the borrowing countries than loans of the type now made by the International Bank or the Export-Import Bank. This, indeed, is the purpose of an International Development Association.

The IDA articles specify that it will not provide financing when it is available from private sources on reasonable terms for the recipient or could be provided by a loan of the type made by the Bank.

The effect on the balances of payments of the borrowing countries will vary somewhat, depending upon the policy which the IDA

evolves within the flexibility as to terms of loans that is provided by the articles. Long schedules of amortization or lower interests rates enable countries to pay off hard-currency loans at a lower annual cost. When the repayment is made in local currencies, there is, of course, no burden on the balance of payments of the borrower. By these methods the developing countries will be able to obtain more finance than they could otherwise obtain. Their economic development will be accelerated, and in time they can be expected to become more self-sustaining and sounder risks for more conventional financing and be able to attract more private capital investment.

It will be apparent at once from the terms of its loans that the original resources of IDA will not revolve in the same way as the resources of the International Bank or the Export-Import Bank, whose loans are repaid in the currency loaned at maturities corresponding approximately to their own borrowings.

In the IDA, the longer the term of loans, the more slowly the resources will revolve. The larger the percentage of the loans made repayable in borrower currencies, the less prospect there is that the repayments to IDA will be in currencies which can be re-lent for new projects in other countries. It is therefore evident that if the IDA is to continue its work over a long period of time, its hard-currency resources will need replenishment from time to time.

The articles provide that the member countries, by a two-thirds majority of the total voting power, may increase the resources by providing for additional subscriptions. The terms of any such additional subscriptions will have to be determined at the time, and there is provision for a review of the adequacy of IDA's resources at 5-year intervals. This problem should be noted, because it points to the likelihood that, if IDA's operation is successful, requests for additional congressional authorizations may be made in future years. I should like to point out that the United States is not obligated under the articles to subscribe additional resources, unless it wishes to do so, even if they are authorized by an IDA resolution, and that the bill before you expressly provides that additional resources may not be subscribed by the United States under this provision without congressional authorization. It should also be noted that any resolution to provide additional resources requires a two-thirds majority of the total voting power, and the United States alone has approximately 28 percent of the votes.

The articles of IDA also provide arrangements whereby the United States can make some of its holdings of foreign currencies available to IDA for development projects. The Association may make arrangements with member countries to receive currencies of another country to be used as supplementary resources, when the Association is satisfied that the member whose currency is involved agrees to such use of its currency.

The United States, under the Agricultural Trade Development and Assistance Act of 1954, as amended, has acquired considerable amounts of the currencies of the less developed countries and will continue to acquire such amounts annually as long as this program is in effect. Up to the present, a large portion of the local-currency receipts from our sales of surplus agricultural commodities is earmarked for loans for economic development to the country concerned.

With IDA in existence, it will be possible to channel part of these local currencies to it to be used in defraying local costs on projects whose foreign exchange is otherwise financed, or for use in projects requiring local currencies wholly or in major part.

The arrangements for the use of local currencies which the United States might provide for IDA will be worked out in individual cases. To use local currencies effectively for advancing economic development, there will have to be a coincidence of the need for a currency by IDA and its availability to the United States for transfer to IDA. Many of these currencies are those of countries which need additional external resources and are themselves rarely in the position of offering assistance to other countries. There will be some cases, however, in which these currencies will be usable for exports. But the agreement of the country is necessary for such use by IDA, and in many cases these countries may prefer to sell their exports on world markets for foreign exchange rather than to make them available to IDA against payment in their own currency.

In order to transfer to the International Development Association local currencies received in payment for our surplus agricultural products, the agreement of the purchasing country will, of course, have to be secured through the sales agreement. By agreement in future sales contracts, these resources can be made available in part to IDA.

While IDA is to be created as a separate financial entity, it is to be an affiliate of the International Bank. The President of the Bank will be, ex officio, President of IDA and will be responsible for its administration. The Executive Directors of the Bank representing the countries which are members of IDA will function as the Executive Directors of IDA. To the greatest extent possible, IDA will utilize the Bank's existing officers and staff, so that a large new organization will not be created. In brief, IDA will be administered very closely in conjunction with the International Bank's operations. Its activities will complement the Bank's, and it will enjoy the advantages of the Bank's prudent management.

It is our view that the operations of IDA will not conflict with the operations of the International Bank or the Export-Import Bank or the private-capital market, since IDA will not make loans to countries or for projects which should properly be financed by these banks or the private-capital market. The size of IDA in comparison with the bank, in itself, will mean that the resources of IDA will have to be reserved for those priority projects which cannot be financed on more conventional banking terms but will make a significant contribution to economic development. The possibility of "bad loans driving out good" has been recognized and will be avoided by careful use of the limited resources of IDA and good judgment on the part of its management.

Closely related is the question of our own Development Loan Fund, which was created by the Congress to make loans on terms which also do not impose too heavy a burden on the balance of payments of the borrower. The DLF makes its loans only when a given project cannot be financed under the usual terms by the private market, the Export-Import Bank, or the International Bank. IDA and the Development Loan Fund will have somewhat similar functions. The

important difference is that the DLF is a purely U.S. institution. It operates under the foreign policy guidance of the Secretary of State, and its board of directors includes the Under Secretary of State, as well as other officials of the Government. The DLF resources are provided entirely by the United States through appropriations made by the Congress. In IDA on the other hand, the United States will provide only about one-third of the total resources, while the other economically advanced countries of the world will provide considerably more than the United States. This, we believe, is an important step in giving due weight to the economic strength of other countries and their interest in assisting economic development. The extent to which IDA is to finance a project, or the DLF is to finance a project, or whether IDA would participate in combined efforts with other lending agencies, would depend in large part on the nature of the project and other considerations which may be relevant at the time.

It will be necessary to have appropriate coordination of the U.S. representatives in IDA with U.S. lending agencies. The National Advisory Council on International Monetary and Financial Problems was established by the Congress to coordinate the activities of the U.S. representatives on the International Bank and the International Monetary Fund with the activities of the Export-Import Bank and other agencies of the United States engaged in foreign lending and exchange transactions. The Council has now for a period of 14 years coordinated these activities by reviewing general policies and passing on particular transactions. It has advised the U.S. Governor and the U.S. Executive Director of the Bank on matters of policy in its operations. By the charter of IDA, these officials will serve in the same capacity, *ex officio*, as they do in the Bank. The enabling legislation for IDA provides that similar coordination will be assured with the new institution.

It should be noted also that the U.S. Executive Director of the International Bank, who will represent us in the day-to-day operations of the IDA, is also a member of the Board of the Development Loan Fund, which will be a further assurance of harmonious operation and cooperation.

The enabling legislation, which you are considering, also provides that IDA be granted privileges and immunities in the United States in the same way as the Bretton Woods Agreements Act has provided these privileges for the International Bank. The terms are identical, and they have created no problem as far as the International Bank is concerned, and they need create no problem with regard to IDA.

The legislation also contains the authorization of the appropriation of \$320,290,000, which will be our subscription in IDA. I recommend that this authorization of appropriations be made at this time, though it will be necessary to appropriate only \$73,666,700 for the fiscal year 1961. This amount represents the portions of our subscription which will fall due in fiscal 1961. In the following 4 fiscal years the appropriations required to meet our obligations will in each year amount to \$61,655,825.

The President has urged the Congress to act promptly in passing this authorizing legislation. The International Development Association was proposed by the United States, and, to maintain our posi-

tion of leadership, it is necessary for us to proceed firmly. If we do so, we may well expect that other countries will adopt the necessary legislation for their acceptance of the IDA agreement. They will have until December 31, 1960, to take the necessary steps, though, if necessary, this time can be extended for an additional 6 months. The articles will not become effective until countries providing 65 percent of the total subscription will have accepted the articles of agreement. This requirement is analogous to the procedure used in the recent increase in the capital of the International Bank. The agreement cannot become effective before September 15, 1960, but it will become effective any day after that time, when 33 percent of the total subscriptions is obtained from other countries, provided the United States, with 32 percent of the total, has deposited its instrument of acceptance before that date.

The IDA inaugurates a new phase in international financial help for the less developed countries. We have recognized their need. We have recognized that many of them cannot develop their economies effectively unless they can obtain capital on terms which bear less heavily on their economies than the types of loans which are now available. In this cooperative venture, other countries will join with us. We feel that the economic development of the less developed countries must go on at a more rapid pace. This will be a source of hope to the peoples in these countries. It will serve to advance their economic life under free institutions, which we all desire. It is up to the United States to take the initial steps to bring this venture into active operation.

Mr. SPENCE. Mr. Secretary, do you believe the International Development Association would be in a position to more advantageously dispose of the soft currencies obtained than the Development Loan Fund? In other words, wouldn't a banking institution be in a position to dispose of these soft currencies we receive more advantageously than an organization not organized for that purpose?

Secretary ANDERSON. Mr. Chairman, we think there will always be a requirement for some purely national institutions that have in mind not only economic considerations but considerations of our own national interest.

On the other hand, I think it is unquestioned that the activities of the World Bank have been of the highest character. It is our belief that, to the extent that we can funnel soft currencies through the mechanisms of the World Bank and use them in bringing into existence marginal projects which might not otherwise be financed, one of the best possible uses of the funds can be made.

Mr. SPENCE. Don't you think that the participation of other nations in this organization will not only save us expense but will add to the effectiveness of the use of the funds because the nations who are neighbors of the borrowers have an interest in the Association, they are all engaged in the loans, and they will all be interested in proper expenditure of the funds that are advanced?

Secretary ANDERSON. I think there are a number of advantages, Mr. Chairman.

In the first place, it seems to me highly important that countries other than the United States assume a part of the responsibility of providing funds on terms that are not always those arrived at by



agreements between borrowers and lenders of the type that is customary in the conventional institutions. Up until now the United States has been providing about the only loans of this type that were available in the world.

I think, also, it is important for us to remember that even those countries which are the borrowing countries are going to be putting in 10 percent of their subscription in hard, convertible currencies. This, it seems to me, will give a sense of fiscal discipline, because all of them will be looking at the fund thinking in terms that, when these hard resources have been exhausted, the borrowers as well as the lenders have to be putting back some hard currencies in order to maintain the activities of the International Development Association.

Now, it seems that from both standpoints much is to be gained by this International Development Association.

Mr. SPENCE. Mr. Secretary, Mr. Patman has submitted a number of questions which he wishes you to answer for the record. You don't have to answer them at this time, but I have told him I would submit them to you and that they would be incorporated in the record.

Secretary ANDERSON. We shall be glad to supply the answers, Mr. Chairman.

(Mr. Patman's questions, together with the responses prepared by the Treasury Department, are as follows:)

(1) Please name the different agencies which are making loans or grants to foreign countries now.

There are five major agencies which are involved in the financing of economic development abroad, and a sixth agency in this field is about to commence operations. These agencies are the Export-Import Bank, the Development Loan Fund, the International Cooperation Administration, the International Bank for Reconstruction and Development, and the International Finance Corporation. The Inter-American Development Bank is about to commence operations. This list includes only those major agencies which have a principal role in providing capital for oversea economic development. Several other agencies in the international field are engaged in what is more properly described as technical assistance, and are therefore excluded from this list.

(2) Which of the agencies making loans or grants to foreign countries are operating exclusively on contributions by the U.S. Government, and which are operating on contributions by other foreign governments as well?

The Export-Import Bank, the Development Loan Fund, and the International Cooperation Administration are agencies of the United States and operate exclusively with funds provided by the U.S. Government. Portions of the local currency proceeds of sales of agricultural surplus commodities under Public Law 480 are lent to the countries purchasing these commodities by the International Cooperation Administration of the Department of State or by the Development Loan Fund for economic development purposes. Portions of these currencies are also lent by the Export-Import Bank to American firms, or their affiliates abroad, or to foreign firms for increasing the consumption of or markets for U.S. agricultural commodities.

The International Bank for Reconstruction and Development, the International Finance Corporation, and the new Inter-American Development Bank are international agencies which operate with funds subscribed in part by the United States and in part by the other member countries.

(3) Please provide a statement showing the amount of Government funds authorized or subscribed to each of the international lending agencies and showing also the amounts actually paid in to these agencies.

The International Bank for Reconstruction and Development now has an authorized capital of \$21 billion. As of December 31, 1959, the 68 member countries had subscribed \$18.6 billion. The U.S. capital subscription is \$6,350 million, of which \$635 million has actually been paid in.

The International Finance Corporation has an authorized capital of \$100 million. As of December 31, 1959, the 58 member countries had subscribed \$95.4 million. The U.S. capital subscription is \$35.2 million, all of which has been paid in.

The Inter-American Development Bank has total resources of approximately \$1 billion, which are now in the process of being called for payment. The scheduled U.S. participation in the Bank's resources is \$450 million, of which \$250 million is to be paid in.

(4) Please provide a statement showing for each of the agencies making foreign loans or grants the amount of loans or grants which have been authorized for each country, and also the amount which has actually been disbursed by each agency for each country.

TABLE 1.—Foreign grants and credits extended by the U.S. Government, the International Bank, and the International Finance Corporation through June 30, 1959

[In millions of dollars or equivalent]

	U.S. Government <sup>1</sup>		International Bank credits		International Finance Corporation investments		
	Grants utilized <sup>2</sup>	Credits		Net authorized	Disbursed	Net authorized	Disbursed
		Net authorized	Disbursed				
Total, all areas.....	61,007	19,831	16,720	4,426	3,377	20	10
Military supplies and services.....	24,790						
Nonmilitary assistance.....	36,218	19,831	16,720	4,426	3,377		
Total, Europe.....	40,251	11,040	10,293	1,618	1,325		
Total, Western Europe.....	39,179	10,852	10,120	1,618	1,325		
Military supplies and services.....	17,457						
Nonmilitary assistance.....	21,722	10,852	10,120	1,618	1,325		
Austria.....	1,092	99	59	91	60		
Belgium and Luxembourg.....	583	238	238	173	153		
Denmark.....	248	57	57	60	42		
Finland.....	4	174	166	102	61		
France.....	4,366	2,176	2,126	302	267		
Germany (West).....	3,876	356	354				
Greece.....	1,396	200	176				
Iceland.....	30	26	21	6	6		
Ireland.....	18	128	128				
Italy (including Trieste).....	2,751	614	555	258	174		
Netherlands.....	894	428	425	236	236		
Norway.....	239	135	135	75	64		
Portugal.....	26	58	58				
Spain.....	386	393	198				
Sweden.....	87	28	28				
Turkey.....	633	270	205	61	59		
United Kingdom.....	3,798	4,906	4,905	193	142		
Yugoslavia.....	842	331	186	61	61		
European Atomic Energy Community.....		135					
European Coal and Steel Community.....		100	100				
Other and unspecified Western Europe.....	453						
Total, other Europe (nonmilitary assistance).....	1,072	188	173				
Albania.....	20						
Czechoslovakia.....	186	30	30				
East Germany.....	17						
Hungary.....	16	16	16				
Poland.....	368	142	127				
U. S. S. R.....	465						
Total, Asia.....	17,209	4,360	2,927	1,298	861	4	

See footnotes at end of table.

TABLE 1.—Foreign grants and credits extended by the U.S. Government, the International Bank, and the International Finance Corporation through June 30, 1959—Continued

[In millions of dollars or equivalent]

	U.S. Government <sup>1</sup>		International Bank credits		International Finance Corporation investments		
	Grants utilized <sup>2</sup>	Credits		Net authorized	Disbursed	Net authorized	Disbursed
		Net authorized	Disbursed				
Military supplies and services	6,566						
Nonmilitary assistance	10,643	4,360	2,927	1,298	861	4	
Afghanistan	35	52	50				
Bahrain		17	17				
Burma	23	73	13	19	10		
Cambodia	146						
Ceylon	27	8	3	25	13		
China-Taiwan	1,449	394	361				
India	356	1,222	495	532	429	2	
Indochina (unspecified)	111						
Indonesia	149	292	177				
Iran	274	196	150	147	75	( <sup>3</sup> )	
Iraq	18			6	6		
Israel	297	326	273				
Japan	2,250	1,003	931	254	174		
Jordan	137	1					
Korea (South)	2,441	32	26				
Laos	179						
Lebanon	60			27	6		
Malaya	1	20		36	( <sup>3</sup> )		
Nepal	14						
Pakistan	425	285	151	126	87	1	
Philippines	845	282	177	19	13		
Ryukyu Islands	234						
Saudi Arabia	5	32	32				
Thailand	149	72	21	107	48	( <sup>3</sup> )	
Trust Territory of the Pacific Islands	48						
Vietnam	949	53	50				
Yemen	4						
Other and unspecified Asia	17						
<b>Total, Latin America</b>	<b>1,207</b>	<b>3,650</b>	<b>2,841</b>	<b>935</b>	<b>671</b>	<b>15</b>	<b>9</b>
Military supplies and services	511						
Nonmilitary assistance	696	3,650	2,841	935	671	15	9
Argentina	1	436	207				
Bolivia	128	50	48				
Brazil	50	1,297	1,066	267	176	8	6
Chile	38	291	236	74	48	5	2
Colombia	24	257	232	131	99	1	
Costa Rica	36	28	21	7	4		
Cuba	3	95	92				
Dominican Republic	3	3	3				
Ecuador	18	57	45	46	14		
El Salvador	9	2	2	32	23	( <sup>3</sup> )	
Guatemala	80	3	3	18	18	( <sup>3</sup> )	( <sup>3</sup> )
Haiti	32	42	36	3	1		
Honduras	14	13	6	11	4		
Mexico	110	545	405	186	157	1	1
Nicaragua	22	9	6	23	20		
Panama	25	21	8	7	7		
Paraguay	15	25	19	4	4		
Peru	43	237	178	62	41		
Surinam	2						
Uruguay	3	26	19	64	55		
Venezuela	3	29	27				
West Indies	4	21	21				
International Organizations in Latin America	15						
Other and unspecified Latin America	19	163	161				

See footnotes at end of table.

TABLE 1.—Foreign grants and credits extended by the U.S. Government, the International Bank, and the International Finance Corporation through June 30, 1959—Continued

[In millions of dollars or equivalent]

	U.S. Government <sup>1</sup>		International Bank credits		International Finance Corporation investments		
	Grants utilized <sup>2</sup>	Credits		Net authorized	Disbursed	Net authorized	Disbursed
		Net authorized	Disbursed				
Total, Africa (nonmilitary assistance).....	297	475	355	260	203		
British East Africa.....	4	2	2				
Ethiopia, Eritrea.....	27	32	14	24	12		
French Equatorial Africa.....		4	4				
Liberia.....	13	55	41				
Libya.....	83	9	1				
Morocco.....	17	108	52				
Rhodesia and Nyasaland.....	( <sup>3</sup> )	61	61				
Somaliland Trust Territory.....	3						
Sudan.....	5	10		39	16		
Tunisia.....	53	12	3				
Union of South Africa.....		148	148	197	175		
United Arab Republic.....	83	29	26				
Other and unspecified Africa.....	9	5	3				
Total, Oceania (nonmilitary assistance).....	15	43	42	318	318	1	1
Australia.....	13	22	22	318	318	1	1
New Zealand.....	2	18	17				
Other.....		3	3				
Canada.....	4	196	196				
Military supplies and services.....	4						
Nonmilitary assistance.....		196	196				
Other international organizations and unspecified, all areas.....	2,020	65	65				
Military supplies and services.....	252						
Nonmilitary assistance.....	1,768	65	65				

<sup>1</sup> Credits do not include \$2,257,000,000 representing settlements for postwar relief and other grants under agreements. Grants have not been adjusted for any part of these settlements. Grants utilized and credits disbursed do not include the \$2,120,000,000 of net short-term assistance representing the proceeds from the sale of agricultural commodities (under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480, as amended) and sec. 402 of the Mutual Security Act of 1954 (Public Law 83-665, as amended)) which had not been utilized through June 30, 1959, for foreign credits or grants or for U.S. Government uses.

<sup>2</sup> Geographical breakdown of military aid follows grouping established by the Mutual Security Act of 1954, Public Law 83-665, as amended.

<sup>3</sup> Less than \$500,000.

Note.—Detail may not add to totals because of rounding. Data cover Export-Import Bank credits beginning Feb. 12, 1934, other U.S. Government credits beginning July 1, 1940, and U.S. Government grants, IBRD credits, and IFC investments in the postwar period July 1, 1945–June 30, 1959. U.S. Government credits disbursed include goods transferred and services rendered as well as cash disbursements of dollars and foreign currency.

Sources: U.S. Government based on data published by the Department of Commerce in the June 1959 quarter issue of "Foreign Grants and Credits by the United States Government." International based on annual reports of the International Bank and the International Finance Corporation.

TABLE 2.—U.S. Government foreign credits, July 1, 1940–June 30, 1959 <sup>1</sup>

[In millions of dollars]

	Export-Import Bank <sup>1</sup>		Development Loan Fund		Other mutual security		Agricultural trade development and assistance		Other credits <sup>2</sup>	
	Net authorized	Disbursed	Net authorized <sup>3</sup>	Disbursed	Net authorized	Disbursed <sup>4</sup>	Net authorized	Disbursed <sup>4</sup>	Net authorized	Disbursed
Total, all areas.....	8,164	6,863	623	70	2,779	2,546	1,673	649	6,592	6,599
Total, Europe.....	3,152	2,831	91	1	1,754	1,721	588	282	5,457	5,457
Total, Western Europe.....	3,085	2,764	91	1	1,693	1,675	588	282	5,395	5,395
Austria.....	61	34					26	13	12	12
Belgium and Luxembourg.....	139	139			68	68			31	31
Denmark.....	20	20			36	36			1	1
Finland.....	129	123					20	14	25	25
France.....	1,541	1,493			235	234	6	4	395	395
Germany (West).....	74	72			28	28			254	254
Greece.....	15	15	12		39	31	38	30	97	97
Iceland.....	1	1			19	17			(5)	(5)
Ireland.....					128	128				
Italy.....	221	183			99	99			209	209
Netherlands.....	205	205	3		150	150	84	63	70	70
Norway.....	50	50			60	60			24	24
Portugal.....	16	16			39	39	3	3		
Spain.....	90	59	23		82	82	198	56		
Sweden.....	6	6			20	20			2	2
Turkey.....	75	37	25		155	155	2		12	12
United Kingdom.....	252	251			391	391			4,263	4,263
Yugoslavia.....	55	55	28	1	44	34	205	96		
European Atomic Energy Community.....	135									
European Coal and Steel Community.....					100	100				
Total, other Europe.....	67	67			61	46			62	62
Czechoslovakia.....	23	23							8	8
Hungary.....									16	16
Poland.....	44	44			61	46			38	38

Total, Asia.....	1,510	1,147	455	67	790	661	801	249	804	804
Afghanistan.....	40	39			12	11			17	17
Bahrain.....									5	5
Burma.....					35	7	33	2		
Ceylon.....			3	1	3	2	2			
China-Taiwan.....	202	202	37	5	60	58			95	95
India.....	152	8	175	23	340	281	384	10	172	172
Indonesia.....	114	94	9		32	18	73	2	64	64
Iran.....	55	32	48	24	65	65	3		26	26
Israel.....	163	149	20	12	40	40	102	72		
Japan.....	633	565					109	105	260	260
Jordan.....			1							
Korea (South).....			7	1					25	25
Malaya.....			20							
Pakistan.....	3	3	89	1	103	97	80	50	( <sup>b</sup> )	( <sup>b</sup> )
Philippines.....	117	38	24		20	19	5	5		
Saudi Arabia.....	15				27	13			17	17
Thailand.....	16	2	22		27	13	1		6	6
Vietnam.....					53	50				
Total, Latin America.....	3,093	2,506	49	3	62	51	283	118	161	161
Argentina.....	391	207	25				20	( <sup>b</sup> )		
Bolivia.....	45	45	3	1					2	2
Brazil.....	1,108	973	( <sup>b</sup> )	( <sup>b</sup> )			149	54	39	39
Chile.....	248	201	( <sup>b</sup> )		11	10	32	25		
Colombia.....	228	216					28	15	1	1
Costa Rica.....	26	20	( <sup>b</sup> )	( <sup>b</sup> )	2					
Cuba.....	95	92								
Dominican Republic.....	3	3								
Ecuador.....	40	38		5	4	1	7	5	1	1
El Salvador.....	2	2								
Guatemala.....	3	3	( <sup>b</sup> )						( <sup>b</sup> )	( <sup>b</sup> )
Haiti.....	38	36	4						( <sup>b</sup> )	( <sup>b</sup> )
Honduras.....	5	3	5	( <sup>b</sup> )	3	2			( <sup>b</sup> )	( <sup>b</sup> )
Mexico.....	524	400					21	4	1	1
Nicaragua.....	8	6	1							
Panama.....	10	8			2	( <sup>b</sup> )			( <sup>b</sup> )	
Paraguay.....	15	15	6	2	1		2	2		
Peru.....	196	142			18	17	18	13	6	6
Uruguay.....	17	17					6		2	2
Venezuela.....	29	27								
West Indies.....					21	21				
Other and unspecified Latin America.....	53	52			( <sup>b</sup> )	( <sup>b</sup> )			109	109

See footnotes at end of table.

TABLE 2.—U.S. Government foreign credits, July 1, 1949–June 30, 1959<sup>1</sup>—Continued

	Export-Import Bank <sup>1</sup>		Development Loan Fund		Other mutual security		Agricultural trade development and assistance		Other credits <sup>2</sup>	
	Net authorized	Disbursed	Net authorized <sup>3</sup>	Disbursed	Net authorized	Disbursed <sup>4</sup>	Net authorized	Disbursed <sup>4</sup>	Net authorized	Disbursed
<b>Total, Africa</b> .....	219	186	29	( <sup>5</sup> )	171	111			57	58
British East Africa.....					2	2			( <sup>5</sup> )	( <sup>5</sup> )
Ethiopia-Eritrea.....	28	11							4	4
French Equatorial Africa.....					4	4				
Liberia.....	33	21	3	( <sup>5</sup> )					19	20
Libya.....			5		4	1				
Morocco.....	( <sup>5</sup> )	( <sup>5</sup> )			108	52				
Rhodesia and Nyasaland.....					38	38			22	22
Sudan.....			10							
Tunisia.....			9		4	3				
Union of South Africa.....	147	147			( <sup>5</sup> )	( <sup>5</sup> )			1	
United Arab Republic.....	11	7			8	8			11	1
Other Africa.....			2		3	3			( <sup>5</sup> )	( <sup>5</sup> )
<b>Total, Oceania</b> .....	19	19			2	2			21	21
Australia.....	6	6							16	16
New Zealand.....	13	13							4	4
Other.....					2	2			1	1
Canada.....	171	171							25	25
Other international organizations: United Nations.....									65	65

<sup>1</sup> Includes Export-Import Bank credits beginning Feb. 12, 1934.

<sup>2</sup> Does not include \$2,257,000,000 representing settlements for postwar relief and other grants under agreements. For major countries, these amounted to: Germany, \$1,000,000,000; United Kingdom, \$562,000,000; and France \$353,000,000.

<sup>3</sup> Agreements (including guarantees) formally obligated.

<sup>4</sup> Does not include the \$2,120,000,000 of net short-term assistance representing the proceeds from the sale of agricultural commodities (under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480, as amended) and sec. 402 of the Mutual Security Act of 1954 (Public Law 83-665, as amended)) which had not been

utilized through June 30, 1959, for foreign credits or grants or for U.S. Government uses.

<sup>5</sup> Less than \$500,000.

NOTE.—Detail may not add to totals because of rounding. Credits disbursed include goods transferred and services rendered as well as cash disbursements of dollars and foreign currency. Export-Import Bank and Development Loan Fund credits include transactions under guarantees.

Source: Based on data published by the Department of Commerce in the June 1959 quarter issue of "Foreign Grants and Credits by the United States Government."

(5) For each of the agencies making foreign loans or grants, please state which countries are qualified to receive loans or grants from each of these agencies.

The Export-Import Bank Act of 1945, as amended, which is the basic statute under which the Export-Import Bank conducts its principal activities does not limit the geographic scope of lending by the institution.

Title II of chapter 2 of the Mutual Security Act of 1954, as amended, which is the basic legislation governing the operations of the Development Loan Fund does not impose a geographical limit on lending by the Development Loan Fund.

The Mutual Security Act of 1954, as amended, which is the basic statutory authority under which the International Cooperation Administration carries on its activities, in general, limits the geographic scope of the International Cooperation Administration's grant and loan programs to "other free nations and peoples," although certain funds are earmarked for specified countries or areas. Two programs operated by the International Cooperation Administration, the investment guarantees and technical cooperation programs, are limited by the statute to "economically underdeveloped areas." During the congressional presentation, geographic and functional breakdowns of programs are presented to the Congress even though no comparable allocation appears in the statute.

Loans and grants under the Public Law 480 program are made in "friendly nations," usually those which have acquired the surplus agricultural commodities provided under the Public Law 480 program.

The Export-Import Bank, the Development Loan Fund, and the International Cooperation Administration, as U.S. agencies, are subject to the provisions of the Battle Act, which prohibits U.S. Government assistance to any country which knowingly ships specific types of strategic items to "any nation or combination of nations threatening the security of the United States including the Union of Soviet Socialist Republics, or countries under its domination." The act provides for Presidential exceptions in certain circumstances to authorize the continuation of assistance to a friendly country notwithstanding its shipment of some types of strategic materials to the Soviet bloc.

The articles of agreement of the International Bank for Reconstruction and Development specify that loans may be made to, or in the territories of, any member government of the Bank.

The articles of agreement of the International Finance Corporation specify that investments by the Corporation may be made in any member country but provide that particular emphasis be given to less-developed areas.

The agreement establishing the Inter-American Development Bank provides that its purpose is to contribute to the acceleration of the process of economic development of the member countries, individually and collectively.

(6) What are the differences in the function of the various lending agencies? Please describe also any other significant differences between these agencies as to the purposes for which they may make loans, the countries to which they may make loans, or the criteria or standards limiting the types of loans they may make.

*The Export-Import Bank.*—The Export-Import Bank finances the export of goods and services from the United States. Its loans may be exporter credits for the financing of goods or they may be longer term development loans. It does not make loans which can be financed on reasonable terms by the private market, and it must have reasonable assurance of repayment in dollars. It makes conventional hard loans. It also makes loans of portions of the Public Law 480 currencies, received from sales of surplus agricultural commodities, to American firms or their affiliates abroad, or to foreign firms for increasing the consumption of, or markets for, U.S. agricultural commodities.

*The Development Loan Fund.*—The Development Loan Fund was created by the Congress to make loans for, or guarantees in connection with, development projects in the less-developed countries. The law allows the Development Loan Fund a considerable degree of flexibility in determining the terms and conditions of its loans, and it is authorized to make loans repayable in the currency of the borrower. The Development Loan Fund operates under the foreign policy guidance of the Secretary of State, and the Under Secretary of State is Chairman of its Board of Directors. The Development Loan Fund is, by statute, not to make loans which can be financed by the private market, the Export-Import Bank, or the International Bank.



*The International Cooperation Administration.*—The International Cooperation Administration from time to time makes loans to countries included within the mutual security program, under the authority of the Mutual Security Act, as amended. It also makes loans for economic development purposes out of portions of the local currency proceeds of sales of agricultural surplus commodities under Public Law 480, usually to the countries purchasing these commodities.

*The International Bank.*—The International Bank now makes loans for development purposes in its member countries, and the suppliers of goods required for its projects may be in any of the member countries, as determined by competitive bidding on contracts. Its membership includes nearly all the countries of the free world. Its loans must be repaid in the currency loaned, principally dollars or other "hard currency." That is, they are conventional hard loans. The International Bank finances its operations at present almost entirely by the sales of securities in the United States or other financial markets. The Bank may make loans to member governments or to public or private enterprises with the guarantee of the government.

*The International Finance Corporation.*—The International Finance Corporation, affiliated with the International Bank for Reconstruction and Development, makes investments only in private enterprises in its member countries. It does not require government guarantees, though it does not make loans in a particular country if the government of that country objects to the loan.

*The Inter-American Development Bank.*—The Inter-American Development Bank, which is now beginning operations, will make development loans to its member countries or public or private enterprises in them. Its membership includes the United States and 19 Latin American countries. The largest portion of its loans will be repaid in dollars or other hard currencies which may be loaned. Its Fund for Special Operations, however, will make loans in Latin America for projects which cannot be repaid in hard currency, so that the loans from this Special Fund may be repaid wholly or partly in the currency of the borrower.

(7) Please supply the following information on interest rates on foreign loans by the U.S. Government and by international agencies in which the United States participates—

(a) for July 1, 1958, to date, the interest rate on each loan;

(b) for previous periods, the total loans and average interest rate.

TABLE 3.—*Export-Import Bank loan authorizations and interest rates, July 1, 1958–Dec. 31, 1959*

Period and borrower	Amount authorized	Interest rate
July–December 1958:	<i>Millions</i>	<i>Percent</i>
Government of the Philippines	\$75.0	(1)
Bank of Japan	60.0	3¾
Mexico: Nacional Financiera	5.4	5½
Honduras: Cooperativo Algodonera	.4	5½
Japan: Tokyo Electric Power Co.	11.0	5½
Japan: Kansai Electric Power Co.	4.8	5½
United Kingdom: Northern Aircraft Operating Co., Ltd.	1.1	5½
Venezuela: C.A. Inversiones Venezolanas Ganaderas	.6	5½
Government of Brazil	100.0	5
Mexico: Talleres Industriales	.2	5½
Peru: Central Reserve Bank	40.0	5
Brazil: Fabrica Nacional de Vagoes	2.2	5
Mexico: Vitro-Fibras	.1	6
Cuba: Financiera Nacional	.5	5
Government of Turkey	37.5	(1)
Japan: Japan Gas-Chemical Industries, Ltd.	2.3	5½
Brazil: Cia Paulista de Forca e Luz	7.1	5½
Brazil: Cia Brasileira de Energia Eletrica	3.8	5½
Israel: American Israeli Paper Mills, Ltd.	3.0	5½
Government of Israel	.4	5
Italy: Istituto Mobiliare Italiano	13.7	5½
Do	6.5	5½
Thailand: Yanhee Electricity Authority	14.0	5½
Egypt: Societe Egyptienne D'engrais	5.0	5½
United Kingdom: Clamair Ltd.	1.1	6½
Government of Costa Rica	5.0	5½
Argentina: Banco Central	24.8	6½
Government of Argentina	100.0	(1)
Brazil: Cia Vale do Rio Doce	12.5	5½
Peru: Southern Peru Copper Corp.	15.0	5½
Italy: Edisonvolta	9.3	5¾
Exporter credits (57 credits)	15.8	5½ to 6

See footnotes at end of table.

TABLE 3.—Export-Import Bank loan authorizations and interest rates, July 1, 1958—Dec. 31, 1959—Continued

Period and borrower	Amount authorized	Interest rate
	Millions	Percent
<b>January-June 1959:</b>		
Japan: Nissan Motor Co.	\$3.0	5½
Spain: Empresa Nacional Siderurgica	4.4	5½
Miscellaneous Europe: Euratom	135.0	4½
Nicaragua: Instituto de Fomento Nacional	4	5
Italy: Istituto Mobiliare Italiano	1.0	5½
Mexico: Agua Industrial de Monterrey, A. de U.	3.5	5½
Italy: Istituto Mobiliare Italiano	1.5	5½
Mexico: Nacional Financiera	100.0	5½
Republic of Honduras	2.2	5½
Ecuador: Ambato	1.9	5½
Republic of Liberia	7.3	5½
Republic of Indonesia	6.9	5½
Nicaragua: Empresa Nacional de Luz y Fuerza	.5	5½
Italy: Istituto Mobiliare Italiano	1.0	5½
Honduras: Banco Nacional de Fomento	.6	5½
Chile: Banco Central de Chile	25.0	5½
Republic of Indonesia	5.0	5½
Peru: Alcaalis Peruanos	.8	5½
Austria: Creditanstalt-Bankverein	6.0	4½
Chile: Anglo-Lautaro Nitrate Corp.	24.0	5½
Exporter credits (15 credits)	1.1	5½ to 6.
<b>July-December 1959:</b>		
Mexico: Cia Industrial Electrica Mexicana	1.2	5½
Paraguay: Manufactura de Pilar	1.0	5½
Government of Liberia	21.3	4½
Bank of Japan	30.0	4½
Venezuela: C. A. La Electricidad de Caracas	17.8	5½
Iran: Teheran Capital Co., Ltd.	4.8	5½
Lebanon: La Societe de Grands Hotel du Liban	3.2	5½
Mexico: Nacional Financiera	3.7	5½
Do.	7.2	5½
Government of UAR (Egypt)	9.1	5½
France: TAI	6.0	5½
Spain: Abonos Sevilla	7.6	5½
Spain: Refineria de Petroleos de Escombreras	10.0	5½
Mexico: Vidrio Plano de Mexico	.4	6.
Republic of Panama	.3	5½
Nicaragua: Banco Nacional de Nicaragua	8.0	5½
Mexico: Nacional Financiera	20.0	5½
Government of the Union of South Africa	16.0	5½
Thailand: North Star Co., Ltd.	.1	6.
Spain: Firestone Hispania	.7	5½
Belgium: Sabena	20.0	5½
Italy: Istituto Mobiliare Italiano	34.0	5½
Colombia: Banco de la Republica	25.0	5½
Chile: Madeco	1.9	5½
Mexico: Cementos Atoyac	1.6	5½
Australia: Southern Cross Properties, Ltd.	2.5	5½
Guatemala: Banco de Guatemala	5.0	5½
Mexico: Quimica Mexama	.8	5½
Exporter credits (35 credits)	1.8	6.

<sup>1</sup> To be determined for specific credits as authorized.

<sup>2</sup> Increase in an earlier credit.

<sup>3</sup> Of this amount, \$1,500,000 was advanced by a U.S. commercial bank for a 3-year period at 5 percent per annum.

Source: Based on data supplied by the Export-Import Bank

TABLE 4.—*Mutual security program, loan authorizations and interest rates, July 1, 1958–Dec. 31, 1959*

Period and borrower	Amount authorized	Interest rate
July–December 1958:	<i>Millions</i>	<i>Percent</i>
Government of Morocco.....	\$29.9	3½
Government of Ecuador.....	2.3	3½
January–June 1959:		
Government of Yugoslavia.....	7.7	3½
Polish Peoples Republic.....	6.0	4½
Government of Morocco.....	15.0	3½
Do.....	15.0	3½
Do.....	10.0	4
July–December 1959: Government of Iceland.....	3.0	3½

Source: Based on data supplied by the Export-Import Bank.

TABLE 5.—*Public Law 480, loans of local currencies to foreign Countries<sup>1</sup>—Loan authorizations and interest rates, July 1, 1958–Dec. 31, 1959*

[Amounts in millions of dollar equivalents]

Period and borrower	Amount authorized	Interest rate <sup>2</sup>
		<i>Percent</i>
July–December 1958:		
Government of Peru.....	\$3.6	4 to 5.
Government of Philippines.....	5.2	3 to 4.
Government of Burma.....	.8	3 to 4.
Republic of Indonesia.....	70.8	3 to 4.
Iceland Bank of Development.....	1.7	4 to 5.
Government of Ceylon.....	2.2	4 to 5.
Government of Israel.....	3.6	4 to 5.
Government of Burma.....	14.5	4 to 5.
Government of Ecuador.....	.9	4 to 5.
Government of India.....	35.1	4 to 5.
Government of Iran.....	2.5	3.
Government of Spain.....	13.4	4 to 5.
Government of Israel.....	11.1	4 to 5.
Government of Spain.....	5.7	4 to 5.
Government of Israel.....	18.9	3½.
Government of Argentina.....	17.7	3 to 4.
January–June 1959:		
Government of Pakistan.....	34.7	3½.
Republic of Colombia.....	3.1	4 to 5.
Government of Yugoslavia.....	69.2	3½.
Government of Spain.....	43.4	3½.
Government of Uruguay.....	5.0	3½.
Iceland Bank of Development.....	1.8	3½.
Government of India.....	114.6	3½.
Industrial Mortgage Bank of Finland.....	5.0	4 to 5.
United Arab Republic.....	13.6	3 to 4.
Do.....	11.7	4.
Republic of Indonesia.....	.5	3 to 4.
Government of Uruguay.....	1.3	3½.
July–December 1959:		
Republic of China.....	1.0	4.
Government of Israel.....	.3	3½.
Government of Ceylon.....	5.9	3½.
Republic of Turkey.....	17.0	4.
Republic of Colombia.....	15.8	4.
United Arab Republic.....	28.9	4.
Government of Pakistan.....	1.6	4.
Government of India.....	102.9	4.

<sup>1</sup> See table 5a for loans of local currencies to private enterprises under sec. 104(e) of Public Law 480.

<sup>2</sup> Where 2 rates are shown, the lower rate is applicable to payments in dollars and the higher to payments in local currency. In other cases the stated interest rate is applicable to payment in either dollars or local currency.

Source: Based on data supplied by the Export-Import Bank.

TABLE 5a.—Public Law 480, loans of local currencies to private enterprises under sec. 104(e)—Loan authorizations and interest rates through Dec. 31, 1959

[Amount authorized in millions of dollar equivalents]			
Country	Number of loans	Amount	Interest rate
Ceylon	1	\$0.4	5.
China (Taiwan)	3	.9	12.
Colombia	10	2.8	8.
Finland	1	1.1	7½.
France	9	5.8	7½.
Greece	3	1.4	7.2
India	1	.2	6.
Israel	24	12.0	7½.2
Italy	5	3.9	7.
Korea	1	.2	8.
Mexico	18	7.0	10.
Pakistan	4	1.4	5 to 6.3
Peru	6	1.7	8.
Turkey	4	2.1	7.
Uruguay	1	.2	6½.
Total	91	41.1	

<sup>1</sup> The dollar value of each credit is computed at the free market exchange rate prevailing when the credit was authorized.

<sup>2</sup> Includes cost of guarantee up to an agreed amount where guarantee of a domestic financial institution is required.

<sup>3</sup> 1st loan at 5 percent. Subsequent loans at 6 percent reflect increase in interest rates in Pakistan.

NOTE.—Interest rates on these loans are similar to those charged for comparable loans in the foreign country.

Source: Based on data supplied by the Export-Import Bank.

TABLE 6.—Development loan fund—Loan commitments<sup>1</sup> and interest rates, July 1, 1958—Dec. 31, 1959

Period and borrower	Amount committed	Interest rate
	Millions	Percent
July–December 1958:		
Malaya: Federation of Malaya	\$10.0	3½
Government of the Netherlands	3.0	4½
Paraguay: International Products Corp	2.6	5¼
Brazil:		
Cooperativa Agropecuaria		
Cooperativa Castrolanda	.2	8
Sudan: Sudan-American Textile Industry	10.0	5½
Tunisia: Tunisian National Railway	2.4	3½
Somalia: Credito Somalo	2.0	4
Government of Korea	3.5	3½
Korea: Tongyang Cement Manufacturing Co.	2.1	5¼
Government of Pakistan	9.1	3½
Government of Yugoslavia	22.5	5½
Government of Pakistan	15.2	3½
Do.	14.7	3½
Do.	4.0	3½
Government of Liberia	3.0	3½
Costa Rica: Societa Italiana	.3	5½
Taiwan: Pioneer Chemical Corp	1.0	5½
Government of Pakistan	17.5	3½
Taiwan: Shihmen Development Commission	21.5	3½
Thailand: Metropolitan Electricity Authority	20.0	5½
Government of Libya	5.0	3½
Taiwan: Ingalls-Taiwan Shipbuilding Corp.	6.5	5½
Government of Indonesia	1.4	3½
Government of Ecuador	3.0	3½
Bolivia: Gasser y Cia.	4.7	3½
Taiwan: 4 Taiwan banks	2.3	5½
Tunisia: Societe Nationale	2.5	5½
Liberia: Liberian-American Agricultural and Industrial Corp.	.2	5¼
Iran: 7-year Development Agency	40.0	3½
Government of India:		
Do.	10.0	3½
Do.	35.0	3½
Do.	22.0	5½
Do.	18.0	3½
Do.	15.0	5½
Paraguay: Corporation de Obras Sanitarias de Asuncion	1.0	3½
Taiwan: Asia Cement Corp.	2.8	5½

See footnotes at end of table, p. 22.

TABLE 6.—Development Loan Fund commitments<sup>1</sup> and interest rates, July 1, 1958—Dec. 31, 1959—Continued

Period and borrower	Amount committed	Interest rate
	Millions	Percent
Ceylon: Government of Ceylon.....	\$0.9	3½
Do.....	.8	3½
Turkey: Industrial Development Bank.....	10.0	5
Paraguay: Government of Paraguay.....	2.5	3½
Republic of Taiwan.....	3.2	3½
Pakistan: Pakistan Industrial & Investment Corp.....	4.2	5
January-June 1959:		
Spain: Spanish National Railways.....	14.9	3½
Spain: Instituto Nacional de Colonizacion.....	7.7	3½
Federation of Malaya.....	10.0	3½
Jordan: Trans-Jordan Electric Power Co.....	1.2	5¾
Guatemala: Banco de Guatemala.....	5.0	5¾
Government of Yugoslavia.....	5.0	3½
Israel: Industrial Development Bank of Israel.....	5.0	5
Government of Chile.....	.2	3½
Bolivia: Gasser y Cia.....	.6	3½
Nicaragua: Municipality of Matagalpa.....	6.0	3½
Government of Indonesia.....	19.5	3½
Government of Vietnam.....	23.0	3½
Pakistan: West Pakistan Water and Power Authority.....	.4	5¾
Guatemala: Productos de Kenaf.....	2.0	5¾
Pakistan: Sui Gas Transmission.....	4.3	3½
Haiti: Government of Haiti.....	1.5	3½
Korea: Korea Electric Power Co.....	20.0	5¾
Government of India.....	.8	5¾
Thailand: Livestock Trading Corp.....	1.5	3½
Government of Bolivia.....	5.3	5¾
Philippines: Bataan Pulp & Paper Mill.....	1.8	3½
Pakistan: Government of Pakistan.....	.9	3½
Turkey: Maden Tetkik Ve Arma Enstituid.....	6.1	5¾
Turkey: Vinylex Plastics, Ltd.....	5.0	5¾
Philippines: Small Industries—Central Bank.....	12.0	5¾
Government of Greece.....	7.5	3½
Iran: Plan Organization.....	18.8	5¾
Philippines: Republic of.....	24.8	5¾
Argentina: Banco Central de Argentina.....	14.5	5¾
Turkey: Turkiye Komur Isletmeliri Kurumu.....	.7	5
Taiwan Land Bank.....	.8	5¾
Nigerian Ports Authority.....	8.8	3½
Uruguay: Administracion General.....	.2	5
Thailand: Government of Thailand.....	1.5	5¾
Jordan: Jordan Phosphate Mines Co.....	.5	5¾
Ethiopia: Sviluppo Agricolo.....	5.2	5¾
Iran: Development Bank of Iran.....	.7	5¾
Syria: Modern Industries Corp.....	9.0	3½
Yugoslavia: Government of Yugoslavia.....	7.0	3½
Turkey: ETIBANK.....	4.8	3½
Government of Pakistan.....	5.0	5
Korea: Korea Reconstruction Bank.....	1.0	3½
Government of Paraguay.....	5.0	5
Israel: Industrial Development Bank.....	25.0	3½
July-December 1959:		
Iran: Plan Organization.....	3.7	5¾
Philippines: Mindanao Portland Cement Co.....	10.0	5¾
Pakistan: P.I.C.I.C.....	22.0	3½
Government of Pakistan.....	5.3	3½
Government of Ecuador.....	5.6	5¾
Korea: Oriental Chemical Industries.....	15.0	3½
Government of Yugoslavia.....	5.3	5¾
Philippines: Bago Pulp & Paper Co.....	.5	5¾
Lebanon:		
Societe de'Electricite de El Bared.....	5.0	4½
Banque de Credit Agricole.....	2.8	5¾
Turkey: Koruma Tarim Ilaclari.....	.3	3½
Haiti:		
Government of Haiti.....	3.0	5¾
Central Sucriere, S.M.....	.3	2
Liberia: Bank of Monrovia.....	3.5	3½
Government of Peru.....	31.0	3½
Greece: Public Power Corp.....	23.0	5½
Kingdom of Morocco.....	3.9	5¾
Spain: Union Electrica Madrileña.....	2.6	5¾
Indonesia: N. V. Indonesian Service Co.....		

<sup>1</sup> Includes letters of advice issued and loan agreements signed during the period for which letters of advice were issued prior to July 1, 1958.

<sup>2</sup> Fee.

Source: Based on data supplied by the Development Loan Fund.

TABLE 7.—International Bank for Reconstruction and Development, loan authorizations and interest rates, July 1, 1958–Dec. 31, 1959

Period and borrower	Amount authorized	Interest rate
<b>July–December 1958:</b>		
Japan Development Bank.....	\$33.0	5½%
Government of the Sudan.....	39.0	5½%
Government of India.....	25.0	5½%
Japan Development Bank.....	10.0	5½%
Do.....	29.0	5½%
Do.....	22.0	5½%
Government of India.....	85.0	5½%
Peru: Port of Callao Authority.....	6.6	5½%
Government of Ceylon.....	7.4	5½%
Malaya: Central Electricity Board.....	35.6	5½%
Brazil: Central Electrica de Furnas S.A.....	73.0	5½%
Ecuador: Guayaquil Port Authority.....	13.0	5½%
Austria: Verbundgesellschaft & Donaukraftwerke.....	25.0	5½%
Government of Union of South Africa.....	25.0	5½%
Colombia: Chidral.....	2.8	5½%
<b>January–June 1959:</b>		
Government of El Salvador.....	5.0	5½%
Colombia: Caldas Hidro-Electrica Co.....	4.6	5½%
Government of Denmark.....	20.0	5½%
Costa Rica: Banco Central.....	3.5	5½%
Japan Development Bank.....	10.0	5½%
El Salvador: Rio Lempa Comision.....	3.0	5½%
Mortgage Bank of Finland.....	37.0	5½%
Government of India.....	25.0	5½%
Italy: Cassa per il Mezzogiorno.....	20.0	5½%
Colombia: Empresas Publicas de Medellin.....	12.0	6
Honduras: Empresa Nacional de Energia Electrica.....	1.5	6
Government of Iran.....	72.0	6
Government of South Africa.....	11.6	6
Brazil: Brazilian Traction Light & Power Co., Ltd.....	11.6	6
France: Compagnie Miniere de l'Ogooue.....	35.0	6
<b>July–December 1959:</b>		
Government of Norway.....	20.0	6
India: I.C.I.C.I.....	10.0	(1)
Government of India.....	50.0	6
Pakistan: Karachi Electric Supply Corp.....	2.4	6
Italy: Cassa per il Mezzogiorno.....	40.0	6
Pakistan: P.I.C.I.C.....	10.0	(1)
Austria: Oesterreichische Investitionskredit, AG.....	9.0	(1)
Japan Development Bank.....	24.0	6
Do.....	20.0	6
Iran: Industrial & Mining Development Bank of Iran.....	5.2	(1)
Republic of Pakistan.....	12.5	6
France: Societe Petroliere de Gerance.....	50.0	6
United Arab Republic: Suez Canal Authority.....	58.5	6
Chile: Fomento and Endesa.....	32.5	6
Republica Oriental Del Uruguay.....	7.0	6

<sup>1</sup> Interest will be applied to specific project commitments at the Bank's current rate at that time.

Source: Based on data supplied by the International Bank.

TABLE 8.—*International Finance Corporation investments and interest rates, July 1, 1958–Dec. 31, 1959*

Period and borrower	Amount authorized		Interest rate <sup>1</sup>
	Millions	Percent	
<b>July–December 1958:</b>			
Pakistan: Adamjee Industries, Ltd.	\$0.8	7	
Mexico: Engranos y Productos Industriales	2	6½	
Brazil: Co. Mineira de Cimento Portland	1.2	7	
Guatemala: Industria Harinera Guatemalteca	2	5	
<b>January–June 1959:</b>			
India: Republic Forge Co. Ltd.	1.5	7	
Australia: Rubbertex (Auss) Proprietary Ltd.	2	6	
India: Kirloskar Oil Engines, Ltd.	4.9	6½	
El Salvador: Industrias Textiles	1	7	
Brazil: Champion Celulose	2.0	7	
Chile: Cia. Molinos y Fideos Carrozzi	1.5	6	
Chile: Empresa Minera de Mantos Blancos	.9	7	
Colombia: Laminas del Caribe	.5	7	
Iran: Sherkate Sahami Kabkashan	.3	7	
Thailand: The Concrete Products and Aggregate Co., Ltd.	3	6	
<b>July–December 1959:</b>			
Chile: Cementos Bio-Bio	1.0	7	
Colombia: Fabrica de Galletas y Confites Noel	1.0	6	
Peru: Industrias Reonidas	.3	6	
Peru: Luren and Ladrillos Calcareos	.3	7	
Peru: Durisol del Peru	.3	7	
Peru: Fertilizantes Sinteticos	.7	7	

<sup>1</sup> Investment agreements usually provide in addition for payments contingent on profits and in most cases for options on shares of the borrowing company.

Source: Based on data supplied by the International Finance Corporation.

TABLE 9.—*Total loan authorizations and average interest rates, U.S. Government lending agencies, fiscal years 1946–58*

Fiscal years	Export-Import Bank		Mutual security program		Public Law 480 <sup>1</sup>		Development Loan Fund	
	Loan authorizations	Average interest rates	Loan authorizations	Average interest rates	Loan authorizations	Average interest rates	Loan authorizations	Average interest rates
	Millions	Percent	Millions	Percent	Millions	Percent	Millions	Percent
1946	\$2,197.0	2.77						
1947	279.2	3.50						
1948	465.7	2.87	\$2.3	2.50				
1949	173.8	3.73	965.8	2.50				
1950	405.5	3.53	73.2	2.50				
1951	395.3	3.81	296.7	2.57				
1952	550.9	3.19	222.4	2.57				
1953	571.0	3.78	25.6	2.68				
1954	250.4	3.99	2.2	3.00				
1955	488.4	4.52	270.2	3.78	\$66.1	3.92		
1956	378.0	4.64	215.8	3.92	39.3	4.00		
1957	1,067.3	4.78	383.8	3.95	546.3	4.06		
1958	857.0	5.20	102.8	3.98	502.1	4.26	\$102.1	4.36

<sup>1</sup> Includes only loans to foreign countries. See table 5a for loans to private enterprises under sec. 104(e) of Public Law 480.

Source: Based on data supplied by the Export-Import Bank and the Development Loan Fund.

TABLE 10.—Total loan authorizations and average interest rates, international lending agencies, fiscal years 1947-58

Fiscal years	International Bank		International Finance Corporation	
	Loan authorizations	Average interest rates	Investments	Average interest rates <sup>1</sup>
	Millions	Percent	Millions	Percent
1947.....	\$250.0	4.25		
1948.....	263.0	4.26		
1949.....	137.1	4.39		
1950.....	166.3	4.03		
1951.....	297.1	4.08		
1952.....	298.6	4.58		
1953.....	178.6	4.77		
1954.....	323.7	4.82		
1955.....	409.6	4.68		
1956.....	396.1	4.75		
1957.....	387.9	5.04	\$2.0	6.00
1958.....	710.8	5.64	8.7	7.00

<sup>1</sup> Investment agreements usually provide in addition for payments contingent on profits and in most cases for options on shares of the borrowing company.

Source: Based on data supplied by the International Bank and the International Finance Corporation.

Mr. SPENCE. Every dollar that is contemplated under the act must be obtained by appropriation?

Secretary ANDERSON. That is correct.

Mr. SPENCE. That is all.

Does anyone else desire recognition?

Mr. WIDNALL. Mr. Chairman.

Mr. SPENCE. Mr. Widnall.

Mr. WIDNALL. Mr. Secretary, who is eligible to join the IDA?

Secretary ANDERSON. Any of the countries that belong to the International Bank.

Mr. WIDNALL. So that the prime requisite is joining, first, the International Bank, or being part of the International Bank, in order to go into IDA?

Secretary ANDERSON. Yes; only those countries that are subscribers to the International Bank can become subscribers to IDA.

Mr. WIDNALL. How are the percentages of subscription arrived at? Who made those decisions?

Secretary ANDERSON. The decisions were made by the Executive Directors of the International Bank. The subscriptions to the International Development Association are based upon the percentage subscriptions that other countries make to the International Bank.

In other words, the same percentage or contribution to the International Bank that is made by a country determines the percentage of its contribution to the International Development Association.

Mr. WIDNALL. Will these percentages be frozen for future subscriptions, or will there be the possibility of other countries, as they become more economically sound, coming in as participants and actually taking up some of our percentage?

Secretary ANDERSON. Well, let me call your attention to the fact that last year, when we doubled the total subscriptions to the International Bank, there was a readjustment of subscriptions by countries



whose economies had substantially improved since the original signing of the Bretton Woods Agreement. It would seem to me that, as in the future we review the relative contributions of countries to the International Bank, we could at the same time review the relative contributions of countries to the International Development Association.

While this would not necessarily follow, you will notice that at the end of 5 years we are to review the requirements of the International Development Association. One cannot say with precision, but it might very well be that at that time countries would want to raise the question of their respective contributions to the International Development Association.

Mr. WIDNALL. So that there is a possibility, as the economies of other countries improve, that our own contribution to this fund can lessen?

Secretary ANDERSON. That there would be a shift in percentages. I think that is a possibility; yes, sir. We must remember—

Mr. WIDNALL. That could be an ultimate reward for our participation at this time; the fact that we are aiding to balance the economies throughout the world, to be extent that we would have to put in less and less?

Secretary ANDERSON. I would regard it, Congressman, as a possibility, but I would not regard it as a principal factor motivating our establishment of the IDA at this time, because the relative contributions of various countries not only raise monetary considerations, but raise other very delicate considerations as to their relationships with each other, and these would have to be reviewed at any time that their relative positions in the Bank and IDA were being considered.

Mr. WIDNALL. Could the counterpart funds that we hold overseas now be utilized for this purpose?

Secretary ANDERSON. There are provisions in Public Law 480 which we believe authorize the transfer of foreign currencies to the International Development Association. However, there is under consideration by the administration submission of a clarifying amendment to Public Law 480 to make this arrangement perfectly clear. If the IDA had a need for the resources, and if the countries whose currencies that were under consideration were willing for these currencies to be used in this manner, they would then become available to the International Development Association for its use.

Mr. WIDNALL. As it is now, they are frozen in the country where the original Public Law 480 program has taken place?

Secretary ANDERSON. Well, I should say here that we do not contemplate any across-the-board modification of existing Public Law 480. We have discussed with other countries, and have found a responsive note in some countries, to the general effect that, if the IDA could advantageously use currencies of these other countries, they would sympathetically consider making possible the transfer of funds to the IDA, and I would assume that some of this might occur. We expect that the primary source of local currencies for IDA will be through future Public Law 480 sales agreements, rather than renegotiation of existing agreements.

Mr. WIDNALL. Would the IDA finance a completely local project, where local goods and local services would be used and none of the

money passed outside of that particular country? Would that type of project be financed through a loan?

Secretary ANDERSON. Would it be financed through local currencies?

Mr. WIDNALL. Yes.

Secretary ANDERSON. There is flexibility on the part of the Association as to how it might be done. It should normally be done wholly with local currencies; it might be done partially with local currencies and partially with convertible currencies, in special cases. But the articles of agreement do not contain specific formulas, but rather give the managing officers of the Association considerable flexibility in the way in which projects may be financed.

Mr. WIDNALL. There is no assurance that with this type of organization the United States would be selling more goods and providing more services through its own businesses, through its own employees; is there?

Secretary ANDERSON. Well, one would assume that substantial use of dollars loaned by IDA would be made to purchase goods in the United States.

It also, I think, follows that, if we want to build up a kind of viable economy in the countries of the world that can become customers of the United States rather than dependent upon the United States, we have to contribute our share in IDA toward the establishment of those stronger economies, which can utilize goods not only from this country but elsewhere, from other member countries.

Mr. WIDNALL. Just one more question, Mr. Secretary. When the ambassador of Russian good will, Mr. Khrushchey, goes around and makes promises to these various countries, in granting loans from Russia, do the loans get repaid with hard currencies, or do they accept soft currencies?

Secretary ANDERSON. I would not be able to speak precisely on all of the terms of their contracts. We understand that the nominal rate of interest on Soviet loans runs from 2 to 2½ percent; that the term of the loan is ordinarily about 12 years; that repayment terms ordinarily provide for repayment in goods to be exported from the country, or in convertible currencies, that loan arrangements contain provisions for periodic consultations between the borrower and the lender concerning the goods to be shipped; that the procurement under these loans is tied to the U.S.S.R., and in some instances the U.S.S.R. reserves to itself a variety of options in which they may take repayment.

Mr. WIDNALL. They also have provisions, do they not, that, in the furnishing of Russian goods, Russia can fix the price and it can be a variable price?

Secretary ANDERSON. I think the answer to that is that the currencies loaned are not normally usable in any country except the U.S.S.R. and Soviet-bloc countries, and, the means of production in those countries being owned by the state, it would follow that the prices would be fixed by the state.

Mr. WIDNALL. The point I am trying to get at is this: that, while a loan may look good on the surface by way of its term, 12 years, by way of interest rate, 2½ percent, they can add to the cost price of the goods being furnished by Russia to absorb those factors?

Secretary ANDERSON. That is correct, sir. And, of course, to the extent that they require repayment of their loans in goods furnished by the borrowing countries, they are depleting the resources of the borrowing countries.

It is quite a different thing for the IDA to make a dollar loan or a loan in another currency that is wholly convertible, and that may be used for goods that are highly sought after and highly competed for, and for the Russians to make a loan in a currency which can only be spent in their particular area, and for goods which, as you rightly point out, are manufactured by and are priced by the state.

Mr. WIDNALL. That is all. Thank you very much.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. Mr. Secretary, one of these days in the near future I am going to take your statement and, by paraphrasing and plagiarizing it, establish that loans on the domestic scene for reclamation, soil conservation, water pollution, and slum clearance, just to mention a few, should be made, and I quote from your statement "at rates of interest below the rates of bank loans." But that is for another day.

Mr. Secretary, you are a member of the Board of the World Bank?

Secretary ANDERSON. I am one of the Governors; yes, sir.

Mr. MULTER. And this program as now outlined is a modification or elaboration of that which was suggested sometime back by Senator Monroney?

Secretary ANDERSON. That is correct.

Mr. MULTER. Of course, this committee takes reflected glory from that, because the Senator served for many years on this committee when he was in the House.

Now, this calls for \$320 million of hard currency to be subscribed and paid in by the United States. I notice you refer to the fact that the first of the payments is not to be made until fiscal 1961. Does that mean in the fiscal year 1961-62 or 1960-61?

Secretary ANDERSON. It means any time after September 15, 1960. We would hope that we would be one of the early contributors to IDA by being authorized to deposit our instrument of acceptance.

Mr. MULTER. Well, then, it would be necessary, if this authorization is enacted, that at least the appropriation of the first \$70 million be made by this Congress in this session?

Secretary ANDERSON. That is correct, sir.

Mr. MULTER. Is that sum included in the current budget estimates?

Secretary ANDERSON. Yes; it is included in the current budget estimates under the contingency request, because, in the absence of a legislative authorization for the United States participation, we could not make a specific request in the budget for funds for this institution. But they are included in the budget total.

Mr. MULTER. On page 4 of your statement, you refer to the fact that 17 countries will contribute the bulk of the convertible currency, and you indicate that 16 countries will provide about \$443 million against \$320 million which the United States provides. Then you refer to these 16 countries and say that they have acquired adequate or more than adequate monetary reserves.

I think that you do not mean to infer from that that our country does not have adequate or more than adequate reserves.

Secretary ANDERSON. No, sir; I simply mean to indicate that there was a time when these countries were under the necessity of acquiring reserves; that now we think their reserve position is reasonably adequate and, therefore, they are able to make the contribution to this effort.

Mr. MULTER. There is no doubt that we, the United States, have adequate and more than adequate reserves?

Secretary ANDERSON. There is no doubt, sir.

Mr. MULTER. Did I understand you correctly, in answer to one of Mr. Widnall's questions, or was it the chairman's question, that you think the Development Loan Fund should nevertheless continue side by side with this program if this is authorized?

Secretary ANDERSON. Yes; we do.

I think we have to recognize that all nations are going to be confronted with participation in both bilateral and multilateral programs for development financing.

The IDA represents the breakthrough, since for the first time we have persuaded other countries to contribute funds to an institution which will provide financing on a basis comparable to the loans which we have in the past been making, by ourselves, through the Development Loan Fund.

Furthermore, there is a provision for voluntary contributions to the International Development Association, and we hope that other countries, who do not have comparable national institutions, will utilize this channel for additional financing.

I think it is important to recognize that the United States must have economic instruments of its own that are responsive to our national needs and our foreign policy considerations. The United States, I think, must be in the position to respond, in its own name, to requests for development assistance, and to associate itself directly with the development aspirations of the less developed countries. The international organizations have an identity and a personality of their own.

Moreover, I think we have to recognize that development of some countries whose stability is threatened, or whose instability is threatening to our interest, may be especially important to the United States.

If the United States channeled all of its development aid through international organizations, then the U.S. bilateral aid would be mainly in the field of military hardware and defense support. This would, I think, give color to the image of the United States as a country concerned almost exclusively with military matters.

And for these various reasons, we believe, sir, that the Development Loan Fund continues to occupy a legitimate sphere of interest in our national framework.

Mr. WIDNALL. Would the gentleman yield?

Mr. MULTER. I yield.

Mr. WIDNALL. Wouldn't that inevitably lead to competition for those loans between IDA and DLF, and wouldn't it then lead toward that possibility of "bad loans driving out good?" A loan becoming actually worse than it needs to be?

Secretary ANDERSON. Well, I think you must recognize that there is need for a high degree of cooperation between the IDA and the Development Loan Fund. The Development Loan Fund and the

International Bank, as of now, consult from time to time with reference to projects, and the existence of the IDA as one of the compartments of the World Bank will increase this mutuality of interests and will be a further reason for close cooperation between these two.

It is likely that prospective borrowers will approach either one or the other of the institutions and, when an approach is made, there will have to be a degree of cooperation between the two institutions so that we do not allow competition simply for soft loans to drive out hard ones.

Now, I think, also, that borrowers will recognize that the DLF is a national institution; that it is responsive to foreign policy considerations; that it is an important element of the mutual security program; and that the borrower itself will have some discrimination in which institution it might go to.

Now, if you notice in my statement, I pointed out that the U.S. Director of the International Development Association is also a member of the Board of Directors of the Development Loan Fund, and this, we think, is an important arrangement, in addition to the coordination which takes place in the National Advisory Council—thus, the same man will be looking at the requirements and the applications to both institutions, and therefore will avoid the kind of competitiveness that you speak of.

Mr. WIDNALL. Thank you.

Mr. MULTER. It was my impression that, when Senator Monroney first proposed this, his idea was to use mainly the soft currencies due to the United States and particularly our counterpart funds immobilized abroad. This goes beyond that, does it not?

Secretary ANDERSON. We, sir, want to make the maximum use we possibly can of soft currencies, and of funds that are generated on a local-currency basis by the United States. I think we all have to recognize, first, that these currencies have severe limitations in their use, and, secondly, that we might be doing countries an injustice if we used, imprudently, their local currencies to buy products which would be exported from their own countries.

This institution incorporates the essence of Senator Monroney's proposal, but, in addition, provides, as you point out, loans of hard currencies, on softer terms, and these terms may provide either for repayment in nonconvertible currencies or simply for repayment in the currencies loaned, but over longer periods of time or at slightly more flexible terms than would be normally consistent with conventional banking.

Mr. MULTER. Mr. Secretary, could you furnish to us for our information the total amount thus far appropriated to the Development Loan Fund, and what the amount is that has been requested by the administration for this year?

Secretary ANDERSON. Yes, sir.

Mr. MULTER. I think that would be helpful to us.

Secretary ANDERSON. Yes, sir.

(The information requested is as follows:)

*Development Loan Fund appropriations*

[In millions of U.S. dollars]

	Fiscal year 1955	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Total
Appropriated by Congress.....	300	1 550	550	700	1, 400
Requested to be appropriated.....					700

<sup>1</sup> \$400,000,000 initially; \$150,000,000 as supplemental appropriation.

Mr. MULTER. Now, I have always been in favor, even before I came to Congress, and certainly all of the time I have been here, of what I might term our foreign economic policy. I am in favor of all these mutual security programs, the Development Loan Fund, the World Bank, the Inter-American Bank, the Export-Import Bank, and, in principle, I am in favor of this bill. But I am very much disturbed as to whether or not we should give this authority to the World Bank, and I am disturbed because the World Bank, nevertheless, despite the almost spontaneous objection of more than 25 percent of the membership of the Congress to the loan to the United Arab Republic, despite the protest that was made that that loan should not be made unless the United Arab Republic would indicate, not only by word but by deed, that it would live up to its international obligations with reference to the Suez Canal, the World Bank nevertheless proceeded to make that loan, and made it, as I understand their answer to the protest was, not only objections by Members of Congress but by others—was that they were looking solely at the economic situation and not the political situation.

I think in doing that the World Bank overlooked the moral implications of what they did. In my opinion, and I say it most kindly, I say what the World Bank did in that case was immoral. I think they had no right, whether it was the United Arab Republic or any other country, to make a loan to a country that claimed to be a belligerent and was asserting the rights of a belligerency contrary to its international obligations, which required that an international highway or seaway be kept open to all of the world. Under those circumstances, unless the World Bank is going to reverse that policy, I for one will oppose this program being vested, or the jurisdiction over this program being vested, in the World Bank.

This is one man's opinion, but I think it is backed up by a very strong opinion in both Houses of Congress by many of our colleagues.

Thank you, Mr. Chairman.

Mr. SPENCE. Mrs. Dwyer.

Mrs. DWYER. No questions, Mr. Chairman.

Mr. SPENCE. Mr. Inouye.

Mr. INOUE. Mr. Secretary, what is your definition of "less developed nations"?

Secretary ANDERSON. This was a group of countries arrived at, in drafting the articles of agreement, by the Executive Directors, taking into consideration such matters as the degree of industrialization and of competitiveness which countries had achieved, the reserve position which they had been able to achieve, trying to indicate a line of de-

marcation between the countries who would most likely be borrowers and those who were in a position to be lenders. There was no special formula, but these considerations and others went into the thinking of the Executive Directors.

Mr. SPENCE. Is that all?

Mr. INOUE. Yes, Mr. Chairman.

Mr. SPENCE. Mr. Secretary, what effect do you think this legislation might have on the future peace of the world? Isn't it a fact that the undeveloped areas are bones of contention that often cause dissension between the nations, and result in outbreaks that might spread throughout the world? Don't you think it would have some impact on that problem?

Secretary ANDERSON. Mr. Chairman, I think all of us will recognize that people without hope, people without a feeling that they have an opportunity of bettering their condition, are more likely to be swayed into acts of violence than others.

The road to the development of decent standards of living around the world is a long and arduous one. It is not going to be satisfied entirely by money. It is going to have to be satisfied in part by the will of countries to help themselves, by the development of skills and capabilities of utilizing capital that is furnished to them, and by a number of other considerations.

But certainly an important part of it is to let these countries whose development has not matched that of other free nations of the world believe that we have a concern for their welfare and interest in their development, and a willingness to contribute to their development as best our resources will allow us.

And I think the chairman is entirely correct in saying that not only will this help us to bring about a trading world and a developing world, but that it will contribute significantly to a peaceful world.

Mr. INOUE. One more question, Mr. Secretary. Can you give an example of the type of project that will be financed by the International Development Association?

Secretary ANDERSON. It is difficult to cite a specific project that may be financed in the future. I think, however, that we might generally describe the type of financing that IDA will provide in these terms: There will be applications for loans that we would classify as marginal. They don't quite measure up to the standards of conventional banking. The proposed borrower cannot meet all of the requirements of what normally would be a conventional loan. Under these circumstances, the resources of the International Development Association might be used as a part of a package arrangement with IBRD conventional loans, so that what was a marginal loan, and therefore not bankable, might be brought into existence.

I think another type of situation for IDA is the pilot type of loan, which might then attract domestic capital into the field. Those might be of the character which would not be directly productive of revenues, such as water supply, or sanitation, or something of this sort, which might be done largely on a pilot basis.

IDA financing might include such things as a multiple-purpose loan, where, on the one hand, bankable loans might be used for river development projects, and to some extent these funds might be used

in ancillary projects, such as irrigation, where large parts of it would be local labor.

One of the reasons that the Association was given, in the articles, as much flexibility as possible was that it was thought that none of us has the ingenuity to try to define the uses that may be made of these funds in the future, and that we ought to leave it within the capacity of the institution to make as significant a contribution to progress as the ingenuity of man is able to conceive at the time.

Mr. INOUE. Thank you very much, Mr. Secretary. I have no further questions.

Mr. SPENCE. Mr. Kilburn.

Mr. KILBURN. I have no questions, Mr. Chairman.

Mr. SPENCE. Mr. Moorhead.

Mr. MOORHEAD. I have no questions, Mr. Chairman. Thank you.

Mr. SPENCE. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I would like to ask the Secretary this question: I am concerned about the package loans that will probably be made along with other private institutions. In this connection, Mr. Secretary, would it be possible for you, through your relationship with the various banks and institutions involved, to provide this committee with information of the interest rate on ordinary loans in various underdeveloped countries—as well as the limits of usury and general interest rate conditions that prevail in these underdeveloped countries?

I am very much concerned about the moral situation that might develop under conditions in which the Association might undertake a long-term, low-interest, high-risk loan in combination with a private loan which might not be long term or low interest. And I am very much concerned about the reaction that we develop in these underdeveloped areas, in which this Association might be a party, because of a loan arrangement, in which some of the other private capital participating might participate at harsher terms, higher rates of interest, and with, of course, less risk.

Secretary ANDERSON. I think there are really two ideas suggested by your question to me. One of them is, as I gather, you are interested in what the rate of interest would be on loans that might be made by local institutions within the country.

Mr. VANIK. Yes.

Secretary ANDERSON. And, to the extent that we have information of this character, I will be glad to supply it.

I would think that the committee would want to take into consideration, in examining these higher rates of interest that may exist, the fact that the rate of interest may be influenced by the amount of capital available, but it would also be influenced by the history of the country and its inflationary process as to how money is valued over a period of time. Because nothing inspires a lender to raise interest rates more rapidly than a belief that he is not going to be able to maintain the value of the money that he is lending, so that he has to get back a replenishment of his capital as well as an earning.

Now, in the second place, in examining the character of loans that might be made by outside institutions to projects within a country, to begin with, I think we must remember that if that capital is avail-



able on conventional terms we would not want to use the limited resources of the International Development Association.

Mr. VANIK. I understand.

Secretary ANDERSON. These are such limited funds that they have to be husbanded carefully and used on a very high priority basis, so that, if either the World Bank or the Export-Import Bank or a private bank wanted to make a loan of the same character, we would be very glad for them to make it.

Now, I would think that the package arrangements which you are talking about will largely be in the field of projects of the type that the World Bank now finances, which have more or less a public character as economic overhead, such as power and transportation. If we should try to develop pilot housing or if we should try sanitation projects, or especially in the construction of roads and highways, there might also be some joint operations.

Mr. VANIK. I was thinking in terms of resources development.

Secretary ANDERSON. Yes; in terms of resources development, I would think normally that would be accomplished primarily through private capital or one of the conventional institutions rather than through this one, although there is always the possibility that someone might be ingenuous enough to find a suitable package which could not otherwise be brought into existence, where some local currencies could be used, and, to the extent that they could be used, the Association would take into consideration the capacity of the borrower to repay, either at longer term with hard money or in nonconvertible currency.

(The data referred to above is as follows:)

#### INTEREST RATES IN LESS DEVELOPED AREAS

Precise and meaningful interest rate data, and especially data on longer term lending which can be used in international comparisons, cannot satisfactorily be compiled for the less developed countries. These countries generally lack well-organized capital markets, and data have not been systematically collected. In general, the only important lending institutions in these countries are the commercial banks and certain specialized public institutions such as development banks and similar agencies. Commercial banks normally provide short-term credits, and the development institutions are usually established to provide limited amounts of longer term funds at preferred rates for specially designated purposes.

The basic rate of interest charged private borrowers by commercial banks in the less developed countries vary widely and not infrequently range up to 10 percent or more per annum. The quality of the security offered and the credit standing of the borrower strongly influence the effective rates at which short-term funds may be made available. In many countries the rates quoted are nominal rates or rates established by law and do not reflect various fees and other requirements attached to actual credit transactions.

To the extent that development financing in the less developed countries is provided by specialized institutions, the terms for such financing do not depend primarily upon market forces; the financing is usually dependent upon the availability of public funds, and the terms are established on the basis of public policies. The effective rates of interest offered by such institutions therefore tend to be lower than the maximum rates for short-term bank financing.

The relationship between commercial bank rates and rates offered by specialized institutions may be illustrated by the following examples. The range of commercial bank rates cited in each case is that believed to be generally prevailing in recent periods. The data are, however, based on rather limited information. The influence of rapid inflation is apparent in some of the higher rates noted.

[Percent per annum unless otherwise specified]

	Commercial bank basic interest rates	Development Bank, or similar specialized institution, interest rates
Ceylon.....	3 to 8 percent.....	5 percent.
India.....	6 to 8 percent.....	6 to 6½ percent.
Pakistan.....	6 to 9 percent.....	Do.
Korea.....	17 to 18 percent.....	8 percent.
Philippines.....	4 to 12 percent.....	7 percent.
Taiwan.....	20 percent.....	17 percent.
Brazil.....	Legal ceiling, 12 percent.....	9 percent.
Chile.....	2 percent per month.....	12 percent.
Mexico.....	11 to 12 percent.....	10 percent.
Morocco.....	7 to 8 percent.....	Up to 7 percent.
Turkey.....	7 to 9 percent.....	7 percent.

Ordinary borrowers in the less developed countries who cannot conform to the requirements imposed by the specialized institutions may obtain capital funds, if at all, at rates of interest generally much higher than those normally applicable in the industrial countries. Reflecting the general shortage of capital in less developed countries, the comparatively high interest rates result from a number of economic, institutional and other factors. Insufficient amounts of savings, inadequate facilities for the mobilization of savings, and especially inflationary pressures tend to keep interest rates on capital funds high. The effective rates may vary widely among regions within a given country and may vary widely within a single region depending upon the particular borrower and lender and upon circumstances surrounding the transaction. Many countries have adopted legal measures, such as usury laws, in an effort to limit formal interest rates in circumstances where forces so important to the proper functioning of capital markets are not to be found.

Mr. VANIK. Just one other question. In the event these package arrangements are entered into by the association with other private and public lenders, would the terms of that loan be generally public, or would they be part of a private transaction that would not be generally available?

Secretary ANDERSON. You mean would the public be informed as to the character of a loan?

Mr. VANIK. Yes; as to the character of a loan.

Secretary ANDERSON. I would think—

Mr. VANIK. Would the rules of the Association generally provide for such information?

Secretary ANDERSON. I would think that it would all be public. The process of negotiation might not be public during a negotiating period but, as far as I know, all of the bank loans and terms are made public.

Mr. VANIK. After consummated?

Secretary ANDERSON. Yes.

Mr. VANIK. Thank you, Mr. Secretary.

Mr. SPENCE. Are there further questions?

Mr. WIDNALL. Mr. Chairman.

Mr. SPENCE. Mr. Widnall.

Mr. WIDNALL. Mr. Secretary, I know how deeply you and the administration have been concerned recently with the problem of the deficit in balance of payments to the United States. What do you think the effect of this would be on that balance-of-payments deficit?

Secretary ANDERSON. I would say this: The final solution to the international balance-of-payments problem is not only a matter of the balance-of-payments position of the United States, which is very

important, but it is also a matter of the balance-of-payments position of other countries around the world.

If we are going to develop a world capable of absorbing the fruits of the productivity and the ingenuity of the industrialized countries, we have to have a group of economies viable enough that they can become customers for our goods. This is time consuming.

If one looks at the shorter range, while again I would note that we are contributing about 32 percent of the funds to this institution, and the normal practices of the World Bank indicate that about 29 percent of the identifiable purchases under World Bank loans on an international competitive basis are made in the United States, I could not thus be in a position to say that there would not be some temporary addition to our balance-of-payments problem.

But I think that we have got to go about its solution on the basis of establishing a world in which we can become larger exporters, and other people better customers, rather than to go about it in ways which seem to be solutions only for the short run.

Mr. WIDNALL. In other words, you are saying that we have to become more export conscious, and that both Government and industry have to concentrate more on the export of American goods than they have in the past. It has been merely a sideshow to our normal economy— isn't this true?—while industrialized nations of Europe have concentrated on exports and have built their national economies on it.

Secretary ANDERSON. Mr. Widnall, this is, of course, a subject about which I could speak for several minutes. It seems to me that there is a great variety of considerations that must go into our thinking.

In the first place, we must have a recognition of the fact that what we once described as the dollar gap, because we were the country which manufactured things which people primarily wanted to buy, and our people wanted to be paid in dollars, and therefore other countries were under the necessity of accumulating dollars, has now been supplanted by what I shall call a capital gap, which means that those who wish to buy can utilize currencies of countries other than ours that have goods and services which are useful and desirable on the part of the lesser developed countries.

We must, therefore, recognize the change.

It seems to me that another facet of the problem is that what we tolerated at one time in the nature of restrictions against goods from the dollar area, because we did recognize the necessity of their accumulating additional foreign exchange, is no longer justified, and that we must insist, and we are insisting very strongly, that those discriminations against us be removed.

I think the point which you make is valid; that perhaps in our country demand has been sufficiently high domestically that a number of our companies have not given a high priority, in their managerial scheme, to the development of exports.

Another aspect is the fact that companies at one time were thinking in terms of maintaining their share of the world market, and thought largely in terms of the kind of things that should be made here that would be appealing to customers abroad. And now there is more of an inclination to think in terms of, "How can I erect a plant at some other position in the world which will serve as a supply or distribution center for our commodity?"

The effort which the United States makes to prevent abnormal price increases is also to be considered. Nothing could be more dangerous to us than a highly inflationary period in which our costs went to a point beyond which we were not able to maintain a competitive position.

There is a vast number of considerations that have to be thought of, but I would simply say that our problem is to go about the solution of our balance of payments in a way in which we can have a trading world, with our maintaining our share of the markets, and rising standards of living on the parts of other people, rather than to rely exclusively on short-range, more restrictive policies which over the long term probably would not be a solution within themselves.

Mr. WIDNALL. Thank you.

Mr. BROWN. Mr. Chairman.

Mr. SPENCE. Mr. Brown.

Mr. BROWN. Mr. Secretary, the money that is to be loaned to foreign countries for projects—the rate of interest would be much less than what the United States has to pay for money now. That is going to be rather embarrassing to Congress, is it not?

Secretary ANDERSON. Mr. Brown, in the International Bank for Reconstruction and Development, they secure their money in the capital markets of the world. They must lend their money at rates of interest which will allow them to repay their obligations. Their maturities must be somewhere close to the maturities which they make, and the rate of interest must be such as to furnish some reserves.

The rate of interest which is charged by the Export-Import Bank, which secures its money from the Treasury, must be fairly comparable.

The Development Loan Fund rate of interest, as I recall, has ranged from  $3\frac{1}{2}$  to  $5\frac{3}{4}$  percent.

There is no mistaking the fact that the extent to which we make loans on more lenient terms of interest, in the underdeveloped countries, than are made on normal commercial or ordinary bank levels, is a part of the national policy considerations which have to go into the capability of that country's making repayments, whether it is in hard currency or in soft currency. And this, I think, is the basis upon which the rates of interest that are made for these various loans have to be considered.

Mr. MULTER. Mr. Chairman.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. I am wondering, Mr. Secretary, if we are not working at cross-purposes? On one hand, we have you urging, on behalf of the administration, higher interest rates on Government bonds, in order to attract money to Government bonds and to aid greater salability of our Government bonds, as against foreign government bonds, which are paying a higher interest rate. That is a part of the balance-of-payments problem.

On the other hand, you are now urging that we make these loans, or authorize an institution to make these loans, to which we will contribute a substantial part of the capital, and these loans are to be made at less than the bank loan rates, and the purpose of doing this, to quote from page 5 of your statement, is to create "sounder risks for more conventional financing and be able to attract more private capital

investment," which, I think, would be attracted from this country, into those countries.

On the one hand, we are taking our capital, sending it into the World Bank to build up these other countries so they can attract more of our capital. On the other hand, you are trying to attract capital here.

Secretary ANDERSON. Congressman Multer, may I make two observations? In the first place, believe me, sir, I am not interested in simply trying to create higher rates of interest.

Mr. MULTER. I am sure you are not.

Secretary ANDERSON. I would like to finance the national debt at the lowest rate of interest that is possible.

The request which we have pending in this respect is simply that the Treasury be not required, by statute, to participate in only one segment of the market. If it were possible for us to regulate rates of interest by statute, then I would see no sanctity in the 4¼-percent ceiling which now exists. We might very well consider lowering it.

But the total effect is not to establish a rate of interest; it is to prescribe the market in which the Treasury is permitted to participate.

Now, in the aid which we give to these underdeveloped countries, we can proceed upon the hypothesis that money is going to be made available to those countries only upon conventional banking terms.

If we proceed on this hypothesis, certain countries will, because of their balance-of-payments situation, or because of the debt which they have incurred externally, or because of other circumstances affecting their governments, simply not be able to have projects which might otherwise be brought into existence through the type of loan that is proposed in the International Development Association.

Believing, as we do, that it is important that not only the United States, but all of the countries that have the capacity, utilize to the maximum our resources to bring those projects, which are now marginal, into existence, the International Development Association will make a substantial contribution, participated in not only by us but by the other free countries of the world.

Now, as these countries become more productive, our businessman will be looking for opportunities to invest, but certainly one of the things which we have always subscribed to is the fact that we would like to see the world develop on the basis of a competitive free enterprise system as nearly as we can, and as nearly as is consistent with their operations.

Whether they invest in those countries or whether they invest in our country, the one thing I think we all have to keep in mind is that capital is a rather objective thing—that is, it is competed for—and it normally goes to those places where it believes that it is safe, where it is safe both in terms of maintaining its value and safe from political interference, in which it is welcome and will be treated fairly, and in which it can earn profits.

Now, as the countries of the world develop, it is going to become a part of our responsibility to maintain as competitive a position as we can, so that we compete for and secure capital just as other countries will be competing for and securing it.

Mr. MULTER. I would hate to be in the position of trying to sell the U.S. Government bonds at higher interest rates, and at the same time

urging that, in countries that are undeveloped and which we hope to bring up to the point where they can then encourage capital investments as sounder risks, and at the same time be urging that we make loans to those countries at less than bank rates.

Secretary ANDERSON. Well, sir, let us remember that we are also developing customers, and that as we develop customers we are going to develop an export market for our own country, which is terribly important. And I think we have to decide whether we want to confine all of our lending activities to conventional bank terms, or whether we are willing to say to ourselves, and to the other countries who are able, some of the projects simply cannot be handled by conventional bank terms, and, to the extent that we have capacity, let us encourage and increase the world development by making loans on more flexible terms.

Mr. MULTER. For myself, I am still in favor of projects and programs of this kind because of the long-term benefits.

Secretary ANDERSON. Yes.

Mr. MULTER. At the same time, I am still insistent that we don't—that our Government doesn't have to pay any higher interest rate for its refinancing. But that, also, is for another time.

Just one last point, Mr. Chairman. I am one of those who has always supported—up until the last loan—the World Bank operations. I have always been told abroad of the very fine work the World Bank and our Export-Import Bank have been doing.

I think it is important for us to determine whether or not the World Bank is the institution that should operate and control this program if we authorize it.

I wonder if you could submit to us a statement indicating the economic conditions which warranted the making of the Aswan Dam loan, having in mind Secretary Dulles first approved that loan as a matter of good international politics, and then he announced that we would not make the loan to finance the Aswan Dam because it was uneconomic. Thereafter, the World Bank announced it was not making the Suez Canal loan to the same borrower because of international politics but because it is an economic loan.

I am one of those who urged that the Aswan Dam loan should be made even though it was uneconomic, because it would put those people to work in peaceful pursuits. But I would like to know what the situation was which caused Secretary Dulles to say it was not economic, and now the World Bank says it is economic, to make the Suez Canal loan to the United Arab Republic. I would like to know especially whether there were considered as economic factors (1) that the United Arab Republic is a violator of its international obligations, and (2) that it considers itself at war with Israel.

Secretary ANDERSON. Mr. Chairman, I would simply raise this question. I cannot speak for the World Bank.

I believe it has been the policy of the World Bank, because it is a multilateral institution, not to give direct testimony, or submit statements from the Bank to the parliamentary bodies of the countries who belong to it.

However, I think that we could have the Executive Director for the United States submit a statement to the committee which, in his judgment, reflected the considerations of the International Bank in

making the Suez Canal loan, but this would have to be understood as being his evaluation of their considerations.

Speaking to the other part of the problem, as to whether or not this is the right institution, let me point out that this is the only financial institution in the world that has within its membership practically all of the free countries outside the Iron Curtain countries.

We have a relationship, of course, with the Latin American countries, in a special institution. We have the Development Loan Fund, which is a purely U.S. institution, but if we want to engage the effort of all of the free countries of the world, including the borrowing countries, then it seems to me that the Bank is the appropriate institution in which the International Development Association ought to be lodged, and that we ought to think of it not necessarily as a new institution but as another window within the framework of what has proven to be a sound financial institution.

(The statement referred to above has been submitted and is as follows:)

STATEMENT BY T. GRAYDON UPTON, U.S. EXECUTIVE DIRECTOR OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The charter of the International Bank provides in article IV, section 10, that the Bank and its officers shall not interfere in the political affairs of any member and that only economic considerations shall be relevant to their decisions. Clearly the effectiveness of an international economic organization would be impaired if it were to operate as a political instrument or try to use its lending powers as a method of compelling enforcement of international obligations which are outside its province. However, the attitude of a country toward its international obligations may be a relevant consideration for an international economic organization in two ways. First, it may adversely affect the economic prospects of the country and its capacity to perform its obligations to the organization. Secondly, it may indicate a general lack of reliability in the field of international obligations. In these respects, therefore, a member's violation of its international obligations would be a pertinent consideration.

In the case of the Suez Canal loan, there are conflicting judgments whether a state of war exists between Israel and the United Arab Republic and whether the United Arab Republic is violating its international obligations. For its part, the U.S. Government has consistently upheld the principle of freedom of transit through the Suez Canal for all nations. Furthermore, the State Department advises that, in its view, a state of war does not continue to exist between Israel and its Arab neighbors. However, the divergent positions of the United Arab Republic and of Israel, notably with respect to the Armistice Agreement and the Constantinople Convention of 1888, involve complex legal issues which have not been resolved by international adjudication. It was the view of the U.S. Government that these unresolved issues which reflect serious political differences between two countries, both of which belong to the Bank, were non-economic considerations of a nature such as were contemplated under the Bank's charter as being not relevant to the Bank's decision with respect to the loan to the Suez Canal Authority.

I am appending an earlier statement that explains in more detail the background for the decision to authorize the U.S. Executive Director on the IBRD to support the loan.

On December 21, 1959, the Board of Directors of the International Bank for Reconstruction and Development unanimously approved the granting of a loan to the United Arab Republic (UAR) for improvement of the Suez Canal. The loan agreement was signed the following day by the President of the Bank and officials of the UAR Government and the Suez Canal Authority.

The following factors were taken into consideration by the U.S. Government in reaching its decision to support the UAR loan application when it was brought before the IBRD Board for discussion:

(a) The project is sound technically. It has been planned for a number of years. Studies undertaken by the International Bank confirm that, from an

engineering standpoint, the proposals which envision the deepening and widening of the canal represent a sound and feasible program for improvement of the canal as an international waterway.

(b) It is a sound project economically. The UAR's receipts in foreign exchange accruing from canal operations are and will be more than adequate to service a loan. It is clearly a credit-worthy development project of precisely the type for which the IBRD was established.

(c) The project has international benefit. The canal improvements will be of value to the world trading community, and in particular the Western European nations for which the canal is almost an indispensable artery.

(d) The IBRD is an international lending agency whose loans are granted primarily on a basis of their economic usefulness and financial soundness. The injection of noneconomic considerations into the Bank's assessment of the credit-worthiness of an application would impair the Bank's integrity as an international financial institution, particularly in the eyes of the less fully developed nations of the world whose needs the Bank is primarily designed to serve. To maintain the IBRD's well-deserved international prestige it is considered important to avoid circumstances which would expose the Bank to allegations that it is a political instrument rather than a bona fide international lending agency devoted to the promotion of economic development for the welfare of the peoples of the world.

(e) Sound economic development should be encouraged. The Suez Canal development project is regarded by the United Arab Republic as an important element of its total development program. It is clearly in the free world's interest to try to be helpful in such cases rather than, by default, to furnish an opportunity to be exploited by the free world's enemies.

In recognizing the merits of the foregoing considerations, the U.S. Government was not unmindful that restrictions placed on Israel's shipping in the Suez Canal might call into question the propriety of proceeding with the loan. This consideration was given full weight in the U.S. Government's decision to support favorable action on the loan. The United States has consistently upheld the principle of freedom of transit through the Suez Canal for all nations. The Secretary of State reiterated this support at the United Nations General Assembly on September 17.

The U.S. Government will continue its efforts to do what it appropriately can to facilitate a solution to the problem which still confronts Israel vis-a-vis the Suez Canal. In this connection, it is understood that the United Nations Secretary General has been closely following developments connected with the recent incident involving a Greek-flag vessel and is continuing his efforts to assist in bringing about a resolution of the transit problem. It is to be hoped that the good offices of the United Nations, which are energetically being addressed to this problem, will bear fruit. The constructive action which the IBRD has taken with respect to the Suez loan may itself provide example and encouragement for progress toward ultimate solution of Near Eastern problems.

Mr. SPENCE. Are there further questions?

If not, Mr. Secretary, thank you for your very fine statement. We are always glad to have your views on subjects of interest to the country, with which you are so familiar.

Secretary ANDERSON. Mr. Chairman, it is always a pleasure to appear before this committee, and I appreciate the opportunity.

Mr. SPENCE. We will now call Mr. John J. McCloy, chairman of the Chase Manhattan Bank of New York City.

Mr. McCloy, we are delighted to have you. I don't think you need any identification. We know you are the chairman of the board of Chase Manhattan Bank, and that you were High Commissioner for the United States in Germany, and did much to help Germany establish a sound economy and to reach the position which she now occupies. We are glad to have your views.

Mr. McCLOY. Thank you very much.



Mr. MULTER. Mr. Chairman, as a New Yorker, may I welcome Mr. McCloy and say that he needs no introduction to any of us here. He is a statesman of international repute, and I am sure that the financial world also looks upon him as one who can give us true guidance.

Mr. McCLOY. Thank you very much. I am very awed by the introduction.

**STATEMENT OF JOHN J. McCLOY, CHAIRMAN, THE CHASE  
MANHATTAN BANK**

Mr. McCLOY. I do want to say, Mr. Chairman, that I appear before you in support of this bill, H.R. 11001, which would authorize participation of the United States in the proposed International Development Association.

Secretary Anderson has reviewed with you the objectives and the organization of the International Development Association, and I shall not repeat them here.

Let me only say that I am convinced that the provision of effective assistance for the economic development of the underprivileged countries is one of the most pressing and most difficult tasks which now confronts the United States, as well as other industrialized nations of the free world.

The International Development Association promises to make a further contribution to this process and, in my judgment, it is in the best interests of our country to cooperate in establishing it.

The United States has a vital interest in the economic progress of the less developed countries for a number of compelling reasons. For one thing, a friendly and stable relationship with these areas is essential to our own economic well-being. The less developed lands embrace three-fifths of the free world's population and land. They are an essential source of supply for many key raw materials we ourselves require, and they provide markets for many of our own manufactured goods.

It is not too much to say that the United States, and, indeed, the Western World, could not survive in its present form if the less developed areas, their products, and their markets were shut off from us.

In addition, of course, many of these lands have a direct strategic and military significance to the West. We are tied to many of them through pacts of mutual defense. We cannot expect these defense arrangements to rest on a solid basis if the countries concerned lack either social or economic stability.

And the plain fact is that the peoples of many of the less developed countries are not content with things as they are. The whole technical revolution, including the tremendous speedup in transport and communications, has placed these nations in almost immediate relationship with the West.

Moreover, they have only to look in the side yard at Russia and China. They seem to see that it is possible to achieve a better life and not to be mired indefinitely in abject poverty. They are bound and determined to move ahead, and they know that they will need outside help to do it.

The Soviets realize all this, and there are signs that they intend to make the less developed lands their principal battleground. Witness the recent parade of top Soviet officials to India, the tour of Mr. Khrushchev through southeast Asia, and, even more revealing, the growing volume of Soviet aid, including some to Cuba on our own doorstep.

We are confronted, then, not only with an east-west problem, but with a north-south problem as well, and the two are tied together.

All this, of course, is nothing new. You gentlemen in Congress have lived with the problem for many years. You have authorized a number of programs which give assistance to the less developed countries through both loans and grants. Why, then, should we participate in still another organization, the International Development Association?

I believe that there are a number of good, sound reasons to favor the establishment of the new Association. For one thing, the less developed lands seem likely to require even more external assistance in the future than they have received in the past.

The very success of countries like India and Pakistan in getting economic development underway has increased their need and capacity to absorb capital. At the same time, a number of new nations, particularly in Africa, will require greater assistance.

Clearly, the United States cannot take on this added burden alone; indeed, in the future it should not even expect to bear as large a relative share of the total aid burden.

By this I do not mean that I think the International Development Association can serve as an opportunity or an excuse to cut other programs of economic assistance. Quite the contrary. The International Development Association does possess, however, the virtue of being an international institution, and it thereby serves as a vehicle for enlisting greater assistance from other nations in the West—a fact Secretary Anderson has quite rightly stressed.

I am quite convinced that the nations of Western Europe can and must assume a greater share of the burden of economic assistance in the years ahead, and the International Development Association represents a modest step in that direction.

I believe there is something to be said, too, for channeling a good measure of assistance through international organizations, provided we can be convinced that such organizations will be soundly and objectively administered.

Experience with both the International Bank and International Monetary Fund indicates that those institutions are highly respected by the member countries—including the less developed countries as well as industrial nations. I believe it is easier for an international institution to say “No” when the answer ought to be “No.” And it is easier for such an institution to insist on sound economic policies as a condition for assistance without appearing to infringe on the sovereignty of the borrower.

There is something institutional rather than sovereign or personal about an international organization that takes some of the sting out of critical comment or a negative answer.

In the case of the International Development Association, the fact that the International Bank will, in effect, be the administrative body also seems to me to be a favorable, if not, in my judgment, a saving, aspect.

As a matter of fact, if this very close identity between the International Bank and the IDA did not exist, I might feel otherwise about the whole venture.

In the early days of the International Bank, when I was its President, it was necessary to fight a real battle against loans of the soft character which the International Development Association would now be designed to make.

I went around the country and pledged that the International Bank would not make loans of that sort—that it would be an institution which looked upon projects from a normal banking point of view; that each loan would have to be capable of repayment on terms which would permit the Bank to raise the money for it in the first place.

This was absolutely necessary if the Bank was to establish its credit, if it was to be able to float bonds and get the capital it needed. And I think if I hadn't made that promise we wouldn't have had an International Bank.

It was necessary for us to go around to all these States and get the legislatures to make the bonds of the Bank legal as investments for fiduciaries and various savings institutions, and they all wanted to know what types of loans we were going to make. And in going to the financial communities, such as New York and Boston, and the like, it was extremely important to stress this point, and without it we would never, I think, have gotten the Bank off the floor.

Such a policy is still necessary, and the present President, Mr. Black, and the Board of the Bank are to be complimented on the high standards they have adhered to.

And yet I have come to feel that in the circumstances of today there may be a place for soft loans, so called. I am impressed particularly by the fact that some of the less developed countries will need, and can absorb, more outside assistance in the way of borrowed capital than they could hope to service in a normal way.

I am disposed to feel there is both a political and social imperative weighing on the free world today which we cannot and should not avoid.

If the transfer problem had to be fulfilled to accomplish this—the problem of converting local currencies into hard currencies for normal repayment—it would prove very difficult, indeed, to comply with this imperative.

I am told, for example, that in the period from 1956 to 1958 alone the external debt of less developed countries in Asia, the Middle East, and Africa almost doubled.

And so I am willing now to accept the principle of soft loans, as a supplement to the normal operations of the Bank, to be made out of funds segregated from and sharply distinguished from those used to finance the normal operations.

One might ask very reasonably: Why make soft loans rather than grants? I admit there is something to be said on both sides of this question. I believe some economic assistance in the form of pure grants will continue to be necessary. But for the International De-

velopment Association, with its close relationship to the International Bank and its emphasis on financing individual projects, the use of soft loans rather than grants seems to me to be wiser. The fact that a loan is "soft" doesn't mean that it is not to be repaid.

Mr. Eugene Black has said that the Association may make soft loans, but it won't be a soft lender. The very necessity for repayment exerts a certain discipline on both the borrower and the lender to be certain that the project is, indeed, sound and economic. There is a kind of economic calculus involved in a lending operation which is healthy for all concerned.

Normally, there is danger that soft loans may put to work a kind of Gresham's law—borrowers will naturally seek soft loans rather than hard.

As Secretary Anderson points out, we are protected against this in the case of the International Development Association by the arrangement for joint administration with the International Bank.

As I understand it, the Bank would not approve any loan, or portion of a loan, to be handled by the International Development Association which could be regarded as bankable in the ordinary way—not only by the International Bank itself, but by any other lending institution, including private lenders.

This puts a heavy responsibility on the officers and Directors of the joint International Bank-IDA. They are going to be faced with some awkward problems, but, on the basis of their record to date, I would trust them with the responsibility.

Moreover, if the record proved otherwise, Congress would have the power to freeze the International Development Association to its present limited size, since the agency undoubtedly will have to ask for additional funds at some future date.

The problem of coordination is not confined to the Bank. There is a serious problem of coordination, in my judgment, in the whole effort of the West to assist the less developed lands.

Recently I served as a member of the President's Committee which studied the mutual security program—the committee of which General Draper was the Chairman.

In our report we pointed to the proliferation of agencies engaged in the aid effort and strongly recommended some consolidation and reduction in number.

The International Development Association, in a sense, involved a new agency, another window for the borrower to approach. But again the common management with the International Bank takes away at least most of the disadvantage. It could even place the International Bank in a position to act as a coordinating agent on its own.

Nevertheless, I remain convinced that coordinating the many programs and agencies for economic assistance stands as one of the major problems to be tackled in the future—not only within our own country, but even more so as between the various nations of the West.

I recently saw a study which listed a considerable number of agencies in the various countries of the West, including, of course, the international agencies, which prospective borrowers from the less developed lands might approach.

(The listing of agencies referred to above will be found at the end of Mr. McCloy's statement on p. 50.)

I would hope that the steps now being taken by the State Department to establish a development assistance group, including nations in Western Europe as well as the United States, Canada, and perhaps Japan, might be able to help in this matter.

And now before I conclude I perhaps should say just a word about the relation of the International Development Association to private investment in the less developed lands.

The International Development Association is empowered to lend directly to private borrowers without any government guarantee. It remains to be seen how extensive such lending will become. I myself believe it probably will be small.

One possible outlet may be various national development banks which have been organized under private auspices in certain less developed countries. These banks act as intermediaries, channeling both public and private funds to private industry within their respective countries.

I rather expect, however, that the indirect benefits from IDA operations will be more important to private industry than direct loans.

Broadly speaking, these indirect benefits are of two types. First, most of the loans made by the International Bank—and, presumably, many of the International Development Association loans would follow the same pattern—are for basic economic facilities required for the development of the borrowing country: railroads, power facilities, communication networks, and the like. These are all essential to private industry. To the extent this economic infrastructure is built up on a sound basis, private industry will benefit.

Secondly, the granting of loans repayable in local currencies will act to reduce the volume of foreign exchange required to service the external debt of the borrowing country. This is quite important from the standpoint of the foreign investor.

One matter on which any private foreign investor must form a judgment is the ability of the recipient country to provide foreign exchange to service and repay its external debt—judgments which institutions like the International Bank and the Export-Import Bank must also make. On this count the IDA should be definitely helpful to all foreign investors, including private investors.

And now, in closing this statement, let me only repeat again that I do favor U.S. participation in the proposed International Development Association.

Under the joint administrative arrangements envisaged with the International Bank, I believe that this new agency could prove to be a useful adjunct to existing machinery for providing essential economic assistance to the less developed countries.

Thank you for permitting me to appear before you.

Mr. SPENCE. Are there questions, gentlemen?

Mr. MULTER. Mr. Chairman.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. Mr. McCloy, is it contemplated that IDA, the International Development Association, will do any borrowing; float any bonds?

Mr. McCLOY. No; I think not. I think it gets its money from appropriations from the prospective countries.

Mr. MULTER. So that, to begin with, the total amount will be less than a billion dollars?

Mr. McCLOY. Certainly, at the start of it. The total can be augmented. It can be supplemented, under the statutes.

Mr. MULTER. I suppose it is impossible to make any projection at this time as to how much it eventually will be receiving from the subscribing countries and how much it will be lending?

Mr. McCLOY. Only the initial subscriptions will be laid out now. I suppose the future can only determine the extent to which the subscriptions called for in the present act might have to be augmented and the ultimate scope of the Association.

It depends a great deal on how the Association is administered and what its impact proves to be.

Mr. MULTER. Do you think, Mr. McCloy, that any of these soft loans—or let's leave out the word "soft"—that any of these loans contemplated to be made by IDA should be made to belligerent nations?

Mr. McCLOY. Should be made to nations that are at war?

Mr. MULTER. Yes.

Mr. McCLOY. Well, certainly, the whole purpose of this Association is to promote the peaceful development of the world, and I would think that if there were a war situation it would be very doubtful whether it would be advisable for an agency such as this to make loans to assist the development of the economy of such a country.

In these circumstances, I suppose, it would be up to the individual nations, on a bilateral basis, to protect and assist their allies as they saw fit. But I would think it would be inappropriate for this agency to be used for such a purpose.

Mr. MULTER. This is intended to be a peaceful operation?

Mr. McCLOY. Entirely.

Mr. MULTER. If we have to come to the defense of an ally, we will do it by outright grants and, within the terms of our defense and alliance treaties, we will act accordingly?

Mr. McCLOY. Precisely.

Mr. MULTER. There is written into these articles of agreement a provision which prohibits political activity, which I think is wise and proper.

Mr. McCLOY. Yes.

Mr. MULTER. But if a member nation applies for a loan under the terms of these articles, and if it were a member nation which asserts and tells the world that it is at war with one of its neighbors—

Mr. McCLOY. I think this would be an inappropriate agency for those purposes.

Mr. MULTER. Thank you, sir.

Mr. SPENCE. Mr. McCloy, to what extent can the Bank make use of the soft currency which they get in return for their loans?

Mr. McCLOY. Well, as Secretary Anderson pointed out, the use of these local currencies is somewhat limited, but you can, of course, use them for the payment of local expenses.

The extent to which you can use them to finance export of their production, I think, should be rather restricted, because to that degree it is a drain on their potential foreign exchange, and to a certain

extent such action would be inconsistent with the fundamental purposes of the legislation.

But any internal use of these currencies, which did not complicate their balance-of-payments problem, would be an appropriate avenue into which such currencies could be channeled.

Mr. SPENCE. The International Development Fund has made very little use of the soft currencies which it has received?

Mr. McCLOY. Yes; it has very large sums amassed that have not been, so far, utilized.

Mr. SPENCE. Are they not considering recommending that they be returned to the nations whence they came by act of Congress?

Mr. McCLOY. I had heard there was some agitation to bring that about because the Development Fund is accumulating such a sizable sum that it may pose a difficult problem.

Mr. SPENCE. Do you think that problem will arise here?

Mr. McCLOY. There is a provision in these statutes, I notice, to permit any country to make available to the International Development Association any local currencies which it has amassed, although I believe it does not get corresponding voting benefits when it does so.

But perhaps the International Bank, with its experience, can find a better use—a more appropriate use—than we have been able to find thus far on a bilateral basis, for the employment of such funds.

So, I think the provision in question is a rather healthy one.

Mr. SPENCE. Do you think this legislation might have an important impact on the future peace of the world?

Mr. McCLOY. Yes; I do. I have the feeling that we are faced, as I said, with two great problems. We have the east-west menace, and at the same time, even if we didn't have the east-west menace, we have this problem—I guess I am not the first to use the phrase—the north-south problem.

You would have a problem with the agitation and restiveness in the lesser developed lands, and the scientific revolution that is now enveloping the world, even if we didn't have the Soviet Union pressing against us from the east.

And I believe that we have to attempt a number of different ways to cope with these major forces that are playing around the world, and this new Association, if well administered, would contribute toward a solution of the north-south problem and, incidentally, tend to ease the tensions that we now are subject to from the east.

Mr. SPENCE. If there are no further questions—

Mr. VANIK. Mr. Chairman, may I ask a question?

Mr. SPENCE. Mr. Vanik.

Mr. VANIK. Mr. McCloy, I would like to ask a question. Under this bill, under this authority, how much would be available for lending next year, or assuming this started in September?

Mr. McCLOY. Well, I suppose—let's assume that all the other countries—

Mr. VANIK. Let's assume all contributions are made.

Mr. McCLOY. In terms of hard currency, we would have \$73 million from the United States.

Mr. VANIK. \$73 million from the United States?

Mr. McCLOY. Yes.

Mr. VANIK. As I compute it—

Mr. McCLOY. About \$760 million altogether, in hard currencies.

Mr. VANIK. In other words, it would take 5 years to accumulate loanable funds to the extent of about \$700 million; is that correct?

Mr. McCLOY. Yes.

Mr. VANIK. It would take 5 years to accumulate that kind of reserve for loaning?

Mr. McCLOY. Yes. Your question, however, was directed to the first year.

Mr. VANIK. That is right. I was wondering how this sum of money relates itself to what you would estimate to be the total need.

Mr. McCLOY. Oh, it would be a very small proportion of the total need.

Mr. VANIK. The question that I raise is: Is it enough to really face up to the problem?

Mr. McCLOY. No; I don't think it is. I think it is very clear that it is not enough. However, it is going to take some time to get this new Association functioning, the pattern of loans set out, and I would think that even though this is minimal—maybe that is too strong a word—it is certainly not comparable to the overall need—

Mr. VANIK. Would it be something more than—

Mr. McCLOY. I think that you are going to have another opportunity to face the problem after you see how this operates, without any real loss in the meantime, in your overall objectives.

Mr. VANIK. Do you believe that this effort will be significant, or will it be merely symbolic?

Mr. McCLOY. No; I think it will be significant. The significance will emerge, in my judgment, with the speed and with the knowledgeability and skill with which these first loans are made. I think thereafter there will be the problem of replenishing the funds of the Association.

I believe it is quite arguable to say, "Well, we might have made it twice this," but I am disposed to think that, in the length of time that you have, or will need, to get the Association organized, that the sum being proposed might be all that is needed to start off with.

Mr. VANIK. Then, just one more question: How does this compare with the Soviet approach to this problem? This is our competition?

Mr. McCLOY. Yes.

Mr. VANIK. They make, as I understand it, direct grants, which would probably result in Soviet materials and Soviet goods coming into play.

Now, the way this works out, these loan funds, having been generated through the International Development Association, could be used to purchase goods and materials and services from anybody in the International Development Association countries.

Isn't it conceivable that, in the face of free-world competition, under which prices in America are so much higher, although we might be furnishing a substantial part of the capital, the result might be that very little of it might be used to purchase goods and services and to provide things produced in the United States? Isn't that conceivable?

Mr. McCLOY. Yes; I think that is conceivable.

Mr. VANIK. A direct grant would at least provide for American production, American know-how, and American ingenuity.



Mr. McCLOY. Well, you could, by the same token, tie this—you could tie the American contribution, if you wanted to, to that. But I think it would be unwise to do so.

Bear in mind this is only a small portion of the aid program. A good part of the aid program today is tied to American goods.

Mr. VANIK. Yes, but it is contemplated, is it not, that this lending authority will be something that will probably increase? They undoubtedly are going to come back for more and more authority.

Mr. McCLOY. If the administration of this is a success, I think it would be almost necessary that they should come back for replenishment; not only replenishment, but perhaps some expansion of the funds.

Mr. VANIK. Thank you, Mr. Chairman.

Mr. SPENCE. If there are no further questions, Mr. McCloy, we thank you for your statement. Your statement and your vast experience and knowledge are very helpful to us, and we are glad to have your views.

Mr. McCLOY. Thank you, Mr. Chairman.

(In Mr. John J. McCloy's testimony (p. 42), a reference is made to "a considerable number of agencies in the various countries of the West, including, of course, the international agencies, which prospective borrowers from the less-developed lands might approach." In response to a request by Hon. Wright Patman that these agencies be identified, the following information was furnished:)

SOURCES OF FINANCIAL ASSISTANCE FOR LESSER DEVELOPED LANDS FROM GOVERNMENTS OF WESTERN COUNTRIES

U.S. Export-Import Bank  
 U.S. Development Loan Fund  
 U.S. International Cooperation Administration  
 U.S. Public Law 480 (not a lending agency but a source of foreign assistance)  
 International Bank for Reconstruction and Development  
 International Finance Corporation  
 Inter-American Development Bank  
 United Nations Special Fund  
 European Investment Bank (European Common Market)  
 The Development Fund (European Common Market)  
 Common Market Loan Fund for African Countries  
 Colombo Plan (about half the 18 members lend directly through this)  
 Overseas Countries and Territories Loan Fund (British)  
 Commonwealth Development Finance Corporation (British)  
 Colonial Development Corporation (British)  
 Fonds d'Investissements pour le Developpement Economique et Social des Departement d'Outre Mer (French)  
 Fonds d'Aide et de Cooperation (French)  
 Caisse Centrale de la France d'Outre Mer (French)  
 Ente Nazionale Idrocomburi (Italian)  
 Banco de Fomento Nacional (Portuguese—to dependencies only)  
 Direct loans from governments of:  
 Netherlands  
 Germany  
 Belgium  
 Switzerland

Mr. SPENCE. The committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:05 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Wednesday, March 16, 1960.)

## INTERNATIONAL DEVELOPMENT ASSOCIATION

WEDNESDAY, MARCH 16, 1960

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
SUBCOMMITTEE No. 1,  
Washington, D.C.

The subcommittee met at 10 a.m., Hon. Brent Spence (chairman of the subcommittee) presiding.

Present: Representatives Spence, Brown, Multer, Inouye, Widnall, Halpern, and Mrs. Dwyer.

Also present: Representatives Kilburn and Mrs. Griffiths.

Mr. SPENCE. The committee will come to order.

We will resume our hearings on H.R. 11001.

Our first witness this morning is Mr. Rутtenberg, research director of the AFL-CIO.

Mr. Rутtenberg, we are very glad to have you appear as a witness for the great organization which you represent, which is vitally interested in the economy of the Nation and the peace of the world.

It is not a privilege, but a right, that you have, to express your opinion before committees of Congress as to what your organization feels is in the interests of the welfare of the people.

We are glad to have you.

### STATEMENT OF STANLEY H. RUTTENBERG, DIRECTOR OF RESEARCH, AFL-CIO; ACCOMPANIED BY BERT SEIDMAN, ECONOMIST, RESEARCH DEPARTMENT, AFL-CIO

Mr. RUTTENBERG. Thank you very much, Mr. Chairman.

I am accompanied this morning by Mr. Bert Seidman, economist in the research department of the AFL-CIO.

I appreciate the opportunity to appear before this subcommittee on behalf of the American Federation of Labor and Congress of Industrial Organizations to support the proposal for authorizing U.S. participation in the International Development Association contained in H.R. 11001, introduced by Representative Brent Spence, the distinguished chairman of this committee.

Let me state at the outset, Mr. Chairman, that the AFL-CIO particularly welcomes the establishment of the International Development Association because we have long favored efforts to increase economic assistance to the less developed countries through multi-lateral agencies.

This position was reaffirmed at the most recent AFL-CIO convention which met last September. I have attached to my testimony that part of the convention resolution on international policy which relates

to foreign economic policy. I respectfully request that this attachment be made a part of the record of this hearing.

Mr. SPENCE. That may be inserted in the record at the conclusion of your remarks.

Mr. RUTTENBERG. Thank you, Mr. Chairman.

In the convention resolution to which I have referred, the AFL-CIO frankly stated that, for some time to come, the largest part of economic assistance would have to continue to be extended through U.S. agencies.

But the resolution urged that our foreign economic effort should increasingly be channeled through international and regional organizations. Such assistance should be on a sufficient scale and on a long-term basis.

The convention resolution specifically called for effective U.S. financial support for and participation in the proposed International Development Association as an essential part of an expanded, long-term, and fully effective program of economic and technical assistance to the industrially less developed nations.

Moreover, the resolution urged that the assistance provided by the International Development Association should take the form of low-interest loans repayable in local currencies.

Before discussing some of the specific aspects of the International Development Association proposal, I should like to mention one general consideration which we find most encouraging. I refer to the bipartisan support which has been given to the IDA here in the United States.

We in the labor movement are proud of the leadership role the United States has had in the development of this challenging new concept for aiding worldwide economic progress.

We are particularly gratified by the fact that leading spokesman of both our political parties have been in the forefront of this effort. It was a Democratic Member of the Congress who first put forth the idea. It has been promoted vigorously, both in our own country and in the appropriate international bodies, by a Republican President and the members of his Cabinet.

The AFL-CIO is glad to have been a supporter of this proposal from the beginning.

I had the privilege of appearing before this subcommittee just 1 year ago to support the authorization you were then considering for necessary funds for the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank).

At that time I stated that, while these two agencies have undoubtedly played a very important role in assisting economic development, they nevertheless have relatively limited functions which must be supplemented by other programs to aid economic growth in the less developed countries. If I may, I should like to restate a brief portion of what I then said:

The International Bank for Reconstruction and Development plays a direct role in economic development, but only in a relatively restricted area. The IBRD makes only what may be called bankable loans. These are at the going interest rates for customary repayment periods and repayable in hard currencies.

The extent to which countries may obtain IBRD loans is determined by their ability to repay such loans, and this, in turn, is determined by the type of projects for which the loan is sought—particularly the amount of revenue they

are likely to produce—and the overall ability of the country to earn foreign exchange. As already indicated, the projects financed by International Bank for Reconstruction and Development loans do not include “social capital” projects such as schools and hospitals, nor do they ordinarily include technical assistance, except incidentally. They do not even ordinarily include such projects as highways which do not immediately produce revenue, particularly where a country does not have general ability to repay in hard currencies. Yet projects of the types that are not covered by International Bank for Reconstruction and Development loans are vital not only to improve the living conditions of the people of the underdeveloped countries but also for economic growth itself.

The proposed IDA will help to fill that gap. It will make loans under less stringent conditions than the International Bank for Reconstruction and Development for a variety of projects in less developed countries.

These projects will make an important contribution to basic economic growth in the less developed countries, but they are projects which are not and, for the most part, cannot be assisted by the International Bank for Reconstruction and Development. Yet, since the International Development Association will be administered by the International Bank for Reconstruction and Development, its activities will be very closely coordinated with those of the older agency.

The initial capitalization proposed for the International Development Association is \$1 billion. The U.S. share of this amount would be approximately \$320 million, while the contributions of the other economically stronger nations would be approximately \$443 million. All of these funds would be in convertible currencies. The remaining \$237 million would be subscribed by the less developed countries themselves, and 10 percent of this amount would be in convertible currencies.

The proposal in its present form specifies that these amounts are intended for a 5-year period. On that basis, the administration has requested only \$73,666,700 for fiscal 1961 and \$61,655,000 for each of the subsequent 4 years.

As I shall indicate in a moment, we regard these amounts as being much too restrictive in view of the size and scope of the job that urgently needs to be done.

The International Development Association will make available loans on flexible terms which are especially suitable to meet the requirements and capacities of less developed countries.

It is true that the International Bank for Reconstruction and Development and the Export-Import Bank have assisted industrialization in the less developed countries. However, these sources of funds have been limited in two important ways in meeting the economic development requirements of these areas.

First, their assistance has been limited to what may be called hard or bankable loans; that is, they have made their funds available only at going interest rates for customary repayment periods and repayable in hard currency.

Second, because of the stringent nature of these loans, they have been available only for types of projects which are immediately revenue producing and largely self-liquidating.

The International Development Association, on the other hand, will make loans on flexible terms and for any sound purposes which con-

stitute an integral part of a less developed country's overall economic development program.

The fact is that most of the less developed countries have reached the limit of their economic capacity to assume the financial responsibility of additional hard loans. For this reason, the International Development Association will make loans including some combination of the following features: Low interest rates, long maturity periods, "grace" periods before repayment must begin, and repayment in local currencies.

During the discussion on the International Development Association at the meeting of the Board of Governors of the International Bank for Reconstruction and Development last October, some fears were expressed that the influence of individuals with the traditional bankers' point of view in the IBRD might outweigh in the councils of that organization the views of those who recognize the need for flexible, nonbankable loans for economic development in the less developed countries.

We recognize that, as of now, the organizers of the International Development Association have fully subscribed to the need for the new organization to have a flexible lending policy.

We sincerely hope that they will not deviate from that policy and veer in the direction of a hard-loan policy. Such a change, in our opinion, would smash the hopes of those who look to the International Development Association for meaningful support for economic advances in the less developed countries.

I would emphasize at this point, Mr. Chairman, that organized labor in the United States will continue to endorse U.S. participation in and support for the International Development Association only as long as the International Development Association maintains policies fully attuned to the needs and capacities of the less developed countries.

Indeed, we would urge this committee in its report to the Congress to recommend that continued U.S. support for the International Development Association be made conditional upon its maintaining a flexible lending policy and that U.S. support be withdrawn if the International Development Association should adopt a hard, bankable loan policy.

According to the articles of agreement of the International Development Association, it would be authorized to finance, within the limits of available funds—

any project \* \* \* which will make an important contribution to the development of the area or areas concerned, whether or not the project is revenue producing or directly productive.

Thus, the funds can be used not just for revenue-yielding projects, but for roads, communication, housing, sanitation, education, and other projects. These are projects which may yield no immediate monetary returns, but will in time pay for themselves many times over by their invaluable contribution to the expansion of the entire economy. While they may not be appropriately financed by bankable loans, they are tremendously important from the point of view of achievement of sound economic progress in the less developed areas.

I have already stated that the AFL-CIO has long favored the idea of channeling an increasing proportion of our economic assistance to the less developed lands through multilateral agencies.

True, it cannot be expected that the International Development Association or other multilateral or regional agencies will establish themselves on a broad enough scale so quickly as to make unnecessary further bilateral aid programs.

On the contrary, we believe that the United States, through the technical cooperation program and the Development Loan Fund, should considerably expand its bilateral economic assistance effort until the International Development Association and other multilateral organizations are prepared to effectively take over the major responsibility.

But we should work toward that goal, for there are some very important benefits to be derived from the multilateral approach to economic assistance. Perhaps the most important advantage is that the International Development Association, as a multilateral organization, will be a genuinely cooperative undertaking of free-world nations, both developed and less developed, in which they can pool their financial and technical resources.

From the U.S. point of view, this is important because it means that we alone will not be shouldering the entire financial burden.

But there are other gains in the multilateral approach. The skills and talents of individuals in all member countries will be available to advance the program as rapidly as possible.

Moreover, an international agency is much less likely to offend the sensibilities and pride of recipient nations. This means that a multilateral agency can state its recommendations for effectively and efficiently carrying out the programs it helps to finance in much stronger terms than can a single lending country.

There is still another advantage in the multilateral approach. As we know from our own experience, even the best of motives of lending countries are sometimes questioned by people in borrowing countries. They may suspect that the lending country is motivated principally by political considerations or by its own narrow economic interests.

The Soviet Union and its satellites have not hesitated, of course, to heap coals on this smoldering fire of suspicion, although their own activities in this field are, in the main, directed toward their political interests.

But an international agency such as the International Development Association, in which virtually all free-world nations participate, will not be as vulnerable to such attacks. Its stated objective of contributing toward the economic advancement of the entire free world is much more likely to be accepted at face value, and this acceptance of good faith in itself is likely to be a tremendous asset in the cooperative drive to accelerate the pace of economic advancement.

The foregoing comments should certainly make clear our wholehearted support for U.S. participation in the International Development Association. Our only concern is that the resources which are to be made available for the International Development Association seem to be entirely too small to accomplish more than a small fraction of the job to be done.

Just 10 days ago, on March 6, the New York Times reported that in the first 9 weeks of 1960 the U.S.S.R. had committed itself to credits of almost \$700 million in five countries not in the Soviet bloc in Asia, Africa, and Latin America: United Arab Republic, Indonesia, Cuba, Guinea, and Afghanistan.

In addition, during this same short period, the Soviet Government announced additional aid will be extended to two underdeveloped Communist countries, Outer Mongolia and North Korea.

We know that there are grave dangers to world freedom when these as yet uncommitted countries accept Soviet assistance. We know that the Soviet Union wants to make them the same kind of satellites as Outer Mongolia, North Korea, and other Communist countries now under the Soviet yoke. But the fact remains that the Soviet Union has entered the foreign aid picture in a big way, and this we can ignore only at our own peril.

We must recognize that, unless the more fortunate, industrially advanced nations of the free world, and especially the United States, which is still by far the richest, are prepared to make available to the less developed countries economic assistance on a scale commensurate with their minimum needs, they will reluctantly, but inevitably, turn to the Soviet Union.

This is an important reason for increasing the capitalization of the International Development Association substantially above the presently contemplated level, but it is by no means the only one.

Mr. Chairman, as Paul Hoffman has recently reminded us, the average per capita income in 100 countries in the non-Communist world is \$100 per year. In more than half of these countries the figure is actually below \$100 per year, including such important countries as India, South Korea, Pakistan, Thailand, and Vietnam.

During the decade of the 1950's, per capita income in these areas grew by only 1 percent or \$1 a year. People who are no longer willing to submit to the age-old yoke of hunger, disease, and poverty will not long be satisfied with that kind of snail's-pace progress. If we cannot help them in their yearning for a better life, they will inevitably look elsewhere for assistance.

Experts have estimated that, if \$3 billion a year additional could be made available to less developed countries, this would make possible a growth rate in the 1960's in such countries twice that of the 1950's.

Let me hasten to say that, in the 100 countries to which I have previously referred, this would by no means bring on the millennium. But it would, at least in some of these countries, permit breakthroughs toward the ultimate goal of putting their economies on a self-sustaining basis.

It would also immeasurably improve prospects for raising now intolerably inadequate living standards by significant amounts. These are goals well worth striving for.

If this extremely modest objective is to be reached, the International Development Association must be equipped to make a major contribution toward its achievement. Let me point out that the \$70 million or so a year the administration is prepared to allocate to the International Development Association during the next 5 years amounts to only about one-hundredth of 1 percent of our gross na-

tional product and only about one-fourth of 1 percent of the annual increase of gross national product we should easily attain.

Roughly the same proportions hold true for the other countries expected to provide the bulk of the funds.

Surely, the industrial nations of the free world, and especially the United States, can afford to devote more than the puny resources thus far allocated to assure real progress in the drive to eliminate hunger, want, illiteracy, and sickness in the uncommitted less developed countries.

We therefore strongly urge this subcommittee by all means to recommend authorization for U.S. participation in the International Development Association in accordance with the present proposal. But we also express the hope that you will recommend that at the earliest opportunity the United States take the lead in expanding the resources of the IDA so that it will be assured of at least \$1 billion a year.

(The excerpt from Resolution No. 110 is as follows:)

FOREIGN ECONOMIC POLICY—EXCERPT FROM RESOLUTION No. 110<sup>1</sup>

The possibility of economic development and industrialization has brought to hundreds of millions of people in the less developed parts of the world the hope that they can emerge from the age-old morass of poverty, disease, and hunger. Many millions of these people live in newly independent countries where political awakening has been accompanied by a determination to improve their way of life.

Escape from poverty with the assurance of freedom is possible in these lands only if economic cooperation is forthcoming from the more industrialized nations. While we hope that other countries will make whatever contributions they can to this effort, the United States, as the wealthiest and most industrially advanced country in the world, should continue to make the major contributions toward helping economic growth in the less developed countries.

Although the largest part of this assistance will for some time continue to be extended through U.S. agencies, our foreign economic effort should increasingly be channeled through international and regional organizations. It should be on a sufficient scale and on a long-term basis.

Economic progress fostered by our cooperation should assure the maximum tangible benefits to the people in the aided areas. The fruits of economic development must be widely shared, and the foundations laid for an economic structure in the less developed countries which will strengthen the forces of freedom and democracy. An effective and equitable foreign economic program will also lessen the growing threat of the Soviet bloc to utilize its own economic assistance program to forge political bonds with and subvert the less developed countries.

The AFL-CIO calls upon the Congress to authorize an expanded, long-term and fully effective program of economic and technical assistance to the industrially less developed nations. This program should include:

1. A long-term authorization for 5 years of a minimum of \$1.5 billion a year for the Development Loan Fund to make loans for economic development on a basis appropriate to the financial capacity of recipient countries. These funds should be made available without requirement of year-to-year appropriation.

2. Effective U.S. financial support for and participation in the proposed International Development Association, Latin American Development Association, and other regional development associations that may be organized to provide long-term, low-interest loans repayable in local currencies through international or regional channels for economic development in less developed areas.

3. Expanded support for technical cooperation programs through both U.S. and U.N. agencies.

<sup>1</sup> This resolution was adopted at the third convention of the AFL-CIO, September 1959.



4. Expanded programs to distribute surplus foods and fibers abroad in order to help improve living standards and assist economic development in the less developed countries.

Mr. SPENCE. Thank you, Mr. Ruttenberg. You have made an excellent statement.

Are there any questions?

Mr. MULTER. Mr. Chairman.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. Mr. Ruttenberg, I agree with the chairman that you have made a very fine statement.

Tell me, suppose we change seats for the moment and you were a Member from my district. How could you justify to the people of my district legislation or attempts to legislate so as to require higher interest rates on loans repayable in dollars by REA, by TVA, for slum clearance, for reclamation, soil conservation, and at the same time justify making soft loans to foreign countries at low interest rates?

Mr. RUTTENBERG. Congressman Multer, I wouldn't have much trouble with that problem at all if I were a Congressman from your district, because I would not be advocating a high interest rate policy in the United States. I would be greatly against the proposal to eliminate the ceiling on long-term bonds which has been a bill which has been reported out by the Ways and Means Committee.

I think this is an area that I agree with you fully on. I think the interest rates on home loans, for local and State governments, are much too high, and they are high because of the wrong monetary policy followed by this administration and the Federal Reserve Board. Therefore, I would be trying to, in effect, say, "Let's extend to the people of the United States the kind of interest rate loans that they ought to have for their economic development, and then let's also extend these same kinds of loans to the other people in the world that ought to have them as well."

Mr. MULTER. I am in complete agreement with what you say, and in complete agreement for the need for this kind of a program.

Where it should go, I may be in disagreement with, with the administration and possibly with you, as to who should have jurisdiction over the program. But the question then presents itself: You and I are in agreement on these things, particularly on the domestic scene; should we do this at this time?

Is this timely now, when the administration is pushing up interest rates on the domestic scene? Or shall we wait for an administration that will give us a fair interest rate at home?

Mr. RUTTENBERG. I don't think we will have to wait very long for the latter, Mr. Multer. I think the elections are in November. We might well have that administration come next January; at least, I hope so. Some of your associates on the committee might not agree with me.

Mr. MULTER. I am sure the majority of the committee agrees.

Mr. RUTTENBERG. Yes. I am sure of that, too.

Mr. KILBURN. Will the gentleman yield?

Mr. MULTER. Surely.

Mr. KILBURN. Of course, Mr. Ruttenberg, you and I have disagreed before. But it always gets me a little bit when anyone says that the administration sets the interest rate.

The interest rates are set by the law of supply and demand. That is what sets the interest rates. If you pass a law, let's have the interest rate at 1 percent for anybody.

Mr. MULTER. Let's leave that debate between Mr. Kilburn and myself for another time, as to who fixes the interest rate.

Mr. RUTTENBERG. I would be only too happy to inject myself in that discussion.

Mr. KILBURN. I agree it is not germane to this bill.

Mr. RUTTENBERG. Mr. Kilburn and I exchanged remarks on this subject before the Joint Economic Committee sometime ago.

Mr. SPENCE. I don't believe we can settle all those questions here.

Mr. RUTTENBERG. I agree with you, Mr. Chairman.

Mr. SPENCE. It would be a waste of time to discuss it here. However, I am heartily in accord with your predictions.

Mr. MULTER. Mr. Chairman, to come back to the bill, leaving the interest rate out of it for another time between Mr. Kilburn and myself, you refer, Mr. Ruttenberg, in your statement, to the fact that since the beginning of the year there have been loans made to the United Arab Republic, Indonesia, Cuba, Guinea, and Afghanistan.

Would you justify the making of the loan by the World Bank to the United Arab Republic, at a time when that Republic was deliberately violating its international obligations and was insistent that it was a belligerent at war with one of its neighbors?

Mr. RUTTENBERG. Let me clear up two points.

1. As far as the statement in my testimony is concerned, the \$700 million of credits are those made by the Soviet Union to the United Arab Republic, Indonesia, and the other countries mentioned. So, that is not associated with the problem.

But the problem you raise is a totally different one, and I have my own personal views on that problem. I frankly am in agreement with you that, as long as the United Arab Republic is in violation of the United Nations commitment to permit free access to the Suez Canal and denies transit, therefore, to the products and ships of a particular country in the Middle East, it is in violation of the United Nations directive. But that is another problem. It isn't one that I referred to in my paper here, where \$700 million had been made available by the Soviet Union directly to these countries.

Mr. MULTER. Well, you are supporting this bill.

Mr. RUTTENBERG. I am supporting this bill.

Mr. MULTER. This bill not only sets up the International Development Association, but it also puts the control and management of IDA in the World Bank.

Mr. RUTTENBERG. That is right.

Mr. MULTER. If we disapprove of what the World Bank has done as a matter of policy, with a very recent loan, and immediately after making the loan to this alleged belligerent violating its obligations, to emphasize its intent to continue such misconduct, it seized another shipment transiting the canal and then declared it would continue its warlike efforts to annihilate its neighbor. If that is the policy of the World Bank, I don't want the World Bank to have jurisdiction over IDA, much as I want IDA.

Mr. RUTTENBERG. I agree with you that it is wrong, in my humble judgment—and here I am only speaking my own personal opinion—

for the World Bank to do what it has done in terms of its loan to the UAR. I think also it would be wrong to refuse to set up in the World Bank an organization similar to the IDA.

I don't think two wrongs will make a right. I don't think, just because we disagree with the procedure they used in granting the loan to the UAR, that that in itself should be reason enough to say that we ought to deny and not set up an International Development Association, because the requirements for nonbankable loans, repayable in local currencies at low interest rates over long periods of time, are a great, crying need of the less developed countries of the world. And this we need.

Just because the World Bank may have made a mistake in connection with one loan to the Arab Republic is no reason to say we ought not set up the IDA under their jurisdiction.

Mr. MULTER. You misunderstand. I am urging we don't give the World Bank jurisdiction unless it changes its policy.

Suppose next week the World Bank said they would make a loan to Cuba while Cuba is shaking its fist at us. We are not afraid of Cuba, of course. But when a nation is carrying on vis-a-vis our country as Cuba is today, should we make them any loans?

Mr. RUTTENBERG. You are asking a rhetorical question.

Mr. MULTER. I don't think so.

Thank you, Mr. Chairman.

Mr. SPENCE. May I suggest that we will either have IDA or no organization at all, because this is the result of the action of 68 nations who have agreed to associate themselves for this purpose, and that is the only question that is before the House and the only question before the committee: whether or not we will accept the articles of agreement for the organization of IDA.

If we don't organize this, we cast this aside and there is nothing to vote on. There is no other organization, multilateral organization, that we could set up at this time.

Mr. MULTER. Mr. Chairman, Congress has in the past, and can again, exercise its judgment and its discretion and tack onto a bill like this appropriate restrictions, so that the policy we believe in will be implemented by whoever is going to be entrusted with this program.

Mr. SPENCE. Well, that would be a change in the proposition which has been submitted and has been agreed to by all the nations.

The only objection you have, Mr. Ruttenberg, to the organization of the IDA, is that there is no provision for enough funds to adequately do the job?

Mr. RUTTENBERG. That is right, Mr. Chairman. That is no objection to setting it up now. It is just a word of caution that we ought to be considering appropriating even more money and trying to get the rest of the nations of the world to agree to increase the capital authorizations of the IDA.

Mr. SPENCE. Isn't it a fact, too that the undeveloped nations of the world, filled with people who are hungry, discontented, and despairing, are the trouble spots that sometimes produce international disagreements and often war, and don't you think that the passage of this bill would have the effect of securing, to some extent at least, the peace of the world?

Mr. RUTTENBERG. Well, I think, to the extent—I agree with you, Mr. Chairman, to the extent that you can reduce disease, poverty, hunger, and undernourishment throughout the world in less developed countries, the greater opportunity you give these people for development of their own living standards, the less likely they are to fall under the influence of the Communist world.

Mr. SPENCE. Are there further questions?

(No response.)

Mr. SPENCE. If not, you may stand aside, Mr. Ruttenberg. We are very glad to have your statement.

Mr. RUTTENBERG. Thank you very much, Mr. Chairman.

Mr. SPENCE. We appreciate this statement on behalf of the great organization you represent.

Mr. RUTTENBERG. Thank you, sir.

Mr. SPENCE. Our next witness will be Mr. James J. Saxon, attorney, First National Bank of Chicago.

Mr. Saxon, we are very glad to have your views on the subject. We know you have appeared here before on matters affecting the International Bank for Reconstruction and Development and the Inter-American Bank.

We are glad to have you, not only because your words have weight with the committee, but you represent, I believe, the largest bank between New York and San Francisco, in the United States. The chairman of your board, Mr. Brown, was one of the great advocates of the organization of the International Bank for Reconstruction and Development, and was a delegate to Bretton Woods. He took a prominent part in the consideration of that subject at Bretton Woods.

He was one of the few bankers that favored it, and he carried a great deal of weight and exercised a powerful influence in the organization of the International Bank.

We are glad to have your views.

#### STATEMENT OF JAMES J. SAXON, ATTORNEY, ON BEHALF OF THE FIRST NATIONAL BANK OF CHICAGO

Mr. SAXON. Thank you, Mr. Chairman. I am very glad to have the opportunity to appear before you today.

The legislation before this committee, H.R. 11001, provides for participation by the United States in the proposed International Development Association.

U.S. participation has been strongly recommended to the Congress by the President. Creation of the International Development Association as an affiliate of the International Bank was formally proposed to the member governments of the International Bank by Secretary of the Treasury Anderson.

A study of its desirability undertaken by the National Advisory Council on International Monetary and Financial Problems at the request of the U.S. Senate resulted in a recommendation to the President and to the Congress of acceptance of membership by the United States.

Other member governments of the International Bank also recommended the creation of the proposed Association, and it seems likely that most will participate as members.

The International Development Association is designed as a vehicle for a multilateral sharing of the cost of assisting the economic development of the low-income, low-capital countries.

It is a relatively new concept in international public finance, originated, developed, and sponsored primarily by the United States.

It is an extension in the international sphere of the principle adopted on a more limited basis last year in the form of the special fund operations of the Inter-American Development Bank. This principle was apparently first given effect in the adoption in 1957 of the Development Loan Fund as an instrument of U.S. foreign policy.

The growing demands of peoples in the less developed countries for improved economic well-being and opportunity have generated development and industrial programs requiring a measure of capital equipment, technical skills, and other resources exceeding the present capacity of these countries.

The United States has an inescapable political and economic interest in providing a reasonable measure of such assistance, consistent with and limited by considerations of our national policy relating to the budget, taxes, foreign competition, the competing demands for economic assistance of our own citizens and communities, our balance of payments, and the overriding consideration of the stability of the dollar at home and abroad.

The essence of the International Development Association is the soft loan. In conventional private or government finance, a soft loan is a self-evident contradiction in terms.

Yet the very nature of the problem sought to be met by the creation of the International Development Association dictates the use of such a device, as the borrower from the International Development Association will ordinarily lack the financial capacity to assume a substantial dollar or other hard-currency obligation due either to the borrower's basic economic weakness or to the burden of such an obligation on its limited hard-currency exchange.

Moreover, it would seem that the alternative to the soft loan is the pure grant-in-aid, which would appear to be a highly undesirable alternative.

Loans by the International Development Association are, except in special circumstances, limited by its charter to specific projects. Unqualified discretion is vested in management with respect to the selection, form, and terms of any such loan.

Relative to the total cost of any specific project to be undertaken, the amount of outside capital will more frequently than not be large, although in some instances marginal outside capital may be sufficient to finance a project.

Management by the International Bank warrants the belief that proposed projects will be carefully selected and evaluated as to their practicality, productivity, availability of local skills and material resources, competent and responsible cooperation by the borrowing governments, the capacity of the borrowing country to absorb a proposed infusion of capital without unfavorable impact, and other essential requirements.

In this process, one cannot overemphasize the practical value to successful management of the combined voice and judgment of all of

the member countries of the Association, uninhibited and undominated by the specific national political interest of any member.

Management of the Association according to such principles and standards would give reasonable assurance that real and productive value will be sought from the use of these loan proceeds.

Such a policy will in the long run enhance the prospect of repayment, put the Association on a sound revolving basis, and provide the necessary foundation for a viable and respected international instrument of economic development.

The International Development Association is a proper recognition that all industrialized, large capital-producing countries must assume some, and it is hoped an ever-increasing, share of the cost of the basic economic development of the less favored nations, a responsibility heretofore largely undertaken and borne by the United States through the Development Loan Fund and the other large foreign economic assistance programs of the United States.

The remarkable revitalization and expansion of the productive capacity of other industrialized nations since the end of World War II, accomplished primarily by the use of their own resources and know-how, but also by a fast and necessary capital inoculation by the United States, affords these fortunate nations the capacity and opportunity to increase their capital outflow to the needy areas.

It seems clear that other industrialized countries have not extended such capital assistance in a measure commensurate with their increased, and ever-increasing, capacity to do so.

Indeed, exports from these industrialized countries to the needy areas have to an important extent been indirectly financed by the United States, notwithstanding that these countries are now able to finance such exports themselves.

The United States, meantime, has continued for some years to carry a heavy burden of capital outlay for foreign economic reconstruction and development, now particularly severe in the face of the continuing adverse balance-of-payments position of the United States.

These facts and circumstances seem, to us, to argue strongly for the creation of the International Development Association and for congressional approval of U.S. participation therein, so that a substantial beginning may thereby be made toward sharing the cost of economic development by other countries having the capacity to do so.

The problem of financing the economic development of the less developed countries is a long-range and formidable one. It will require a large amount of capital made available over a long period of years, not a dramatic infusion of the largest available capital in the least possible time. If balanced, sustained, and graduated long-term economic growth is the proper goal, as we believe, then the infusion of capital must similarly be balanced, sustained, and graduated over the long term.

This fundamental principle underlies the successful operation of the International Bank. The same basic principle should, in our opinion, apply to the operations of the International Development Association. So administered, the Association could well become the one, dominant, long-range instrument on which all free nations—including the United States—will primarily rely in funneling their re-

spective capital contributions toward financing the growth of the less developed countries.

In conclusion, we believe that there are good and sufficient reasons, economic and financial as well as political, to support U.S. membership in the International Development Association, and we therefore favor the proposed legislation.

Mr. Chairman, that concludes my statement.

Mr. SPENCE. Thank you, Mr. Saxon.

Are there any questions?

Mr. MULTER. Mr. Chairman.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. Mr. Saxon, you always make a good and very effective statement when you come before our committee. It is always a pleasure to have you with us.

Mr. SAXON. Thank you, sir.

Mr. MULTER. In the proposed agreement or articles of association, section 5, there is a provision that permits the Association to borrow funds. Do you think it possible for this Association, once it is set up, to borrow funds on the public market?

Mr. SAXON. I think it may prove very difficult, indeed. Certainly, in the initial stages.

Mr. MULTER. Just one other thing, Mr. Saxon. Could you see any objection to, in the bill that we may report, assuming we do report a bill, adding a proviso to it that will require the members of this Association to agree that no loan or advance under a commitment to lend should be made by the International Development Association to any member who claims to be at war with any other member?

Mr. SAXON. Mr. Multer, I would think this would present a complex and delicate question.

As you know, charter provisions, both of the International Bank and of the proposed International Development Association, expressly provide that only economic considerations shall be taken into account in selecting and approving loans.

The introduction of factors other than economic considerations could present, looking at the question broadly, some rather delicate problems.

Mr. MULTER. Isn't that a very important economic factor to be taken into account, as to whether or not the borrower is at war?

Mr. SAXON. Indeed, it may be, but what circumstances may exist in a particular situation in the future are hard to envisage.

Mr. MULTER. You see, that is why I was careful in the choice of my language. I am not leaving it to the Board or the managers to say that the country is at war. It may be a riot or a civil commotion short of war. I said a country that claims to be at war.

Mr. SAXON. Yes.

Mr. MULTER. There must be the assertion by the country that it is at war with another member. I also have in mind the possibility that, if the Soviet Union should move in on one of these members, there may be a warlike situation, and we may want to make loans to that member of the Association, one of the free nations.

Mr. SAXON. Yes.

Mr. MULTER. But when one of these free nations says it is at war with another member, also a free nation, should the Association get in the middle of it? Shouldn't it stay out?

Mr. SAXON. I don't intend at all to minimize the importance of the point you make, but I think, practically, it would be very difficult to deal within the frame of this Association, and may well threaten its ultimate development and ultimate organization, since at this stage agreement has already been reached among the negotiating countries.

Now, I don't by that statement mean to say that the U.S. Congress can't attach conditions, if it wishes, to its acceptance of membership, but this fact does pose, as you know, a serious problem for the organization in terms of the state of its present development.

Mr. MULTER. And a very real situation. We have seen it happen between the World Bank and the United Arab Republic, and suppose, in order to compete now with Russia, we were to make a loan to Cuba. This Bank might want to move in there. We have never won a friend that way yet. With the situation as it is in Cuba today, should this Bank or Association make a loan to Cuba?

Mr. SAXON. Let's face it, these questions are extremely difficult and, I am sure, very delicate for the delegate of the U.S. Government. But this is one of the reasons, it seems to me, strongly to support internationalization of this type of financing.

Mr. MULTER. It all raises the question of whether or not the U.S. Government should lend its money or give its money to an international association of this kind and lose all control over it.

We might very easily find a situation where our own money would be being used against us, and I think we must guard against it. Whether this is the language to guard against it or not, I am not sure. I am certain in my own mind that we must guard against this kind of situation.

Thank you, Mr. Chairman.

Thank you, Mr. Saxon.

Mr. SPENCE. Of course, it seems to me that the Congress of the United States doesn't have entire control of this organization. We haven't even the majority of funds invested in it, and it is a question that will have to be agreed to by the nations that are participants.

I don't think we can legislate, unless we have another agreement which is submitted to the organization, and the proposition would come here again from the proposed members of the organization. I don't think we have the authority to legislate about that agreement and as to what should be the conduct of the Bank or the Fund.

Mr. MULTER. Mr. Chairman, I think we can write into this legislation any protective clause that the United States needs for its own protection, and make that a condition of our getting into it, and it is only a matter of simply submitting it to the other countries. And if any of the other countries don't want to come into a proposition of that kind, I don't think they mean well by us, and they can drop out of the Association.

On the other hand, I think most of them, if not all of them, would probably agree to that kind of a condition. I don't think any of them would dare say, "If we go to war with our neighbor, you must lend us money so we can carry on that war."



Mr. SPENCE. Well, I think that is a fair statement. But I say I don't think we have the authority to legislate on it at this time. I think we have to consider the passage of this bill and present it to the House. If that is the objective, I don't think we should, because I don't think Congress has the authority to go into that.

Mr. MULTER. As we were told by the Secretary and Mr. McCloy yesterday, Secretary Anderson, we can't get this organization into operation before another year. The best we can hope is maybe to be ready to go by the end of the year.

After we pass this bill, we have to get an appropriation. After the appropriation is passed, each of these countries must make their contributions. They can't possibly get going before the end of the year, and, if we put in a condition on which the other countries must agree to, it can be submitted to them by our Secretary of the Treasury, and we can get an answer back long before IDA is ready to go to work.

Mrs. GRIFFITHS. Mr. Chairman.

Mr. SPENCE. Mrs. Griffiths.

Mrs. GRIFFITHS. Thank you, Mr. Chairman. I would like to ask the witness this question: Of course, the purposes of this bill are not purely altruistic. We hope, as you point out, to halt the onward march of communism. Don't we also hope to build up our own markets in the world?

Mr. SAXON. I think we expect from such an operation as this an improved opportunity to do so.

Mrs. GRIFFITHS. Yes. Now, I would like to ask you, since you are from Chicago, what efforts do your customers make to build up their own markets throughout the world?

Mr. SAXON. Mrs. Griffiths, many of our large corporations, like Caterpillar Tractor, International Harvester, and others, devote extensive efforts and capital outlays to this purpose. Many, of course, have plants abroad in a goodly number of countries, not limited to continental Europe, but in the British Isles and other areas, as well.

We in our international banking department cooperate quite broadly with a good many of these corporations located in this highly industrialized section of the United States, as you know it to be. American business is striving greatly to expand wherever it feasibly can, given the nature of the risk, its foreign commitments.

However, in certain areas, as in the case of some of the less developed areas, the problems are immense, the risks enormous, so that the tendency naturally is to emphasize capital development in areas which present a more normal risk and prospect of repayment.

Mrs. GRIFFITHS. I would like to say I enjoyed your testimony and I approve of the bill, and I think it is very cheap insurance to risk \$320 million in the world, first, to stop communism if it is possible, but, secondly, I think we need to assume this risk to help build our markets. And, finally, I think American business isn't nearly aggressive enough in seeking these markets on its own. I think they should do better.

Mr. SAXON. I would agree with you. There is certainly opportunity for more aggressive operation abroad, and I think this is becoming clearer, particularly the last year or two, as foreign competition gets ever more stringent.

Mrs. GRIFFITHS. And with much more judgment than they have done in the past.

Mr. SAXON. I quite agree; yes.

Mrs. GRIFFITHS. Thank you, Mr. Chairman.

Mr. SPENCE. Are there further questions?

(No response.)

Mr. SPENCE. I just want to ask you this question, Mr. Saxon: Don't you think this, being essentially a banking matter, that this help should be under the control of a banking organization such as is set up here, and that they would probably make more use of the soft currencies which are returned to them in payment of obligations than other branches of the Government which are not banking organizations and are unable to use the ordinary banking methods?

Mr. SAXON. Yes, sir. I believe that this organization does present one of the first practical opportunities for effective use of local currencies, which up to now have been accumulating very substantially and without opportunity for effective economic use, development use, certainly.

Mr. SPENCE. Mrs. Griffiths.

Mrs. GRIFFITHS. Mr. Chairman, I have just been notified that the very attractive women who are in the room are from Maryland, and they are Mr. Foley's constituents, and I am sure that they have selected a very good committee and a very interesting one to listen to, and I am sure that all of us are very happy to see them.

Mr. SPENCE. Thank you.

Mr. Halpern.

Mr. HALPERN. Mr. Chairman, first, I would like to commend the witness on the excellent testimony that he has presented here.

Mr. SAXON. Thank you, sir.

Mr. HALPERN. Unfortunately, I couldn't be here a little earlier because of a conflicting committee meeting, but the part of the testimony I listened to was excellent, and I had a little opportunity to scan the earlier part, which I had missed.

I have no questions, but I would like to concur with the remarks made by my colleague, the gentleman from New York.

I was appalled, as many of us were in this committee and elsewhere, to see that the loan, for example, to Nasser, for the Suez, was actually granted by the World Bank. And I was distressed to see that our representation on the Bank voted for the loan. The excuse given was that it was purely a matter of economics, and not one of politics or diplomacy.

Well, to me, it is not smart economics to give a loan to a borrower of questionable character, in this case one who flagrantly violated international law—and is continuing to violate it, and not to mention the morality involved—as an example, the boycott Nasser has established on passage through the canal.

So, I agree with the gentleman from New York that conditions should be placed on these loans. Diplomacy, call it politics if you will, should play a hand. The Bank has done it before. It did it in the Sudan situation involving a World Bank loan. It placed conditions involving the India-Pakistan water resources treaty before it granted a loan, and so forth.

If we approve this—and, in principle, I am for this bill, but there should be safeguards, lest we help others who could very well use the money against our interest or principles. I agree with the gentleman from New York and his comments in that regard.

Mr. SPENCE. Are there any further questions?

(No response.)

Mr. SPENCE. If not, thank you very much, Mr. Saxon, for your very fine statement. We hope you will often come here and give us the benefit of your knowledge and experience. We are always glad to see you.

Mr. SAXON. Thank you, Mr. Chairman and members of the committee.

Mr. SPENCE. Our next witness is Mr. Hardwick, who represents the U.S. Chamber of Commerce.

Mr. HARDWICK. Mr. Chairman and gentlemen.

Mr. SPENCE. Please identify yourself. We are glad to have the views of the great organization you represent. You may proceed as you please, without interruption until you get through with your statement.

Mrs. DWYER. Mr. Chairman.

Mr. SPENCE. Mrs. Dwyer.

Mrs. DWYER. May I at this point say that the subcommittee is fortunate in having as a witness so distinguished a citizen of New Jersey, who has an outstanding record in the field of finance, and I would like to read into the record that Mr. Hardwick attended Princeton University, class of 1926.

In 1927, he joined the municipal bond department of the Guaranty Co. of New York.

In 1934, he was appointed manager, municipal bond department, of Edward B. Smith & Co., members of the New York Stock Exchange, which firm was merged with Barney & Co. in 1928.

Since 1944, Mr. Hardwick has been a partner of Smith, Barney & Co., in charge of State and municipal financing. He has served as financial adviser to many State authorities and many public agencies in the development of financing of a self-supporting nature, primarily in the field of highway monetization.

Mr. Hardwick is a member and former governor of the Bond Club of New York and the Municipal Bond Club of New York.

He is also a member of the Municipal Securities Committee, Investment Bankers Association of America.

Again, I say we are fortunate in having so outstanding a citizen from New Jersey to testify before this subcommittee.

Mr. MULTER. We are also glad to find that he spends so much time in New York.

#### STATEMENT OF C. CHEEVER HARDWICK, MEMBER OF FINANCE COMMITTEE, U.S. CHAMBER OF COMMERCE

Mr. HARDWICK. Thank you.

Perhaps I should say at this point that the main office of my firm is New York City.

As Mrs. Dwyer mentioned, my name is Cheever Hardwick. I am a partner in the investment bank of Smith, Barney & Co.

We maintain our head office in New York, and have a number of other offices throughout the country and, in addition, we have been active for many years in international finance, primarily of an investment banking nature.

I am also a member of the Finance Committee of the Chamber of Commerce of the United States and am accompanied by the secretary of that committee, Don Lester Waage, and I am pleased to have an opportunity to appear here today to present the views of the national chamber on the proposed International Development Association.

The chamber recommends that the Committee on Banking and Currency approve H.R. 11001.

We believe the proposed Association should (1) be established as an affiliate of the International Bank for Reconstruction and Development (World Bank), and, (2) limit its membership to World Bank members.

Within this framework, the national chamber believes that IDA represents a practical way to do a necessary job.

It has become increasingly apparent that the legitimate needs for development financing far exceed those which existing national or international "hard loaning" institutions can provide. Failure to provide some type of special assistance could have serious economic and political consequences.

It is generally recognized that the share of the economic development burden placed upon the United States has become great, even though we have attempted to carry the burden through such facilities as the bilateral Development Loan Fund.

The industrialized countries, such as Belgium, Germany, England, Japan, Italy, among others—those helped toward recovery following World War II—must now come forward to make their resources available on conditions which are consistent with the sustainable long-term growth of the borrowing country.

This multilateral approach through IDA will stimulate a more active role on the part of the industrialized nations and will utilize an existing free-world financial institution, the World Bank.

We believe that IDA will provide an appropriate means whereby such countries can participate to a greater degree with the United States in advancing necessary development funds upon terms within the capacities of the borrower to pay.

The achievement of greater economic progress in the less developed areas of the world is vital to the United States, and the national chamber has long favored a program of economic and technical assistance to friendly countries of the free world.

U.S. capital, private and public, has played a significant role in improving the utilization of resources in those areas, thereby promoting economic conditions of mutual benefit.

However, the requirements in those areas for investment capital for economic development exceed the amounts of capital effectively available and exceed the amounts which can be serviced on conventional terms.

At the same time, many of the economically stronger countries have attained the position where they can supply a more important part of these requirements.

The establishment of the IDA would recognize that more must be done in development financing; that the form of additional financing should not overload the capacity of debtor countries to repay; and that the other economically strong countries should provide substantial funds.

On March 5, 1959, the chamber, in a statement to this subcommittee, supported legislation involving increases in the resources of the International Monetary Fund and the World Bank. With respect to the Bank, the national chamber stated:

This institution has made a major contribution to the growth of free-world economies by encouraging and financing of sound investment projects. It has helped many countries in the free world to achieve a foundation for continued and balanced growth.

The chamber pointed also to the important advantages of the international approach in assisting economic development in less developed areas.

In making its resources available on flexible terms, adapted to the circumstances surrounding individual projects in particular countries, IDA financing would depart from conventional lending principles by providing greater flexibility.

Safeguards are therefore necessary to assure that such financing would not compete with private capital or otherwise impair traditional standards of financing.

We believe that these safeguards are provided not only in specific language contained in the IDA articles of Agreement, but also by the nature of its organizational framework as an affiliate of the World Bank. This affiliation would assure that the administration of IDA would be governed by the same standards which have characterized the World Bank, and that IDA would be able to draw upon the experience acquired by the Bank in financing economic development throughout the free world.

It is envisaged, furthermore, that the Bank and IDA would complement each other and participate in joint financing operations. In substance, the IDA would broaden the scope and increase the effectiveness of the World Bank.

The need for a new multilateral institution to perform the functions now set forth for the IDA was first recognized most clearly in the United States. The Senate, by its Resolution 264, on July 23, 1958, made a notable contribution by endorsing the international development concept.

The President and various members of his administration have sought broad international support for the proposal and initiated the discussions that resulted in the preparation of the articles of agreement.

In the light of the present international economic and political situation and of the widely recognized need for additional assistance to the less developed areas, we believe that the IDA represents the most practical and reasonable proposal which has been put forth for more effective assistance in economic development of less favored countries on a broad, multilateral basis.

Suitable bilateral programs by the other economically stronger countries of the free world are also required, of course, and we understand they are being encouraged by the United States.

In the multilateral field, however, the IDA, by bringing about further cooperation among those countries which have participated so successfully in the Bretton Woods institutions created 15 years ago, appears to represent the most suitable application of additional free-world economic strength.

The national chamber believes that the United States must do everything in its power to fashion an instrument which will be practical, effective, and which, by the nature of the charter, the administrative mechanisms, and the standards of the management, will minimize the undesirable characteristics which sometime can and do arise in programs of assistance to underdeveloped countries.

We therefore urge early enactment of H.R. 11001.

Mr. SPENCE. Thank you, Mr. Hardwick.

Are there any questions?

Mr. WIDNALL. Mr. Chairman.

Mr. SPENCE. Mr. Widnall.

Mr. WIDNALL. I would like to compliment Mr. Hardwick on his fine statement. I, too, want to join in the welcome given you by Mrs. Dwyer.

Mr. HARDWICK. Thank you, sir.

Mr. WIDNALL. Incidentally, I would like to comment about the world-trade forum sponsored by the Pittsburgh Chamber of Commerce. I attended that forum a week ago, and I think the other chambers throughout the United States could pattern a program based on the same sort of setup that they had out there, to encourage businessmen to get into the export business and send American products throughout the world.

We have, as a nation, neither through Government or private industry, exploited the export field in the way that we can and should, and I think there are some great opportunities ahead. It is most encouraging to see what the Pittsburgh chamber is doing.

They are educating businessmen and personnel of various firms in how to handle export business. They are correlating information and inquiries from other countries about American goods, and are doing everything they can to stimulate business so that there will be an outflow of goods to combat the inflow that we are receiving in this country right now.

I don't know whether you are familiar with that program or not, but I hope the U.S. chamber will encourage other chambers to do the same thing. It means much to employment in the United States.

Mr. HARDWICK. I am very happy to hear you say that, Mr. Widnall. The chamber has for some time had a highly organized and very thorough campaign just along that line. I have been privileged to serve on its finance committee, perhaps 7 or 8 years, and it has been a tremendous satisfaction to me to be associated with a group of extremely busy, well-informed, highly educated businessmen who spend a great deal of their own personal time trying to make it possible for smaller businesses through their local chambers to understand how they can compete, not only in this country, but internationally.

I think you probably will agree that that is becoming a greater problem to American business, and whereas certainly I would be the last one to suggest that we do not do everything possible to strengthen

the economy of the friendly nations, one result of that is that they are becoming in some cases pretty tough competition.

Mr. WIDNALL. Thank you.

Mr. SPENCE. Mr. Hardwick, we thank you very much for your testimony. I know you speak for the great business organizations of the country, and I am glad to know that your views are favorable to this legislation.

Mr. HARDWICK. Thank you, sir.

Mr. SPENCE. That concludes the hearing this morning. We will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 11:30 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, March 17, 1960.)

## INTERNATIONAL DEVELOPMENT ASSOCIATION

THURSDAY, MARCH 17, 1960

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
SUBCOMMITTEE No. 1,  
Washington, D.C.

The subcommittee met at 10 a.m., Hon. Brent Spence (chairman of the subcommittee) presiding.

Present: Representatives Spence, Brown, Multer, Widnall, Halpern, and Mrs. Dwyer.

Also present: Representatives Kilburn and Mrs. Griffiths.

Mr. SPENCE. The committee will be in order.

We will resume hearings on H.R. 11001, to provide for participation of the United States in the International Development Association.

Our first witness this morning is the Honorable C. Douglas Dillon, Under Secretary of State.

Mrs. DWYER. Mr. Chairman.

Mr. SPENCE. Mrs. Dwyer.

Mrs. DWYER. May I say at this time that the distinguished Under Secretary of State, Mr. Dillon, is a resident of the State of New Jersey, and again I say that the subcommittee is honored and privileged to have him as a witness before the committee this morning.

Mr. SPENCE. The citizens of the State of New Jersey have a very able representative in the distinguished lady.

Mr. Dillon has an international reputation as a statesman and a public servant and we are glad to have his testimony.

Mr. Dillon, you may proceed. You may read your statement without interruption and then subject yourself to interrogation.

### STATEMENT OF HON. C. DOUGLAS DILLON, UNDER SECRETARY OF STATE

Mr. DILLON. Thank you, Mr. Chairman.

I welcome the opportunity to appear before this committee to urge favorable action on the bill before you to authorize the United States to accept membership in the proposed International Development Association. The Department of State fully supports the proposed legislation.

In his earlier statement to you, Secretary Anderson described in detail the structure and functions of the International Development Association. I should like to talk about the relation of the Association to our foreign policy objectives.

The basic premises behind the idea of the International Development Association can be stated simply and briefly.



The less developed countries of the free world must have a satisfactory rate of economic growth if they are to maintain their freedom and develop into stable, effective, responsible societies. It is an important objective of U.S. foreign policy to help these countries achieve adequate economic growth.

But the job of helping the low-income countries is not one that the United States alone can accomplish. It requires the combined efforts of all the economically advanced nations of the free world. It is right and proper that those nations whose incomes and savings are high should help the developing countries to economic and social progress. This has been the normal pattern of the past. Our own growth on this continent was substantially aided by other nations economically more mature than we.

Today, in a world community in which two-thirds of the world's people are striving to throw off the tyranny of poverty, disease, and illiteracy, it is imperative that all free nations help, lest these peoples, overwhelmed by massive problems, exchange the tyranny of poverty for the tyranny of the all-pervasive, all-controlling state.

We, who value liberty, tolerance, and the free and open exchange of ideas, owe it to ourselves to enlarge the community of nations that can meet the aspirations of their peoples for economic and social betterment in an environment of freedom.

Thus, the first basic premise of the International Development Association is cooperative sharing among all free world nations of the responsibility for helping the less developed countries, a task to which all contribute but to which the economically stronger members make a proportionately larger contribution.

In the International Development Association, the economically advanced countries would subscribe 76 percent of all the capital of the Association and their subscriptions would be freely convertible.

The low-income countries would subscribe 24 percent of the capital but only 10 percent of their subscriptions would be in convertible currencies. Ninety percent of their subscriptions would be in national currencies, usable primarily for development projects in their own countries.

The second basic premise of the International Development Association is that the less developed countries need external capital on flexible repayment terms. Developing countries need to import from abroad the technology, the industrial materials, and the capital equipment on which growth depends. For this purpose they can use their export earnings, they can encourage the inflow of private investment capital, and they can borrow on conventional terms from existing public lending institutions.

For some of the low-income countries, especially those which have already achieved momentum in their development, these three sources are adequate to permit a satisfactory rate of growth.

But for many other developing countries, additional sources of capital on easier terms are needed. In some of them, export earnings can barely finance the import of essential consumer goods; there is little left with which to finance imports of capital goods required for growth.

Private capital is slow to move because underdevelopment is itself a deterrent. The low level of labor skills, the limited local market,

the absence of basic facilities such as roads, power and communications on which private enterprise depends, the uncertain political climate are all obstacles to a greater flow of private funds.

Many of these countries, of course, obtain loans from the International Bank and the U.S. Export-Import Bank. Both institutions have made substantial sums available for imports of capital goods. But the borrowing capacity of the low-income countries is limited. Loans from the International Bank and the Export-Import Bank must be serviced in hard currency at rates of interest determined by market conditions.

The need for capital imports of many developing countries far exceeds their capacity to service loans on normal banking terms. Many projects that are sound in conception and basic for growth cannot be financed by conventional loans.

Therefore, supplementary funds are needed to provide capital on easier terms for the multitude of projects and programs that cannot otherwise be set in motion. This is the job of our own Development Loan Fund. It is also the job envisaged for the proposed International Development Association.

The International Development Association can be most clearly grasped if it is thought of as an institution with the same basic purpose as the Development Loan Fund but, by virtue of its international membership, one in which others can participate fully in doing the job that must be done.

The International Development Association, like the U.S. Development Loan Fund, would provide growth capital for meritorious projects on terms that do not overburden the economies of the borrowers.

The International Development Association should not be thought of as a substitute for the Development Loan Fund, nor should its establishment be the occasion for any lessening of our national effort. The need for development capital is too great for that.

The United States must, moreover, have economic instruments of its own which will be responsive to national needs and foreign policy considerations. The International Development Association should be regarded rather as an additional source of capital, an important addition that increases the total flow of development funds from free world sources, and one that helps thereby to advance an important objective of U.S. policy.

The third basic premise behind the International Development Association is that it should be closely affiliated with the International Bank. The International Development Association will be financing much the same type of project as the International Bank. Both the parent and the affiliate will be examining development programs, determining priorities, judging the technical feasibility and economic soundness of specific projects. This will be their day-to-day work.

The essential difference will not be in this day-to-day function. It will be in the repayment obligations imposed on borrowers. It is entirely logical, therefore, that the International Development Association should be closely tied to the International Bank.

The International Bank has had more than a decade of experience in financing the development requirements of its members. It has sound management, a skilled staff, and single-minded devotion to pro-

moting economic growth. It enjoys the full confidence of its 68 members. The affiliation of the International Development Association with the International Bank for Reconstruction and Development will assure that scarce resources are put to optimum use.

These, then, are the three basic ideas behind the International Development Association: to enlist the participation of all free world countries in providing growth capital to the less developed areas, to provide this capital on feasible terms, and to assure sound management through utilizing a tried international institution.

The International Development Association will be one of several development institutions, each fashioned to do a particular job and to meet a particular need. Let us see how the Association relates to the other institutions that are now engaged in providing capital for economic development.

We have two national lending agencies: First, there is the Export-Import Bank, which promotes the trade of the United States. Export-Import Bank loans must be repaid in dollars on conventional banking terms.

Then we have the Development Loan Fund. The Fund finances development projects that cannot meet the repayment criteria of the Export-Import Bank or other hard-loan institutions. Its loans are made on flexible repayment items, many of them carrying a lower rate of interest and permitting repayment in local currency.

These two institutions complement each other.

We have recently helped to establish the Inter-American Development Bank to promote economic growth in the Americas where we have especially close historical relations.

This institution will have two departments: one to finance development projects on normal banking terms as in the case of the International Bank for Reconstruction and Development or the Export-Import Bank; the other to provide financing on more flexible terms as is done by the DLF and as is proposed for the new International Development Association. Its creation has stimulated the more developed Latin American countries to contribute capital for the growth of those in the Americas who are much less developed.

The responsibility for management and for allocation of resources among competing claimants will be a responsibility of the Latin American countries themselves.

The institution will increase the total flow of capital, give cohesion to the Americas, and impetus to development. Thus it performs functions over and above those performed by our national financing instruments.

Then we have the international institutions. There is the International Bank that provides loan capital for development projects. It is similar to our Export-Import Bank in that its loans are hard loans. But the International Bank for Reconstruction and Development was created to enable many countries to pool their resources and share the burden. It gets the bulk of its funds from the private capital markets of the world with the help of the guaranties of its member governments.

There is also the International Finance Corporation, an affiliate of the International Bank. Its purpose is to stimulate private investment in the less developed countries by associating its capital in pri-

vate ventures. Its resources have been subscribed by government members.

There is, however, no widely based international organization that pools the resources of many countries for the purpose of providing development capital on flexible repayment terms. This is the function that the new International Development Association will perform.

The International Development Association will not duplicate or compete with other lending institutions. It will increase the total flow of development capital to the newly developing areas. It will provide financing of a kind not now available from any other free world multilateral institution. It will perform a valuable service in promoting not only the growth but also the cohesion of the countries of the free world.

I urge this committee to take early favorable action to authorize the United States to join with the other free world nations in the establishment of the Association.

Thank you, Mr. Chairman.

Mr. SPENCE. Mr. Secretary, don't you find it quite difficult to make any advantageous use of the soft currencies you have acquired under the International Development Fund?

Mr. DILLON. I don't think that we will have any difficulty using them. Their use is restricted to use within the country where the project is to be financed or situated.

But practically all projects, such as a road, or a dam, require the expenditure of local currency to pay for local labor and local materials. Generally the local costs are almost equivalent to the foreign currency that is required to import steel and things of that nature.

So this local currency would be very useful in helping to finance a road program, irrigation, or a harbor, or anything of that nature.

Mr. SPENCE. Won't the IDA be in a position to more advantageously use it than the International Development Fund because of the banking characteristics and experience along that line?

Mr. DILLON. I think that both organizations can use local currencies; our Development Loan Fund will be able to use it, and the IDA, I think, will use it equally well. IDA may have a certain advantage in that it is a multilateral institution, and the mere fact of being such would give it certain advantages.

Mr. SPENCE. It would have, it seems to me, a little more watchful care in expenditure by the nations contributing, because the nations would look over the projects occasionally.

Mr. DILLON. There is that aspect to it which is very useful. It is the same thing that we found so useful in the Inter-American Bank for our hemisphere.

Mr. SPENCE. If bad money drives good money out of circulation, what effect will soft loans have on good loans?

Mr. DILLON. If there were an unlimited supply of the soft loans they would take the place of hard ones. Therefore, in handling loans, we need very careful coordination so that whenever a project comes along which can be financed by a hard loan, the person who desires the financing is told that a soft loan will not be available.

That is the case with our Development Loan Fund. It has worked very well. We, by law, are not allowed to make loans when funds

can be obtained from the World Bank or from the Export-Import Bank or from private sources on regular terms. And we don't do so. We check each project with these institutions.

Now, the charter of the new International Development Association provides the same thing, they are not allowed to make loans that could be financed in this other way. That is one of the advantages of having this new organization tied closely to the World Bank, its management will be identical and this will avoid any possibility of soft loans being made where they should not be made.

Mr. SPENCE. Would you have a category of countries that would be eligible for soft loans as opposed to others?

Mr. DILLON. The category really depends, Mr. Chairman, on the ability of the country to repay in hard currencies, on its overall balance of payments and its prospective balance of payments.

There are many large projects, such as the Indus water projects we are thinking about in Pakistan and India, where it would be impossible for the countries to repay entirely in dollars. It is an excellent project and part of it is planned to be financed on repayable terms in dollars and part on repayable terms in local currencies.

There are many large projects of that nature which would be financed partly by one means and partly by the other.

There will be very little difference in the type of projects. However, there is authorization in the IDA for it to finance projects such as sanitation, water supply, pilot projects for housing, things of that nature, which help development and are high priority but which are not necessarily revenue producing. And I would think that a modest portion of the resources of the new institution would be used for that, which cannot presently be done by the World Bank.

Mr. SPENCE. You don't think that would create rivalry and some dissension, if a nation thought it was entitled to a soft loan and couldn't get it?

Mr. DILLON. Well, we have had some experience with that, Mr. Chairman, with our Development Loan Fund, for 3 years, and we have found that that has not occurred. We have been able to work out with borrowers joint operations where part of the loan came from the Development Loan Fund, part from the Export-Import Bank, or the World Bank, and often we tell them we won't make them a loan at all, that they ought to go to another institution. We haven't had any trouble with that at all. They understand it.

Mr. SPENCE. The nations themselves have made the conditions and I suppose they are willing to submit to it.

Mr. DILLON. That is correct.

Mr. SPENCE. And I think all of the nations have agreed to this agreement we are to ratify, except two who didn't vote for it, not on principle, but because they were opposed to their quota. Isn't that right?

Mr. DILLON. Yes, the 68 countries have all agreed, and the only place where there is some question—they haven't definitely made up their mind, but there is some question—is the case of Belgium and Holland, who feel their quotas are a little larger than they should be.

They agree to the principles of IDA and they would be delighted to be members with a smaller quota, but there still is a possibility that they will accept the full quota assigned to them.

Mr. SPENCE. The principle is adopted unanimously.

Mr. DILLON. Yes, Mr. Chairman.

Mr. SPENCE. Mrs. Dwyer.

Mrs. DWYER. I would like to congratulate the Secretary for his fine statement before the committee. I have one question, Mr. Chairman.

In your role as Under Secretary of State, and in supporting IDA, do you feel that we will establish a better relationship with the underprivileged countries of the world because of IDA?

Mr. DILLON. Yes, I think it will help, because it will show that the more developed countries, as a whole, are ready to come to their help in a way that is really effective.

The main advantage of the IDA over what we are already doing is that it is an organization where the other developed countries contribute approximately \$3 worth of hard, convertible currencies for every \$2 the United States puts up.

We have been making this effort to spread the burden more fairly over the world, over the free world—this burden of helping underdeveloped countries—and this is a major instrument in carrying out that policy. I think it will help with the underdeveloped countries because they will feel it is the joint effort of all these more fortunate countries of the free world.

Mrs. DWYER. Thank you.

Mr. KILBURN. Mr. Chairman.

Mr. SPENCE. Mr. Kilburn.

Mr. KILBURN. Mr. Dillon, I think everybody who seems to appear before this committee is for this. I haven't heard anybody against it. Do you know of anybody against it?

Mr. DILLON. I have not so heard. I haven't heard any opposition to this at all.

Mr. KILBURN. One thing that I am a little apprehensive about is this: This is set up to make what the banks would call "poor" loans. I mean they are not bankable loans. On top of that, their interest rate is going to be very low.

Now, if they make poor loans they might run into losses, and with a low interest rate, how are they ever going to make any money?

Mr. DILLON. Mr. Kilburn, I think that this is a misunderstanding that often takes place between what we mean by soft loans and hard loans, nonbankable loans and bankable loans.

The loans that will be made by this Association will be for projects that are just as good and that will have to pass just the same tests as projects that would get loans from the World Bank itself. Therefore there is no prospect that they will not be repaid, any more than there is prospect that World Bank loans themselves won't be repaid, and its record is very good.

The difference is solely with the balance of payments of these countries, which is such that they cannot afford to pay 6 percent interest; they cannot afford to repay a loan in 15 years for a dam or a road.

If repayment is asked from them in hard currency, they may take 50 years to repay it. That is the flexibility that will be given to this organization.

Also, some of the repayments may be in local currencies. But I don't think there is any possibility of the organization not being repaid.

Mr. KILBURN. Well, you see what I mean. If the interest rate is low, plus high risk loans, there may be a seepage, over the years, whereby we will have to keep putting more money into this all the time.

Mr. DILLON. I would think the chances are that the world community would have to put more money in. In fact, there are provisions in the charter for that to be looked at specifically by the member nations every 5 years.

The World Bank itself has to keep replenishing its capital, but it gets its capital through selling bonds on the private market.

This organization, because of the nature of its loans, would probably get its funds by additional Government subscriptions. Certainly you are right, that if it makes loans that are repayable in 50 years, and loans that all out in 5 years, at the end of 5 years it won't have anything left with which to make additional loans, except from the very small amount of repayments, one-tenth of its fund. So we do look forward to the need for increasing the resources of this bank from time to time.

However, the legislation which we have before us specifically provides that the United States cannot agree to any increases in the funds of this organization without coming back to the Congress for approval.

Mr. KILBURN. I think Mr. Multer the other day asked a very good question, and that was: Do you think, in your opinion, that the standing of this new association will ever be such that they can sell their securities in the private market?

Mr. DILLON. I would not expect that they would compete with the World Bank in that way. The reason for that is that if the situation arises that there is no need for banking loans at very low rates of interest and very long maturity, which situation we would expect to rise in 25, 30, or 50 years, as the underdeveloped world gets stronger and can carry its weight better, then this association would gradually reduce its operations and the World Bank itself would increase its operations and would sell more bonds, and operations would be carried on on that side.

Mr. KILBURN. Thank you, Mr. Chairman.

Mr. SPENCE. All the Government funds to be used by this association would be appropriated?

Mr. DILLON. That is correct, Mr. Chairman.

Mr. MULTER. Mr. Chairman.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. Mr. Secretary, I think you are right that everybody who has been heard from has indicated support for the principles of this bill. But I think there are plenty of reservations, and I think we will hear plenty more before this bill is finally enacted into law if it is.

With reference to the question just addressed to you by Congressman Kilburn, may I respectfully suggest to you that you consider the language of article 5, section 1, subdivision (c), which reads: "The Association shall not provide financing if in its opinion such financing is available from private sources, on terms which are reasonable or could be provided by a loan of the type made by the Bank."

I think that is almost diametrically opposed to what you said to Mr. Kilburn.

Mr. DILLON. It is not the slightest bit opposed, Mr. Multer. The type made by the Bank is a loan that is repayable in 15 or 20 years and bears 6 percent interest. And the loans that we are talking of here would be for the same project, just as good a loan, but would have to be loans that would be repayable over a much longer period of time, would carry a much lower rate of interest—in fact, there is authority to make loans at no interest at all. It might also be repayable in local currencies.

Mr. MULTER. Maybe I misunderstood you, Mr. Dillon. On the other hand, possibly after you have read your statement in answer to Mr. Kilburn's question, you may want to revise it. I understood you to say that these would be of the same type as made by the Bank.

Mr. DILLON. They will be loans that will be just as good because the projects will have to pass the same technical, engineering, and economic utility tests, as the loans made by the Bank.

Mr. MULTER. Now, how much money has thus far been appropriated for the Development Loan Fund?

Mr. DILLON. The U.S. Development Loan Fund?

Mr. MULTER. Yes.

Mr. DILLON. We have had a total appropriated, in 3 years of appropriations, of \$1,400 million.

Mr. MULTER. How much are you asking for this year?

Mr. DILLON. We are requesting \$700 million.

Mr. MULTER. And if that is authorized and appropriated, the Development Loan Fund will have had an aggregate of well over \$2 billion?

Mr. DILLON. This sum has already been authorized. It was authorized last year—in fact, more was authorized, but if it is appropriated in full, we would have \$2,100 million.

Mr. MULTER. What Government agency has control of the operations by the Development Loan Fund?

Mr. DILLON. The Development Loan Fund is an agency in its own right, but it operates under the overall direction of the President, which has been delegated to the Secretary of State. It operates under the foreign policy guidance of the Department of State, but it is operated by its own Board of Directors, and its Board of Directors includes representatives of the Department of State, the International Cooperation Administration, the Chairman of the Export-Import Bank, the U.S. representative on the Executive Directors of the World Bank, who is also the Assistant Secretary of the Treasury, and the head of the Bank itself, the Managing Director, who is an individual appointed by the President and confirmed by the Senate.

Mr. MULTER. The Secretary of the Treasury is a member of the Board of the World Bank. Is the Secretary of State represented on that Board of the World Bank?

Mr. DILLON. I am the alternate Governor of the World Bank for the United States, the Under Secretary of State; yes, sir.

Mr. MULTER. Now, the Development Loan Fund is operated pursuant to congressional restrictions and limitations and one of them is that when we ship commodities or materials that are procured with Government assistance funds, such as development loan funds, 50



percent of those commodities and materials must be shipped in American-flag vessels, U.S.-flag vessels. Isn't that so?

Mr. DILLON. The Development Loan Fund is subject to the regular 50-50 shipping provisions, yes.

Mr. MULTER. Can we carry that restriction, limitation or protection for American shippers into this IDA?

Mr. DILLON. No, that would not be practicable because this is an international organization with more funds from other countries than from the United States, and it would be no more practicable to carry it in there than it would have been to apply it to the World Bank or to the Inter-American Bank, which the Congress recently approved.

Mr. MULTER. What do we say to our American shippers who are complaining that we must do something to protect them in this legislation if we enact it, so that they can be protected, the same way as they are protected when using development loan funds or other Government funds?

Mr. DILLON. With respect to any national institution, which is controlled by the United States, this is certainly quite a proper request, and we do provide that protection.

In an international organization—and we belong already to two—the World Bank and the Inter-American Development Bank—that question has not arisen, and I don't see any way in which it could be carried out, and that same thing would apply to this organization.

Mr. MULTER. Well, the American Merchant Marine Institute is raising a question as to this legislation at this very moment. What do we say to them?

Mr. DILLON. I think you have to tell them that when you have an international organization, where other countries are putting up a larger percentage of the funds than the United States, that this is a thing that we cannot put specific U.S. provisions on.

Here you have a question of a difference of interest. Are we interested in getting additional help from our allies to do this job, or do we want to do the whole job ourselves?

And here is a chance of getting \$3 from our friends and allies for every \$2 we put up, instead of having to put up the whole \$5 ourselves.

Mr. MULTER. Well, I probably, representing no shippers or having none in my district, could very easily say that to them. I wonder how the member is going to react who has these shippers in his district. Not only the shippers but the men employed by the shippers.

Mr. DILLON. The shipping industry is one industry, undoubtedly it will get some of the benefits from this in the ordinary course. But certainly the national interest in getting these funds into this organization to help us abroad, funds from other countries, is far greater than the particular interest of these shippers who will not be damaged at all by the creation of this.

They will simply not get the extra benefit they might get otherwise, if the thing is not created, they won't get any benefits.

Mr. MULTER. Now, the second problem that confronts us in connection with this is, because of our concern with the balance of payments problem, I think development loan funds now are being used in such a way that we are giving preference to American exporters. That is right, is it not?

Mr. DILLON. That is correct.

Mr. MULTER. They, too, must now be told that so far as this institution is concerned we cannot give them that protection.

Mr. DILLON. I don't think they would need that protection in this institution, Mr. Multer, because the record of the World Bank, which relies on international bidding, the same as this institution will, shows that even today some 30 percent, roughly, of the funds of the World Bank are spent here in the United States. And of the hard currencies that are being put up in the bank, the United States would only be putting up about 40 percent. So therefore based on the record, at least three-quarters, as of now, would be spent in the United States of what we put up. So this will be a net gain to our exporters, rather than a loss.

Mr. MULTER. Having in mind the provisions and restrictions in these articles for efficiency of operation and meeting economic and competitive international trade, that 40 percent that we contribute is going to be used to compete with our American merchants and exporters?

Mr. DILLON. No, sir; that is not correct. The IDA has the same provisions with respect to procurement as are in the World Bank's charter, and out of the total funds of the World Bank, 30 percent, as I said earlier, is used here in the United States. So there is every reason to expect that 30 percent of the overall funds of this bank will be used here in the United States.

Mr. MULTER. I am glad to have that representation. I hope it is going to work out that way.

Now, can you tell us, sir, what is meant by article 5, section 1, subdivision (e), which reads:

The association shall not provide financing for any project, if the member whose territory where the project is located, objects to such financing, except it shall not be necessary for the association to assure itself that individual members do not object in the case of financing provided to a public international or regional organization.

It's the latter part of that subdivision I would like to have you explain to us.

Mr. DILLON. I would rather the full explanation of that was furnished to the committee in writing by the representatives of the Treasury Department who took part in the negotiation of this instrument.

What I understand it to mean is that, should there be an international organization setup, or regional one, such as our Inter-American Development Bank, and should it appear useful for this organization to make a loan to that regional institution, it would not be necessary to check with each of the members of that institution before making such a loan. But as far as I know, there is no great prospect of making any such loans.

This was just a provision that was put in there in case this situation should arise. But I would be glad to furnish you with a full report.

Mr. MULTER. I think we ought to have it, because it seems to me that this would permit, against the will of a country, the making of a loan within that country, under the guise of making it to an international or regional organization.

Mr. DILLON. Of which that country was a member and presumably it won't be a member unless it agreed with the institution. I think that is the presumption.

(The information referred to above is as follows:)

Article V, section 1(e), provides that, in the case of financing by IDA to a public international or regional institution, IDA need not ascertain that each individual member of the international or regional institution has no objection to the financing. (The Association is normally precluded from financing a project if the member in whose territories the project is located objects.)

This provision rests on the assumption that the public international or regional institution which seeks financing from IDA has the responsibility, in the first instance, of insuring that such financing to the institution is not objected to by its members. In the case of public international or regional institutions of broad membership, it would be administratively difficult for IDA to have to seek out each individual member to ascertain whether or not that member objects to IDA financing for the institution.

As far as IDA is concerned, it would be likely to consider the loan to the international or regional institution as a project in itself. The projects which are in turn financed by the institution with the proceeds of IDA financing would be subject to whatever right of objection the member enjoys according to the charter of the institution obtaining IDA financing. Section 1(e) was inserted for the practical reason stated earlier, and was not intended to enable IDA to bypass the right of objection a member has in the case of a direct loan from IDA through the technique of lending via a public international or regional institution.

Mr. MULTER. There is one other subject I would like to touch upon with you, Mr. Secretary.

What protection is there here, or reservation or limitation, in the event a situation arose such as that of the Republic of Panama, seizing the Panama Canal or threatening to seize the Panama Canal; would it still qualify under this IDA for loans?

What is there in this bill or the articles of association that would prevent IDA making a loan to such a country under such circumstances?

Mr. DILLON. Well, the policy of the World Bank—and I am sure it would be the same policy of this institution—is not to make loans to countries that are in default on any obligations of theirs.

On the other hand, it also is the policy and it is written into the charter of this institution, and also of the World Bank, that political problems should not be taken into account in making loans to member countries.

Now, member countries are all free world countries. There are no Soviet bloc countries which are members of the World Bank or the Monetary Fund or of this proposed institution, and on that basis political things cannot enter.

That is one of the strengths of this institution and of the World Bank, that they operate on a purely economic basis and do not get involved in favoring one side or another where there are political questions involved.

Mr. MULTER. Don't you necessarily favor one side as against the other if you make a loan to a nation at war with another nation, particularly if they are both members of IDA?

Mr. DILLON. I think that does not mean very much unless the Bank makes loans only to one side, which may claim it is in a state of war.

I cannot conceive of the Bank making loans to anybody while there was any active state of war under way.

At the present time in the world, we have a strange situation which hasn't been true before, where in at least four different areas of the world there are technically states of war: Korea, Vietnam, China, and the situation in the Middle East. And in all of those there is no fighting, there is no real active war as we ever knew it, and we certainly would hope that this institution would make loans in Vietnam, in Korea, in the Republic of China, and doing that they would also make loans in the Middle East.

Mr. MULTER. Do you think they should make the loans if any of these situations break out into actual warfare?

Mr. DILLON. During actual warfare I certainly think this should not be the case. I don't think they would have any intention of doing it.

Mr. MULTER. Don't you think that the moral fiber of a nation or its morality in connection with its international obligations is an economic factor, as well as a political one, in determining whether a borrower is a good borrower and a good risk?

Mr. DILLON. The moral fiber of a nation in connection with its economic obligations is certainly one of the things the Bank would take into account.

Mr. MULTER. How about its international obligations?

Mr. DILLON. Any international obligations which are clearly violated, in that case that would be something that the Bank would take into account.

Mr. MULTER. Would you say that it would be a clear violation of its international obligations for the Republic of Panama to seize the Panama Canal?

Mr. DILLON. If the Republic of Panama seized the Panama Canal, I would think so, yes, certainly.

Mr. MULTER. Is there any difference between that situation and the Suez Canal, when Nasser seized it?

Mr. DILLON. The Suez Canal was a private organization. It was quite a different thing from the situation in the Panama Canal. But nevertheless—

Mr. DILLON. No, sir. The Suez Canal was regulated by an international agreements and treaties?

Mr. DILLON. No, sir. The Suez Canal was regulated by an international agreement. But nevertheless, I was about to continue, the World Bank ceased operations in Egypt at that time, and told the Egyptians that there would be no—or that they could not make further operations until the Egyptian Government had settled with the rightful former owners of the canal, the Suez Canal Co., and there were no operations until that was done, and until there was full agreement reached, signed, and underway.

Mr. MULTER. Wasn't part of that arrangement or statement of policy by the World Bank at that time that Egypt must give assurance that it would live up to its international obligations in connection with the management and operation of the Suez Canal, and that it would not interfere with shipments through the canal?

Mr. DILLON. Well, Egypt claims it is living up to its international obligations in that regard.

Mr. MULTER. Is it doing so when it seizes Danish ships, Greek ships, and other ships?

Mr. DILLON. This is a very complex matter. We feel that these ships should be allowed to go through.

Mr. MULTER. The United Nations feels that way, too, does it not?

Mr. DILLON. We have made that statement in the United Nations. Mr. Hammarskjold is trying to work out a method under which these ships can go through. But it is, and he recognizes it, a complex legal problem based on definitions of the armistice agreement in that area.

Mr. MULTER. As a matter of fact, Mr. Hammarskjold has been in that area several times and came back only recently. He practically threw up his hands and said there is nothing he could do vis-a-vis the United Arab Republic for free passage through the Suez Canal. Isn't that so?

Mr. DILLON. I think he is still trying. I don't think he has given up at all. He is still trying to work out an effective method of allowing cargoes from the State of Israel to pass through the Suez Canal.

Mr. MULTER. Well, then, I think we certainly agree on the statement that from 1956 to date he has been unsuccessful in getting Egypt and the UAR to allow the free passage of ships and cargoes through the Suez Canal.

Mr. DILLON. I think that is correct.

Mr. MULTER. As a matter of fact, even after the World Bank made its last loan to the United Arab Republic, within a week thereafter the United Arab Republic announced it was still at war with Israel and seized another ship.

Isn't that true, Mr. Dillon?

Mr. DILLON. The United Arab Republic claims that it is in a state of continuing belligerency without actual war operations with Israel. That is correct.

And they do say that that being the case, the provisions of the Treaty of Constantinople, which provide for the operations of the Suez Canal, apply, and under those provisions they are allowed to limit the passage through the Canal of vessels of countries with which they may be at war. We differ from them because we don't think there is a state of belligerency there.

Mr. MULTER. Quite apart from the state of belligerency, isn't it a fact that that international treaty provides in so many words that they may not stop the ships of any country that is at war, and specifically says even warships shall be permitted to freely transit the Suez Canal? Isn't that the precise language, not the precise language, but the substance of some of the language?

Mr. DILLON. That is the substance of some of the language, but there is also language giving Egypt the right, in state of war, to take any security precautions, including stopping shipping of a country which may be specifically at war with Egypt.

The other items had to do with vessels of countries which might be at war with somebody else, where Egypt was a nonbelligerent.

Mr. MULTER. I think in the treaty, while Egypt and the United Arab Republic argues that the words are there or should be read into the treaty, "including stopping the vessels of countries with which it is at war," the language stops I think after it says they may take such steps as necessary for its security.

Mr. DILLON. I think that is correct.

Mr. MULTER. I am also correct, am I not—I combined the two together in one question—am I not correct that after the last loan was made, within a week thereafter the UAR did stop another neutral ship going through the canal on the ground that it was carrying cargo destined for or from the State of Israel?

Mr. DILLON. I don't think that is correct. I think that that ship had been stopped prior to the loan being made. A few days or a week prior, rather than a week after.

Mr. MULTER. Did our representatives on the World Bank protest against the World Bank loan to the United Arab Republic?

Mr. DILLON. Our representative on the World Bank made a statement supporting the loan to the United Arab Republic, but also pointing out that this did not mean support for the United Arab Republic's position on shipping through the canal, and referring to the Secretary of State's statement in the United Nations General Assembly of last fall, where we stated our position very clearly, and also referring to the efforts that the United Nations through Mr. Hammerskjöld is making to try to work out a solution of this problem.

Mr. MULTER. Hasn't the United Nations adopted a resolution stating that the UAR was violating its international obligations in stopping ships from transiting through the Suez Canal?

Mr. DILLON. I am not aware of a resolution couched in those terms.

Mr. MULTER. Don't you believe that in weighing whether or not a loan should be made to a country, you should take into account whether or not it is violating its international obligations, and if it has violated its international obligations that that country should be considered a bad risk?

Mr. DILLON. I think if it is a clearcut case, certainly it should be taken into account. But this was a case that is very complex, as you well know, and this is a political matter.

Actually, it is rather interesting that as far as the Bank is concerned, the situation seems to be considerably ameliorated. There are World Bank experts presently in Israel, which has applied for a loan, or a couple of loans, to the World Bank. Mr. Black is intending to visit Israel in the next month or two, and there seems to be very fine relations between the State of Israel and the World Bank.

Mr. MULTER. I don't think making a loan by the World Bank or anyone else to the State of Israel changes the basic principles involved here.

If the United Arab Republic was entitled to the loan as a moral risk it should have gotten it. If Israel qualifies that way, it should get it, but I think this is basic. It goes beyond the Middle East.

I can see trouble here with Cuba. Cuba is already being charged with having sent military forces into other countries. She may do so again. She has been charged with stirring up the Republic of Panama.

Whether those things are true or not, I think we ought to have some protection in these articles of association and in the authorizing legislation so we are not going to be in a position where the World Bank or IDA is going to be making loans to belligerents or those who are threatening to do harm either to us or our friends.

We are not afraid of Cuba's threats, but I think some of our smaller neighbors are afraid of them, and I don't think we ought to

be in a position where we are going to be making or approving or allowing an organization of this kind to make loans to somebody who may be causing trouble.

This is supposed to promote peace. And if it can be used so that some nation at war is going to be borrowing and thereby releasing its other funds for war purposes, we are defeating the very purpose of the legislation.

Mr. DILLON. Certainly the development of countries is a great step toward peace. In the case of Cuba, they have taken over property without signs of adequate compensation, so certainly they would not be considered eligible for loans from either the World Bank or this institution until they had made clear that they were ready to make adequate provision for compensation.

Mr. MULTER. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Mr. SPENCE. Mr. Halpern.

Mr. HALPERN. Mr. Chairman.

Mr. Secretary, first I would like to commend you for the excellent presentation you have made here today. I am sure it will prove most helpful to this committee.

I would like to concur, and strongly do so, with the opinions expressed by my colleague from New York, Mr. Multer. I feel as deeply concerned as he and the American Merchant Marine Institute as to the interests of the American shipping on this issue. I sincerely trust that this problem will be resolved, and I intend to do everything I can to help in that direction.

I also concur most emphatically with the other questions and comments made by my colleague from New York, and I am certain in so doing I reflect the views of many members of this committee. I refer in particular to the World Bank loan to the UAR.

Mr. Secretary, for your benefit, a good percentage of the members of the full Committee on Banking and Currency of the House joined in a roundrobin appeal, if we may call it that, in cosigning a letter to Mr. Black, as president of the World Bank, adamantly protesting this loan. This was months before it was eventually granted. We were greatly distressed last December when the approval of the loan was given to the UAR, for the widening and deepening of the canal.

This action was, in the minds of many of us, a condoning of the flagrant violation of international law and morality by the UAR.

Here is a nation, the UAR, requesting funds from the international community, if you will, for the improvement of an artery for international shipping, and yet denying access of the canal to the shipping of a particular nation.

Today, Mr. Secretary, it may be Israel. Tomorrow, it could be us.

My point is that here we are, as well intentioned as could be, again joining, or at least anticipating joining, an international agency, without any safeguards, without being assured that recipients of its loans would be required to observe such conditions as adherence to their international commitments and law which could be engaged in promoting situations that some day could be utilized against our own interests.

The shocking thing in this loan situation was that our Nation, as brought out by Mr. Multer, through our participation in the Bank,

representing about 30 percent of its stock, voted approval of this loan, an action that was contrary, in my opinion, and that of countless others, to the announced policy of our Government as far as freedom of access to the canal is concerned.

And this policy with regard to the canal was expressed by none other than President Eisenhower himself, as recently as 1957, and as reiterated by your Department many times since.

The answer now given is that it was purely an economic matter and not a political one.

It seems to me private banking does not loan money to men of ill repute, who are responsible for tense situations that could explode with violence, or to men who use gangsterlike tactics, or who are violating law, whether they be local or, as in this instance, international. To do so would be contrary to good banking practice, not to mention good ethical or moral practice.

To say that the World Bank in this instance could not put certain conditions to the loan, that is, withhold it until the U.N., of which the World Bank is in arm, was assured of free access to the canal to all nations, is in my mind not a valid argument.

Were there not conditions attached to the Sudan loan which you mentioned here, as well as with regard to the India-Pakistan water resources treaty?

I think that the World Bank's answer, Mr. Secretary, is a weak one.

We missed a golden opportunity, through our representation on the Bank, to hold up approval of this loan until this matter in the Suez was resolved. The time to have been firm was before the loan, not after. Because of this Mr. Nasser has been even more defiant than ever.

So, while I favor the principles of this legislation, it is highly laudable, and no one can deny that, but I am afraid of situations that could be against our Nation's own interest, and the best interests of the free world, unless certain safeguards as referred to by the gentleman from New York, Mr. Multer, at previous hearings of this committee, and here today, are considered and adopted by this committee.

Mr. Secretary, I wanted to make this point of strong principle before we take action on this legislation.

Mr. DILLON. Mr. Halpern, I would like to make just one point, if I may.

Certainly one point about this canal situation is this: We must realize that there were, and there are in the world, alternative sources of financing to the World Bank, and alternative sources of financing which we would not be particularly happy to see used. And certainly the holding up of this loan last winter would not have, in our opinion, had any effect whatsoever in forcing the United Arab Republic to settle the problem of transit through the canal, which is a complicated legal problem, the way we feel it should be settled. In fact, it would probably have assured that it would never be settled that way, and the funds would have been made available from other sources.

Leaving that aside, I think it is clear—the IDA is a very complex arrangement which has been signed by some 68 countries, after a period of some 15 months of negotiation, 4 of which were very intensive among the Executive Directors of the Bank—and if there should be anything done which reopens the fundamental charter, or



which would require the consent of the 68 other countries involved and for any change they would all have to agree, I think that as a practical matter this organization would probably never come into existence and we would miss the opportunity of getting this coordinated effort of the free world to help.

On the other hand, anything like an expression of opinion, expression of direction to the American representative on this Bank as to how he should act in specific cases, that would probably be an entirely different matter, because that is something for us to decide, and the American representative does, after all, hold, in the voting in this Bank, a very important position.

Mr. HALPERN. Well, Mr. Secretary, I appreciate your response.

I still beg to differ with you on the reasoning behind the World Bank loan. And the one question that still is in my mind is, what was so important for us—when I say “for us” in this instance, I refer to our participation in the World Bank—to approve this loan to the UAR?

I realize that it is probably a sound economic investment, but I think the overall morality and justice involved is far more important to this country and to the free world.

Mr. SPENCE. Mr. Widnall.

Mr. WIDNALL. Mr. Chairman, I don't have any questions to ask Mr. Dillon, but as a fellow New Jersian I want to join in welcoming him before this committee and thank him for his very fine statement on behalf of this legislation.

Mr. DILLON. Thank you, Mr. Widnall.

Mr. MULTER. Just one thing more, Mr. Chairman, if I may.

Mr. Secretary, I don't think that it is sound economic or banking principle to say that the World Bank, or to infer that the World Bank should have made this loan to the United Arab Republic because if it didn't Communist Russia might have made the loan. Because the fact is that during all of these last few years, and at this very moment, Communist war materiel, armaments, tanks, jet planes, and training officers, have been in the United Arab Republic, and are at this very moment, and Communist-trained armies are lined up on the borders of Syria, alongside of Israel, and of Egypt alongside of Israel, so we haven't kept the Russians out of there at all. They are there with their armaments.

All we have done is given money to the UAR, thus releasing their other funds for warlike efforts.

Mr. DILLON. I didn't mean to convey, Mr. Multer, that this loan was made by the World Bank because otherwise the Soviets might have made the loan. All I did was to point out, in answer to a statement by Mr. Halpern, that this wouldn't have been a very effective use of pressure, the withholding of this loan, to force the United Arab Republic to agree immediately to let Israeli cargoes and ships pass through the canal so as to get this loan.

That is all I meant.

Mr. HALPERN. Mr. Chairman, just one further comment, to elaborate one step further on the comments of my distinguished colleague from New York:

I think the point he was making here is the fact that by granting this loan to the UAR, it has given Mr. Nasser much more available

money for the purchase of military equipment and arms from Russia, which he is doing on a large scale. This has been helped considerably by enhancing the economy at this particular time in that nation.

Mr. DILLON. I don't really think that is the case, because I think that in the first place the purchases of arms had taken place primarily before this loan was granted. But secondly, if this loan had not been made available to them, one of two things would have happened:

Either the Egyptians would not have gone ahead with this project, which would have left them with just as much funds available for arms, or they would have gotten the funds for this project elsewhere, and they would have been in the same situation they are in now.

I don't think it can be said that the making of this loan made it possible for Egypt or the United Arab Republic to buy additional arms from the Soviet Union.

Mr. HALPERN. I still think indirectly it has. But what was so important, Mr. Secretary, for this loan to have been made by the World Bank, and what makes it all the more significant, with our participation?

Mr. DILLON. The reason for this was it had been under study for a long time. It had been worked out in detail over a period of more than a year. The widening and deepening of the canal is of great interest to all maritime nations, of which the United States and the nations of Western Europe are an important part, and therefore carrying out this economic and useful project was important. It was unfortunate that the conclusion of these negotiations happened to come at a time when there was a political problem or crisis involving the stopping of these two ships. We quite recognize that. We would have much preferred if it had come at some other time.

Mr. HALPERN. Well, I still repeat, I just want to leave you with this note: I don't think this matter can be purely dismissed as a political one. To me, and I am sure to many of the members of this committee and Members of this House, this is a matter of morality and justice, and I still think we missed a golden opportunity, prior to the granting of this loan, to have resolved that situation in Suez.

Mr. SPENCE. Mr. Dillon, the only question that is submitted to the Congress is the participation in the International Development Association, under the agreements which have been arrived at by 68 nations. Isn't that true?

Mr. DILLON. That is correct, Mr. Chairman.

Mr. SPENCE. And any change in that would require resubmission of that question to the 68 nations, a reaffirmation of the amended articles of agreement, and the submission of it to the legislative bodies of each of the states. Is that correct?

Mr. DILLON. That is correct.

Mr. SPENCE. Now, if we want to acquire leadership, we have to take expeditious action, haven't we?

Mr. DILLON. Yes, Mr. Chairman.

Mr. SPENCE. However much anyone would like to oppose one contract, don't you think the many benefits that would accrue would outweigh that one consideration?

Mr. DILLON. Far outweigh it, Mr. Chairman.

Mr. SPENCE. And wouldn't everybody, if this organization does work as we hope it will operate, to increase productivity and estab-

lish sound economies, in underdeveloped nations, don't you think the shippers and everybody else engaged in mercantile and financial transactions throughout the world, within the scope of those activities, will benefit?

Mr. DILLON. They certainly will.

Mr. SPENCE. So it is essential we should have expeditious action, is it not?

Mr. DILLON. Yes, Mr. Chairman, I think it is very, very essential.

Mr. SPENCE. I sometimes think that people here don't know what "underdeveloped country" means, abroad. We have no conception of the poverty and the hopelessness and the despair of those people, and the filth in which they live, the unsanitary conditions. Is that correct?

Mr. DILLON. Unless you have seen it with your own eyes, it is a very difficult thing to realize.

Mr. SPENCE. It is inconceivable to a man who lives in a free country, where opportunity is open for all, to have any conception of the conditions that exist there.

And are not those nations, those sore spots, prolific in producing disagreements between nations?

Mr. DILLON. That is the great problem that will face us in the coming years. These people know that they can live better, that there is no reason for them indefinitely staying in this standard of life, this poverty, this despair; they desire to improve their condition. And if they have no hope of doing it in freedom, which they want to do, they will try any other way to improve their standards. And that would be very unfortunate for the free world.

Mr. SPENCE. And that is the reason many of the religious organizations want to file statements in this hearing.

Mr. DILLON. I would not be surprised. I would think that would be the reason, yes, sir.

Mr. SPENCE. Are there further questions?

Mr. BROWN. Mr. Dillon, I want to congratulate you on your statement and to say that I know Mr. Black, President of the World Bank, quite well. He is an outstanding citizen of my State and has the respect of everyone who knows him. He is the son of the late Honorable Eugene Black, who was Chairman of the Board of Governors of the Federal Reserve for many years.

Mr. DILLON. Yes, sir. Thank you.

Mr. MULTER. Mr. Chairman, I cannot let this matter close without saying that I, too, and I am sure Mr. Halpern also, agree with your sentiments with reference to helping the rest of the world.

The point he and I have been trying to make is that if we are simply going to feed the bellies of the world and give up our moral leadership, we are merely going to confirm the Communist statement they make so often, that all we are interested in are the material things of the world.

We are interested in more than that. We are interested in moral leadership, and I think we have it and should maintain it. If in order to maintain that moral leadership of the world we must delay action on this for a few months, let's do it. I think we can agree upon proper restrictions which will point out that we are interested

in the morality of these situations without delaying the implementation of this plan.

Mr. SPENCE. It is the morality of the situation that I spoke of.

Mr. DILLON, if there are no further questions, you may retire. And I thank you very much for the fine statement you have made, and I am sure the committee appreciate it.

Mr. DILLON. Thank you, Mr. Chairman.

Thank you, gentlemen.

Mr. SPENCE. Our next witness is Mr. Thomas Coughran.

Mr. Coughran represents the largest bank in the United States, the Bank of America.

You have testified here before this committee, and we have always received your testimony with the consideration it deserves.

We are very glad to have you testify here again, Mr. Coughran.

**STATEMENT OF TOM B. COUGHRAN, EXECUTIVE VICE PRESIDENT,  
BANK OF AMERICA, NEW YORK**

Mr. COUGHRAN. Thank you very much, Mr. Chairman.

I am happy to appear before this committee in support of H.R. 11001, which would authorize the United States to accept membership in the International Development Association.

The United States has taken the lead in proposing the Association, and it is now incumbent upon us to authorize the President to accept membership and to provide for the initial subscription called for by the articles of agreement.

I believe the Association represents the most feasible approach to multilateral financing of economic development on flexible terms, and I believe it is important that other economically advanced countries be encouraged to participate with us in this multilateral organization.

There is no need for me to repeat all the principal features of the IDA articles, which have already been given to you. I shall therefore try to touch upon those aspects of the matter which are of special interest to me as a banker. Because of the active interest I have always had in agricultural questions, I shall also touch on the relationship of this institution to some of our agricultural programs.

First and foremost, I believe there is an important area of financing which can be undertaken in the less developed areas which is not suitable for loans on conventional terms. There is a real shortage of savings throughout the world, relative to the demands for loan capital. This is necessarily reflected in interest rates.

The International Bank must compete with all the other demands upon the money market when it raises money by selling its bonds. To its costs of borrowing must be added the margin for reserves and expenses so that the Bank must now charge  $6\frac{1}{4}$  percent to its regular borrowers.

In international lending there is a further factor which does not have to be considered when we make loans within the United States. In addition to the pure credit standing of the borrower, we must consider the ability of a foreign country to earn and set aside foreign exchange to service foreign loans.

Particularly when the borrower is a foreign government, the crucial test is likely to be, from the point of view of both the lender

and the borrower, the wisdom of obligating part of limited foreign exchange receipts to service a particular loan.

We do expect, however, the International Bank to continue its lending through conventional loans on a substantial or increasing scale.

However, as a matter of national policy the United States has been making further efforts to recognize the special problems of borrowers in the less developed areas. To a greater extent than in the economically advanced countries, these countries encounter difficulties in building up foreign exchange receipts and in retaining adequate margins of reserves.

There is much controversy as to why this is true and what can and should be done about it. Probably the condition can, in the last analysis, only be remedied by a stern and effective determination to avoid inflation, to expand exports, and to live within the exchange availabilities of the country, with a minimum of arbitrary and rapidly shifting exchange and trade restrictions. There are some important examples of countries which are making brave and determined efforts to do this.

Our approach has been to extend a helping hand, through budgetary assessments upon ourselves, to provide additional financing to the less developed areas of the free world on more flexible terms. Among other reasons, we hope that this will encourage these areas to be more economically independent and to become stronger members of our free society.

The essential characteristic of the IDA is to make that approach, which has been a national policy, now an international policy. In a concrete way it introduces the principle of budgetary provision by the other economically advanced countries to an association that will provide flexible development financing on a broad and general basis to the less developed areas.

It seems to me that we have made a good beginning, in setting up a scale of subscriptions which calls for \$320 million from the United States as against \$440 million from 16 other advanced countries, all of which will be fully convertible.

I recognize that we are continuing, and will be continuing, substantial programs of our own, but I believe an important step has been taken in establishing the principle of budgetary contributions by other countries, and that we should be gratified to have come this far.

As a banker, I welcome the initiative of the United States in proposing and urging this new institution. I also share most definitely the general view that the time has come for these other rapidly advancing and financially strong countries to assume their rightful place alongside the United States in this joint undertaking. They can well afford to do so, particularly since many of them have themselves so recently reaped the benefits of external financing by the United States.

A second aspect of the Association, which is naturally of special concern to a banker, is the terms of loans and their management. The fact that the institution will be a very close affiliate of the International Bank, and will be headed by the President of the Bank, is a major factor in our evaluation of its potential.

The International Bank has won the confidence of bankers throughout the world. We can safely entrust to it the admittedly delicate task of operating an international lending activity which will make loans on flexible terms.

I have served as the U.S. Director in the institution and know from firsthand experience how well it is run.

We all know that in administering a loan fund of this character, more complex considerations must be taken into account than in conventional loans. This is particularly true if loans are made which are payable entirely in the currency of the borrower, and do not impose any charge upon foreign exchange receipts of the country, at least for a long time to come.

Nevertheless, we cannot disregard the essential factor of selectivity and high development priority in the operations of the Association, and I am glad to see that these considerations are underlined in the articles of agreement.

Two essential factors become important with such loans. First, since the resources of the Association are necessarily limited, they need to be used in a way which will make the best possible contribution to development.

We do not escape the basic shortage of capital in the world by providing a limited supplement to other available capital resources through a budgetary charge.

Secondly, a special caution needs to be exercised that flexible loans are not utilized where it would be appropriate to provide funds through the regular conventional loans of the Bank or through private capital investment.

This is a difficult operation, but I believe the structure of the International Bank is ideally suited to chart a practical, safe, and constructive course through these difficult waters, and I believe it was wise that, on the whole, the articles of agreement have left a considerable range of flexibility to the Association to evolve lending policies.

There is a further safeguard in the necessity of replenishing the funds of the Association from time to time. The searching eyes of the member governments and their finance ministers will be upon the performance of the IDA, and when the time comes for replenishment, the record of the institution will be subject to close and discriminating scrutiny.

We cannot expect perfection, but I believe we can confidently expect that an IDA will be a valuable adjunct to the International Bank and a source of real and enduring assistance to the less developed areas, and a much welcomed participation by other countries in the joint effort we are making toward the progress of the free world.

One of the aspects of IDA is of special interest to the agricultural community. Provision is made for the transfer to IDA, by agreement with the foreign country concerned, of some portion of foreign currency accruing under U.S. Public Law 480.

The effect of this is to make available to the combined IBRD-IDA operation resources in national currencies which can be used to promote development where these national currencies are to be spent.

At the present time we utilize something like one-half of the proceeds of our Public Law 480 sales for loans for economic development, largely in the country in which the currency is acquired. We use these currencies through our national agencies, and on the whole the countries have been well pleased with the administration of our program.

In the international field there is also frequently a need for local currencies to finance local labor and material costs of important projects. It is not always easy to find the local financing which provides these currencies.

The articles of agreement of IDA, therefore, permit us to authorize some of our national currencies to supply the IDA with resources in these national currencies to facilitate the carrying forward of IDA project.

I believe this provision will offer us additional flexibility in utilizing the sales proceeds of our Public Law 480 transactions through a multilateral institution, where that is jointly regarded as desirable by the United States and the country concerned.

The IDA has been developed carefully and thoughtfully since the United States took the first steps in the matter. It is a product of men devoted to free economic institutions. It introduces a new principle in international economic cooperation which can be adapted and expanded according to the desires of its membership, the requirements of the time, and as warranted by its own experience and its accomplishments.

I endorse the legislation and hope that it will meet with the approval of the Congress.

Mr. SPENCE. Are there any questions of Mr. Coughran?

(No response.)

Mr. SPENCE. If there are no questions, you may stand aside, Mr. Coughran. We are very pleased to have your fine statement, and I know the committee will consider it very carefully.

Mr. COUGHRAN. Thank you, Mr. Chairman.

Mr. SPENCE. The next witness is Mr. Neidlinger of the International Chamber of Commerce.

**STATEMENT OF LLOYD K. NEIDLINGER, EXECUTIVE DIRECTOR,  
UNITED STATES COUNCIL OF THE INTERNATIONAL CHAMBER  
OF COMMERCE**

Mr. NEIDLINGER. Mr. Chairman, I am Lloyd Neidlinger, executive director of the United States Council, International Chamber of Commerce.

This testimony is submitted on behalf of that organization, which is an association of business enterprises in the United States which subscribes to the proposition that the expansion of international trade and the stimulation of private enterprise are the means by which continuous economic growth and prosperity can best be secured.

The International Chamber of Commerce, with which the United States Council is affiliated, is a federation of similar autonomous business associations in 41 countries which cooperate in the study of international economic problems and in the search for practical means to resolve them.

The problem of mobilizing the large amounts of capital required to finance the economic development of the vast and heavily populated areas of the world where living standards are dangerously low has been under continuous study by the United States Council and the International Chamber of Commerce. We recognize it as a critical problem.

Confirmed in its belief that mobilization of private investment capital is essential to the solution of this problem, the United States Council nevertheless recognizes that facilities and services essential to industrial development must be established before private investments become feasible in many localities.

The United States Council's standing committee on foreign investment and economic development is charged with examining the plans put forward by governments to mobilize and allocate public funds for this purpose.

This committee is composed of American business executives whose specialized training and experience in international finance is comprehensive. It has examined the draft articles of agreement of the International Development Association with great care and questioned officials of the Treasury Department in respect to provisions subject to interpretation.

This committee considered not only the substantial benefits which might result from the creation of the International Development Association, but also the risks and costs.

The danger that the establishment of this new governmental lending machinery would compete with private financial institutions and retard the establishment of conditions favorable to the flow of private investments by offering an alternative source of development capital was carefully considered.

The provisions of article V(c) and the close association of the IDA management with that of the International Bank for Reconstruction and Development were found to provide adequate protection against this danger.

The possibility that the functions the IDA is designed to perform could be discharged by enlarging the resources and powers of existing governmental lending agencies was examined. The committee concluded that this was not a desirable alternative.

One of the chief merits of the IDA proposal in our eyes is the fact that it will stimulate greater participation by countries other than the United States of America in the financing of development assistance. Its international character will permit the IDA to insist that borrowers adopt sound economic policies without its being charged with attempting political domination, dictation, or imperialism.

The provisions of the articles of agreement that provide for administration of the IDA by the officers and directors of the World Bank are accepted by the United States Council as satisfactory assurance that its affairs will be subject to the sound management of able and resourceful men. We welcome also the economies this arrangement will permit.

The United States Council recognizes that in many of the countries where living standards are intolerably low the prospect of accumulating needed capital locally or of attracting foreign investments will remain negligible until substantial expenditures are made to establish public facilities that all types of industries require.

These nations must be assisted in their effort to gain this elementary stage of modern economic development. The assistance must come from the industrialized free nations of the Western World or from the Communist bloc.



The risks and the cost of not making that assistance available on acceptable terms is far greater, in our opinion, than any danger that can arise from the establishment and operation of the International Development Association as planned.

It has been in the light of these conclusions that the United States Council of the International Chamber of Commerce, acting upon the recommendation of its committee on foreign investment and economic development, approved by its executive committee, has decided to advocate and support legislation that is required to establish the IDA and provide for full membership and participation of the Government of the United States.

We urge this committee to sponsor the necessary legislation.

Mr. SPENCE. What is the membership of the International Chamber of Commerce?

Mr. NEIDLINGER. The international chamber is established now in 42 countries. In each country there is an association of businessmen similar to the United States Council. In most cases they are called the National Committee of the United Kingdom, the National Committee of France. In the case of Canada and ourselves, it is the Canadian Council and the United States Council.

Each of these associations is autonomous in deciding its policies. Where they can agree upon policy, then there is an international resolution or action taken.

Mr. SPENCE. And you speak for that committee in the United States?

Mr. NEIDLINGER. I speak for the United States Council, yes.

The international chamber has not at present taken a position on the IDA, but it has sent all of the instruments to its national committees and urged them to take such action as they consider appropriate.

Mr. SPENCE. Are there any questions?

Mr. MULTER. I have no questions.

Mr. WIDNALL. I have no questions, Mr. Chairman.

Mr. SPENCE. If there are no questions, you may stand aside, Mr. Neidlinger. We are very glad to have your views, and we thank you very much for coming here.

Mr. NEIDLINGER. Thank you, Mr. Chairman.

Mr. SPENCE. That concludes the hearings on this legislation, and the committee will adjourn, to reconvene at the call of the chair.

(The following statements and letters have been submitted to the subcommittee:)

#### STATEMENT OF NATIONAL FARMERS UNION

National Farmers Union favors the passage of H.R. 11001, a bill to provide for the participation of the United States in the International Development Association. We base this view largely on two considerations.

The first consideration is that there is a serious gap in the existing arrangements for the supply of capital to the less-developed countries of the free world which an International Development Association, properly organized and administered, could go far to fill. This gap concerns the provision of capital greatly needed for carrying out essential public works—e.g., schools, hospitals, roads, irrigation projects—which are nonbankable in the usual sense of the term. Neither the International Bank for Reconstruction and Development nor its subsidiary, the International Finance Corporation, are authorized to make loans for such nonself liquidating projects. But, unless such public works are

provided as a foundation for national economies in less-developed countries, the time, effort, and money now being spent, through U.S. national programs as well as multilateral programs, to provide technical assistance and loans for self-liquidating projects, cannot be fully effective. And thus the establishment of such national economies on self-sustaining bases—a matter of urgent concern to the United States and the rest of the free world—will be indefinitely delayed.

The second consideration is that, as things stand now, the United States, through its own national programs and contributions to multilateral programs, is paying far too large a proportion of the cost of aiding the economic development of the less-developed countries. There should be greater contributions on the part of other industrialized nations of the free world; and the establishment of an International Development Association should help to bring this about.

But while favoring, in principle, an International Development Association and, therefore, the passage of H.R. 11001, National Farmers Union wishes to state emphatically for the record that the establishment of one more international agency, no matter how important its proposed functions may be, will not be enough to achieve a reasonably rapid improvement in the economic positions, both relative and absolute, of the less-developed nations of the free world. What is needed above all is a strengthening of purpose and a coordination of policy at the highest levels—legislative as well as executive—in the governments of the industrial nations of the West.

National Farmers Union is, therefore, greatly interested in the proposal, initiated by the Government of the United States, for the establishment of a new organization for economic cooperation consisting of 18 nations of Western Europe plus Canada and the United States. The primary aim of such an organization should be to develop and coordinate policies designed to ensure full employment of the growing populations in the Atlantic Community at ever-rising levels of living, and the production of sufficient goods, including agricultural products, to provide for the needs within the Community, and to share with less-developed nations of the free world in their economic rehabilitation and development.

With such an organization of Atlantic nations functioning effectively at the highest political levels, it would be reasonable to expect that an International Development Association, together with other multinational agencies already in existence, could make a decisive contribution to the economic development of the less-developed countries and, thus, to the cause of peace and freedom in the world.

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AMERICAN FARM BUREAU FEDERATION,  
*Washington, D.C., March 21, 1960.*

CONGRESSMAN BRENT SPENCE,  
*Chairman, Banking and Currency Committee,  
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN SPENCE: Attached are three copies of a statement of the American Farm Bureau Federation in regard to H.R. 11001, authorization for U.S. participation in the International Development Association.

Although the committee's schedule did not permit the presentation of this statement at public hearing, we would greatly appreciate it and respectfully request that the statement be made a part of the record of the hearings for H.R. 11001.

Very truly yours,

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HERBERT E. HARRIS, II,  
*Assistant Legislative Director.*

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, PRESENTED BY HERBERT E. HARRIS II, ASSISTANT LEGISLATIVE DIRECTOR

The American Farm Bureau Federation appreciates this opportunity to present its views with regard to U.S. participation in the International Development Association. The IDA originated as a U.S. proposal made to the Board of Governors of the World Bank. Under this proposal all the members of the World Bank—but chiefly the 17 most economically advanced countries—would contribute \$1 billion to a fund which would be administered in conjunction with the World Bank to make loans for economic development to underdeveloped countries. The terms of the loans could allow longer maturity and lower interest rates than

the type of loans now being made by the World Bank. The IDA articles specify that it will not provide financing when it is available from private sources on reasonable terms for the recipient or could be provided by a loan of the type made by the World Bank.

Farm Bureau is a free independent, nongovernmental, voluntary organization of 1,602,117 farm and ranch families in 49 States and Puerto Rico.

Farm Bureau policies continue to recognize the need for international cooperation and the necessity for the United States to maintain its leadership in the pursuit of lasting peace. We believe that the United States should continue to stand ready to support needed constructive assistance to nations of the free world.

We feel that one of the paramount factors that will give strength to the free world is a high-level, mutually advantageous trade. We have given strong support to the reciprocal trade agreements program and continue our firm belief that two-way mutually advantageous trade is preferable to unilateral transfers by the United States through grants or excessively long term "easy" credit.

A sound international trade program should be the keystone in America's foreign policy. Today our trade program is seriously threatened by our present balance-of-payment position. It is imperative that constructive steps be taken immediately to correct this situation.

For over a decade, the United States has contributed vast amounts of military equipment, capital investment, and technical assistance to nations throughout the free world. The rehabilitation of Western Europe and the common defense against communism required the expenditure of large amounts of human and economic resources. The economic resurgence of many nations that formerly were recipients of our aid makes mandatory a comprehensive revision of programs designed to assist other free nations.

Last December the voting delegates of our member State organizations adopted the following Farm Bureau policies for 1960:

"We should continue to stand ready to support constructive assistance to less developed nations that show a willingness and a desire to use such assistance properly.

"However, the economic resurgence of many nations that were formerly recipients of our aid makes mandatory a comprehensive revision of our mutual security program. These nations should now assume a greater share of the burden of the defense and development of the free world. This will make possible a substantial decrease in the financial contribution required of the United States."

While Farm Bureau recognizes America's responsibility in the free world, we reject the proposition that the United States can or should assume total responsibility for the defense and development of the whole free world.

It has become apparent that it is time for other industrialized nations of the free world to assume a greater share of the burden of economic development. They have earned the right to participate more fully in the fight against communism and the struggle for development. We should not deny them this opportunity.

#### U.S. FISCAL POLICY

It is necessary that the United States adopt and maintain domestic policies which will keep our country economically strong and financially sound. This is important not only to our own country's future, but also to our position as the leader of the free world. We have a duty—and it is a serious obligation—to set an example to less developed countries that we have the ability and courage to manage our own fiscal affairs. The fight against inflation requires the reduction of Federal Government expenditures.

Farm Bureau supports U.S. participation in the International Development Association to the extent that this institution is implemented as a means to permit and encourage other economically advanced countries to share the burden of development of the free world. It should not be used as a device to increase the burden on the United States or to enlarge the amount of public funds provided by the United States for economic aid.

Of course, this support also is conditioned on the assumption that IDA will be operated in accordance with its articles of agreement and will not be used when financing is available from private sources or from public "bankable loan" institutions.

## BALANCE OF PAYMENTS

As indicated above, the present balance of payment situation has serious implications to our foreign trade policy. The following table shows the balance-of-payment position.

*Balance of payments*

[Billions of dollars]

	1956	1957	1958
Dollars paid by other countries to United States for:			
Goods and services United States sold to other countries (including income from investments).....	23.5	26.4	23.1
Other exchange earnings.....	1.2	1.3	.4
Total exchange earnings.....	24.7	27.7	23.5

In 1958 we earned \$4.2 billion less than in 1957; \$1.2 billion less than in 1956.

[Billions of dollars]

	1956	1957	1958
Dollars paid to other countries for:			
Goods and services sold to the United States.....	17.5	18.3	18.0
Private investment.....	3.0	3.2	2.9
Military expenditures overseas.....	2.9	3.1	3.4
Economic aid.....	2.3	2.6	2.6
Total exchange payments.....	25.7	27.2	26.9

In 1958 we spent \$300 million less than in 1957; \$1.2 billion more than 1956. The result, a gold or dollar outflow of \$3.4 billion in 1958 compared to an inflow of \$500 million in 1957 and an outflow of \$1 billion in 1956.

Although complete figures are not available for 1959, present information indicates a gold or dollar outflow for the first three quarters of \$3.1 billion. The total outflow for the year appears to have been approximately \$4 billion.

It is obvious that immediate steps must be taken to correct this deficit. Farm Bureau firmly believes that the sound, long-range, solution lies in expanded "dollar exports"—not in trade restrictions. This means that U.S. industry and agriculture must keep costs under control and prices competitive. It also means that the United States must insist that other countries promptly remove discriminations against imports of U.S. products. These discriminatory restrictions were originally instituted by other countries when they had balance of payment difficulties. For the most part this is no longer a valid justification and, under the trade agreements program and the General Agreements on Tariff and Trade, these countries have the obligation to remove the restrictions.

It is true that some progress has been made in this regard. However, there still remains numerous discriminatory restrictions against American exports. American agriculture especially has been placed at a serious disadvantage because of this situation. Unless more progress is made toward the goal of expanded U.S. exports, trade restrictions may very possibly win their fight to wreck American's trade agreements programs. Indeed, their success is almost assured unless we take prompt action to bring our international payments into better balance.

Expanded exports constitute a long-range program which cannot be achieved if at the same time the United States is applying greater import restrictions. This means that immediate action must be taken to reduce our dollar outflow.

Farm Bureau believes that this necessitates that other economically advanced countries assume more of the burden of the defense and development of the free world. This will make possible a reduction in the "dollars" expended by the United States and will contribute toward the solution of our balance of payments problem.

## FUNDS AVAILABLE FOR ECONOMIC DEVELOPMENT

In recent months, numerous additional sources of credit have been established for underdeveloped countries. Farm Bureau supported the increase in the U.S. quota to the International Monetary Fund of \$1,344 million. This brought the U.S. share to \$4,125 million. We supported the increase in the U.S. subscription to the World Bank from \$3,175 million to \$6,350 million. In 1955 we supported the establishment of the International Finance Corporation with an available capital of \$100 million.

We believe these institutions provide important sources of credit to the countries of the free world. Farm Bureau has given vigorous support to the Export-Import Bank. The Bank is now authorized to have loans and guarantees outstanding at any one time of \$7 billion.

During the last session, Congress authorized U.S. participation in the Inter-American Development Bank which was established to provide credit facilities of \$1 billion to Latin American countries. We understand that this is to be increased by \$500 million in 1962. The United States is authorized to contribute \$450 million toward this institution. The total U.S. contributions to these institutions amounts to \$17,960 million. In addition, the U.S. Congress has to date appropriated \$1,400 million, for the Development Loan Fund.

There is a limit to the amount of capital funds the U.S. Government can provide to other countries. Many believe that limit has already been reached. The administration is now proposing the International Development Association which is designed to provide initially \$1 billion for easy-term economic development loans. The United States will be expected to provide \$320,290,000 toward this institution when fully established, approximately \$73,666,700 the first year.

We understand that the purpose of this institution is to provide a mechanism through which other industrialized countries can share the burden of providing funds for economic development to underdeveloped countries. If this is the purpose, then it stands to reason that the Development Loan Fund—the present U.S. program for easy-term credit—should be reduced at least to the extent that the United States contributes to the International Development Association.

Therefore, Farm Bureau recommends that authorization for U.S. participation in IDA should be made only with the firm understanding that the present level of appropriation for the Development Loan Fund will be reduced by the amount of the appropriation necessary to fulfill the U.S. contribution to IDA. To illustrate: IDA will increase the available easy-term credit for underdeveloped countries by \$1 billion, approximately \$230 million the first year. The U.S. share of the total will be \$320 million. Appropriations of about \$74 million will be requested in fiscal year 1961. Fiscal year 1960 appropriation for the Development Loan Fund amounted to \$550 million. If this was reduced to \$476 million in fiscal year 1961, the United States would be maintaining its current level of providing funds for economic development and there would be at the same time a net increase of \$156 million easy-term credit available to underdeveloped countries.

## WORLD BANK

IDA as proposed would be an affiliate of the World Bank, administered in large part by the Bank's officers and staff.

The World Bank has established an excellent record for careful fiscal management and sound constructive use of funds. It has lent money to countries only under terms and conditions which made it realistic to expect repayment as prescribed. This has induced a fiscal discipline in some countries which in turn contributed substantially towards that country's economic development. Underdeveloped nations need a great deal more than the capital that can be provided through public funds. Private investment is essential. It is as unfair as it is unsound to indicate to such countries that loans for economic development will be provided regardless of the economic policies which these countries maintain. These international institutions are efforts to help countries help themselves. The capital should be provided under conditions and terms which induce countries to develop programs and adopt policies which are economically sound and which in the long run will contribute substantially to their development.

Easy-term credit can be a service to a country only when it is used as a means of making additional financing available through private investment or through established bankable loan institutions. Easy-term loans are an expedient and must be administered with caution and prudence. Otherwise, a disservice may be done to the recipient. If these principles are not applied to the

IDA, the sound constructive policies of the World Bank will not be maintained and this institution will be torn from the sound operating basis which has resulted in its past success.

## PUBLIC LAW 480

It has been proposed that part of the foreign currency acquired under Public Law 480 be turned over to IDA.

Under title I of Public Law 480, The Agricultural Trade Development and Assistance Act, the United States has sold for foreign currency tremendous quantities of agricultural surpluses. There is over \$2,574 million in foreign currency accumulated under this program that have been designated for economic aid. There is additional authorization for Public Law 480 which will generate more foreign currency which can be used for economic development.

There is presently no barrier for using such foreign currencies on projects which are partially financed by the World Bank or other bankable loans institutions. Indeed, we feel certain that there are many instances where this has been done. We do not see the necessity to turn such foreign currencies over to the IDA. Farm Bureau recommends that the United States maintain the control it now exercises over the disbursements of foreign currencies generated under Public Law 480.

AMERICAN MERCHANT MARINE INSTITUTE, INC.,  
Washington, D.C., March 16, 1960.

HON. BRENT SPENCE,  
*Chairman, Banking and Currency Committee,*  
*U.S. House of Representatives,*  
*Washington, D.C.*

DEAR MR. SPENCE: H.R. 11001, now before your committee, is a bill to provide for the participation of the United States in the International Development Association. The Association is a proposed billion dollar international lending organization which would operate as an affiliate of the International Bank for Reconstruction and Development. There is one aspect of this proposed organization, as discussed below, which we believe to be detrimental to the best interests of the United States. This aspect has not, to our knowledge, been analyzed or faced up to in any of the deliberations which have preceded the proposals now before Congress. For this reason we believe that careful consideration is indicated.

The objective of the proposed international lending association is to furnish a medium for providing developmental loans on terms which are more flexible than conventional loans available through the International Bank. It is, in effect, an international copy of our Development Loan Fund, and bears much the same relationship to the objectives and programs of the International Bank as does our Development Loan Fund to the objectives and programs of our International Cooperation Administration. We, of course, are in sympathy with such objectives.

The concept underlying an international approach to the financing of assistance for underdeveloped countries is a laudable one. We find that certain of those countries which the United States has helped to regain their own feet are now able to join with us in helping others. This is also reflected in other foreign assistance proposals such as the billion-dollar Indus Basin project contained in pending mutual security legislation. Such proposals create a picture that the burden of underwriting foreign assistance will now be shared. However, in the process of distributing this burden the funds which the United States would otherwise be administering in its own name would be relinquished for administration by an international association in lieu of the controls and procedures established by Congress for mutual security programs. Moreover, at least for the present, it would not appear that these international programs will result in any material lessening of the total outlay of funds required by the United States for foreign assistance overall. Thus, it may well be found that the primary accomplishment is the transfer to an international entity of the administration and control of U.S. foreign assistance funds. Whether the method of administration by such international entity is in the best interests of the United States is the question at hand.

This then is our concern. Under our bilateral mutual security programs U.S. labor and industry have benefited along with the recipient nations. During the early stages of our mutual security endeavors almost all procurement was obtained from the United States. The favorable condition has dwindled steadily

until at present less than half of our mutual security expenditures result in procurement from the United States. It is a well known fact that this has had its effect on our balance of payments, and that in recent months it has been necessary to take administrative steps to slow down the almost 100 percent offshore procurement which was taking place under the development loan programs. Since this situation has developed under conditions where the United States has had control over its own assistance funds, we feel sure our concern can be readily understood that, lacking some direction from Congress over the use of U.S. funds contributed for international lending, there will be little or no procurement from the United States.

An examination of the "Articles of Agreement" of the International Development Association reveals that any U.S. control over the use of U.S. funds is not only not intended, but it is specifically precluded. The United States, which would be contributing 32 percent of the capitalization of the Association, and over 40 percent of the total contribution of all participants in unrestricted funds, is asked to make all of its contribution in unrestricted funds. On the other hand, those nations which are making token contributions for the purpose of sharing in the benefits of the Association may place restrictions on the use of their funds up to 90 percent of their contribution. Moreover, article V(f) of the agreement, concerning the use of resources, provides as follows:

"(f) The Association shall impose no conditions that the proceeds of its financing shall be spent in the territories of any particular member or members. The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these Articles, including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor."

The above recognizes the restrictions which may be put on the use of funds by small contributors, but prohibits the imposition of conditions by the United States and some others.

The U.S. shipping industry, together with its thousands of personnel, has been one of the many U.S. industries which has benefited from our mutual security programs. As a related aspect of these programs the Congress has provided that 50 percent of the commodities or materials procured with Government assistance funds shall be moved overseas by U.S.-flag commercial vessels. There will be little or no such opportunity for U.S.-flag ships to participate in the programs of the International Development Association as presently conceived. We will, in fact, be hit two ways. First, the relinquishment of all control to the international Association will mean less overall procurement from the United States; and second, we will lose the reasonable participation (which Congress has assured to us) in the ocean transportation of such reduced procurement as may be made from the United States, even though such procurement is made with U.S. contributed funds.

The above considerations reflect a very serious problem, and we would urge that every effort be made to develop some protection for U.S. industry and labor affected. We are not opposed to the concept of multilateral assistance as such. We do believe, however, that some method must be developed whereunder a reasonable proportion of the financial outgo for such multilateral programs can be kept under the control and direction of the United States, and utilized in accordance with policies adopted by the United States for its own foreign assistance programs.

Sincerely yours,

ALVIN SHAPIRO.

P.S.—It is requested that this letter be included in the record of this legislation.  
A. S.

NATIONAL COUNCIL OF FARMER COOPERATIVES,  
*Washington, D.C., March 16, 1960.*

Re H.R. 11001.

HON. BRENT SPENCE,  
*Chairman, Subcommittee No. 1, House Banking and Currency Committee,  
Washington, D.C.*

DEAR MR. SPENCE: The National Council of Farmer Cooperatives, which is composed of approximately 5,000 farmer cooperative business organizations engaged in marketing farm products and producing farm production supplies, desires to support the principles contained in H.R. 11001 relating to the establishment of the International Development Association.

The farmers of this country have a very great stake in the improvement of economic conditions in underdeveloped countries. It is our belief that constructive efforts to bring about better balanced economies in such countries and the development of sound methods by which their citizens eventually may approach the level of purchasing power found in the more developed areas is good not only for them but for the rest of the world as well.

As one reason for our support we have become somewhat concerned that continued accumulation of soft currencies under the Public Law 480 program may lead to an unused surplus of those currencies which can, in some respects, become almost as embarrassing as the continued accumulation of unneeded surplus commodities. We hope we can avoid both types of accumulation and we are pleased to see that one of the stated objectives of the proposed International Development Association is to provide the means for greater utilization of such currencies.

We also are pleased to note that the underdeveloped countries, as well as the more developed areas, will be participants in important ways in the financing and constructive operation of the Association, and that it will be under the management of the International Bank, which has proven its capability in the field of financing worthwhile projects in underdeveloped areas. We think that one byproduct of the participation by such countries is that the accelerated use of many soft currencies may well be a strong contributing factor to increasing convertibility and acceptance.

We have on many occasions laid great emphasis upon our belief that maximum use must be made of private investment capital in underdeveloped areas and we are pleased to see that the Association has as one of its objectives supplementing and facilitating such private investment. It would be our hope that the loan program could be directed toward the development of those basic facilities in underdeveloped areas which in themselves would not attract private investment but which would greatly facilitate the use of such investment for corollary purposes.

There has been much interest from time to time in a number of countries, and among certain groups in this country, for development of such organizations as SUNFED within the United Nations. We have consistently and vigorously opposed such an approach and will continue to do so on the basic grounds that economic development in the underdeveloped areas can best be achieved through the utilization of know-how by people trained in business, finance, and economics rather than by those most greatly influenced by political considerations of an international nature. We would hope that, while the International Development Association might be brought into an area of cooperation with applicable United Nations agencies, every care should be taken to see that its active management and control remains with the International Bank and that its objectives remain economic rather than political.

It will be greatly appreciated if our views as stated above may be incorporated in the hearing record of your committee.

Sincerely,

HOMER L. BRINKLEY,  
*Executive Vice President.*

NATIONAL GRANGE,  
*Washington, D.C., March 16, 1960.*

Re: Grange support in principle of H.R. 11001

HON. BRENT SPENCE,  
*Chairman, Subcommittee No. 1, House Banking and Currency Committee,*  
*Washington, D.C.*

DEAR MR. CHAIRMAN: The National Grange supports in principle H.R. 11001, which provides for U.S. membership in the proposed International Development Association. The IDA will be an affiliate of the International Bank. This bank, we believe, has made an impressive global record in the furtherance of the economic development of many countries. The resources of the International Bank have been applied skillfully, with the view toward improving the economic base of the borrowing country. In addition, Bank technicians provide valuable services to these countries in connection with specific development problems and also in the consideration of broad economic questions.

It is our opinion that the Bank is achieving these results in a manner consistent with the best interests of the United States. The importance of U.S. participation and leadership, too, in the International Bank is widely



recognized and gives proof to the genuine interest within this country in working with all free peoples cooperatively for economic advancement and mutual well-being.

The strength of the free world depends in a very real way on the balanced growth of mutually advantageous international trade and private investment. The achievement of this growth requires the constant attention of all countries. Primary reliance must be placed upon private enterprise which produces the soundest and most enduring benefits for all. It is in the self-interest of the economically strong nations that they support and assist the less developed countries of the free world. The International Bank, which brings together 68 nations in every stage of development and from all regions, is a primary hub around which the countries of the free world work together to promote economic growth and development. The Bank does not compete with private capital. It devotes its resources to projects which open the way for more private opportunities. It relies primarily upon the private capital markets for its own resources and in this way serves to increase the effective amount of private capital available to the less developed countries.

The International Development Association, meanwhile, under the terms of its articles of agreement, may make its resources available only when private capital is not available on reasonable terms, and in addition, only when financing could not be provided by a loan of the type made by the Bank itself.

The proposal for an International Development Association grew out of the recognition that credit needs for sound development cannot in certain significant cases be met by the International Bank. The Bank has the experience and the technical know-how to do more in this field, but its resources can be made available only on terms related to private capital market terms. A need was seen, therefore, for a new institutional arrangement, financially separate from the International Bank but governed by the same officers and served by the same staff. Broad international acceptance of the proposal grew, and the detailed arrangements have been set forth in the articles of agreement of the IDA.

Essential to the success of the proposal is the readiness of the other industrialized nations of the free world to provide an important and equitable portion of the resources of the IDA. These resources will be provided from government budgets. The negotiations which have been completed so successfully demonstrate that the burden which the United States has borne almost alone is now to be taken up in part by others. We hope that this new and responsible action through the IDA will mark only the beginning.

The National Grange has in the past made clear its belief that the achievement of a nation's own aspirations is basically its own responsibility. Assistance in achieving economic progress, if it is to be effective and if genuine results are to be obtained, should be dependent upon a firm desire and determination by the recipient nation to help itself within the limits of its capabilities. This concept is well embodied in the IDA proposal. All member countries will subscribe to its initial resources. The economically less developed members have subscriptions totaling about \$237 million, 10 percent of which will be in the form of gold or convertible currencies and 90 percent in their own national currencies. The convertible currency portion will be made available to the IDA on the same basis as the total subscriptions of the economically stronger members: for use in connection with IDA projects in any member territory. The national currency portion of the subscriptions of less developed members may be used by the IDA for the purchase of goods and services for development projects within the subscribing member's country, and, with the agreement of the subscribing member, for projects in other countries. The principle of self-help is, therefore, an essential feature of the IDA.

American farm producers recognize the importance of the sale of agricultural commodities for foreign currencies under Public Law 480. The more effectively such foreign currencies are used, the greater will be the effectiveness of the Public Law 480 program, and the greater the benefit to the United States. In this connection the National Grange has urged that still greater use of such currencies be made directly for market development programs for the benefit of American agriculture. More broadly, however, we believe that the careful use of these currencies through an international institution for the promotion of economic development in many fields of endeavor will result in higher world trade and in higher consumption generally. The provision in the IDA articles which will permit the United States to make some of these currencies available

as supplementary resources is consistent with the objectives of the Public Law 480 program. IDA thus represents an additional outlet for such currencies as are allocated for economic development purposes. The use by IDA of these currencies will help conserve its hard currency resources which is, of course, of direct importance to the United States as well as to other member countries.

The IDA, through its ability to make its resources available on flexible terms, will be able to work with countries in especially critical financial positions which have heretofore been able to obtain little, if any, international financing. In addition, IDA will be enabled to provide an important margin of assistance to its members whose foreign indebtedness weighs especially heavy, or who need special assistance for development projects which might not themselves quickly yield monetary returns, but which provide opportunities for important productive enterprises. Its close affiliation with the International Bank provides adequate assurance that the resources of IDA will complement those of the International Bank. This affiliation will also permit the two institutions to undertake joint operations.

We believe the IDA will be an effective new institution which will meet needs of the most pressing character in the less developed areas. IDA is imaginative in concept, and is well suited to demonstrate the confidence of the economically stronger nations of the free world in the capabilities of the weaker nations and to demonstrate our continued sympathy with and support for their aspirations. The objectives and purposes of the IDA are fully consistent with our own foreign economic policies. These policies are and must always be founded on the conviction that individual initiative within a framework of free institutions will best serve society. The IDA will provide greater opportunities to less developed areas for economic advancement based on these principles. U.S. leadership in the IDA will further emphasize our awareness of their needs.

For these and other reasons, the Grange urges you and the members of your committee to recommend to the Congress that it approve the idea of the International Development Association along the lines spelled out in H.R. 11001.

Respectfully yours,

HERSCHEL D. NEWSOM, *Master.*

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.,  
DEPARTMENT OF INTERNATIONAL AFFAIRS,  
New York, N.Y., March 21, 1960.

The COMMITTEE ON BANKING AND CURRENCY,  
*Care of Hon. Brent Spence, Chairman,*  
*House of Representatives, Washington, D.C.*

GENTLEMEN: This letter is for the record in your committee's hearings on the proposal for the International Development Association.

This statement has been authorized by the responsible officers of the National Council of Churches and is based upon the official policies and practices of the council.

In presenting statements to Government agencies, the National Council of Churches never presumes to speak for each of the 33 constituent denominations nor for each of their more than 38 million members. We do present official positions adopted by the general board or the general assembly, which are its policy-making bodies. These positions are arrived at through careful study and deliberation by the official representatives of the constituent denominations.

The National Council of Churches does not seek to express its approval or disapproval of specific congressional bills. It presents the principles expressed in its official statements of policy which are most relevant to specific proposals.

The position of the National Council of Churches on issues involved in the proposal for the International Development Association are as follows (principles of special relevance are underlined for this presentation):

"As Christians we feel compelled to give our special support to the further development of foreign economic policies of the United States which will reflect our interest in man's welfare in other countries as well as our own. We believe that constructive policies of international aid and trade are essential to the creation of conditions of peace with justice and freedom.

"The natural wealth of the world and the capacity to transform raw materials into desirable goods are not evenly distributed among nations. Our own country is richly endowed and highly developed. Some countries may be able to produce

many commodities efficiently but have shortages in other essentials. Still other lands have such a low level of production that most of their citizens live in poverty, disease and illiteracy. These nations are all in our world and their people are all in God's concern. As Christians, we cannot help but be distressed by human misery and misfortune wherever it may be, and seek appropriate ways by private and public means to promote the welfare of our fellowmen.

\* \* \* \* \*

"We recognize that trade alone will not enable underdeveloped countries to realize their potentialities for economic growth and social progress including freedom. Both private and public aid, in the form of technical cooperation and capital, is indispensable. Assistance on long-time capital loans on favorable terms and capital grants, on a more limited basis, will be needed over a long period of time to enable such areas to establish their own economies and their place in the world market. Greater use should be made of international agencies, such as the United Nations and regional organizations. Technical and economic aid, while related to other parts of foreign policy, should not be primarily for political and military considerations, but for the purpose of helping people to meet economic and social needs and opportunities."

The above excerpts from "International Aid and Trade," a statement of policy adopted by the general assembly of the National Council of the Churches of Christ in the U.S.A. December 1-6, 1957. That was the last meeting of our general assembly which meets triennially. Subsequent votes of the general board and authorized activities of our department of international affairs in both education and action have carried forward this general position.

At the present time, our cooperating churches are conducting a nationwide program of education and action for peace across the 50 States of our land, and one of the major emphases is on world economic development, dealing with the specifics of mutual aid and trade. There has been much discussion in this program, under the aegis of the department of international affairs, of the proposal for the International Development Association and firsthand observers report that the reaction has been universally favorable to such an undertaking after the matter has been clearly presented and fully discussed. It is our conviction that through and following this program there will be increasing support among the people of our churches for improved, expanded programs for world economic development including various kinds of constructive mutual aid and trade.

We trust that this statement of official positions, of some of our educational work in this field, and of firsthand observations among our constituency across the United States will be of value to your committee in its important deliberations and action on the proposed International Development Association.

Sincerely yours,

KENNETH L. MAXWELL,  
*Executive Director.*

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.,  
UNITED CHURCH WOMEN,  
New York, N.Y., March 21, 1960.

Congressman BRENT SPENCE,  
*Chairman, House Banking and Currency Committee,*  
*House of Representatives Office Building,*  
*Washington, D.C.*

DEAR SIR: In view of the fact that hearings are being held on H.R. 11001 providing for U.S. participation in the International Development Association, I would like to bring to your attention a resolution which was adopted recently by the administrative committee of the United Church Women.

United Church Women, a general department of the National Council of the Churches of Christ in the U.S.A., has 2,300 local and State councils made up of women representing the 33 affiliated denominations.

The Christian World Relations Advisory Committee, after study of the proposed International Development Association, recommended support for U.S. participation. The administrative committee, made up of our national leaders, at their meeting on February 3, 1960, adopted the following resolution:

"Remembering that United Church Women has repeatedly endorsed programs timed toward economic development,

"Noting the new emphasis on cooperative responsibility among the industrialized countries in carrying forward new programs to promote economic development,

"The advisory committee asks the administrative committee to endorse the ratification by the Senate of the International Development Association as part of this new planning,

"To take note of this changing emphasis to a long-term attack on poverty through assistance to promote economic growth in the low-income areas of the non-Communist world,

"And to urge local councils to help create the public opinion to shift from an attitude of philanthropy to one of sharing and widespread understanding of the need for greatly increased assistance in cooperation with other countries to meet human need in the developing areas of the world."

United Church Women, over a period of years, has studied the problems of the less developed areas, has published a pamphlet and a leaflet on this subject, and has made available through the pages of its monthly magazine many articles on related questions. An article on the International Development Association appears in the magazine which is now in the hands of 35,000 local chairmen and officers.

The above resolution is in line with action which has been taken by United Church Women consistently in support of measures to promote economic growth.

I believe that the resolution adopted by the administrative committee of United Church Women fairly interprets the informed opinion of women in the churches affiliated with the local councils in every State. It is hoped that support of the International Development Association by the House Banking and Currency Committee will be forthcoming and that every effort will be made for the speedy adoption of H.R. 11001.

Thanking you for the consideration of the position expressed in the resolution adopted by the administrative committee of the United Church Women, I am,

Sincerely yours,

ESTHER W. HYMER,  
*Director, Christian World Relations.*

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PACIFIC AMERICAN STEAMSHIP ASSOCIATION,  
*San Francisco, Calif., March 22, 1960.*

Re H.R. 11001: International Development Association.

HON. BRENT SPENCE,

*Chairman, Committee on Banking and Currency,  
House of Representatives, Washington, D.C.*

DEAR MR. SPENCE: As spokesman for the Pacific Coast American-flag steamship industry, I write to alert you and your colleagues on the Banking and Currency Committee to the need for some measure of continued participation of U.S.-flag vessels in the cargo generated through the medium of the International Development Association.

Mr. Alvin Shapiro, vice president of the American Merchant Marine Institute, wrote you in similar vein on March 16 and we subscribe to his analysis of the situation.

It goes without saying that as the United States shifts its foreign aid programs into multinational schemes, of which the International Development Association is only one, that the purchasing of cargo and the routing of cargoes is one step removed from control of our own Government. It seems to us that this type of "hands off" policy as regards country of purchase and control of cargo routings is detrimental to the best interest of the United States. The industry that I represent and a host of other industries are deeply affected by the loss of control over our foreign aid programs. We would urge that every effort be made to preserve some measure of U.S. participation in the purchasing and routing of cargoes that might be generated under this new scheme.

If possible, I would like to have this letter inserted into the record on H.R. 11001.

Very truly yours,

RALPH B. DEWEY.

THE UNITED CHRISTIAN MISSIONARY SOCIETY,  
Indianapolis, Ind., March 18, 1960.

HON. BRENT SPENCE,  
Chairman, House Banking and Currency Committee, House Office Building,  
Washington, D.C.

DEAR MR. SPENCE: I understand that your committee is presently considering legislation which would permit U.S. participation in the International Development Association. The principles upon which IDA is promulgated have frequently been endorsed by the International Convention of Christian Churches (Disciples of Christ). Therefore, we write to support in principle an organization such as IDA.

IDA would do several things in the field of international economic development that seem to us desirable. First of all, it provides long-term, low-interest loans to the underdeveloped areas of the world. Secondly, the multilateral nature of the program appeals to us. The participation of all of the countries associated with the World Bank in IDA will make it possible to give badly needed assistance without some of the cold war complications that are inherent in bilateral foreign aid program.

In 1954 our international convention meeting in Miami passed a resolution containing the following statement on world economic development:

"1. We recommend to the U.S. Government that it maintain and strengthen the original idea of technical assistance carried out apart from defense measures and department and that such a program be conceived as a long-term effort rather than as an emergency measure.

"2. We strongly favor the multilateral technical assistance program of the United Nations and urge our Government to provide it with increasingly financial support."

Our convention meeting in St. Louis in 1958 said on the subject of world economic development:

"*World economic development.*—The economic development of underprivileged areas is one of the ways in which poverty may be lessened in the world. Technical assistance programs which aid in lifting levels of technological skill may be of real help in improving the life of the people of the underdeveloped areas. Capital funds in the form of grants or loans are often needed to realize the greatest benefit from economic development programs. In many instances multilateral programs of economic assistance are to be preferred over bilateral arrangements. There is certainly no general rule at this point, however. Two things which seem certain—economic assistance programs should be separated from military aid and development programs; and that assistance should be granted with only such stipulations attached as are designed to see to it that assistance reaches people who are actually in need, rather than political fortune-hunters. The use of such economic programs as diplomatic weapons is to be deplored."

In closing we would like to urge your most serious consideration of U.S. participation in the International Development Association.

Cordially,

ROBERT A. FANGMEIER,  
National Director, Christian Citizenship.

WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM,  
Washington, D.C., March 18, 1960.

HON. BRENT SPENCE,  
House Committee on Banking and Currency,  
House Office Building, Washington, D.C.

DEAR MR. SPENCE: The Women's International League for Peace and Freedom wishes to file the enclosed statement in the record of the hearings on the participation of the United States in the International Development Association.

Sincerely yours,

MRS. ANNALEE STEWART,  
Legislative Secretary.

STATEMENT OF THE WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM  
IN SUPPORT OF H.R. 11001, TO PROVIDE FOR THE PARTICIPATION OF THE UNITED  
STATES IN THE INTERNATIONAL DEVELOPMENT ASSOCIATION

The U.S. section of the Women's International League for Peace and Freedom supports H.R. 11001, providing for participation of the United States in the International Development Association. Our support is based on our belief that participation in the economic growth of the less-developed countries is a tangible expression of humanitarian ideals and is in the interest of our country's own continued economic growth. For these reasons we are happy to see opened this avenue of aid which is more nearly free from political implications than bilateral aid can be, and which helps to satisfy the need for development loans on more flexible terms than are provided by other international institutions. We note also that the absence of "buy American" restrictions on the initial subscriptions will enable this agency to contribute to a healthier international trade situation. The close affiliation with the International Bank for Reconstruction and Development should enable the Association to impose conditions of sound economic policy in connection with its loans, without danger that these conditions will be misinterpreted as "political strings."

We have one important reservation concerning the International Development Association. This is the limitation of membership to the so-called free world nations, a fact not practically guaranteed by certain provisions of the Articles of Agreement and emphasized by the President and the National Advisory Council in their introduction of the Articles of Agreement. We regret that, at a time when urgent efforts are being made to end the cold war in the military field, it should be built into an important international economic institution. That most of the participating countries would have preferred a world body rather than a "free world" body is shown by the overwhelming vote for a United Nations Capital Development Fund at the last session of the U.N. General Assembly (63 for and 12 abstaining). We understand the desire of the major capital exporting nations to have a greater voice in the Association than they would have had in the U.N. Fund, but regret that the door should be closed in advance to the Russian bloc.

We are pleased to note that the Articles of Agreement make no mention of an ideological limitation of memberships and that the expected membership embraces democratic governments and authoritarian governments of the right and left, as well as many politically undeveloped countries not yet enjoying the attributes we associate with a free society. We think this is proper because it is our belief, based on recent history, that economic development itself will prepare the way for, and generate, social forces compelling governments to grant wider participation in government and greater individual freedom of choice. Many scholars and research groups have pointed to the desirability of treating economic development as a goal in its own right and not as a political weapon. The door should be kept open for the Soviet Union to join in this task if and when it is ready. Furthermore, we doubt that acceptance by the American people requires that an association of this kind be made to appear as a coalition of democratic nations.

While calling attention to this serious defect in its structure, which we hope may be corrected, we nevertheless support U.S. participation in the International Development Association.

(Whereupon, at 11:45 a.m., the subcommittee adjourned, to reconvene at the call of the Chair.)

STATEMENT OF THE WORKING GROUP ON THE REVISION OF THE...  
TO BE SUBMITTED TO THE BOARD OF EXECUTIVE DIRECTORS...

The Working Group on the Revision of the...  
has completed its work and is pleased to submit to the Board...  
the following report...

**RETURN TO**  
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The Working Group on the Revision of the...  
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the following report...

Washington, D.C., 1961

*Files*

INTERNATIONAL FINANCE CORPORATION

FROM: THE SECRETARY

Date

APR 22 1960

SecM

60-70

D I S T R I B U T I O N

Directors and Alternates

President

Vice President

Director of Investments

Engineering Adviser

Chief Accountant Adviser

Assistant Director of Investments

Assistant for Public Affairs

Legal Department



*Smith*

# INTERNATIONAL DEVELOPMENT ASSOCIATION

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## HEARINGS

BEFORE THE

### COMMITTEE ON FOREIGN RELATIONS

### UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

SECOND SESSION

ON

### S. 3074

TO PROVIDE FOR THE PARTICIPATION OF THE  
UNITED STATES IN THE INTERNATIONAL  
DEVELOPMENT ASSOCIATION

—————

MARCH 18 AND 21, 1960

—————

Printed for the use of the Committee on Foreign Relations



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1960

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<sup>1</sup> Chairman emeritus.

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# INTERNATIONAL DEVELOPMENT ASSOCIATION

FRIDAY, MARCH 18, 1960

U.S. SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
Washington, D.C.

The committee met, pursuant to call, at 10:35 a.m., in the Foreign Relations Committee room, room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright (chairman), Green, Sparkman, Lausche, Church, Aiken, Carlson, Williams.

## CHAIRMAN'S OPENING STATEMENT

The CHAIRMAN. The committee will come to order.

The hearing this morning is on S. 3074, which I introduced on February 19, 1960, and which provided for the participation of the United States in the International Development Association.

(S. 3074 is as follows:)

[S. 3074, 86th Cong., 2d sess.]

A BILL To provide for the participation of the United States in the International Development Association

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## SHORT TITLE

SECTION 1. This Act may be cited as the "International Development Association Act".

## ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the International Development Association (hereinafter referred to as the "Association"), provided for by the articles of agreement (hereinafter referred to as the "articles") of the Association deposited in the archives of the International Bank of Reconstruction and Development.

## GOVERNOR, EXECUTIVE DIRECTOR, AND ALTERNATES

SEC. 3. The Governor and Executive Director of the International Bank for Reconstruction and Development, and the alternate for each of them, appointed under section 3 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286a), shall serve as Governor, Executive Director, and alternates, respectively, of the Association.

## NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

SEC. 4. The provisions of section 4 of the Bretton Woods Agreements Act, as amended (22 U.S.C. 286b), shall apply with respect to the Association to the same extent as with respect to the International Bank for Reconstruction

and Development and the International Monetary Fund. Reports with respect to the Association under paragraphs (5) and (6) of subsection (b) of section 4 of said Act, as amended, shall be included in the first report made thereunder after the establishment of the Association and in each succeeding report.

#### CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

SEC. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States, (a) subscribe to additional funds under article III, section 1, of the articles; (b) accept any amendment under article IX of the articles; or (c) make a loan or provide other financing to the Association, except that loans or other financing may be provided to the Association by a United States agency created pursuant to an Act of Congress which is authorized by law to make loans or provide other financing to international organizations.

#### DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Association shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

#### PAYMENT OF SUBSCRIPTIONS

SEC. 7. (a) There is hereby authorized to be appropriated, without fiscal year limitation for the subscription of the United States to the Association, \$320,290,000.

(b) For the purpose of keeping to a minimum the cost to the United States of participation in the Association, the Secretary of the Treasury, after paying the requisite part of the subscription of the United States in the Association required to be made under the articles, is authorized and directed to issue special notes of the United States from time to time, at par, and to deliver such notes to the Association in exchange for dollars to the extent permitted by the articles. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection, but such notes shall bear no interest, shall be nonnegotiable, and shall be payable on demand of the Association. The face amount of special notes issued to the Association under the authority of this subsection and outstanding at any one time shall not exceed, in the aggregate, the amount of the subscription of the United States actually paid to the Association under the articles.

(c) Any payment made to the United States by the Association as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

#### JURISDICTION AND VENUE OF ACTIONS

SEC. 8. For the purpose of any action which may be brought within the United States, its possessions, or the Commonwealth of Puerto Rico, by or against the Association in accordance with the articles, the Association shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity to which the Association shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action. When the Association is a defendant in any such action, it may, at any time before the trial thereof, remove such action from a State court into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

#### STATUS, IMMUNITIES, AND PRIVILEGES

SEC. 9. The provisions of article VII, section 5(d), and article VIII, section 2 to 9, both inclusive, of the articles shall have full force and effect in the United States, its possessions, and the Commonwealth of Puerto Rico, upon acceptance of membership by the United States in, and the establishment of, the Association.

The CHAIRMAN. The bill was submitted to the Congress by the President on February 18, 1960. The message from the President and the special report of the National Advisory Council on International Monetary and Financial Problems, together with the articles of agreement of the International Development Association, are printed in House Document 345, copies of which are before members of this committee.

Much of the credit for the legislation before us for consideration belongs to the junior Senator from Oklahoma, Mr. Monroney, whose name is attached to the resolution which stimulated the discussion that culminated in the International Development Association.

I may say that originally this subject was considered in the Banking and Currency Committee. It is therefore with particular pleasure that I welcome the Senator as our first witness this morning. He will be followed by Assistant Secretary of the Treasury Upton, and the Under Secretary of State, Mr. Dillon.

On Monday, March 21, the remaining witnesses will be heard.

Before the first witness starts, I will ask that the text of Senate Resolution 264 be printed in the record at this point.

(S. Res. 264 is as follows:)

[S. Res. 264,<sup>1</sup> 85th Cong.]

*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.

Senator Monroney, we are very pleased to have you, since you are the father of this legislation. I hope it has a very long and lusty life.

You may proceed.

#### STATEMENT OF HON. A. S. MIKE MONRONEY, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator MONRONEY. Thank you, Mr. Chairman and members of the committee, I sincerely appreciate your invitation to appear as the first witness on the bill to authorize the President to accept membership for the United States in the International Development Association.

I also wish to thank you for the promptness with which you have moved to take up the consideration of this authorizing legislation. I most strongly recommend that the committee favorably report the bill.

<sup>1</sup> Monroney resolution.

## STUDY OF THE NATIONAL ADVISORY COUNCIL

As the members of the committee, and particularly its distinguished chairman, are well aware, the International Development Association is the result of a study by the National Advisory Council on International Monetary and Financial Problems, undertaken in response to Senate Resolution 264 of the 85th Congress, which was introduced by me on February 24, 1958.

Under the practice then current in the Senate, the resolution was referred to the Committee on Banking and Currency, and hearings were held in March of 1958 by the Subcommittee on International Finance, of which I was then chairman. The resolution was amended and then favorably reported to the Senate by the full Committee on Banking and Currency on July 12, 1958.

## FAVORABLE VOTE BY SENATE ON S. RES. 264

The extent to which members of this committee were consulted in preparing the resolution to be reported and their attitude toward the proposal is best indicated by the fact that when reported to the Senate floor, the distinguished chairman, now chairman of the Foreign Relations Committee, and five members of this committee were listed as cosponsors. The resolution was extensively discussed on the Senate floor and adopted on July 23, 1958, by a vote of 62 to 25.

## OBJECTIVES OF THE IDA

The resolution recognized the desirability of promoting a greater degree of international development by means of multilateral loans. It called on the National Advisory Council to study the feasibility of an International Development Association as an affiliate of the International Bank for Reconstruction and Development, keeping in mind the following objectives:

- (1) Providing a source of long-term loans repayable wholly or partly in local currencies to supplement the World Bank's lending activities and permit consideration of projects which might not otherwise be financed;
- (2) Facilitating the use of local currencies, including those foreign currencies available to the United States through the sale of agricultural surpluses; and
- (3) Most importantly, insuring that the funds for economic development be made available through a process which would encourage multilateral contributions to this effort.

## DEVELOPMENT OF THE IDEA BY SECRETARY ANDERSON AND UNDER SECRETARY OF STATE DILLON

It is perhaps IDA's best recommendation that Secretary Anderson and Under Secretary of State Dillon, the two men who have been largely responsible for the development of the proposal before you today, expressed in their initial comments to the Committee on Banking and Currency considerable skepticism as to its feasibility. That they now appear as its advocates is evidence both of the soundness of the proposal and of their own objectively in analyzing it.

Let me say further, there would not have been an IDA had it not been for the efforts made by Secretary Anderson and Under Secretary of State Dillon. Well before consideration of IDA by the World Bank, they undertook to stimulate support among both the nations that will supply the capital and those who perhaps will be applying for loans under its provisions.

Both of these men spent many months traveling overseas to other international meetings, such as that of the International Monetary Fund, and took time out to go around to talk to the finance ministers of various other countries and get their views.

#### ARTICLES OF AGREEMENT

It is not my intention to deal in any detail with the provisions of the articles of agreement, which the bill before you would authorize our Government to accept, because you will hear other witnesses better qualified to perform this service. I have studied these articles of agreement and have followed as best I could the consultations with other governments which led to their submission by the executive directors of the International Bank. I regard the articles as an impressive accomplishment.

There are provisions of the articles of agreement which are different from those I would have preferred. I believe that the same thing could be said by Secretary Anderson and Under Secretary Dillon, and also by the representatives of every other sovereign nation who participated in their drafting.

The articles are necessarily the result of compromise and consultation between nations with differing points of view on specific questions of organization and operation. I believe, however, that the committee will conclude after these hearings that these compromises sacrificed none of the basic objectives suggested by the Senate in Resolution 264.

#### PROMPT ACTION URGED

I would respectfully suggest to this committee that the initiative in this matter originally having come from the Senate, and the United States having proposed the Association to the other members of the Bretton Woods institutions, it is extremely important that the Senate and the Congress not only act favorably but act promptly if this useful institution is to become a reality.

#### PURPOSE OF THE IDA

The International Development Association was proposed in the conviction that the economic growth of less-developed nations is not the sole responsibility of the United States, but the mutual responsibility of all free nations to the extent of their capability to contribute to that development; that such mutuality of effort, such sharing of a common burden, can only be achieved through an international financial institution; that existing institutions are not sufficiently flexible to meet the world's pressing needs. It was conceived in a spirit of optimism and responsible generosity.

Joined in this conviction, administered in this spirit, I sincerely believe that it will contribute to a world in which man is at peace with his neighbor and his conscience.



I thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Monroney. Do you feel that the size of this organization's resources as proposed in this legislation is adequate?

#### MEASURES FOR ADDING TO INITIAL CAPITAL OUTLAY

Senator MONRONEY. As the distinguished chairman and members of the committee know, I had hoped that the capital in hard currency would be somewhere in the neighborhood of \$2 billion instead of the \$1 billion that is provided in the charter. However, I believe that you would have had no international agreement if it had been required that \$2 billion be put up by the nearly 70 member nations of the World Bank.

This difficulty of lack of initial capital, I believe, is compensated for by the provision in the charter which will allow the more prosperous nations to contribute in excess of their required quotas, which are in the same percentage as their quota membership in the World Bank. These nations, who are richer now than they were when the World Bank was formed, can purchase debentures or can make capital injections for specific purposes and for specific loans from their additional funds which they can choose to deposit with the World Bank.

#### VOTING RIGHTS NOT INCREASED BY ADDITIONAL CAPITAL INVESTMENT

We have an excellent situation, I think, in that the voting rights are not going to be dominated by the United States because we have doubled or trebled our capital investment in IDA. It still will retain its international complexion where nearly 70 members of the World Bank have the same voting rights (in the subsidiary IDA) that they traditionally have had in the World Bank. The richer nations can add additional capital as it is found to be needed without increasing their voting rights.

Obviously, it is not all going to be needed the first year or the first year and a half.

The CHAIRMAN. You note, of course, that this money must be raised by appropriations rather than by borrowing?

Senator MONRONEY. Yes.

The CHAIRMAN. You feel optimistic about obtaining these authorized appropriations from the Congress?

#### INTERNATIONAL RATHER THAN BILATERAL LENDING

Senator MONRONEY. I would feel that if we look at the long pull of the continuing requirement for development aid, this will offer a great opportunity for a businesslike handling of true international lending rather than the huge grants-in-aid or even a larger amount of bilateral lending necessary if the United States had to go it alone. In other words, in this project we have the help of 67 parties, each contributing what it can.

It marks a departure since it provides a mechanism which can perhaps grow to supplant the huge load that Uncle Sam has had to carry almost alone since the end of World War II. It can help to spread that load to the other nations who are members of the World Bank.

These members can provide some of the capital and take some of the responsibility for the necessary development in these underdeveloped areas.

The CHAIRMAN. Senator Green, do you have questions?

Senator GREEN. No; I have no questions. I am sorry to have been late and I have not heard all of the testimony.

The CHAIRMAN. Senator Aiken.

Senator AIKEN. No.

The CHAIRMAN. Senator Sparkman.

#### SPACING CAPITAL INVESTMENT

Senator SPARKMAN. Probably this question should be put to one of the later witnesses, but I notice section 7 says, "There is hereby authorized to be appropriated without fiscal year limitations for the subscription of the United States to the association, \$320,290,000."

I wonder over how long a time that appropriation is contemplated? In other words, is it anticipated that all of that will be made the first year by the United States? Will that be a downpayment?

Senator MONRONEY. No; it is divided. The United States pays a certain amount in the first year. It is carried in the report. The initial U.S. subscription payment in 1961 will total \$73,666,700.

Senator SPARKMAN. I see that now.

Senator MONRONEY. The figure you gave is the total through 1965.

Senator SPARKMAN. Yes; I had not seen the breakdown in the report. It is given on page 7 of the report.

Senator MONRONEY. Yes; and this will allow us to space our capital investment in the stock and the capital of the International Development Association.

Senator SPARKMAN. Mr. Chairman, I would like to suggest that the table given on page 7 be printed as part of the hearings, because I think it is clarifying.

The CHAIRMAN. All right. The reporter will do that.

(The table referred to follows:)

TABLE.—*International Development Association: U.S. subscription payments*

[In U.S. dollars]

Installments and fiscal years	10 percent portion (1)	90 percent portion (2)	Total (3)
I—1961.....	<sup>1</sup> \$16,014,500	<sup>2</sup> \$57,652,200	<sup>3</sup> \$73,666,700
II—1962.....	<sup>2</sup> 4,003,625	<sup>4</sup> 57,652,200	<sup>6</sup> 61,655,825
III—1963.....	<sup>2</sup> 4,003,625	<sup>4</sup> 57,652,200	<sup>6</sup> 61,655,825
IV—1964.....	<sup>2</sup> 4,003,625	<sup>4</sup> 57,652,200	<sup>6</sup> 61,655,825
V—1965.....	<sup>2</sup> 4,003,625	<sup>4</sup> 57,652,200	<sup>6</sup> 61,655,825
Total.....	32,029,000	288,261,000	320,290,000

<sup>1</sup> 50 percent of 10 percent portion (5 percent of total subscription) payable within 30 days after date on which Association begins operations, or on date on which original member becomes a member, whichever is later.

<sup>2</sup> 12½ percent of 10 percent portion (1¼ percent of total subscription) payable 1 year after beginning of operations of Association, and at annual intervals thereafter until 10 percent portion fully paid.

<sup>3</sup> 20 percent of 90 percent portion (18 percent of total subscription) payable within 30 days after date on which Association begins operations, or on date on which original member becomes a member, whichever is later.

<sup>4</sup> 20 percent of 90 percent portion (18 percent of total subscription) payable 1 year after beginning of operations of Association, and at annual intervals thereafter until 90 percent portion fully paid.

<sup>5</sup> 23 percent of total subscription (5 percent plus 18 percent).

<sup>6</sup> 19¼ percent of total subscription (1¼ percent plus 18 percent).

Senator SPARKMAN. That is all I have.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. No questions.

The CHAIRMAN. Senator Lausche.

Senator LAUSCHE. No questions.

The CHAIRMAN. Senator Church.

Senator CHURCH. Mr. Chairman, I just want to make a comment that I think Senator Monroney has put us all on the spot. When we are called upon to do this or to do that in the Senate, how often we seek refuge in the assertion that we are just one of a hundred and it is exceedingly difficult for one man to accomplish what he is called upon to do. I think that the Senator from Oklahoma has demonstrated how much one man can accomplish. I think that it is a great tribute to him and it is also a highly gratifying thing when a Member of the Senate can take this kind of action, followed by a resolution of the Senate which provides the stimulus, and then to see the executive branch come forward in the kind of constructive and cooperative way that has occurred in this instance.

Certainly both Secretary Dillon and Secretary Anderson deserve much credit in this regard, but here is a demonstration of how this Government can move forward in a very critical field, and I want to commend the Senator from Oklahoma for the leadership role that he has played in this very important matter.

Senator MONRONEY. I thank my colleague for those compliments, but there were many, many men in the Senate in both parties working to achieve this. Some delicate situations would have been unconquerable had it not been for members of the Banking and Currency Committee, on the majority and minority side of the aisle. The distinguished chairman and the Senator from Idaho helped us get this thing wrapped up and focused. One should not expect any unusual recognition. It was a group of many, many people working to achieve this end. I thank the Senator, however, for his kind words.

The CHAIRMAN. Any further questions?

I thank the Senator from Oklahoma.

Senator MONRONEY. I thank the chairman.

The CHAIRMAN. I might comment in that last respect that the DLF also had its origin largely in the Congress.

Senator CHURCH. That is so, Mr. Chairman.

The CHAIRMAN. We hope sometime the executive branch will show some initiative.

Senator MONRONEY. Yes, sir.

The CHAIRMAN. Mr. Upton. Mr. Upton is to present to the committee a statement of the Secretary of the Treasury, Mr. Anderson. Mr. Anderson had a previous engagement and could not come, but Mr. Upton is speaking for him and delivering to the committee a statement for the Secretary.

Is that not correct, Mr. Upton?

Mr. UPTON. Yes, sir.

The CHAIRMAN. You may proceed, Mr. Upton.

**STATEMENT OF HON. ROBERT B. ANDERSON, SECRETARY OF THE  
TREASURY—PRESENTED BY T. GRAYDON UPTON, ASSISTANT  
SECRETARY OF THE TREASURY**

Mr. UPTON. Mr. Chairman, it is a great pleasure to hear Senator Monroney. The proposal which is before you results from his original suggestion. The articles of IDA represent the final outcome of extensive discussions and negotiations with representatives of the 68 member countries of the International Bank during a period of approximately 2 years since the Senator brought forward his suggestion.

As you know, the IDA proposal was advanced greatly by Senate Resolution 264 of July 1958. The National Advisory Council undertook its study on the basis of this resolution and we believe that the proposal submitted to you carries out the intention of the Senate in passing this resolution.

Secretary Anderson regrets greatly he cannot be with you this morning. He has asked me to read his statement to the committee, and I shall be happy to answer any questions, and Secretary Anderson wishes to assure the committee that he will be available to answer additional questions from the committee at a later date.

I shall read Secretary Anderson's statement.

Mr. Chairman, the bill before you authorizes the President to accept membership for the United States in the proposed International Development Association. It would also give the necessary authorization, subject to later appropriation, of the funds necessary to pay the U.S. initial subscription. I wholeheartedly support enactment of this bill.

**NEED FOR CAPITAL IN LESS DEVELOPED COUNTRIES**

The Congress and the President have on many occasions expressed the great interest of the United States in the economic advance of the less-developed countries. In these countries there is a large and unsatisfied demand for the capital goods needed for the development of their resources and the effective utilization of their labor forces. These resources in the less-developed countries of Asia, Africa, and Latin America cannot now be utilized effectively for lack of the capital equipment and industrial skill which would enable them to produce more efficiently.

While economic progress in the less-developed countries must come in large part from their own efforts, they need outside assistance in financing their imports of capital goods. With increasing productivity they will be in a better position to utilize and mobilize their own resources. As President Eisenhower recently said in his state of the Union message, referring to the less-developed countries, "These people desperately hoping to lift themselves to decent levels of living must not, by our neglect, be forced to seek help from, and finally become virtual satellites of, those who proclaim their hostility to freedom." This means that the economically stronger countries of the free world must, individually and collectively, provide a share of the capital goods needed.

## IDA A COMPLEMENT TO EXISTING LENDING SOURCES

The proposed International Development Association is intended to complement the development financing now provided by private investors and national and international agencies providing capital to the less-developed countries. It will not finance projects which can be undertaken by private investors on reasonable terms, or which should be financed by the International Bank or other conventional lending agencies under their usual terms.

## RECORD OF THE EXPORT-IMPORT BANK AND THE INTERNATIONAL BANK

Our own Export-Import Bank has over the years loaned over \$10 billion, which has contributed enormously to economic advance abroad. The International Bank, maintained by its 68 member countries, has provided over \$4 billion in development loans. These two banks have represented a great advance in international financial relations. Their investments have not only paid off, in the sense that the borrowers have been able to meet interest and amortization, but in addition the banks have provided sound financing for some of the basic needs in terms of transportation, power, and communications. These investments have made possible as well the productive use of other equipment and the utilization of local resources. Their contribution to economic development is more than the record of dollars loaned and dollars repaid.

The terms of repayment and interest at which the Export-Import Bank and the International Bank can lend are determined in large part by the conditions under which the two banks obtain their funds for lending. The International Bank is now financed almost entirely by selling its securities in the financial markets of the United States and of the other industrialized countries. In making loans the rate of interest charged must cover the Bank's interest and administrative costs and provide reserves. The term of its loans must bear some fairly close relationship to the maturities at which the Bank itself borrows. Similarly, the Export-Import Bank, which secures its funds from the Treasury, must cover the cost of money to the Treasury as well as other costs, and also provide for reserves.

## PRESENT INSTITUTIONS REQUIRE LOANS BE REPAYED IN HARD CURRENCY

To maintain their position as sound financial institutions, these Banks make their loans only when there is reasonable prospect that the loans can be serviced at the terms which they can offer. They make loans for sound projects in countries which can be expected to repay the loans in the currency loaned. The Export-Import Bank must be repaid in dollars, and the International Bank in dollars or other hard currency.

## NEED FOR A NEW TYPE LOAN

The banks can meet the requirements of many projects, but they cannot in practice deal with some important cases. Some countries are today in a balance-of-payments position which gives little prospect that they could in the foreseeable future repay hard currency

loans. Many of the less-developed countries have needs for capital in excess of their capacity to repay on the terms at which the banks can lend. The International Development Association has been proposed as one means of dealing with some of these problems.

Undoubtedly, these factors were considered when the Senate, in July 1958, suggested that the National Advisory Council study the possibility of establishing an International Development Association, as an affiliate of the World Bank, to make loans for economic development which otherwise could not be made. The council undertook this study and has submitted several reports to the Congress on the matter.

#### INTERNATIONAL COOPERATION SOUGHT

The feasibility of an international agency of this sort depends in good part on the willingness of other countries to contribute to its resources. In accordance with the President's direction, we in the Treasury have held discussions with other countries which are in a position to make resources available, and we were so encouraged by their responses that the council, in the summer of 1959, suggested outlines of the project.

#### ARTICLES OF AGREEMENT

In the fall, the United States introduced a resolution, which was unanimously adopted by the Board of Governors of the International Bank, calling upon the Executive Directors of the Bank to formulate articles of agreement for an International Development Association for submission to the member governments. The Directors completed their work on January 26, and their proposal has been put before you in the annex to the "Special Report of the National Advisory Council."

#### BULK OF CURRENCY ASSETS TO BE PAID IN BY 17 MEMBER COUNTRIES

The International Development Association represents a forward-looking step in international cooperation within the free world. All the member countries of the International Bank are expected to contribute to its resources, but the bulk of its convertible currency assets is to be paid in by 17 member countries, which today are the more advanced economically.

#### IMPORTANCE OF CONTRIBUTIONS BY OTHER COUNTRIES

I should like to stress the importance of this contribution by other countries. The United States is scheduled to pay in \$320 million of the initial subscriptions, while the other more-developed countries are scheduled to provide \$443 million. These 16 countries have recovered from the effects of the war, they have expanded their trade, and they have acquired adequate, or more than adequate, monetary reserves. They are in a position today to help the less-developed countries. Hitherto, capital on flexible terms of repayment has been provided almost entirely by the United States through the Development Loan Fund. In the International Development Association, other countries will provide a larger share of the convertible currency resources than will the United States. These countries will

include most of the Western European countries as well as Canada, Japan, Australia, and South Africa, countries which are also in a favorable position to provide funds.

The International Development Association, it is hoped, will include all of the members of the International Bank. The countries which are most advanced economically—part I countries in schedule A of the articles—will make their payments entirely in gold or convertible currencies which IDA may use for purchases in any country.

#### CONTRIBUTIONS OF LESS-DEVELOPED COUNTRIES

The less-developed countries, on the other hand, will pay 10 percent of their subscription in convertible currencies and the balance in their national currencies. They will participate to this extent as contributors of resources as well as borrowers. IDA may thus have in a 5-year period at its disposal some \$785 million in freely convertible currencies from which it may make loans. The national currency contributed in its subscription by a less-developed country will be usable to defray local currency costs on projects in that country and may be used for exports for IDA-financed projects in other countries only with its consent. This provision appears reasonable. The less-developed countries, which are expected to receive loans from IDA, are not generally in a position to provide net resources for use in other countries. There will be, however, some occasions in which they can supply goods needed at reasonable cost, and in these instances their national currency subscriptions can be used elsewhere on IDA projects by agreement.

#### FLEXIBILITY ALLOWED IN SETTING TERMS AND CONDITIONS OF LOANS

The articles of agreement allow the Executive Directors a great deal of flexibility in setting the terms and conditions of the loans. The IDA will be empowered to make loans wholly or partly repayable in the borrower's own currency. It will also be empowered to make loans repayable in hard currencies, but with longer maturities than are possible for International Bank loans in view of the Bank's own financing conditions. Loans may be made at rates of interest which will be below the rate on Bank loans. In short, it must be understood that the IDA is to make loans which will bear less heavily on the balances of payments of the borrowing countries than loans of the type now made by the International Bank or the Export-Import Bank. This indeed is the purpose of an IDA. The IDA articles specify that it will not provide financing when it is available from private sources on reasonable terms for the recipient or could be provided by a loan of the type made by the Bank.

#### THE EFFECT ON BALANCE OF PAYMENTS

The effect on the balances of payments of the borrowing countries will vary somewhat, depending upon the policy which the IDA evolves within the flexibility as to terms of loans that is provided by the articles. Long schedules of amortization or lower interest rates enable countries to pay off hard-currency loans at a lower annual cost. When the repayment is made in local currencies, there is, of course, no burden on the balance of payments of the borrower.

By these methods the developing countries will be able to obtain more finance than they could otherwise obtain. Their economic development will be accelerated, and in time they can be expected to become more self-sustaining, and sounder risks for more conventional financing and be able to attract more private capital investment.

#### EVENTUAL NEED TO REPLENISH HARD-CURRENCY RESOURCES

It will be apparent at once from the terms of its loans that the original resources of IDA will not revolve in the same way as the resources of the International Bank or the Export-Import Bank, whose loans are repaid in the currency loaned at maturities corresponding approximately to their own borrowings. In IDA, the longer the term of loans, the more slowly the resources will revolve. The larger the percentage of the loans made repayable in borrower currencies, the less prospect there is that the repayments to IDA will be in currencies which can be re-lent for new projects in other countries. It is, therefore, evident that if IDA is to continue its work over a long period of time, its hard-currency resources will need replenishment from time to time. The articles provide that the member countries, by a two-thirds majority of the total voting power, may increase the resources by providing for additional subscriptions. The terms of any such additional subscriptions will have to be determined at the time, and there is provision for a review of the adequacy of IDA's resources at 5-year intervals.

#### ADDITIONAL RESOURCES MAY NOT BE SUBSCRIBED WITHOUT CONGRESSIONAL AUTHORIZATION

This provision should be noted, because it points to the likelihood that if IDA's operation is successful, requests for additional congressional authorizations may be made in future years. I should like to point out that the United States is not obligated under the articles to subscribe additional resources, unless it wishes to do so, even if they are authorized by an IDA resolution, and that the bill before you expressly provides that additional resources may not be subscribed by the United States under this provision without congressional authorization. It should also be noted that any resolution to provide additional resources requires a two-thirds majority of the total voting power, and the United States alone has approximately 28 percent of the votes.

#### ARRANGEMENT FOR THE USE OF LOCAL CURRENCIES

The articles of IDA also provide arrangements whereby the United States can make some of its holdings of foreign currencies available to IDA for development projects. The Association may make arrangements with member countries to receive currencies of another country to be used as supplementary resources, when the Association is satisfied that the member whose currency is involved agrees to such use of its currency.

The United States, under the Agricultural Trade Development and Assistance Act of 1954, as amended, has acquired considerable amounts of the currencies of the less-developed countries and will continue to acquire such amounts annually as long as this program is in effect.



Up to the present, a large portion of the local currency receipts from our sales of surplus agricultural commodities is earmarked for loans for economic development to the country concerned. With IDA in existence, it will be possible to channel part of these local currencies to it to be used in defraying local costs on projects whose foreign exchange is otherwise financed, or for use in projects requiring local currencies wholly or in major part.

The arrangements for the use of local currencies which the United States might provide to IDA will be worked out in individual cases. To use local currencies effectively for advancing economic development, there will have to be a coincidence of the need for a currency by IDA and its availability to the United States for transfer to IDA. Many of these currencies are those of countries which need additional external resources and are themselves rarely in the position of offering assistance to other countries. There will be some cases, however, in which these currencies will be usable for exports. But the agreement of the country is necessary for such use by IDA, and in many cases these countries may prefer to sell their exports on world markets for foreign exchange rather than to make them available to IDA against payment in their own currency.

In order to transfer to the International Development Association local currencies received in payment for our surplus agricultural products, the agreement of the purchasing country will, of course, have to be secured through the sales agreement. By agreement in future sales contracts, these resources can be made available in part to IDA.

#### IDA AN AFFILIATE OF THE INTERNATIONAL BANK

While IDA is to be created as a separate financial entity, it is to be an affiliate of the International Bank. The President of the Bank will be ex officio president of IDA and will be responsible for its administration. The executive directors of the Bank representing the countries which are members of IDA will function as the executive directors of IDA. To the greatest extent possible, IDA will utilize the Bank's existing officers and staff, so that a large new organization will not be created. In brief, IDA will be administered very closely in conjunction with the International Bank's operations. Its activities will complement the Bank's, and it will enjoy the advantages of the Bank's prudent management.

#### COORDINATION OF LOAN OPERATIONS

It is our view that the operations of IDA will not conflict with the operations of the International Bank or the Export-Import Bank or the private capital market, since IDA will not make loans to countries or for projects which should properly be financed by these Banks or the private capital market. The size of IDA, in comparison with the Bank, in itself, will mean that the resources of IDA will have to be reserved for those priority projects which cannot be financed on more conventional banking terms but will make a significant contribution to economic development. The possibility of "bad loans driving out good" has been recognized and will be avoided by careful use of the limited resources of IDA and good judgment on the part of its management.

## RELATIONSHIP TO THE DEVELOPMENT LOAN FUND

Closely related is the question of our own Development Loan Fund, which was created by the Congress to make loans on terms which also do not impose too heavy a burden on the balance of payments of the borrower. The DLF makes its loans only when a given project cannot be financed under the usual terms by the private market, the Export-Import Bank, or the International Bank. IDA and DLF will have somewhat similar functions.

## INTERNATIONAL CHARACTER OF THE IDA

The important difference is that the DLF is a purely U.S. institution. It operates under the foreign policy guidance of the Secretary of State, and its Board of Directors includes the Under Secretary of State, as well as other officials of the Government. The DLF resources are provided entirely by the United States through appropriations made by the Congress. In IDA, on the other hand, the United States will provide only about one-third of the total resources, while the other economically advanced countries of the world will provide considerably more than the United States. This, we believe, is an important step in giving due weight to the economic strength of other countries and their interest in assisting economic development. The extent to which IDA is to finance a project, or the DLF is to finance a project or whether IDA would participate in combined efforts with other lending agencies, would depend in large part on the nature of the project and other considerations which may be relevant at the time.

## COORDINATION PROVIDED BY THE NATIONAL ADVISORY COUNCIL

It will be necessary to have appropriate coordination of the U.S. representatives in IDA with U.S. lending agencies. The National Advisory Council on International Monetary and Financial Problems was established by the Congress to coordinate the activities of the U.S. representatives on the International Bank and the International Monetary Fund with the activities of the Export-Import Bank and other agencies of the United States engaged in foreign lending and exchange transactions. The Council has now for a period of 14 years coordinated these activities by reviewing general policies and passing on particular transactions. It has advised the U.S. Governor and the U.S. Executive Director on the Bank on matters of policy in its operations. By the charter of IDA, these officials will serve in the same capacity *ex officio*, as they do in the Bank. The enabling legislation for IDA provides that similar coordination will be assured with the new institution. It should be noted also that the U.S. Executive Director of the International Bank, who will represent us in the day-to-day operation of IDA, is also a member of the Board of DLF, which will be a further assurance of harmonious operation and cooperation.

IDA TO BE GRANTED PRIVILEGES AND IMMUNITIES ON TERMS IDENTICAL TO  
THE INTERNATIONAL BANK

The enabling legislation, which you are considering, also provides that IDA be granted privileges and immunities in the United States in the same way as the Bretton Woods Agreements Act has provided these privileges for the International Bank. The terms are identical and they have created no problem as far as the International Bank is concerned, and they need create no problem with regard to IDA.

## AUTHORIZATION OF APPROPRIATION

The legislation also contains the authorization of the appropriation of \$320,290,000, which will be our subscription in the IDA. I recommend that this authorization of appropriations be made at this time, though it will be necessary to appropriate only \$73,666,700 for the fiscal year 1961. This amount represents the portions of our subscription which will fall due in fiscal 1961. In the following 4 fiscal years the appropriations required to meet our obligations will in each year amount to \$61,655,825.

## PROMPTNESS URGED IN PASSING AUTHORIZING LEGISLATION

The President has urged the Congress to act promptly in passing this authorizing legislation. The IDA was proposed by the United States, and to maintain our position of leadership, it is necessary for us to proceed firmly. If we do so, we may well expect that other countries will adopt the necessary legislation for their acceptance of the IDA agreement. They will have until December 31, 1960, to take the necessary steps, though, if necessary, this time can be extended for an additional 6 months. The articles will not become effective until countries providing 65 percent of the total subscription will have accepted the articles of agreement. This requirement is analogous to the procedure used in the recent increase in the capital of the International Bank. The agreement cannot become effective before September 15, 1960, but it will become effective any day after that time, when 33 percent of the total subscriptions is obtained from other countries, provided the United States, with 32 percent of the total, has deposited its instrument of acceptance before that date.

NEW PHASE IN INTERNATIONAL FINANCIAL HELP TO LESS-DEVELOPED  
COUNTRIES

The IDA inaugurates a new phase in international financial help for the less-developed countries. We have recognized their need. We have recognized that many of them cannot develop their economies effectively unless they can obtain capital on terms which bear less heavily on their economies than the types of loans which are now available. In this cooperative venture, other countries will join us. We feel that the economic development of the less-developed countries must go on at a more rapid pace. This will be a source of hope to the peoples in these countries. It will serve to advance their economic life under free institutions, which we all desire. It is up to the United States to take the initial steps to bring this venture into active operation.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Upton. I think that is a very thorough and clear statement.

#### SPREADING THE BURDEN OF DEVELOPMENT COSTS

There are one or two questions that I have. I wonder whether you made clear the percentage of subscriptions that the United States bears in relation to other countries?

It would be interesting to know with regard to the International Bank, if the United States is purchasing more of the bonds of the International Bank than foreign countries, or not?

Mr. UPTON. In the early days this was true. Recently, however, the pendulum has swung the other way. Last year the issues which the International Bank sold were sold in Europe. Recently we asked the International Bank to make an estimate of where its bonds were held. We asked them this because a great many of its bonds are issued in dollars, but are taken up by European holders, and at that time the International Bank estimated that approximately half of its total bonds were held outside the United States.

The CHAIRMAN. And in recent years the sales to foreign purchasers have been greater than sales to American citizens; is that not correct?

Mr. UPTON. That was true certainly in 1959.

The CHAIRMAN. Yes. Is it fair to say that both the International Bank and the IDA are efforts to spread the burden of financing the development of underdeveloped countries among all the free nations rather than for the United States to bear such an overwhelmingly large part of it?

Mr. UPTON. Yes, Mr. Chairman; that is correct.

The CHAIRMAN. And that, in a sense, the movement in this direction could be interpreted as a movement away from the former policies as evidenced by the Marshall plan and Development Loan Fund, and you regard this as a healthy movement; is that not correct?

Mr. UPTON. Yes, sir; I do.

#### LOANS CAN BE MADE TO GOVERNMENTS

The CHAIRMAN. Will any of these resources be made available to any foreign government?

Mr. UPTON. The charter is flexible in this respect as to who may borrow. Loans can be made to governments. They can be made to entities of governments; they can be made to individual industrial companies or other types of companies. In this respect, the chief difference from the International Bank is that the IDA is not required to obtain a Government guarantee, but it may if it so wishes. The International Bank makes its loans only under Government guarantees.

#### EMPHASIS TO BE PUT ON SPECIFIC PROJECTS RATHER THAN FINANCING DEFICITS

The CHAIRMAN. Is it anticipated that any of the funds of the IDA would be loaned to a country because of an internal governmental deficit in its budget?

Mr. UPTON. The loaning terms of IDA are rather flexible, but the emphasis is put on specific projects. While it is not specifically stated that a loan may not be used for a deficit, the whole tenor of the negotiations and discussions was such that greatest emphasis will be put on specific projects, either individual or group or regional in nature, rather than the financing of any deficits.

I consider that the financing of a government deficit per se would be distinctly against the implications and the operations of IDA.

The CHAIRMAN. Then while it may be possible as far as the policy of our Government is concerned, this would not be a proper purpose for the use of these funds; is that correct?

Mr. UPTON. Well, in the ultimate analysis, the directors of IDA and the management of the Bank will make the decision as to the use of the funds. But may I point out once more, that I took part in these negotiations myself. There was a great deal of discussion of the types of things that would be financed, and there was very general discouragement of any idea that these funds should be used for deficit financing per se.

#### AMERICAN CORPORATIONS CONSIDERED ELIGIBLE FOR LOANS

The CHAIRMAN. Would an American corporation doing business in one of the so-called underdeveloped countries be eligible to borrow for the development of a project in the country?

Mr. UPTON. There is nothing in the charter which makes any statement whatsoever about the nationality of a corporation borrowing. I would consider that an American corporation would be eligible.

The charter provides that the primary criteria concerning borrowing shall be for projects of high priority, and if an American corporation could qualify under that general term and under the interpretation of it by the IDA, I would consider it would be eligible to borrow.

The CHAIRMAN. They are eligible? It is merely a question of the wisdom of the particular project?

Mr. UPTON. Yes.

The CHAIRMAN. That is for the directors—

Mr. UPTON. That is correct.

The CHAIRMAN. They could qualify under the authorization?

Mr. UPTON. They could qualify.

#### RELATION TO INTERNATIONAL FINANCE CORPORATION

The CHAIRMAN. There is one international corporation that I do not believe you referred to in your statement. How is this related to the International Finance Corporation?

Mr. UPTON. Well, the International Finance Corporation is a separate institution with its own separate capital, with its own separate objectives.

Now, basically the International Finance Corporation attempts to develop private industry in the various countries where it operates, and on what one might call a quasi-venture capital basis. It often makes investments through the means of convertible debentures or some other form which would enable the ultimate holder of these debentures to share in the profits of the enterprise.

It is also the basic policy of the IFC to invest in a private company, industrial or agricultural, or whatever nature it may be, to build it up and then to resell its interests to private institutions and private investors at a later date.

In other words, the Bank and IDA make loans, and primarily will make them in the fields of what we might call basic economic overhead, railroads, power, water, roads—things of this sort. Whereas the IFC makes capital investment in specific industrial projects of a more developed nature, the type of industry that comes into the country once the basic economic overhead has been established.

#### PROGRESS OF THE IFC

The CHAIRMAN. You may not be prepared to answer this, but I would be interested to know what progress had been made in utilizing the resources of the IFC in the last year. It was very slow to get started. Is it doing any more business now than it did?

Mr. UPTON. I do not have the exact figures before me, Mr. Chairman, but last year it made more loans, individual loans, than in any previous year; and it is definitely my impression that it is accelerating its rate of investment and making of commitments.

Wait. I think I have some figures here. As of the end of December, they had total commitments, net of cancellations, of approximately \$23 million. If my memory serves me correctly, this is up from approximately \$12 million the year before. Of these, 19 percent were in Asia; 3.9 percent in Australia; and 77 percent in the Western Hemisphere, primarily Latin America.

The CHAIRMAN. It is still very small. It has available, I believe, nearly \$100 million.

Mr. UPTON. That is correct, sir.

The CHAIRMAN. And it has been in existence how long now; is it 4 years, 5 years?

Mr. UPTON. I might comment on that, Mr. Chairman. I think that IFC faces problems of a different nature than the Bank and IDA will face or the DLF, because, since it invests rather than makes loans, the effective use of its resources presupposes a capital market in the borrowing country, laws that provide for shares, stock markets, and so forth. This, in effect, means that it is very difficult for IFC to go in a country which is in a very early state of development. It finds its best opportunities in countries which, while still basically underdeveloped, have nonetheless developed their own savings and their capital markets and their institutional structure to the point where they do have share companies and they do have the mechanisms of the capitalistic system.

I think this explains one of the reasons why such a heavy percentage of the IFC's investments have been made in Latin America, where this does exist to a considerable extent. It also, I think, depends upon IFC's ability to find attractive projects where other investors wish them to participate. The IFC has been in existence 4 years.

The CHAIRMAN. It may be that this particular activity was an experiment that has not been able to succeed, since there is quite a substantial amount of funds held available for it. If it is not going

to function any more effectively, we might consider merging it with the IDA or with the Bank and making those resources available. I see no point in letting them sit there more or less idle if they are not going to do very much. It could be that this was not a successful approach to the problem. I thought its main purpose was to make very strenuous efforts to develop private enterprise and the traditional procedures of a private system in some of these countries rather than wait until they are developed. I thought it was to be an agency to generate those conditions.

Mr. UPTON. Well, I think this is true. But these two things have to go hand in hand.

The CHAIRMAN. I understand.

Mr. UPTON. I do think this, Mr. Chairman, that the rate of increase in IFC over the previous years is quite a substantial one, so even though a relatively moderate part of its capital is used at the present time, we have seen an ever-growing tendency for it to be used more effectively.

#### RELATIONSHIP BETWEEN THE DLF AND THE IDA

The CHAIRMAN. One last question: Is there any basis for a distinction between the purpose of DLF and the Bank? Could it be said truthfully that the DLF is more likely to be used for such things as wharves, transportation, and public facilities that are basic necessities. Then after those conditions are met, we come in with the loans of the Bank and of IDA?

Is that a valid distinction or not?

Mr. UPTON. I would be inclined to say that both the DLF and IDA will tend to work in the same type of what one might call economic overhead projects. That is, the basic facilities such as you mentioned—the waterworks, the power, the light, the roads—to provide the basis for the country to develop primary and secondary industry.

DLF also, of course, is making a number of loans to private industry.

We did give some thought to this question of the relationship between IDA and DLF with respect to the questions that might arise here.

The precise relationship will be worked out over a period of time and many factors will be involved. The DLF and the International Bank now consult from time to time concerning prospective projects, and the existence of IDA will be further reason for these institutions to discuss matters of mutual interest.

It is likely that in the first instance the prospective borrower will approach one or the other institution. Perhaps the International Bank or the DLF has in the past provided funds for a similar or related project. But when the approach is made to the former, the Bank will be able in appropriate cases to offer the facilities of its close affiliate, the IDA.

Borrowers will, of course, recognize that the DLF is a national instrument responsive to U.S. foreign policy considerations, an important element in the U.S. mutual security program. This, too, may be a consideration in their decision on where to make the initial request for financing.

It is important to note in this connection that the U.S. Executive Director of the IDA is also on the Board of Directors of the DLF, and this facilitates the coordination of the policies of the two institutions.

The basis for this coordination will be provided by the National Advisory Council.

The CHAIRMAN. You stress the coordination among these financial institutions, which is all to the good.

#### TAX POLICIES REGARDING FOREIGN INVESTMENT

Is there anyone charged in the Treasury or in our Government with coordinating our tax policies with our economic policies in the foreign field?

Mr. UPTON. Well, the tax matters in the Treasury, of course, are the direct responsibility of the Secretary, and under him, of Under Secretary Scribner. When matters of taxation arise which have a bearing on anything to do with our foreign financial policies, these are discussed with those divisions of the Treasury which are concerned with foreign financial policy, and also with the appropriate officials of the State Department.

The CHAIRMAN. I asked you that because at a meeting last night of some of the most prominent companies in America who do business in the foreign field, it was alleged that the Treasury discourages by many of its tax policies the participation of private industry in this effort to develop foreign underdeveloped countries. It was alleged that with one hand our official policy is to encourage private development and Government developing, too, in the foreign field, but on the other hand, the Treasury comes along and puts very serious obstacles in the achievement of this purpose. That is what prompted this question.

This thought came from the representatives of these companies in this field, and I wondered if you would comment on it.

Mr. UPTON. Mr. Chairman, I also appeared before this group and became aware of their impressions on this matter. There is obviously a difference of opinion between various groups concerned in this.

I think it is fair to say that the attitude of the administration has been to give incentives, particularly for investment, in underdeveloped countries. I refer to the applicability of ICA investment guarantees, to the possibility of tax treaties, and also to the administration's position on the Boggs bill, but not to wish to offer special incentives for investment in industrialized countries—

The CHAIRMAN. Well, I thought I ought to mention that to you. They are very disturbed about this matter and, of course, I suppose that is the reason they had me and other members of this committee down there, to tell us about their troubles. They were all responsible companies which were represented there.

They specifically complained about your requirements for the transfer of earnings of a company operating in one foreign country to another foreign country, even though these were not industrialized countries. They were very bitter about that.

Well, I will not pursue that. It is a tax matter, but I thought someone in the Treasury should be responsible for coordinating the tax policy—which we usually consider a domestic matter primarily—with our foreign policy. It could well be that one part of the Government is spending money to accomplish some objective which the other part of the Government is putting obstacles in the way of.

Senator Green, do you have any questions?



## EFFECT ON PRIVATE ENTERPRISE

Senator GREEN. I would like to ask this question, if you do not think it has already been asked and answered. What effect will this have on private enterprise?

Mr. UPTON. I think I can answer this in two ways, Senator: First for private enterprise to operate in an undeveloped country, there must be the basic economic factors of public utilities, of railroads, of docks, of water, of power—all of these things—before private enterprise can move in with factories.

This institution will primarily be interested in providing economic overhead on terms which will not bear too heavily on the balance of payments.

Secondly, this institution is closely related to the World Bank, and its charter refers to the purposes and background of the World Bank, which are definitely to encourage private enterprise, and it is specifically prohibited from making loans which could be made by private enterprise.

So in my opinion, this will be a constructive force in the development of private enterprise in the less developed countries.

Senator GREEN. That is all. Thank you.

The CHAIRMAN. Mr. Aiken.

## CATEGORY OF PARTICULAR COUNTRIES

Senator AIKEN. Mr. Upton, what has become of our old friends, the underdeveloped countries? I notice they have all become less developed countries now. What is the significance in the change in term?

Mr. UPTON. This is possibly a recognition of the sensibilities of some of these countries in being called underdeveloped. There is quite a broad terminology—underdeveloped, less developed, less industrialized, and so forth. I do not think there is any real unanimity on which terminology will be used. But I think we felt some of these countries may be a little sensitive about being called underdeveloped, so the term "less developed" now seems to be in use.

Senator AIKEN. Would it be possible for a country to qualify for a soft loan as a less developed country when that same country might not qualify as an underdeveloped country?

Mr. UPTON. This problem is taken care of in the charter by the division of all of the member countries into two groups—the industrialized countries and the other countries—whether you call them undeveloped or less developed or less industrialized: Only those that will be in the second group will qualify.

Senator AIKEN. Now, just what criteria were used to determine the category in which each signatory will be placed?

Mr. UPTON. Well, this presented the Bank with an interesting and rather difficult question. A large number of economic criteria were made available by the Bank, the amount of capital exported by the country, the gross national product of the country, and various other things of that sort. These were reviewed by the Board of Directors. But in the ultimate analysis, the management of the Bank was invited to present a list of those countries which, in their opinion, and based

on the background of the World Bank, should be in category I and those which should be in category II. The management presented this list, and the various executive directors who were negotiating the charter discussed it and agreed that this was an adequate list.

Senator AIKEN. Is there provision in the agreement for shifting from one category to another? Suppose that, we will say, the price of a certain commodity which is very abundant in one of the countries in part II results in a windfall for that country and it has become well to do. Is there provision for shifting that country to the category of part I?

Mr. UPTON. There is no specific provision for making such a formal transfer, but I think that what would happen would be that the economic development of the country would be recognized in the attitude of the IDA management and the IDA directors with respect to granting loans in these countries.

Senator AIKEN. And it is intended that they would then become ineligible to participate in a soft loan?

Mr. UPTON. I do not know whether it would be ineligible, but naturally the economic precedence would tend probably to be of a lower order if a country developed industrially to a very great degree and very rapidly. In point of fact this problem is a broader one for, although we did divide the countries into two groups, actually there are a tremendous number of variations in economic strength between the individual countries in each group.

#### SIZE OF INITIAL CONTRIBUTIONS

Senator AIKEN. Well, the grapevine tells us that already two of the countries that are in group I have some reservations about the size of their initial subscription. I refer to Holland and Belgium. Is there any difficulty there, and has that problem been resolved?

Mr. UPTON. Well, it is true that during the negotiations, both of these countries expressed the feeling that their subscription was set too high. But it was the general judgment of all of the negotiators that it was not feasible or desirable to shift from subscriptions which were based on the relative bank subscriptions and so the decision has been left up to these countries, and at the present moment we do not know what their attitude will be in actually joining.

We do hope, of course, that in the ultimate analysis, they will become members like the rest of us.

Senator AIKEN. Have some of the other countries already made provision for their subscriptions, their share of the financing, or are they waiting to see what the United States does?

Mr. UPTON. We do not have definite knowledge of the stage of legislative processes in these countries except in the United Kingdom where we understand this has been introduced into the Parliament.

#### SUPPLEMENTARY RESOURCES

Senator AIKEN. I noticed in your statement that the articles of IDA also provide arrangements whereby the United States can make some of its holding of foreign currency available to IDA for development projects.

I assume that would relate at least to Public Law 480 funds, and that provides that the United States could also contribute other funds besides its subscription of \$320 million; is that correct, or how would that be made?

Mr. UPTON. Well, there are several separate definitions and clauses covering this. There is a specific clause covering what is known as supplementary resources, and this would cover the making available of local currencies such as Public Law 480.

In addition, however, any country, if it wishes, may make available additional funds in its own currency to the IDA on such terms and conditions as may be agreed upon.

And thirdly, there is provision for a country to loan to IDA, so you have three separate provisions covering three different, separate types of additional resources.

Senator AIKEN. In the case of the United States, however, you were thinking in terms of Public Law 480 funds more than any other source, were you not?

Mr. UPTON. That is correct.

Senator AIKEN. This would mean besides its initial contribution of \$320 million, the United States might conceivably contribute another \$320 million in other funds?

Mr. UPTON. Well, the provision of local currencies, Public Law 480 funds, depends upon the agreement of IDA, of the country whose currency is represented, and of the United States. And when these three are in agreement, the currency and the amounts agreed will be transferred to IDA for use by IDA.

It is not possible, Senator, to estimate the amount.

Senator AIKEN. I know that. If the Senate approves this agreement, then is it the intention of the executive branch to ask for authority to make these additional funds available?

Mr. UPTON. We think that this authority already exists but may require further clarification, and this matter is now under intensive study by the executive branch.

Senator AIKEN. Then if the United States, we will say, makes \$300 million worth of Public Law 480 funds available, does that carry any additional voting rights?

Mr. UPTON. No, sir; it does not.

Senator AIKEN. It does not.

The CHAIRMAN. Will the Senator yield on that point?

Senator AIKEN. Yes, I yield.

The CHAIRMAN. Can you prepare some proposed amendments in regard to this so we can consider them while we are considering MSA legislation within the next 2 or 3 weeks?

Mr. UPTON. We are trying to do that, Senator.

The CHAIRMAN. I hope you will, because it would be much more convenient to consider them in connection with that legislation than try to take them up later.

Senator AIKEN. It would be much more enlightening to the Congress and to the Senate when it is asked to approve this agreement, if they knew what further steps were contemplated in the event it is approved.

The CHAIRMAN. That is all.

Senator AIKEN. May I ask what other countries have indicated that they might contribute additional funds besides the original subscription?

Mr. UPTON. We have no firm indication from any country at this time that it wishes to contribute such funds.

Senator AIKEN. Then this provision was put in here expressly in the hopes of getting additional funds from the United States?

Mr. UPTON. I think we should distinguish from the general term "additional funds," the local currencies which come from our sales agreement. The latter are, of course, additional resources, supplementary resources, but they are not resources in hard currency.

I might say, also, that it is possible that in due course other industrialized countries might also contribute local currencies because there are one or two cases where those countries do have local currencies.

Senator AIKEN. I realize it is possible. We do not have very good precedents for such action, however.

I have one or two other questions here.

Let us go over to the proposed agreement. I noticed article V, paragraph (f).

Senator LAUSCHE. What page?

Senator AIKEN. That is on page 31 of the agreement.

#### CONDITIONS IMPOSED BY ARTICLE V

Article V, paragraph (f), states:

The Association shall impose no conditions that the proceeds of its finances shall be spent in the territories of any particular member or members. The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these articles including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor.

Just what is the meaning of that provision?

Mr. UPTON. Well, I think there are several meanings to it.

First,

imposes no conditions, the proceeds of its financing shall be spent in any territory of its member or members—

means that the Association could not state that this percentage should be spent in the United Kingdom or this percentage in the United States or Germany. That applies to its normal resources capital.

Now, the second part—

shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these articles including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor—

that refers to the local currency.

The local currency subscriptions are contributed by the underdeveloped countries, and there are restrictions upon the extent to which these may be used: specifically, the countries themselves must generally be in agreement with the Association.

Thirdly, with respect to our own local currencies that we might supply from Public Law 480, it simply means that these will be subject to the terms and conditions which will be developed in each individual case.

Senator AIKEN. That means if we should make \$100 million worth of Public Law 480 funds available, that we could attach restrictions to that loan or contribution specifying for what purpose it might be used?

Mr. UPTON. Well, such restrictions as might be attached would be those that were agreed upon between the United States, IDA, and the country whose currency was concerned; and the main purpose of such restrictions would be undoubtedly to the effect that the currency could not be used in a way which would upset the monetary and financial stability of the country concerned.

For example, if we were to take a certain amount of local currency and turn it over to IDA and then insist this should be converted into dollars, it would obviously be upsetting to the country concerned; and so I think this, in a general sense, is to protect the financial and monetary stability of an underdeveloped country whose currency may be made available under the provisions of this clause.

Senator AIKEN. All right. Could we require that those funds so made available must be spent in the United States?

Mr. UPTON. Well, I would think that this would be interpreted by IDA and the countries as upsetting its monetary and financial stability, because, in effect, what we would be dealing with would be pesos or rupees or some form of currency of a foreign country, which would have no value per se in the United States but only a possible value of acquiring dollars with it. For us to insist that this currency be used to acquire dollars would, in effect, be taking a resource out of the country which would be contrary to our basic objective of our providing resources to that country.

#### THREE-WAY AGREEMENT NECESSARY

Senator AIKEN. Could we specify a third country in which this money must be spent?

Mr. UPTON. Well, there would have to be an agreement between IDA and the United States and the country whose currency is concerned.

Senator AIKEN. The effect of this whole arrangement, if we decided to do it, would be to make certain soft currency in the possession of the United States available for spending or loans through the International Development Association rather than through bilateral agreements?

Mr. UPTON. That is correct, sir.

Senator LAUSCHE. Will the Senator yield for just one brief interruption? It is on this item. It is section 2, paragraph (a), on page 28, dealing with supplementary funds, which states:

Provided that the Association shall not enter into any such agreement unless the Association is satisfied that the member whose currency is involved agrees to the use of such currency as supplementary resources and to the terms and conditions governing the use.

That is what you are talking about, is that correct?

Mr. UPTON. That is correct, Senator.

Senator AIKEN. That would mean the United States would say, "unless we reached an agreement, you do not get the money," the additional funds, would it not? Unless we reach an agreement satisfactory to us?

Mr. UPTON. It has to be a three-way agreement in which each party is satisfied.

#### LOANS FOR HOUSING POSSIBLE

Senator AIKEN. Otherwise we do not make a contribution.

Is it contemplated that the International Development Association could make loans for housing in a less developed country?

Mr. UPTON. Well, the question of the type of loans to be made was the subject of considerable discussion in the board. Many of the underdeveloped countries felt that more emphasis should be put on loans for social overhead, education, housing, and things of that sort; whereas most of the industrialized countries felt that it was more desirable to make these loans primarily for specific projects in the economic overhead field.

The actual language used in the charter is "Loans of high development priority," and this leaves it to the management of the IDA and the directors to decide whether a specific loan is of a high development priority in the country concerned.

I would think that it is certainly possible that there will be perhaps pilot projects in housing, but I would think that they would be quite limited, and it would not be a very important aspect of whatever the IDA might do.

#### GUARANTEE PROVISIONS

Senator AIKEN. Does this proposed agreement carry any insurance prospects with it whereby funds made available by banks or insurance companies could be guaranteed rather than making direct loans?

Mr. UPTON. The Association does have the power to guarantee in special cases, but presumably if it did guarantee, it would have to set aside an equivalent part of its assets in order to back up the guarantee.

Senator AIKEN. In other words, the guarantee would be charged against the total capital or available funds of the Association?

Mr. UPTON. Yes, that is correct.

Senator AIKEN. That is all.

The CHAIRMAN. Senator Sparkman.

#### RELATIONSHIP BETWEEN THE INTERNATIONAL BANK AND THE IDA AFFILIATE

Senator SPARKMAN. Mr. Upton, on the last page of the agreement, a list of the countries is given, part I and part II, 68 of them. Are those identical with the countries that belong to the International Bank?

Mr. UPTON. Yes, sir.

Senator SPARKMAN. And was the agreement negotiated with the entire group?

Mr. UPTON. The agreement was negotiated with the directors of the International Bank, all of whom together represented all of the countries represented there.

Senator SPARKMAN. Yes, I see.

Now, of course, all the way through it is tied to the International Bank and is referred to as its affiliate. It seems to me very wisely connected with the International Bank. However, it also seems to be

very important to stress the fact that IDA's operations will be kept wholly separate from those of the World Bank despite the close affiliation to the institution.

Could you very briefly point out the provisions which insure this separation?

Mr. UPTON. I am just looking this up, Senator. This was, I might say, also a subject of considerable discussion, and I think that where the separation specifically and definitely takes place, and will take place, is in the accounting for all of the funds for IDA.

In other words, this will be managed as a completely separate institution from a financial basis, although the management will—

Senator SPARKMAN. It would have exactly the same personnel, would it not?

Mr. UPTON. There may possibly be additional personnel, but in the early days, it will be the same personnel.

The article which refers to this is article VI, section 6.

It reads:

The Association shall be an equity 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 or lend to the Bank, except that this shall not preclude the Association from investing funds not needed in its financing operations in obligations of the Bank.

And then the other two paragraphs deal with the administrative aspect.

Senator SPARKMAN. Yes. In your statement you said that the danger was recognized of bad loans driving out good loans, but that this would be scrupulously avoided. That will be solely a question of the management; will it not?

Mr. UPTON. Yes. I think when one speaks of bad money driving out good, or bad loans driving out good, it implies a choice on the part of the person who takes or receives this money as to which he holds on to or which he gets rid of. In this case, there will be no choice. It will be entirely a decision of the management as to whether a loan should be in hard currencies from the Bank, whether it should be from hard currencies repayable on flexible terms from IDA, or a combination of the two.

#### APPLICATION FOR MEMBERSHIP BY NEWLY INDEPENDENT COUNTRIES

There will be no opportunity for the borrower to go to one or the other, because the management will be identical.

Senator SPARKMAN. Just one other question. Certainly, Africa, south of the Sahara and north of the Union, contains many underdeveloped countries that urgently are in need of capital. Yet only two or three tropical African countries are members of IDA, whether because of lack of independent status or for other reasons. Presumably, colonial powers will be able to make arrangements comprehending their African territories; but what would happen to such an arrangement when a territory should become independent?

Mr. UPTON. Well, the dividing line as now made is that if a country is an independent country and is a member of the Bank, it is now eligible to join IDA. However, in the IDA agreement, I would like to refer you to article XI, section 3:

By its signature of this agreement, each government accepts it both on its own behalf and in respect of all territories for whose international relations

such government is responsible except those which are excluded by such government by written notice to the Association.

So that as long as a country was responsible for the international relationships of one of these African territories, it would be included under the articles of the Association.

Senator SPARKMAN. I assumed that in my question, but I said, "What happens when that territory becomes independent?" Is there an arrangement whereby it could be taken in?

Mr. UPTON. We would hope that such a country on becoming independent would make application to join the Bank, and we already have this with Ghana, which, a short while after it became independent, became a member of the Bank and therefore eligible to join IDA.

Senator SPARKMAN. In other words, any country which is not included may at some future date come in on its own volition?

Mr. UPTON. That is correct, yes.

Senator SPARKMAN. If it comes into the Bank, is it automatically a member of IDA and vice versa?

Mr. UPTON. No. It cannot become a member of IDA unless it becomes a member of the Bank.

Senator SPARKMAN. But could it be a member of the Bank and not be a member of IDA?

Mr. UPTON. Yes, it could be, but I think particularly in the case of an underdeveloped country, it would wish to become a member of IDA as well.

Senator SPARKMAN. Thank you, Mr. Chairman, that is all.

The CHAIRMAN. Senator Carlson.

#### STUDY ASKED FOR ON STATUTES

Senator CARLSON. Mr. Upton, the Senator from Vermont, Mr. Aiken, discussed with you at some length the availability or use of funds secured from the sale of agricultural products through Public Law 480 for the International Development Association, and I noticed in the Secretary's statement which you read, and I am going to read it: "By agreement in future sales contracts, these resources can be made available in part to IDA."

Now, I think you replied to the Senator from Vermont that you thought that you had statutes that would permit you to make these arrangements without any further congressional action; is that correct?

Mr. UPTON. Well, Senator, we think this may be so, but we also feel that this matter should be clarified, and that is the reason that the introduction of special legislation on this is now under intense study and we hope that something will come out of this within the next few weeks.

Senator CARLSON. Well, I am not too familiar with this particular act, but it is an important act from an agricultural standpoint, and I would question whether you have it, and therefore I would sincerely hope you would make a study, and, as the chairman suggested, if there are to be any provisions written into it, we should know it in advance at least.

Mr. UPTON. Yes. Thank you, Senator.

Senator CARLSON. Just one or two questions.



## INTEREST RATES ON IDA LOANS

Now, we have several agencies that are going to loan money and are loaning money to these countries in various capacities: The International Bank, the Export-Import Bank, and the Development Loan Fund. These loans are based, that is, the rate of interest is based, upon the cost of the operation of the agency and the cost of securing the money; is that correct?

Mr. UPTON. Well, this is true in all cases but one, and that is the Development Loan Fund which received its money from appropriations which, of course, in turn, have to be raised by taxes or by borrowing. The DLF has one category of loans at a rate which now is and has been for some time,  $3\frac{1}{2}$  percent. That is for so-called economic overhead projects.

However, when they get into any type of project which is a profit-making project, such as an industrial company, then the considerations which you have stated apply. Their rate would then be  $5\frac{3}{4}$  percent.

Senator CARLSON. The question I wanted to ask based on your reply is this: What will be the interest rates under the International Development Association? Will they be so much more favorable than those of existing loaning agencies that everyone will try to get into the International Development Association?

Mr. UPTON. Well, Senator, there has been no determination either of rates or of methods of repayment. In other words, loans could be made in hard currencies, repayable in soft currencies. They could be made in hard currencies, repayable over a long period of time in hard currencies. They could be made at normal rates of interest or low rates of interest. But I think that it is obviously the desire of the United States, and I am sure of other countries, and I speak from my knowledge of these negotiations, that a situation should not arise where this agency was, in effect, competing on the basis of terms with the Development Loan Fund.

We would also hope, so far as the United States was concerned, to coordinate and to express our views on this through the authority of the National Advisory Council and through the U.S. membership on IDA.

Senator CARLSON. You stated, I believe, that these loans will not be available if private capital is available.

Mr. UPTON. That is correct.

## AUTHORITY FOR ACCEPTING OR REJECTING LOANS

Senator CARLSON. Assuming that someone makes an application for a loan, who will accept or reject it? Will you start in with the International Bank and go on down through all these agencies until we get to this International Development Association? Who determines who will get this loan?

Mr. UPTON. Well, this is always a difficult question to answer, both in practice and theory. But as far as the Bank and the International Development Association are concerned, this will be determined by the identical management of both institutions.

Now, as between those institutions—and, for example, the Development Loan Fund and the Export-Import Bank—a significant consid-

eration is the country of procurement, because the Export-Import Bank entirely and the Development Loan Fund to a very large extent, make loans only for the procurement of American goods. The International Bank, as you know, has competitive international bidding. So that where the buyer or borrower wishes to purchase in the United States, he will come to the Export-Import Bank. If he wants to purchase in the open market, free bidding, he will come to the World Bank. I would think to some extent at least this same relationship would hold true as between the Development Loan Fund and the IDA.

However, the DLF and the World Bank coordinate and cooperate closely together. They have several loans in common.

Senator CARLSON. As one member of this committee, Mr. Upton, who is very much in favor of making loans available to these countries, either developed countries or less developed, rather than grants-in-aid, I sincerely hope that the program will work out satisfactorily.

Mr. UPTON. Thank you, Senator.

Senator CARLSON. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Lausche.

#### PROPORTIONATE CONTRIBUTION OF THE UNITED STATES TO THE IDA

Senator LAUSCHE. The proportionate contribution of the United States to this new Association is related identically to the contributions that we have made to the World Bank and the Monetary Fund, or is there a disparity?

Mr. UPTON. Well, there is a very minor fractional disparity with respect to the World Bank, but it is purely technical in nature and is of no importance.

Senator LAUSCHE. Then can it be said that generally our proportionate contribution is about 33 percent?

Mr. UPTON. Well, actually to this institution our total contribution is 32 percent of the total.

Senator LAUSCHE. Is it proper to say that the proportionate contribution of the United States to the World Bank, to the Monetary Fund, and this Development Association, is in the neighborhood of about 32 percent?

Senator AIKEN. Will the Senator yield? That 32 percent would be the amount that we would contribute in the event that everybody in class I and II paid up.

Senator LAUSCHE. Yes.

Mr. UPTON. Yes, that is quite correct.

That is, it is approximately so. I do not have the exact figures for the other institutions.

Senator LAUSCHE. Now, pursuing the thought raised by Senator Aiken, if we subscribed fully as recommended, and if this Association is to go into operation when 65 percent, I think it says, is subscribed, then our proportionate subscription would be greater?

Mr. UPTON. Yes, it could be.

Senator LAUSCHE. And therefore if we subscribe in accordance with the recommendation, and the Association is allowed to go into business when 65 percent of the total contemplated subscriptions have been made, we would be contributing more than 32 percent?

Mr. UPTON. If only 65 percent have been made, Senator.

Senator LAUSCHE. Yes, that is correct.

## GUARANTEE FOR THE FREE FLOW OF COMMERCE

Now then, let us get to the further pursuit of the thought raised by Senator Aiken with regard to section (f) on page 31. It says:

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

Is that language inserted into this agreement for the purpose of preventing the Association from directing the flow of international commerce?

Mr. UPTON. Well, I do not think I have ever heard it expressed in quite that way. I think that it has always been one of the principles of the World Bank that bidding for any of the projects which are financed should be free and competitive on a free world basis, and this is the reflection of that same policy in the International Development Association.

Senator LAUSCHE. If the Association sought to direct a borrower, let us say Thailand, to buy its goods in the United States for a particular project, under the terms which I just read, that would be invalid?

Mr. UPTON. That is correct.

Senator LAUSCHE. So that to that degree it does intend to guarantee the free flow of commerce insofar as the use of these loan funds may be concerned?

Mr. UPTON. Yes, I think that is correct, Senator. I would put more of the emphasis on procurement than possibly on commerce, but with that minor reservation, I would agree with you.

Senator LAUSCHE. Yes. Again it is a matter of semantics, they are both commerce.

Mr. UPTON. Yes.

Senator LAUSCHE. Now, going to the next sentence:

The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these articles.

## PROVISIONS LIMITING THE RIGHT TO LOAN

Now, stopping at that point, where in the articles are there any provisions which limit the right to loan, and attach conditions?

Mr. UPTON. Well, specifically, in article IV, section 1. Now, that reads:

Currency of any member listed in part II of schedule A—  
that is the underdeveloped countries—

whether or not freely convertible, received by the Association pursuant to article II, section 2(d), in payment of the 90-percent portion payable thereunder in the currency of such member, and currency of such member derived therefrom as principal, interest or other charges, may be used by the Association for administrative expenses incurred by the Association in the territories of such member and, insofar as consistent with sound monetary policies, in payment for goods and services produced in the territories of such members and required for projects financed by the Association and located in such territories.

Senator LAUSCHE. I think you can stop right there. I think that answers the question so far as I am concerned.

Mr. UPTON. Thank you.

## RESTRICTIONS ON USE OF FUNDS

Senator AIKEN. Can I just make another suggestion? Could a contributing member make that contribution with the restriction that none of those funds should be used by the borrower for making purchases in a Communist country? There must be a purpose in putting this escape clause in there, and what we want to know is what it is.

Mr. UPTON. Well, I think that is covered by article V, section 1(f), where it says:

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

This does leave it open to the Association to put restrictions for the purchase of goods in the areas of any nonmembers.

Senator AIKEN. Because someone in the Senate is certainly going to get up and say, "How much of this is going to Khrushchev?" I will almost guarantee that.

Mr. UPTON. This provision is so worded to refer to the members, and the clear implication of it is that the Association may make restrictions with respect to the purchases of goods in nonmember areas.

Senator AIKEN. The Association may make the restrictions, but those restrictions can be insisted upon by a contributing member?

Mr. UPTON. With respect to any of the so-called supplementary resources, this could be included in the agreement under which these were made available.

Senator AIKEN. That sentence does not say "supplementary resources."

Mr. UPTON. Well, at the bottom it says——

Senator AIKEN. It says:

including restrictions attached to supplementary resources.

Mr. UPTON. It says:

The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these articles, including restrictions attached to supplementary resources \* \* \*.

In other words, if such restriction exists in a supplementary resource, the Association may comply with it.

Senator AIKEN. It also includes the initial contribution, does it not?

Mr. UPTON. Yes; but that would come under the first sentence, however.

Senator LAUSCHE. To clarify that. That would apply only to nonconvertible currency, the second clause?

Mr. UPTON. The second clause. But the first clause applies to everything else.

The first clause is a general as well as quite a specific clause, and then the exceptions to this are found in the second clause.

## LIMITATIONS ON THE USE OF LOCAL CURRENCY

Senator LAUSCHE. Now, getting to supplementary resources, are you, Mr. Upton, familiar with the limitations that are imposed upon our country in the use of local currency, and if you are, how does our position become improved by placing the local currency with the

consent of the country that has issued it in this Association. There are certain limitations upon our right to use local currency under the provisions of Public Law 480. Is our effort expanded when we take the local currency, say, of Thailand and put it into the Association?

Mr. UPTON. We would think these rights are probably not expanded, Senator.

Senator LAUSCHE. So that they would remain identical. When we sell grain to a foreign country and agree to take their soft currency, we say, "We will not take it out of your country, we will leave it there, we will loan it to you for development projects." There may be more than that.

Mr. UPTON. I would not say they were identical; I would say they remain very definitely within the legislation and also within the spirit of the act, but by making them available to IDA, they may be used on different types of projects, IDA projects, possibly projects which would not otherwise have been developed.

So I do not think I would say identical; I think I would say parallel.

Senator LAUSCHE. Well, they are parallel.

#### WIDER SELECTION OF USES FOR LOCAL CURRENCIES

For the purpose of the Senate as a whole, will you point out by illustration how the expanded use of them becomes authorized if they are loaned through public law or through this Association, as distinguished from keeping them in the status that they are now in?

Mr. UPTON. Senator, some of the interest in and early support for IDA in the United States arose from the belief that beneficial additional uses for local currencies held by the United States could be made through such a multilateral institution. Indeed, the effectiveness of local currencies by the IDA as set forth in its articles of agreement is one of its important aspects. We believe, therefore, that the IDA in providing a wider selection of uses for Public Law 480 currencies will be of benefit to the countries whose currencies would be involved, to the IDA and its objectives and also to the United States. To the extent that Public Law 480 currencies may be used through IDA to defray local costs of projects which would otherwise be financed in hard currencies, dollars and other hard currencies will be conserved.

Senator LAUSCHE. You are restating what you said a moment ago, but illustrate it. I would like to see how the use would be widened or expanded under the Association's loan as distinguished from the present status of local currencies?

Mr. UPTON. Well, I think there is a significant portion of this currency which is loaned back or in some cases granted back, to the country itself, sometimes for rather general purposes. Now, if a portion of this were under an agreement with the country and ourselves and IDA, transferred to IDA, then we could be assured that in the use of these funds the judgment and the wisdom and the management of the World Bank and IDA would be behind the selection of the specific project for which these would be used rather than this possibly being based on a rather general agreement with the country

receiving this currency with respect to the portion that has been loaned or in some cases granted back to it.

Senator AIKEN. Will the Senator from Ohio yield?

Senator LAUSCHE. Yes, I will yield.

Senator AIKEN. There is this: If it is a bilateral arrangement for the use of these funds, the United States has control over their use and the United States, to a certain extent, at least, could expect to recover part of it through new business.

But turning it over to the IDA, it is anticipated that any borrower from IDA would do business where they could do business best. The United States is already priced out of the market in a great many fields, and that is why I am trying to find out if the United States can make restrictions to protect itself.

Mr. UPTON. Let me try to clarify my remarks. These local currencies have a very restricted value in international commerce. In other words, to make these local currencies available for purchase in the United States or in England or Germany, or any of the industrial countries, would, in effect, mean that the country concerned would have to take its local currencies and give us or IDA dollars or hard currencies for them, and this is not contemplated.

It is stated here in the articles that it would be expected that the use of the local currency resources provided by the countries themselves will be limited to IDA-financed projects within the country, and also to an agreement with the country for a wider use. Now, this does not so state with respect to Public Law 480 resources, and that will rest on a separate agreement.

We would consider that the same consideration would have to be given to the economy of the country and the sound financial policy of the country.

I think that what you were referring to is more appropriate for the hard currencies that are contributed to IDA's capital than to the soft currencies which would not generally be converted in any case.

Senator AIKEN. Don't we have bilateral agreements with many countries for irrigation projects, and things like that, in which we either use the soft currency, or we would have to give up the project, or use dollars for the same?

Mr. UPTON. That is correct.

Senator AIKEN. And in those arrangements, like Vietnam, for instance, aren't we providing that certain percentages, a fairly high percentage, of these loans must be spent in the United States?

Mr. UPTON. But not the local currency; that would not be available for spending in the United States.

Senator AIKEN. Yes, Vietnam was not a good example of that, because the local currency may be spent in Vietnam.

Mr. UPTON. Yes.

Senator AIKEN. But the dollar loans have to be spent in the United States, as I understand it?

Mr. UPTON. Yes.

Senator AIKEN. But all I want is to make sure that the United States is protected so that we are not subsidizing our keenest competition.

Mr. UPTON. Well, I think the answer to that, Senator, is to be found in the nature of this institution. We do protect ourselves in the

Development Loan Fund and in the Export-Import Bank, because the United States is the sole contributor to the capital and resources of these institutions.

Senator AIKEN. Yes.

Mr. UPTON. But this is an institution where there is an international contribution from all of the member countries, and where the contribution of the United States is significantly less than half.

It has always been the practice in international institutions to have free bidding and free competition, and the United States has always received a share of this free bidding. This is the practice that is anticipated will be carried on in IDA, if for no other reason than its close association with the Bank and the bidding practices of the Bank.

Senator AIKEN. That is all.

Senator LAUSCHE. Let me pursue it from a different flank now.

#### USE OF SOFT CURRENCY

We—the subscribing nations in part I—have to pay our subscription either in gold or hard currency; isn't that correct?

Mr. UPTON. Yes, sir.

Senator LAUSCHE. And the original subscriptions, if all are vitalized, will be in the sum of a billion dollars.

Mr. UPTON. In both, in all currencies.

Senator LAUSCHE. Yes; in all currencies.

Then the articles provide for supplementary subscriptions, and that is where we would subscribe our soft currencies?

Mr. UPTON. Supplementary resources.

Senator LAUSCHE. Supplementary resources.

Mr. UPTON. Yes.

Senator LAUSCHE. Now, viewing it coldly, is the channeling of soft currency in this Association widening the use of the soft currency by merely becoming a member of this?

Mr. UPTON. No; it is not widening the use by merely becoming a member of this, because each transfer of soft currency from United States holdings has to be a separate transfer negotiated and agreed upon and by becoming a member of this we only agree to subscribe to the hard currency portion.

Senator LAUSCHE. But there would be no sense in channelizing the money into this Association unless a wider use of the soft currency were made.

Mr. UPTON. Or a more effective use.

Senator LAUSCHE. Well, let's put it this way: By subscribing in a supplementary way, we will definitely, through our membership, be authorizing a changed use of the soft currency.

Someone is going to ask before we get through: "Aren't you just trying to find some widened and new use of a plethora of soft currency?" Somebody will have to be able to answer this question.

Mr. UPTON. Well, I am a little confused as to whether this is being approached from the legal point of view, or the actual end use.

From the legal point of view, our acceptance of membership in the Association does not authorize a changed use of local currency; it does make an additional channel available for such uses as are authorized. As I indicated, we think this use is authorized but may require further clarification.

But with respect to the end use of this local currency we would think that by making this available to finance IDA-financed projects, as well as what had been financed previously just by the United States on a bilateral basis, that it would be making a wider use of these currencies.

Senator LAUSCHE. If you can possibly do it, I would like to have you illustrate how the widened use would become effective. That is all I have to offer.

The CHAIRMAN. I wonder if the committee would mind. We have had the Under Secretary of State waiting here for quite some time, and I know he has a great deal to do. I wonder if we could not suspend our questioning of this witness and ask him to be available on Monday when we will have another hearing on this. I believe this would be better than to try to get the Under Secretary back. We are interested in the conservation of his time, because we are very conscious of the need of the administration to have the full services of the Under Secretary downtown. Would that be agreeable, if we could suspend? Would the Senator from Idaho mind if we suspend with this witness and return to him on Monday?

Senator CHURCH. Mr. Chairman, I certainly would not mind, because the request is predicated upon accommodation of the Under Secretary of State.

The CHAIRMAN. It is so late that I am afraid if we don't take him now, I don't know when we will get him back.

We will have Mr. John McCloy and other public witnesses on Monday, and I am sure either Mr. Upton, or perhaps the Secretary, would be available then for further questions.

Would that be agreeable?

Senator CHURCH. That is agreeable with me, Mr. Chairman.

The CHAIRMAN. Would you mind doing that, Mr. Upton? Could you be available on Monday?

Mr. UPTON. Yes, sir.

The CHAIRMAN. The next witness has been here for an hour, and I think we ought to give him a chance to say something. Mr. Dillon, would you come forward. You have some comments to make on this legislation.

I may say that Mr. Dillon had a good deal to do with the original consideration of the resolution in the Banking and Currency Committee, and did very much to enlighten that committee on the significance of this proposal. I thought perhaps it would be useful for the committee to have him here to give us his views on it.

Mr. Dillon, will you proceed please.

#### STATEMENT OF HON. DOUGLAS DILLON, UNDER SECRETARY OF STATE

Mr. DILLON. Mr. Chairman, I have a brief statement which I will read, if you would like me to.

The CHAIRMAN. Why don't we put that in the record. Then we could ask you a few questions.

Mr. DILLON. Yes, I would prefer that.

The CHAIRMAN. I think maybe in deference to the members who have been sitting here, I might start with the Senator from Idaho and let him start with this witness.



Senator CHURCH. Thank you very much, Mr. Chairman. I appreciate the opportunity, particularly in view of the fact I have a luncheon engagement for which I am already late.

Mr. Secretary, you have been following the questions that were asked heretofore of the last witness, Mr. Upton.

#### LOANS BY THE IDA TO BE LARGELY IN HARD CURRENCY

Following that line of questions, I note that the original subscription to the IDA will consist, very largely, of hard currency. I would roughly calculate that something over 80 percent of the original subscription would be in hard currency.

Now, would that not mean that about 80 percent of the loans to be made by the IDA would have to be made in hard currency?

Mr. DILLON. The actual figure is about 78½ percent of the resources of the IDA—assuming everybody comes in and takes their full quota—would be in hard currency, and these hard currencies would be the resources that would be loaned.

It would not necessarily mean that every loan was made in that proportion. One loan might be made entirely in hard currency.

Senator CHURCH. True. But I mean in the overall business done by the IDA, the loans would largely be made in hard currency?

Mr. DILLON. That is correct.

Senator CHURCH. Because the resources of the IDA would largely consist of hard currency?

Mr. DILLON. That is correct.

#### FINANCIAL ADVANTAGE OF IDA

Senator CHURCH. Now, in the excellent original presentation of Mr. Upton I gathered that the chief advantage of IDA would be its capacity to make loans of a kind that the Export-Import Bank, or the World Bank, could not make owing to the higher operating costs and the nature of the financing of the Export-Import Bank and the World Bank.

The IDA could make loans of the longer term and at a lower interest because its operating costs would not be so high. Is that a proper statement?

Mr. DILLON. That is correct.

Senator CHURCH. Now, is that due to the fact that the capital contributed to IDA is grant capital?

Mr. DILLON. That is the basic reason.

Actually, the costs of the funds that are contributed to the Export-Import Bank also come from the U.S. Treasury, but they are made available for the purpose of stimulating our own exports, and the policy has been that those loans should carry an interest rate that is based on the cost of money to the U.S. Treasury.

In the case of the IDA, their funds would also come from government contributions and not, as in the case of the World Bank, from the sale of bonds in the private market.

It is contemplated that every so often, the charter contemplates at least every 5 years, there would be a meeting of the member countries to consider whether or not to replenish the resources of the fund, because they would be used up.

Senator CHURCH. But there would be no obligation upon the IDA to repay any of the capital subscribed therein?

Mr. DILLON. No; there is no obligation to repay it and the purpose of it is to make available loans on flexible terms, and there is even a provision that this might be at no interest at all, zero interest rate.

#### USE OF PUBLIC LAW 480 FUNDS

Senator CHURCH. Now, with respect to the supplementary resources, which were the subject of the earlier inquiry, if Public Law 480 funds were used, soft currency, it is my understanding that under Public Law 480 the United States may loan back to the country involved local currency to the credit of the United States that has been accumulated as the result of the sale of grain to that country.

Mr. DILLON. That is right.

Senator CHURCH. But these transactions take the form of loans and the country involved is obligated to repay the money. If this money were to be made available to the IDA under a three-party agreement, would this supplementary money be extended to the IDA on the basis of a loan, and would that supplementary money have to be repaid to the creditor, the United States, as would normally be the case if it were handled as a 480 matter?

Mr. DILLON. It is my understanding that it would not. The United States would get a certificate indicating that they had made this sort of contribution, but it would not be a loan that would bear interest and would have to be repaid.

Now, as far as Public Law 480 is concerned, there is also a provision in Public Law 480 where grants can be made under a waiver procedure, and we do make considerable grants out of Public Law 480 funds for economic development.

Senator CHURCH. So for that reason you feel that—

Mr. DILLON. This would be comparable.

Senator CHURCH. This would be within the framework of existing law?

Mr. DILLON. Well, our feeling is that actually the existing law provides that you can make these loans and grants either to countries or to international organizations.

That law was written some time ago when IDA had never been contemplated, but that is why, technically, it probably is the case that we already have the authority to use this. But since IDA is a new idea, and it is something where this might really be used, whereas it has never been used for this purpose before, we thought it might be better to get specific authorization by an amendment to Public Law 480.

Senator CHURCH. I just have one other question, Mr. Secretary.

#### SHIFT OF EMPHASIS ON LOANS TO LESS DEVELOPED AREAS

It seems to me that, ironically as it may be, a hot war will stimulate tremendous progress in the industrial and scientific fields, even in the medical field, that afterward has a very constructive and beneficial effect. The cold war may also have a stimulating effect by increasing the degree of governmental participation in financing the development of the underdeveloped countries of the world that might not have otherwise taken place for a long, long time to come.

But the motivation is the cold war. The motivation for our foreign aid program and for the participation on the part of the United States in these international banks has been, at least in large part, due to the cold war and our anxieties concerning them.

Now, having in mind that the World Bank was originally established at the time when the economy of Western Europe was broken and wasted in the wake of the war, and the change, the rather dramatic change of conditions that has since occurred, to what degree has the focus of the World Bank's loaning shifted to the underdeveloped parts of the world?

What I mean to get at is to what degree do the established banks now attempt to assist in the financing of the development in the underdeveloped areas of the world which is the objective of IDA?

Has there been a shift in their emphasis and in their loans in recent years?

Mr. DILLON. Yes. The title of the World Bank is the International Bank for Reconstruction and Development; and their original loans were to European countries for reconstruction.

After a short period, a 2- or 3- or 4-year period, their loans have been entirely for development. However, they have made, and do make, some development loans in countries that we would consider highly developed countries, such as Australia, or Belgium, or Japan, recently; but, certainly the great bulk of their loans are made for the purposes of development in countries we would consider underdeveloped.

However, they are limited by the capacity of these underdeveloped countries to repay their hard loans in hard currency, convertible currency, over the period of time that is required, which would be 15 to 20 years maximum, and at an interest rate which is set by the cost of money which is now about 6 percent or higher. Six and a quarter percent is the current World Bank rate.

Senator CHURCH. Would it be fair to say if IDA is established, and our participation in it is ratified and approved, that the newly established IDA and the World Bank and the International Monetary Fund all will be working together, and their effort would be focused toward the underdeveloped areas of the world?

Mr. DILLON. I would say that is correct. Less so with the International Monetary Fund, because an important purpose of the Fund is to preserve orderly exchange markets and their funds are available for developed countries, as well as underdeveloped countries, when they get into trouble, as for instance, their loans to England and to France in the last few years, which helped them over difficult situations, and are being rapidly paid off.

Senator CHURCH. Thank you very much, Mr. Secretary.

I have no further questions, Mr. Chairman.

#### EFFECT OF THE IDA REQUEST ON THE MUTUAL SECURITY ACT

The CHAIRMAN. Mr. Secretary, have you considered that the passage of IDA might in some way prejudice the fate of the MSA which will be following very shortly hereafter?

Mr. DILLON. I would hope there would be no such effect. The effect on the current budget of the United States would be some \$73

million, which is all we would be contributing to this, which is not very significant compared to the sums that are needed and that we are requesting in the MSA legislation.

#### THE DIFFERENCE BETWEEN THE IDA AND OTHER INSTITUTIONS

The CHAIRMAN. Do you feel there are sufficient grounds to distinguish the purpose on the one hand, and the impact on the other, of these two different measures so that they will not be considered as duplicating functions?

Mr. DILLON. I think they are very similar; there is really very little difference, if any, between the objectives in the way IDA will operate and the way our own Development Loan Fund operates.

The purpose of IDA is to find a method to obtain substantial contributions from other countries able to contribute and join with us in a multilateral effort.

So this carries out, to a certain extent, the efforts that we are making all the time to get other industrialized countries that are able to do so to carry a larger share of the development burden. That is the fundamental difference, rather than the types of things we are doing.

The CHAIRMAN. Senator Aiken, do you have a question?

Senator AIKEN. No; I thought Senator Williams was next.

The CHAIRMAN. I am sorry. I should have called on you before, Senator Williams.

Senator WILLIAMS. Mr. Chairman, I do have a couple of questions, but I would just as readily direct them to Mr. Upton on Monday, and would just as soon do it and save the time of the committee.

The CHAIRMAN. You go right ahead. I apologize; I overlooked you sitting there. I went to the end over there.

Senator WILLIAMS. That is all right. But how long did you want to continue? My questions can just as readily be asked Monday. I can carry them over.

The CHAIRMAN. Well, you can reserve the ones you think are appropriate. Don't you think you have one that this witness is especially qualified to answer?

Senator WILLIAMS. I think either of them can answer the questions I want to ask. I would just as soon have it go over to Monday.

The CHAIRMAN. Senator Lausche, then.

#### PROPORTION OF PUBLIC LAW 480 GOODS COVERED BY SALE OR BY BARTER

Senator LAUSCHE. Do you have in mind the proportion of the surplus foods that have been distributed under Public Law 480 that are covered by the gift provision in case of famine emergency, and the proportion that are covered by sales, and the proportion that are covered by barter? Do you have that immediately available?

Mr. DILLON. Not immediately. The amount by sales is far larger than the amount that is under title II by gift, but we will have to give you an accurate figure. We can easily supply that for the record.

(The information referred to is as follows:)

*Export market value of exports of U.S. farm products under Public Law 480 for period fiscal year 1955 through fiscal year 1959*<sup>1</sup>

Title	Millions of dollars	Percent
Title I (sales).....	2,811	55
Title II (emergency relief).....	410	8
Title III:		
(a) Barter.....	1,056	16
(b) Donations.....	789	21
Total.....	5,066	100

<sup>1</sup> The "11th Semiannual Report on Activities Carried on Under Public Law 480, 83d Cong., as Amended," table III, p. 5.

Senator LAUSCHE. My recollection is that the total amount that has been distributed is about 9½ billion and that about 5½ billion is in the sales. The smallest proportion, or share, is in the gift, and the second is in the barter.

You stated a moment ago that we have distributed by way of gift a lot of the currency, or was it the food that you had in mind?

Mr. DILLON. No; it was the currency, Senator. It isn't a large amount, but we are beginning to do it somewhat more now in the case of countries where we have a large accumulation of currency that can't possibly be used for our own use.

When we try to lend this currency, our use of it is pretty well restricted to projects of immediate economic value; but if we wanted to help a country with a school system, building a hospital, building some roads for which you could not see an immediate return, it is, we feel, a sounder practice to contribute those funds on a grant basis to the country concerned. The President has delegated to the Bureau of the Budget the authority to approve such grants.

Senator LAUSCHE. To the nations that issue the currency?

Mr. DILLON. That is correct. Only to them.

Senator LAUSCHE. Is it envisioned that under the IDA that this soft currency might be loaned to other than the issuing country?

Mr. DILLON. No, sir; I don't think so. There is a possibility that it could be under agreement, but it is not really—

Senator LAUSCHE. Very remote?

Mr. DILLON. Very remote.

#### PURPOSE OF CHANNELIZING FUNDS THROUGH THE IDA

Senator LAUSCHE. Then what is the purpose of channelizing it through the IDA?

Mr. DILLON. The only purpose, Senator, would be that it would somewhat simplify a financial transaction by the World Bank which would involve both hard currencies and soft currencies, because if it was in the IDA, they could make one loan agreement by the World Bank and the IDA, which is the same organization, and it would be a simple transaction; whereas, otherwise, it would be a question of correlating the operations of the World Bank, a multilateral institution, and the United States on a bilateral basis, and we would have to go in and make a bilateral loan of the amount of local currency that

was needed at the same time as the World Bank made their own loan of hard currencies.

That could be done, but it is somewhat more complex.

Senator LAUSCHIE. Then, acquiring the advantage of the entire loan being made by the World Bank, the only difference that exists would be that in the one event we would get the money back if we made the direct unilateral loan, but when we capitalize it through the World Bank, we don't get it back.

Mr. DILLON. I think that would be correct, if it were a loan.

Senator LAUSCHIE. This would enable us to give the money away.

Mr. DILLON. That is correct. It would be similar to the grant process that we now operate under.

Senator LAUSCHIE. Will this S. 3074 authorize the giving of this soft currency to the IDA?

Mr. DILLON. It is not specifically authorized in there. As I stated in answer to, I think, Senator Church's question, we think that under the Public Law 480 legislation, as presently written, we probably technically have the right to do that anyway, but in view of the fact that this is really something that was not contemplated at the time that legislation was passed, we are considering and, I think, probably will suggest, an amendment to the Public Law 480 law that will specifically provide this authority.

Senator LAUSCHIE. Would you supply, or have one of your assistants supply, the language in present Public Law 480 which authorizes you to dispose of the soft currency by gift?

Mr. DILLON. Yes, sir; we will.

(The information referred to is as follows:)

Section 104 of Public Law 480 authorizes the President to use or enter into agreements with friendly nations or organizations of nations to use the foreign currencies which accrue under title I of the act for one or more of 18 enumerated purposes set forth in subsections (a) through (r) of section 104.

In the case of some of these "uses," authority to transfer by grant foreign currencies accruing under the act is expressly provided by the language of the subsection itself. This is true of section 104(o) which provides that foreign currencies may be used—

"(o) For providing assistance, in such amounts as may be specified from time to time in appropriation acts, *by grant or otherwise*, in the expansion or operation in foreign countries of established schools, colleges, or universities founded or sponsored by citizens of the United States, for the purpose of enabling such educational institutions to carry on programs of vocational, professional, scientific, technological, or general education;". (Emphasis added.)

In the case of certain other "uses," authority to transfer by grant foreign currencies accruing under the act may be implied from the language of the applicable subsection. This is true, for example, of section 104(c) which provides that foreign currencies may be used—

"(c) To procure military equipment, materials, facilities, and services for the common defense;".

The "use" most relevant to the question of possible transfer by grant of foreign currencies accruing under the act to the IDA is section 104(e) which provides in relevant part that foreign currencies may be used—

"(e) For promoting balanced economic development and trade among nations \* \* \*;" (This subsection also contains the Cooley loan provisions which are not pertinent to the question raised.)

That grants of foreign currencies may be made under this subsection is expressly recognized by the first of the three final provisos to section 104 which provides in relevant part:

"Provided, however, That section 1415 of the Supplemental Appropriation Act, 1953, shall apply to all foreign currencies used for *grants* under subsections \* \* \* (e) \* \* \* [unless waived by the President]." (Emphasis added.)

Section 104(e) appears particularly pertinent to the question of possible transfer by grant of foreign currencies accruing under the act to the IDA, since one of the principal purposes of the IDA will be to promote "balanced economic development and trade among nations." It may also be noted that section 2 of Public Law 480, which declares the policy of Congress, states in relevant part: " \* \* \* It is further the policy to use foreign currencies which accrue to the United States under this Act to expend international trade, to encourage economic development, \* \* \*."

With respect to transfers to the IDA of foreign currencies accruing under the act, it may be noted that the initial paragraph of section 104 provides that— " \* \* \* the President may use or enter into agreements with friendly nations or *organizations of nations* to use the foreign currencies which accrue under this title for one or more of the following purposes;". (Emphasis added.) Thus, the act appears to expressly authorize the President to enter into an agreement in this regard with an international organization such as the IDA.

Senator LAUSCHE. I think that is all that I have.

The CHAIRMAN. Mr. Dillon, do you have anything further to add? You heard Mr. Upton's statement. Do you have anything you would like to volunteer?

Mr. DILLON. Nothing, except to say that we heartily support the creation of this institution because we think that it will provide a way of obtaining additional resources from other industrialized countries that are interested in helping in development, but have not been able to, or have not found a way of doing so to a very large extent so far, and they will be able to provide these reserves in a way that will be peculiarly helpful to the recipient countries, on this flexible, long-term basis which we have been using for some time, but which has not been common in the international financial community. Therefore, we think that this is a very useful and helpful thing, and we are strongly in favor of it.

The CHAIRMAN. Is it fair to say that the real significance is this spreading of the burden as represented by the hard currency; that the soft currency is quite secondary in importance; and whether or not these contingencies develop is unimportant as compared to bringing the hard currency countries into this effort? Is that correct?

Mr. DILLON. Yes, Mr. Chairman, I think the fundamental thing is the fact of this increasing availability of hard currencies from industrialized countries.

The CHAIRMAN. It creates a mechanism for contributions that does not now exist; does it not?

Mr. DILLON. That is correct. There is a specific provision in here that any industrialized country which wishes to increase its quota individually may make such arrangements, and that might be a possibility for some of the European countries, who are now in a better financial situation than they were at the time of the creation of the World Bank, to make additional resources available.

The CHAIRMAN. The argument that this is duplicating existing institutions, and so on, is not sound since the effect upon us is to spread the burden; is it not?

Mr. DILLON. That is correct.

The CHAIRMAN. It is very much to our advantage?

Mr. DILLON. That is why we favor it.

The CHAIRMAN. In accomplishing the overall purpose it is to our advantage to have this mechanism established; is it not?

Mr. DILLON. Yes, Mr. Chairman.

The CHAIRMAN. The long-run objective of the Government is, as conditions warrant and as improvements take place in these other countries, that we continue to decrease our direct grant programs and transfer it into this field of lending in which other countries participate. Is that not correct?

Mr. DILLON. That is what we would like to do to the maximum extent possible, and this provides a vehicle for that.

The CHAIRMAN. Thank you very much.

If there is anything of critical importance that arises, I hope you would be available to the members who were not given an opportunity to question you this morning.

Mr. DILLON. Yes, Mr. Chairman.

The CHAIRMAN. I think that may not be necessary, but if it is, we will let you know.

(The statement of the Under Secretary is as follows:)

PREPARED STATEMENT BY HON. DOUGLAS DILLON, UNDER SECRETARY OF STATE

I welcome the opportunity to appear before this committee to urge favorable action on the bill before you to authorize the United States to accept membership in the proposed International Development Association. The Department of State fully supports the proposed legislation.

In his statement this morning, the Assistant Secretary of the Treasury, Mr. Upton, described in detail the structure and functions of the International Development Association. I should like to talk about the relation of the Association to our foreign objectives.

The basic premises behind the idea of the International Development Association can be stated simply and briefly.

The less-developed countries of the free world must have a satisfactory rate of economic growth if they are to maintain their freedom and develop into stable, effective, responsible societies. It is an important objective of U.S. foreign policy to help these countries achieve adequate economic growth.

But the job of helping the low-income countries is not one that the United States alone can accomplish. It requires the combined efforts of all the economically advanced nations of the free world. It is right and proper that those nations whose incomes and savings are high should help the developing countries to economic and social progress. This has been the normal pattern of the past. Our own growth on this continent was substantially aided by other nations economically more mature than we.

Today, in a world community in which two-thirds of the world's people are striving to throw off the tyranny of poverty, disease, and illiteracy, it is imperative that all free nations help, lest these peoples, overwhelmed by massive problems, exchange the tyranny of poverty for the tyranny of the all-pervasive, all-controlling state. We, who value liberty, tolerance, and the free and open exchange of ideas, owe it to ourselves to enlarge the community of nations that can meet the aspirations of their peoples for economic and social betterment in an environment of freedom.

Thus, the first basic premise of the IDA is cooperative sharing among all free-world nations of the responsibility for helping the less-developed countries, a task to which all contribute but to which the economically stronger members make a proportionately larger contribution.

In the IDA, the economically advanced countries would subscribe 76 percent of the capital of the Association and their subscriptions would be freely convertible. The low-income countries would subscribe 24 percent of the capital, but only 10 percent of their subscriptions would be in convertible currencies. Ninety percent of their subscriptions would be in national currencies, usable primarily for development projects in their own countries.

The second basic premise of the IDA is that the less-developed countries need external capital on flexible repayment terms. Developing countries need to import from abroad the technology, the industrial materials, and the capital equipment on which growth depends. For this purpose they can use their export earnings; they can encourage the inflow of private investment capital;



and they can borrow on conventional terms from existing public lending institutions.

For some of the low-income countries, especially those which have already achieved momentum in their development, these three sources are adequate to permit a satisfactory rate of growth.

But for many other developing countries, additional sources of capital on easier terms are needed. In some of them, export earnings can barely finance the import of essential consumer goods, there is little left with which to finance imports of capital goods required for growth. Private capital is slow to move because underdevelopment is itself a deterrent. The low level of labor skills; the limited local market; the absence of basic facilities, such as roads, power, and communications on which private enterprise depends; the uncertain political climate, are all obstacles to a greater flow of private funds.

Many of these countries, of course, obtain loans from the International Bank and the U.S. Export-Import Bank. Both institutions have made substantial sums available for imports of capital goods. But the borrowing capacity of the low income countries is limited. Loans from the International Bank and the Export-Import Bank must be serviced in hard currency at rates of interest determined by market conditions. The need for capital imports of many developing countries far exceeds their capacity to service loans on normal banking terms. Many projects that are sound in conception and basic for growth cannot be financed by conventional loans.

Therefore, supplementary funds are needed to provide capital on easier terms for the multitude of projects and programs that cannot otherwise be set in motion. This is the job of our own Development Loan Fund. It is also the job envisaged for the proposed International Development Association. The IDA can be most clearly grasped if it is thought of as an institution with the same basic purpose as the DLF but, by virtue of its international membership, one in which others can participate fully in doing the job that must be done. The IDA, like the U.S. Development Loan Fund, would provide growth capital for meritorious projects on terms that do not overburden the economies of the borrowers.

The IDA should not be thought of as a substitute for the Development Loan Fund, nor should its establishment be the occasion for any lessening of our national effort. The need for development capital is too great for that. The United States must, moreover, have economic instruments of its own which will be responsive to national needs and foreign policy considerations. The IDA should be regarded rather as an additional source of capital, an important addition that increases the total flow of development funds from free-world sources, and one that helps thereby to advance an important objective of U.S. policy.

The third basic premise behind the IDA is that it should be closely affiliated with the International Bank. The IDA will be financing much the same type of project as the International Bank. Both the parent and the affiliate will be examining development programs, determining priorities, judging the technical feasibility and economic soundness of specific projects. This will be their day-to-day work. The essential difference will not be in this day-to-day function. It will be in the repayment obligations imposed on borrowers. It is entirely logical, therefore, that the IDA should be closely tied to the International Bank.

The International Bank has had more than a decade of experience in financing the development requirements of its members. It has sound management, a skilled staff, and singleminded devotion to promoting economic growth. It enjoys the confidence of its 68 members. The affiliation of the IDA with the IBRD will assure that scarce resources are put to optimum use.

These then are the three basic ideas behind the International Development Association: to enlist the participation of all free-world countries in providing growth capital to the less-developed areas; to provide this capital on flexible terms; and to assure sound management through utilizing a tried international institution.

The IDA will be one of several development institutions, each fashioned to do a particular job and to meet a particular need. Let us see how the Association relates to the other institutions that are now engaged in providing capital for economic development.

We have two national lending agencies. First, there is the Export-Import Bank, which promotes the trade of the United States. Export-Import Bank loans must be repaid in dollars on conventional banking terms. Then we have

the Development Loan Fund. The Fund finances development projects that cannot meet the repayment criteria of the Export-Import Bank or other hard-loan institutions. Its loans are made on flexible repayment terms, many of them carrying a lower rate of interest and permitting repayment in local currency. These two institutions complement each other.

We have recently helped to establish the Inter-American Development Bank to promote economic growth in the Americas where we have especially close historical relations. This institution will have two departments: one to finance development projects on normal banking terms as in the case of the IBRD or the Export-Import Bank; the other to provide financing on more flexible terms as is done by the DLF and as is proposed for the new IDA. Its creation has stimulated the more-developed Latin American countries to contribute capital for the growth of those in the Americas who are much less developed. The responsibility for management and for allocation of resources among competing claimants will be a responsibility of the Latin American countries themselves. The institution will increase the total flow of capital, give cohesion to the Americas, and impetus to development. Thus it performs functions over and above those performed by our national financing instruments.

Then there are the international institutions. There is the International Bank that provides loan capital for development projects. It is similar to our Export-Import Bank in that its loans are hard loans. But the IBRD was created to enable many countries to pool their resources and share the burden. It gets the bulk of its funds from the private capital markets of the world with the help of the guarantees of its member governments.

There is the International Finance Corporation, an affiliate of the International Bank. Its purpose is to stimulate private investment in the less-developed countries by associating its capital in private ventures. Its resources have been subscribed by government members.

There is, however, no widely based international organization that pools the resources of many countries for the purpose of providing development capital on flexible repayment terms. This is the function that the new IDA will perform.

The IDA will not duplicate or compete with other lending institutions. It will increase the total flow of development capital to the newly developing areas. It will provide financing of a kind not now available from any other free world multilateral institution. It will perform a valuable service in promoting not only the growth but also the cohesion of the countries of the free world.

I urge this committee to take early favorable action to authorize the United States to join with the other free world nations in the establishment of the Association.

The CHAIRMAN. The committee will now stand adjourned until 10 a.m., on Monday, at which time further testimony will be received on the International Development Association in this same hearing room.

The witnesses, with the possible addition of either Mr. Upton or Mr. Anderson, will be Mr. John McCloy and representatives of the U.S. Chamber of Commerce, the AFL-CIO, the Friends Service Committee, and the American Farm Bureau.

(Whereupon, at 1 p.m., the committee adjourned to reconvene Monday, March 21, 1960, at 10 a.m.)



# INTERNATIONAL DEVELOPMENT ASSOCIATION

MONDAY, MARCH 21, 1960

U.S. SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10 a.m., in the Foreign Relations Committee room, room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Green, Sparkman, Gore, Hickenlooper, Aiken, Carlson, Williams.

The CHAIRMAN. The Committee on Foreign Relations this morning is holding its second and concluding hearing on S. 3074, a bill providing for the U.S. participation in the proposed International Development Association.

The first witness this morning is Mr. John J. McCloy, of New York.

I may announce for the benefit of the members that on Friday, there were one or two members, specifically, Senator Williams, who did not get an opportunity to question Mr. Upton, and Mr. Upton will be available after Mr. McCloy's testimony in case any Senators wish to question him.

Mr. McCloy, will you come forward, please, sir.

Mr. McCloy, we are very happy to have you. We are very familiar with your long service to the Government in various capacities and we have very high respect for your advice. We are pleased to welcome you this morning.

You have a statement?

Mr. McCLOY. I have a statement.

The CHAIRMAN. You can either read it or put it in the record and summarize it. That is entirely up to you.

## STATEMENT OF JOHN J. McCLOY, CHAIRMAN, THE CHASE MANHATTAN BANK

Mr. McCLOY. Suppose I leave it for the record and read a little summary from it.

The CHAIRMAN. That is fine, if you wish to do it.

Mr. McCLOY. I will not go into the details of the organization and the proposed procedures of the IDA because Treasury officials have already done that, so I will try to confine myself to the high spots as they appear to me from my position as a private banker and also for a time I had the privilege of being president of the International Bank during its formative period.

## THE DESIRE OF LESSER DEVELOPED COUNTRIES FOR IMPROVED CONDITIONS

I think we are all agreed that one of the great challenges, one of the very greatest challenges, to the United States and the free world in this particular period is this matter of economic development of the lesser developed countries, and I have come to the conclusion that this particular institution, the International Development Association, is well designed to assist in meeting that challenge.

There is this very deeply felt desire on the part of members of the lesser developed countries throughout the world for improved conditions. It is not too much to say that it is almost revolutionary. It has been stirred up by a number of things—a combination of the scientific and technological revolution we have had, the desire that the war caused, the extraordinary speedup of the communications, the foreshortening of the world which has brought about the ability of these people to see others and the manner in which they live and to stimulate their desires and aspirations to the point where it has become a very major political element in the postwar world.

Already other countries have developed a very marked improvement of their whole economic status, and I refer to Brazil, the Argentine, Mexico, Australia, and Turkey.

## CRITICAL PERIOD OF DEVELOPMENT

I think that in view of all this we have a situation in which we can exert quite an impact. I ran into something that de Tocqueville said many years ago: That the growth of nations is very much like the growth of human beings; they all bear some marks of their origin, and the circumstances that accompanied their birth and contributed to their development affect the whole terms of their being.

I think this very definitely is true, and I feel that this is a particularly critical period for us to be having an impact on the development of these nations.

In contributing to their economic development, we also, I believe, contribute to their evolution as democratic societies.

The chances, at least, of their adhering more firmly to the concepts that we have of human dignity and the maximum opportunities for individual development are greater.

Certainly, I think that if we stand aside in the light of this great movement which affects such a large proportion of the population and the geography of the world, we are bound to suffer by it.

There are the final aspects of the colonial period still rankling in the memories of these peoples. This, together with the sight that they now see or that they think they see, at least, of the opportunities for increased economic advantage, has brought about a great battle for the control of men's minds of which the competition with the Soviet Union is perhaps only a part, although it is a very important part.

I think myself that probably we would have this problem before us in a very acute form even were it not for the existence of the economic challenge and the political challenge of the Soviet Union. Sir Oliver Franks has referred to the fact that there is a north-south problem as well as an east-west problem, and I think he is right.

## SOVIET ACTION IN THIS FIELD

The fact does remain that the Soviet leaders are very keen indeed, and they are very sensitive indeed, to the existence of this situation in the world, and they seem to have chosen this area of the lesser developed countries as the principal arena of action in the competition with the free world.

You are all familiar with the visits of the top Soviet officials to these areas—India, southeast Asia and Latin America—and even though the Soviet Union is rather coldblooded in going about this matter of economic competition, their assistance is, so far as I can see, somewhat qualified in the sense that it is all tied in with trade loans and hedged with many restrictions concerning the terms of repayment and the use of Soviet technicians. Still they certainly have a very definite propaganda effect and some substantial economic improvement in the areas into which they are moving.

They are challenging us throughout these areas and, of course, even on our own doorstep in the Caribbean.

## THE ECONOMIC IMPORTANCE OF UNDERDEVELOPED AREAS

Now, apart from the political impetus, there are the economic reasons for the United States to promote economic progress in these areas. They supply many of the raw materials which are very essential to our economic growth. They have been generating exchange earnings needed to provide major support for their economic development by supplying these raw materials. Thus we have had the development of a free world economic system serving the interests of all the participants. But although this process has been going on, and they have been generating a substantial amount of foreign exchange through their supply of raw materials, their need for, and their emphasis on, capital goods has somewhat altered the pattern of the old days. Then all that was done was to take in the raw materials in the more sophisticated parts of the world, and send back to them the finished goods, in terms primarily of textiles. The 20th century pattern is a radically different one from the 19th century pattern in respect to these lesser developed countries.

But we must not lose sight of the fact that those raw materials that they can supply are an essential element, not only of their own development, but the maintenance of our own economies.

## REASONS FOR ESTABLISHING THE IDA

Now, these are all familiar statements to you gentlemen, I am sure, and the fact that this is an important aspect of world development today has been recognized by the Congress of the United States on many occasions. It has supported a number of programs which give assistance to these lesser developed countries, and I think the question can very reasonably be raised as to why we should have still another organization and why it should be the International Development Association.

I feel that there are a number of good reasons for the establishment of such an association. Many of these lesser developed countries have arrived at a stage of economic development that has in-

creased their needs and their capacities to absorb capital. This is particularly true in Africa where, I am sure, the need for capital will be even greater in the future.

#### ADVANTAGES OF AN INTERNATIONAL ORGANIZATION

I think we have arrived at a stage in world history where it is perfectly clear that the United States should not be expected to shoulder this added burden alone. It is the international aspect of this institution which I think is very important to stress. I am convinced that other industrial countries, are able and now must assume a greater share of the burden of economic assistance. I think that the IDA is a modest step to assist in that cooperation.

I do not mean that we can afford to do less in absolute terms than we are now doing, but I do believe that the magnitude of the effort supporting economic development does need to be enlarged.

I think that it is important that a substantial part of total assistance be channeled through international organizations, assuming that those organizations are well administered.

The International Bank and the International Monetary Fund, I believe, have gotten to a point where they are highly respected by the member countries, and they are in the great bulk of the lesser developed countries. International institutions can and do frequently insist on sound economic policies as a condition for their assistance. To a degree which it is sometimes very difficult for a national organization to insist upon.

In short, they can say, "no," when the answer should be no, and there is something institutional rather than sovereign or personal about the international organization that takes a great deal of the sting out of the negative answer, or, indeed, criticism.

Certainly, this was my experience when I was involved in the World Bank, and I think that this has been the case throughout the subsequent period.

#### VALUE OF SOFT LOANS

Now, this brings up the question of soft loans which, as I understand it, the International Development Association would administer.

When I was president of the International Bank, it was absolutely essential to fight a vigorous battle against so-called soft loans. We had to go out to the public, to the banks, the insurance companies, the savings banks, in order to obtain the money to enable the bank to operate on something other than the initial contributions of the respective countries. In short, we really did not have a bank until we established in the minds of the investors confidence that that bank would be operated on a sound basis and that the loans that they would put out would be in terms of the market, bankable.

I tried to register the point that the International Bank would be just such an institution. Its objective was that each loan that it made would be repaid on terms which would permit the Bank to raise the money for it in the first place, and that was, I say, absolutely essential at that stage. That policy is still essential, and the high standards maintained by the Bank's management in just this respect are still the basis for its success and the respect in which it has been held.

But I have come to feel that now, due to the development of world forces and the pace of economic development throughout the world, there may be a place for the so-called soft loans. It is pretty clear, I think, that these lesser developed countries will need, and that they can absorb effectively within their countries, more outside loan capital than they could reasonably hope to service in the normal way through the conversion of their exchanges and the balance of payments system.

Many of the loans which the International Bank makes are for projects in the field of power and transportation. They are a rather indirect contribution to the foreign exchange earnings of the country that is involved. The developing countries have a very serious problem converting their local currencies into hard currencies, and the external debt of these lesser developed countries is increasing at a very substantial rate.

I am told from 1956 to 1958 the external debt of the lesser developed countries—Asia and the Middle East and Africa—has almost doubled.

For these reasons I am willing to accept the principle of soft loans as a supplement to the normal operations of the Bank, with, however, the firm understanding that they should be sharply distinguished from those operations which are used to finance the normal type of loans of the World Bank, and the funds that are available for the soft loans must be administered separately from those of the normal World Bank loans. If they were not, I should think there would be a real breach of faith on the part of the World Bank to the investors' funds they have sought from time to time.

#### SOFT LOANS PREFERABLE TO GRANTS

I think a very reasonable question can also be raised as to why we should have soft loans rather than grants. In the context of the IDA operating in close relationship with the International Bank, I believe that there are a number of reasons why soft loans should be preferred over grants, although as I say, the question is somewhat arguable.

The fact that a loan is called "soft" does not mean that it will not be repaid. The implication of the loan is that it will be repaid. In many cases, the IDA will make loans that will be repaid in hard currencies, perhaps over a longer period than the normal operations of the bank, and with low interest rates and a considerable moratorium before repayment begins.

But still the loan procedure, I think, exerts a discipline on the parties to make sure that the project is soundly conceived. There is a sort of a calculus involved in this situation, which is helpful, if only psychologically, and it may very well be that the sort of project-by-project valuation involved in the loan approaches does produce superior results to those obtained under a grant program.

I think that an interesting situation has developed very recently. Take the case of Libya. A little while back it had no foreign exchange, no conversion, that could have been utilized. The only kind of loan that could have been made at that time would have been a soft loan.

Now, Libya has had an enormous find in the way of oil, and what might then have been a soft loan may develop into a very hard loan, assuming that the explorations there are what they seem to be, and I am told that they are as great as any in the Middle East.



I think the point perhaps is well taken that while IDA may make soft loans, and there is an area in which soft loans are appropriate, the IDA will not necessarily be a soft lender.

It is true that in varying degrees there is an element of grant in every soft loan. It may be that it is in terms of a smaller interest rate or a longer period; it is in terms of a grant in the sense that it is not normally bankable. But I am satisfied that, with the experience that the International Bank has had, and with the proposed organization of the IDA, the differential between normal and exceptional lending operations will always be kept in mind. I also think that the International Bank is the best designed of all the institutions to administer such lending.

#### JOINT ADMINISTRATION OF THE TWO INSTITUTIONS

This identity and joint administration of the two institutions is extremely important. I think you are bound to have some sort of operation of Gresham's Law in this thing. If you have one institution for soft loans and one for hard, the borrower inevitably will seek out the institution for soft loans. But when you have the identity of administration such as would obtain under this procedure, I believe that situation would be very importantly and effectively moderated.

Joint administration does offer constructive possibilities for joint financing of useful projects which could be launched only if the funds could be supplied under more flexible arrangements than now are available to the Bank.

I keep emphasizing this identity between the International Bank and the IDA as one of the important reasons for my belief that we should support this new venture. Indeed, I would be opposed to it if this were not so.

As I understand it, the IDA will be managed in such a fashion that no loan or portion of any loan that is bankable will be handled by the IDA; and so the IDA would not compete with any public or private lending institutions.

This places a very heavy responsibility on the management of the joint International Bank-IDA operation. I think it probably will from time to time present some awkward situations, but I also feel the record of the International Bank provides ground for confidence that the Bank will measure up to the difficult responsibilities that it will have to assume.

#### PROBLEM OF COORDINATING VARIOUS LENDING AGENCIES

There is another problem of coordinating the effort to assist these lesser developed countries in their economic development. It does not relate so much to the relations between IDA and the International Bank with the common administration which should produce, as I say, a concerted effort, but to the proliferation of the many other agencies engaged in the same endeavor.

Problems will increase as other industrial nations increase the scale of their assistance to these nations. I was recently a member of the President's committee headed by General Draper for the study of the mutual security program which made a very important part of

their report the necessity for some consolidation and better coordination of U.S. agencies engaged in this aid effort. This is a major problem which will have to be tackled insofar as all of the industrial nations are concerned. It is something that we will have to watch if we are going to be reasonably sure that the administration of this very difficult business will be carried out on a productive and economic basis.

#### RELATIONSHIP TO PRIVATE INVESTMENT

Now, perhaps I may say something about the private sector, as I am a representative, in a sense, of the private sector. The IDA can lend directly, as I understand it, to private borrowers without a government guarantee; and a good bit of emphasis has been put upon this feature of the bill.

Personally, I think that the volume of this business is apt to be rather limited. I do think there are some fields in which the Association could provide substantial support. I have in mind the various national development banks which have been privately organized in some of the underdeveloped nations. I think that they might afford a very good means by which both private and public funds could be channeled into productive investment.

But I think that in the private field we have to look largely to the indirect benefits that IDA can be reasonably expected to produce. In the long run I think that these developments will encourage private investment, but I do assume that the IDA will follow the general pattern of the International Bank in concentrating its efforts in transportation, power, communications, irrigation—the large fields, the basic infrastructure of development. I think it is only after they are well along that we can look to a very substantial opening up of new opportunities for private investment in the underdeveloped countries.

I do not mean to minimize this, but I do think that we ought to be warned against overemphasizing the speed with which private investment would move into this field or the extent to which the IDA would be lending to private interests.

Of course, another great indirect benefit of the IDA loans with respect to private investment would be the lessening of the burden which these loans would place on the balance of payments position of the borrowing nations. The private investor looks to the ability of the foreign borrower to meet the hard currency demands of his own investors, and I think that the general level of productivity which the loans of the IDA would produce or could be expected to produce over the years would certainly present a better situation for eventual private investment in those countries.

One should not overlook the fact that the net outflow of U.S. private capital in 1958 and 1959, however, was almost 85 percent as large as U.S. Government grants and loans.

Now, a very large part of that went into Western Europe and went into Canada, to be sure. But about \$1.5 billion a year was invested in the lesser developed countries. I do think that private investment can carry with it technological and administrative knowledge that can be of great value to the host country.

With insistence upon the principle which is written into the proposed bill, I would like to register my support for U.S. participa-

tion in this proposed development association, as I think it would be a very constructive contribution to this most challenging task of promoting economic development throughout the free world.

I think that is all I have to say.

The CHAIRMAN. Thank you very much, Mr. McCloy. I think that is a very fine statement, and it makes some points that have not been made heretofore.

(The prepared statement submitted by Mr. McCloy is as follows:)

PREPARED STATEMENT OF JOHN J. MCCLOY, CHAIRMAN, THE CHASE MANHATTAN BANK

Gentlemen, my name is John J. McCloy and I am chairman of the board of the Chase Manhattan Bank in New York City. I am appearing before you today in support of S. 3074, which would authorize the participation of the United States in the proposed International Development Association.

Since Secretary Anderson has discussed the organization and proposed procedures of the IDA in some detail, I shall not review them again. Instead, I'll try to hit some of the high spots as they appear to me from my present vantage point and from my experience as president of the International Bank in its formative period.

I am convinced that providing effective assistance to the economic development of the lesser-developed nations is one of the great challenges confronting the United States and other industrial nations of the free world. I believe the International Development Association can make a contribution to this task, and that it is in our interest to cooperate in setting it up.

One of the great forces at work in the world is a deep-felt desire on the part of peoples in the lesser developed nations for a better life. With the technological revolution and the speedup in transportation and communications, these people see that it is possible to industrialize and achieve rising living standards. Moreover, a number of nations—including India, Brazil, Argentina, Mexico, Australia, and Turkey—have already achieved what Professor Rostow terms the "takeoff." They have begun to move down the path which could make them societies with a relatively high income in the matter of 50-60 years. In a sense, these nations are in their formative years as modern societies, and they will be joined by others in the period ahead.

This suggests that what we do now, or fail to do, could have real long-term significance. DeToqueville suggested many years ago that the growth of nations is somewhat like the growth of human beings \* \* \* "they all bear some marks of their origin. The circumstances that accompanied their birth and contributed to their development affected the whole term of their being." We live at a time of infancy or adolescence for many nations. This gives a meaning to our attitudes and policies toward the lesser developed areas which transcends the cold war, although the fact of the competition with the Soviets is obviously of great moment.

By providing effective assistance to the lesser-developed areas we cannot only accelerate their economic growth but also contribute to their evolution as free democratic societies dedicated to the enhancement of human dignity and the provision of maximum opportunities for individual development. If the relatively rich nations stand aside, or do an inadequate and inept job, these developing nations, embracing three-fifths of the world's population and land area, may take the totalitarian route. With bitter memories of colonialism in many places, fertile ground exists for breeding a lasting hostility toward ideals that reflect the values of Western civilization. In my judgment, the battle for men's minds is the fundamental challenge confronting the free world. Economic assistance is an important, though by no means the only, device that can be used to meet this challenge.

The Soviet leaders are well aware of this, perhaps disturbingly so. They have announced that they intend to make the lesser-developed nations their principal arena of action in this competition. The recent tours of top Soviet officials to India, southeast Asia, and Latin America provide evidence that the drive is being pursued. Economic assistance is being used by the Soviets in a coldblooded manner to advance their own interests. All Soviet assistance is in the form of tied loans, hedged with many restrictions concerning the terms of repayment

and the use of Soviet technicians. While the publicized terms of the loans seem generous, they can prove to be onerous in practice. Nevertheless, it is clear that the Soviets are challenging us in the economic field. Indeed they are extending the challenge even to our own doorstep.

In addition, there are well-rehearsed economic reasons that emphasize the interest of the United States in promoting economic progress in the lesser-developed countries. They can supply many of the raw materials and foods needed to support our economic growth. By so doing, they can generate the exchange earnings needed to provide major support for their economic development. Thus, it should be possible to develop a free world economic system which serves the interests of, and contributes to the attainment of the aspirations of, all participants. The presently underdeveloped nations would gain in that they could secure through trade and economic assistance the machinery, equipment, and technical assistance needed to further their economic development. The industrial nations would gain in that they could secure needed raw materials at reasonable costs and have an opportunity to market the products they produce most efficiently.

It should be emphasized that this pattern of trade, economic assistance, and private investment is far different in character from that associated with colonialism. In the 19th century the industrial nations traded manufactured consumer goods (predominantly textiles) for raw materials. Now the industrial nations trade capital goods for raw materials. The modern pattern of trade serves the mutual interests of the trading nations and contributes far more to the economic advance of the less-developed nations than the trade of the 19th century.

Up to this point I have been talking in general terms about the importance of supporting economic growth throughout the free world. I am conscious of the fact that the Congress of the United States has supported a number of programs which give assistance to the lesser-developed nations through loans and grants. Why then should we participate in still another organization, the International Development Association?

I believe that there are a number of good reasons for the establishment of the new Association. First, the need of lesser-developed lands for more external assistance is growing steadily. The very success of a number of countries in getting economic development underway has increased their needs and capacity to absorb capital. At the same time the new nations, particularly those in Africa, will require greater assistance.

The United States should not be expected to shoulder this added burden alone. As an international institution, the IDA can enlist assistance from other nations in the West. I am convinced that other industrial nations can and must assume a greater share of the burden of economic assistance in the years ahead, and IDA represents a modest step in that direction. This should not mean that we can afford to do less in absolute terms, for the magnitude of the effort to support economic development needs to be enlarged.

I believe, too, that there are real advantages in channeling a good part of total assistance through international organizations, provided such organizations are well administered. Both the International Bank and International Monetary Fund are highly respected by the member countries—including the lesser-developed countries as well as industrial nations. Such institutions can insist on sound economic policies as a condition for assistance without appearing to infringe on the sovereignty of the borrower. They can, in short, say no when the answer ought to be no. There is something institutional rather than sovereign or personal about an international organization that takes some of the sting out of critical comment or a negative answer.

This brings me to the question of the so-called soft loans. When I was President of the International Bank, I believed that it was essential to fight a vigorous battle against soft loans. I tried to register strongly the point that the International Bank would be an institution which looked upon projects from a normal banking point of view. Its objective would be to make sure that each loan could be repaid on terms which would permit the Bank to raise the money for it in the first place. This was absolutely necessary if the Bank was to establish its credit, if it was to be able to float bonds and get the capital it needed. Such a policy is still essential—the high standards maintained consistently by the Bank's management are the foundation of its success.

However, I have come to feel that there may now be a place for soft loans. There is evidence that some of the lesser-developed nations will need, and can absorb effectively, more outside loan capital than they could hope to service in a normal way. Many of the loans made by the International Bank are for

projects in fields such as power and transportation, so they make only an indirect contribution to foreign exchange earnings. Thus, the developing nations face a transfer problem—a problem of converting local currencies into hard currencies for loan repayment. I am told, for example, that in the 3-year period from 1956 to 1958 alone, the external debt of the lesser-developed nations in Asia, the Middle East, and Africa almost doubled. For these reasons, I am now willing to accept the principal of soft loans as a supplement to the normal operations of the Bank, with the firm understanding that they are sharply distinguished from those used to finance normal operations.

Why should soft loans be used instead of grants? In the context of an IDA operating in close relationship to the International Bank there are a number of reasons why soft loans seem appropriate. The fact that a loan is soft doesn't mean that it will not be repaid. In many cases the IDA may make loans that will be repaid in hard currencies over a long period, with low interest rates and a considerable moratorium before repayments commence. The loan procedure exerts a discipline on both parties to make sure that the project under consideration is soundly conceived. In practice, it may well be that the sort of project-by-project evaluation involved in the loan approach produces superior results to those obtainable under a grant program. And the point has been well taken that, while the IDA may make soft loans, it need not be a soft lender.

Nevertheless, I think it is important to realize that soft loans, by definition, are, in varying degrees, grants. As such, they must be clearly differentiated from the normal lending operations of the International Bank. I am satisfied that the proposed IDA organization and procedures would make this separation.

The arrangement for joint administration of the IDA and the International Bank has positive virtues. It should restrain the propensity of borrowers to seek soft loans in preference to hard loans. It offers interesting, and hopefully constructive, possibilities for joint financing of useful projects which could be launched only if part of the funds could be supplied under more flexible arrangements than are now available to the Bank. The close identity between the International Bank and the IDA is one of the important reasons for my belief that we should support this new venture.

As I understand it, the IDA will be managed in such fashion that no loan, or portion of any loan, that is bankable will be handled by IDA. Thus, IDA will not compete with any other public or private lending institution.

This obviously places a heavy responsibility on the management of the joint International Bank-IDA operation. The record provides ample grounds for confidence that they will measure up to this responsibility.

Nevertheless, there is a serious problem of coordinating the effort to assist in the process of economic development. This relates not so much to the relations between the IDA and the International Bank, where the common administration should produce a concerted effort, but to the proliferation of other agencies engaged in the same general endeavor. The problem will ramify as other industrial nations increase the scale of assistance they provide to the lesser-developed countries. In this connection, I should like to refer to the findings of the President's committee to study the mutual security program—popularly known as the Draper committee—on which I served as a member. The report recommended some consolidation of the U.S. agencies engaged in the aid effort. However, one of the major problems that remains to be tackled is that of working out a coordinated approach on the part of all of the industrialized nations.

At this point I might turn to a view of the International Development Association from the viewpoint of a private banker. While the IDA can lend directly to private borrowers without a Government guarantee, I would think that the volume of such business would be rather limited. The Association might provide some support to the various national development banks which have been privately organized in some of the developing nations. These banks are in a position to channel both private and public funds into productive investment.

However, the indirect benefits from IDA will probably outweigh its direct influence on private investment. I would assume that the IDA would follow the pattern of the International Bank in concentrating its efforts in such fields as transportation, power, communications, and irrigations. Such facilities are essential to economic development, and public investment in these areas should open up new opportunities for private investment.

At the same time, IDA loans will support development while placing a smaller burden on the balance of payments position of borrowing nations than is the

case with International Bank or Export-Import Bank loans. This is important to foreign investors since the ability of a nation to remit earnings is one of the criteria that is examined carefully by prospective investors. One should not overlook the fact that the net outflow of U.S. private investment capital in 1958 and 1959 was almost 85 percent as large as U.S. Government grants and loans. While part of the private investment outflow went into Western Europe and Canada, about \$1½ billion a year was invested in the lesser developed countries. And private investment carries technological and administrative knowledge that can be of great value to the host country. In conclusion, I should like to register again my support for U.S. participation in the proposed International Development Association. I believe it can make a constructive contribution to the challenging task of promoting economic development.

The CHAIRMAN. Senator Green, do you have a question?

Senator GREEN. I would like to ask a few questions.

Mr. McCloy, do you appear here in your individual capacity or in your official capacity?

Mr. McCLOY. I am chairman of the Chase Manhattan Bank, but I am not representing the bank. I am here as a citizen who has had experience in this field in government, and who has had some experience in private banking.

Senator GREEN. I mean, has the bank taken any action in this matter?

Mr. McCLOY. No, the bank as such has taken no action on it.

Senator GREEN. Well, has your committee taken any action? You are chairman of a committee, are you not?

Mr. McCLOY. No.

Senator GREEN. Are you an officer of the bank?

Mr. McCLOY. I am an officer of the Chase Manhattan Bank, but I am no longer an officer of the International Bank. I was at one time president of the International Bank.

Senator GREEN. I mean of the bank of which you are chairman. What is your title now?

Mr. McCLOY. I am chairman of the board of the Chase Manhattan Bank.

Senator GREEN. Well, has that board taken any action?

Mr. McCLOY. No.

Senator GREEN. Have any banks taken any action that you know of?

Mr. McCLOY. No, I think there has been no occasion for any of the banks to take any action in regard to it. I would think it would be presumptuous of me to try to express the opinion of, say, the New York banks. I think that my bank, which has a very large international department, would be in favor of this legislation, but we have not taken a vote on it nor has the board acted upon it.

Senator GREEN. Do you know of any agencies that have taken any action?

Mr. McCLOY. I know of no private agencies that have taken any formal action.

#### INTERNATIONAL ASPECT OF NEW ORGANIZATION

Senator GREEN. Why do you think that it calls for a new organization to undertake this matter, outside, or in addition to the organizations we have in the Government already?

Mr. McCLOY. I said that I thought that it was very important that other countries in the world share in this burden of bringing along the

underdeveloped countries. We have had very good experience in sharing in the international organization which is the World Bank. I think that has been very useful and very constructive.

They have, however, up to date, dealt only in the so-called hard loans, the normal banking operations, and I have felt that there was a need in the present situation for a different type of lending. I feel that it would be well for us to join and share in an international organization to make these soft loans.

But I emphasize that the agency which administers them should be the same international agency which administers the so-called hard loans.

Senator GREEN. But you have not made it clear, at least to me, why it is necessary to provide a new organization for this purpose.

Mr. McCLOY. Because I think the demand is greater, and we do not have an international organization up to date which can do this, and I believe it is extremely important to get the other countries to share this burden.

Senator GREEN. Well, what could the Government do under your proposal that it cannot do now, if it chooses?

Mr. McCLOY. The Government would have the choice of continuing loans on a bilateral basis without the International Bank or else enlisting the cooperation of the other countries. I believe that having the success of the International Bank before you in the administration of certain types of loans that it would be provident on the part of the United States to give that institution the responsibility of administering this larger program, and thus having the other countries take a larger share of the burden than they have to date.

Senator GREEN. Thank you.

The CHAIRMAN. Senator Hickenlooper.

Senator HICKENLOOPER. Mr. McCloy, I am sorry I was not here at the beginning; I heard only the last part of your testimony.

We have a number of organizations now that are operating in the international financial field: the World Bank, the International Monetary Fund, the IFC, and, locally, in the United States, we have the Export-Import Bank, we have the Development Loan Fund, and so on.

This proposes to set up, as I understand it, an additional international cooperative financial organization; is that correct?

Mr. McCLOY. That is right.

Senator HICKENLOOPER. I am a little confused as to just what the real purpose of this would be outside of the framework of the existing organizations, unless it be for the securing of some different type of cooperation among nations that have a little money or have some credit to extend to the underdeveloped countries.

Mr. McCLOY. Well, only in a sense are you creating a new organization. You are permitting an old organization, that is to say, the International Bank—which has heretofore been conducting operations on a normal banking basis, depending primarily upon the balance of payments situation in any particular country—to administer a different type of loan, a loan which is not necessarily payable in hard currencies, a loan which has or would be apt to have attributes which would not be possible for the International Bank to support. But the International Bank itself administers the whole program.

## ADMINISTRATION OF THE NEW PROGRAM

The officers are identical, the board of directors are identical, so that when the lender-borrower comes to seek a loan he has to face the same people in determining how much of that loan should be a so-called hard loan and how much should be a soft loan, so it is not really a new institution.

Senator HICKENLOOPER. It is something like letting commercial banking into the small loans and finance business.

Mr. McCLOY. Yes, it is something like that.

Senator HICKENLOOPER. It is divorced somewhat from their regular business?

Mr. McCLOY. Yes, it is something comparable to that. Although in that case, of course, all the loans are bankable, whether they are small loans or large loans; whereas in this case the prospect of their being repaid in a short term in hard currencies is non-existent or at best remote.

Senator HICKENLOOPER. Well, the International Bank, as you pointed out a moment ago, has operated on what we loosely term bankable loan operations, that is, with security or reasonable security, and the strong probability that they will be repaid in hard currency.

If you extend the operation of the International Bank into the soft loan business, where the probability, at least of immediate payment or payment within a reasonable foreseeable future in hard currency is remote, do you dilute the operation of the International Bank? That is, are you diluting it down to where the full strength of the International Bank structure is weakened from a financial aspect?

Mr. McCLOY. That is one of the points I made in my direct statement before you came in.

Senator HICKENLOOPER. I think I missed that.

Mr. McCLOY. You must separately administer the hard loan operation of the World Bank from the soft loan operation. They must be out of different funds. These appropriations that we are now making or proposing to make to the International Bank, will be used exclusively for this particular field.

If you mix these up and if the World Bank simply adopted a policy of now making soft loans, then, as I said in my speech, I think it would be a very great breach of faith to those (the Government included) who put up their money originally for the World Bank to maintain operations on the basis of convertibility of securities and the balance of payments situation in a particular country.

But now it is proposed that we put up hard currencies to support loans of a different sort. But they must be separately administered, from the so-called hard loans, or there would be the dilution that you refer to.

## LOANS TO GOVERNMENTS AND TO INDIVIDUALS

Senator HICKENLOOPER. These loans, Mr. McCloy, are to be made to governments, are they?

Mr. McCLOY. They can be made to private individuals without a government guarantee, unlike the loans of the World Bank under the existing charter, but I think the primary—



Senator HICKENLOOPER. Could you give an illustration of the type of loan that might be made to individuals?

Mr. McCLOY. Well, I think there is no limitation on the type of loans in the proposed charter. A loan might be given to an industry, let us say a cement plant or a textile manufacturing company or a petrochemical concern. It could be given to almost any private concern that you can conceive of, if the World Bank felt that it was in the general purpose of the basic development of the country.

Senator HICKENLOOPER. Is it contemplated that such a loan would have to have the authority of the local government of which the private entity was a citizen?

Mr. McCLOY. The World Bank can certainly make the loan without a government guarantee. I suppose it would be conceivable that it could make the loan without the approval of the government concerned, but I think this would probably be unlikely.

I do not know that point.

The CHAIRMAN. Mr. Upton, can you supply the answer to that question?

Mr. UPTON. Well, you do not have to have the approval, but you may not make the loans if the country objects to it.

Senator HICKENLOOPER. Is it contemplated that most of these loans, however, will be made to the governments involved?

Mr. McCLOY. I think that probable, in my judgment. I cannot speak for the future administration of the International Bank in this field, but considering the type of projects that I think they ought to have in mind, I would believe that the primary lending would be to governments.

#### RELATION TO PRIVATE INVESTMENT QUESTIONED

Senator HICKENLOOPER. Well, one of the situations that has confronted us throughout all the postwar reconstruction period has been the almost complete devotion in our financial operations to government-to-government loans, and we have done very little, so far as I know, to attempt the encouragement of private enterprise or private initiative. The money that has been obtained has gone for Government-built and Government-operated utilities and industries of various kinds, businesses of all sorts, utilities of all sorts.

Is there anything contemplated here in this new patch that we are putting on this Jacob's coat for financial international operations that would stimulate or encourage or even coerce local governments to encourage private enterprise as against government monopoly in these countries?

Mr. McCLOY. I think there is nothing coercive that I can read into the bill which would compel them to induce them to deal with private enterprise rather than government.

I did spell out in my statement the fact that this type of loan, this type of basic project—transportation projects, irrigation projects—in these underdeveloped countries are apt to be Government affairs, and once they are established, you do create a better climate for private investment.

There are some words in this bill, as there have been words in other bills, not only related to international organizations but to national

organizations, in favor of private investment. I do not believe that they have been particularly effective except in an indirect way.

I cannot think of anything that should be introduced in this bill, considering the objectives of the bill, which would be better designed to bring about a stimulant to private investment than is now in the bill. I may just add this:

You have a great deal of difficulty in marrying up Government lending with private lending. That has been my experience. I used to think otherwise, but I have had a good bit of experience with the Export-Import Bank.

Senator HICKENLOOPER. It is the line of least resistance in these financial operations to deal government-to-government.

#### PRIVATE INVESTMENT AIDED IN THE LONG RUN

Mr. McCLOY. That is right. And you will find that the Government will say, "Well, your terms are not the same as our terms." The Government can get their money on easier terms than the private investor can get it. So it looks as if we are charging higher rates, and that is frequently not compatible with the objectives. The result is that you have difficulty doing it. But I emphasize that the basic structure which is built through operations such as those which have already been carried on by the International Bank and such as are contemplated now do in the long run help private investment.

Senator HICKENLOOPER. Over the last several years I have been in a number of so-called underdeveloped countries, some of them more than once, and I have seen practically no progress in the ability of the small individual to get any loans or money. He seems to be in the same great poverty he has been for many years. Certain governmental operations seem to have access to finances, but that only continues to build the government monopolies in these countries and the little fellow seems to have progressed very little in his ability to get credit for his own private operations. The various nations, all of us, that operate along this line just seem to be piling government loan on government loan, and the government monopolies increase and statism increases in many of these countries. But the idea of private initiative does not seem to advance very much, that is, in a vigorous way, which would mean a strong economy in the private enterprise field.

Mr. McCLOY. I think this is a slow development in these countries. I spoke—and perhaps this was again before you came in—of an avenue or channel into which I think a good bit of this financing could well find its way. That is, in the local development banks of these countries where they do lend to the private individual on the ground.

Senator HICKENLOOPER. Yes, you find these local credit banks and development banks, but you have got to be a pretty big duck before you can get that kind of a loan, and the interest rate is prohibitive in those countries.

Mr. McCLOY. This is a better means of getting loans and more expeditious loans directly from the government because they are in that business and they are designed to do it, and I would feel they might very well be the recipient of some of the lending of IDA to the very purpose that you are speaking of.

That may not be the answer and you may not find the development of private enterprise or the little fellow, as you speak of him, coming along until he, or the economy of the country, has felt the impact of the increased power or the increased transportation, which are governmental or quasi-governmental in these underdeveloped countries.

Senator HICKENLOOPER. Well, it is a slow process, but in many ways it has seemed to me like not going near the water until you learn how to swim. I think too often we have taken the line of least resistance and have written a check to the other government and have gone on about our business. And what has happened is that government monopoly, government controls, have increased. The life of the small individual has not advanced a great deal.

Now, maybe it has to be that way, I do not know.

Mr. McCLOY. I believe we should do everything we can, naturally, to develop the private field. I think the tendency that you referred to exists and perhaps it has to exist in view of the underdeveloped character of these countries, the fact there are not very many individuals who do have the know-how. It is a very difficult job for the governments to gather together the technicians.

#### CONTRIBUTION OF OTHER COUNTRIES

Senator HICKENLOOPER. Well, there are two things that I think are very important, at least in my view. One, I think it is essential, and I think it is morally proper, that a number of these other nations in the world—let us call them the more prosperous nations, in the Western World especially—begin to get in and contribute their share to this developmental program.

I do not mean to contribute credit for their own merchants to do business, but to make some real genuine contributions to the well-being of some of these underdeveloped areas in the world which have to be developed.

We have carried the whole burden up until now in the, let us say, contribution field.

Many of these governments are quite affluent, and they have the money to extend credit to private manufacturers and so on, and literally they are taking the markets away from us in that part of the world.

Part of that is our fault, we are pricing ourselves out of many of the world markets here, but I thoroughly agree it is high time these nations make a proper contribution to this effort.

Secondly, I think, and have thought for a long time, that a so-called soft loan program in certain types of activities is very much indicated. I think the development loan program is a good one which we have here. But I do not think it goes far enough, because I think we ought to establish some mechanism whereby other countries can get in and do their full share. But I do get confused by these numerous international financial agencies that get themselves all intertwined with each other and cause, at least to me, a lot of confusion as to what their clearcut activities are.

It would seem to be better if we could compress a lot of these activities into fewer organizations rather than to extend them into new added organizations.

Mr. McCLOY. That is precisely what is being done in this case, because the operation of these funds, the administration of these funds is going to be administered by the same World Bank that we are familiar with, and not a new one.

Senator HICKENLOOPER. You are just using the same board of directors and so on to administer these funds as administer the other funds?

Mr. McCLOY. Yes, sir, it is the same board of directors as well as the same officers.

Senator HICKENLOOPER. It might be well to think about all development funds being administered by the same board.

Mr. McCLOY. I think there is a great proliferation, there is need for coordination.

Senator HICKENLOOPER. Thank you very much.

Senator GREEN (presiding). Mr. Sparkman, have you any questions?

Senator SPARKMAN. Just this, Mr. McCloy. I have read your statement since I have come in. You are a banker by profession?

Mr. McCLOY. Yes.

Senator SPARKMAN. And you were head of the International Bank in its early days, as I recall.

Mr. McCLOY. That is right.

#### LENDING COORDINATED WITHIN THE INTERNATIONAL BANK

Senator SPARKMAN. Do you foresee any difficulty in the bank carrying on two separate activities?

Mr. McCLOY. Yes. I said I think they are going to have some rather awkward situations, but I would much prefer to have them administering it than two separate agencies.

Senator SPARKMAN. I notice you make what I consider to be a good point: that you keep down, shall we call it, competition—in other words, the likelihood of making soft loans when bankable loans could be made.

Mr. McCLOY. Yes; and I think the identity of administration is extremely important. Indeed, I said in the course of my statement that unless that feature were involved, I think I would be opposed to this.

Senator SPARKMAN. It is going to require very careful administration; is it not?

Mr. McCLOY. Yes.

Senator SPARKMAN. But you believe that it could be done?

Mr. McCLOY. I believe it can be done because the people who are there know just what the capacity of that country is to make a hard loan and what the capacity is to make a soft loan, and they can adjust the two and there cannot be any monkey business. The borrower cannot be going down to one fellow on one end of the street and coming up and putting him in competition with the other. He will have to make his case before the same man that administers the whole thing.

Senator SPARKMAN. Thank you, Mr. Chairman.

Senator GREEN. Mr. Aiken, any questions?

Senator AIKEN. Mr. Chairman, there are several questions I would like to raise, but inasmuch as we went into this matter pretty thoroughly with Mr. Upton last Friday, in fact, so thoroughly that Sena-

tor Williams did not get any chance to participate in the questioning, I would defer my questioning this morning in the hopes that we may reach Senator Williams today.

If, later on, it develops that we have time on our hands, then perhaps I would like to ask some questions. I do not anticipate that situation, however.

Senator GREEN. Mr. Gore.

Senator GORE. No questions.

Senator GREEN. Mr. Williams.

#### NO PRESENT INTERNATIONAL ORGANIZATION TO ADMINISTER SOFT LOANS

Senator WILLIAMS. Mr. McCloy, what could be done under the International Development Association that cannot be done under other existing agencies?

Mr. McCLOY. If the IDA goes through, you will have an international organization that can administer both hard loans and soft loans. There is now no international organization which really is equipped to do that.

Senator WILLIAMS. Then, in effect, could it be said that the purpose of the International Development Association is to do on an international cooperative basis that which is now being done unilaterally under the Development Loan Fund?

Mr. McCLOY. That is right.

Senator WILLIAMS. If that is true, if this is organized with its authority for \$1 billion subscribed, does that mean we should eliminate or abolish the Development Loan Fund?

Mr. McCLOY. No. I do not know how the objectives of the Development Loan Fund might be changed. They may be modified as a result of our participation in the IDA, but I do think that there are situations where you have a reason or rationale for a national bilateral arrangement just as we have an Export-Import Bank vis-a-vis the World Bank. I think that there may be situations where the United States would want to intervene with a so-called soft loan bilaterally.

Senator WILLIAMS. Do we not have that authority under about eight different public laws other than the Development Loan Fund already?

Mr. McCLOY. I think you have, as I say, a proliferation of agencies, and I think that there is need for coordination in the national field.

#### DRAPER COMMITTEE SUGGESTIONS IN REORGANIZATION OF LENDING AGENCIES

Senator WILLIAMS. I was very much interested in the report of the Draper committee, of which you were a member, which criticized the fact that we had so many international lending agencies and authority and recommended a consolidation. And yet this is a new one. I was wondering which agencies you had in mind when you suggested we should consolidate or eliminate?

Mr. McCLOY. I think we did not talk so much about the international agencies as we did the national agencies.

Senator WILLIAMS. All right. Then which of the national agencies should be abolished?

Mr. McCLOY. Well, I would like to refer you to that report rather than to go into that now. We were, as a result of the evidence that we took, quite convinced of the necessity for a tighter coordination

of the policies than now exists. I do not know that they would say they would eliminate any one, but I think that they would wish a much better control than we now have of the various agencies.

#### PROCEDURES FOR SELECTION OF DIRECTORS

Senator WILLIAMS. The proposed membership of this new agency is outlined on page 50 of the report. Are these the identical members as are presently members of the International Bank?

Mr. McCLOY. Yes.

Senator WILLIAMS. And the same direct proportion?

Mr. McCLOY. Yes.

Senator WILLIAMS. In the International Bank, their actual contributions, however, must be in hard currencies?

Mr. McCLOY. Well, yes. The basis upon which their contributions are made, of course, are spelled out in the articles.

Senator WILLIAMS. That is hard currency, and this provides that they would make this contribution in soft currencies?

Mr. McCLOY. Yes. To a degree. There is a percentage—

Senator WILLIAMS. Ninety percent of it is soft and 10 percent of it in hard currencies?

Mr. McCLOY. Yes, 10 percent has to be hard.

Senator WILLIAMS. Is that correct, as you understand it?

Mr. McCLOY. Yes.

Senator WILLIAMS. Now, in establishing the voting rights of the membership in the proposed development agency, do they elect the Directors with those voting rights?

Mr. McCLOY. Yes.

Senator WILLIAMS. The member joins it, and gains so many voting rights in joining?

Mr. McCLOY. Yes.

Senator WILLIAMS. What does he vote on?

Mr. McCLOY. Well, he will vote on the loans.

Senator WILLIAMS. On the loans only?

#### STATEMENT OF T. GRAYDON UPTON, ASSISTANT SECRETARY OF THE TREASURY—Resumed

Mr. UPTON. The directors vote on loans and such matters as are put up to them.

Mr. McCLOY. Who elects the Directors after the IDA has become a part of the Bank?

Mr. UPTON. Well, it is assumed that the same Directors will serve the same countries. The Executive Directors are appointed by the country.

Senator GREEN. I think it would be better all around if Mr. Upton came up and sat by you.

Mr. McCLOY. Good. This is a detail of the charter. I do not know just how the new Directors are to be elected.

Senator WILLIAMS. That is what my question is getting down to. Is it essential under this agreement, if approved, that the Directors of the IDA must in all circumstances be identical and the same Directors as those of the International Bank; is that mandatory?

Mr. UPTON. It is not mandatory that they be identical in number because it is possible that all of the countries that are members of the International Bank will not join the IDA, and if this were true, it could mean a somewhat smaller number of Directors and somewhat different voting arrangements in IDA than in the Bank.

If, on the other hand, all of them do join, there would be the same number and voting arrangements.

Senator WILLIAMS. But if they do not join, they will not have to be the same Directors, is that true?

Mr. UPTON. Not the same number; that is correct.

#### POSSIBILITY OF DUAL DIRECTORSHIP RAISED

Senator WILLIAMS. Then assuming that they all did not join, would you not have it possible that you would have a dual membership of dual Directors? Are you sure these agencies are going to be as closely related if you can have a dual directorship under this association?

Mr. UPTON. I think it is reasonably foreseeable that sufficient countries will join so there would not be any significant difference in the number of the Executive Directors.

Senator WILLIAMS. Is there anything in this agreement that would prevent it from happening?

Mr. UPTON. No, there is not.

Senator WILLIAMS. To have a dual directorship?

Mr. UPTON. No, there is not, because this is a separate institution which has to be joined separately, and the fact that certain countries might not join might lead to the situation to which you referred.

(The following material was later furnished to clarify the question of dual directorship:)

Article VI, section 4(b) of the articles of agreement provides as follows:

"The Executive Directors of the Association shall be composed *ex officio* of each Executive Director of the Bank who shall have been (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."

So it would not be possible for any person who is not an Executive Director of the International Bank to sit as an Executive Director of the IDA. This provision, as well as the provision that the same person serve as President and Chairman of the Board of both institutions, was designed to assure maximum coordination of the activities of IDA with the IBRD.

In the event of a smaller membership in IDA than in the Bank, there would be two possibilities: First, that IDA's Board of Directors could consist of a smaller group of Bank Directors than the full membership of the Bank Board, because some Bank Directors would represent only countries which were not IDA members and thus would not be IDA Directors; or second, that IDA's Board could consist of all of the IBRD Directors, but several Directors would represent and cast the votes of fewer countries in IDA than they do in the IBRD.

It should be noted that a Director representing, say, five countries in the International Bank, of which only one country has joined IDA, would cast the votes of that one country only in the IDA Board.

In no sense could there be a "dual directorship," if that term means different personnel representing the same countries in the respective Boards of Directors of the two institutions. There could be dual directorship in the sense that a Director might cast a different number of votes in IDA than the same person is entitled to cast in the IBRD.

Senator WILLIAMS. In the International Bank the voting rights, as I understand it, are in direct proportion to the contributions of the respective countries; is that correct?

Mr. UPTON. That is correct, except for one minor aspect, and that is that each country is given a small number of votes for membership. That tends to distort the exact relationship by a small percentage. Otherwise, your statement is correct.

Senator WILLIAMS. Is that true under both the International Bank and under this International Development Association?

Mr. UPTON. That is correct.

Senator WILLIAMS. And that distortion would be carried through under both agencies in direct proportions; is that correct?

Mr. UPTON. That is correct.

#### CURRENCY CONTRIBUTIONS TO THE INTERNATIONAL BANK

Senator WILLIAMS. However, the International Bank is all hard-currency contributions; is that correct?

Mr. UPTON. No, sir. Let me clarify the contributions to the International Bank. Two percent of each country's contribution was made in gold or in dollars; 18 percent of each country's contribution was made in its own currency to be converted or to be used subsequently in accordance with an agreement with the Bank; and 80 percent of its contribution was in the form of a guarantee.

So that actually only 2 percent had to be given by each country in gold or dollars, with an additional 18 percent in its own currency, the use of which would be subsequently negotiated with the Bank.

Senator WILLIAMS. But there were certain guarantees that carried with that 18 percent that are not present in this 90-percent contribution arranged for here; is that not the case?

Mr. UPTON. No. I think you can compare the 90 percent pretty closely, at least for the underdeveloped countries, with the 18 percent.

Senator WILLIAMS. You can compare it, but are they the same?

Mr. UPTON. In other words, in each case, to use the 90 percent, and I am speaking now for the underdeveloped countries, to use the 90 percent or to use the 18 percent would require negotiation of the bank with those countries, except for certain very limited uses.

Senator WILLIAMS. I understand you could assume that in the process of these negotiations in order to come out with the same answer. But my question is: Is there anything in the agreement which says you must come out with the same answer?

Mr. UPTON. With respect to the 90 percent and the 18 percent?

Senator WILLIAMS. Yes.

Mr. UPTON. There is a very similar pattern expected of it and similar limitations, but there is no decision that you will come out with exactly the same answer.

Senator WILLIAMS. I understand the expectation, but I am just speaking of the provisions, if it is approved. As I understand it, there is nothing which would make that answer come out?

Mr. UPTON. There is nothing which by the charter itself would make an identical outcome.



## VOTING POWERS DISCUSSED

Senator WILLIAMS. In this setup, as I glance at it here hurriedly, each country is allowed one vote for each \$5,000 of its contribution, whether that contribution be in hard currency or soft.

Mr. UPTON. That is correct.

Senator WILLIAMS. And in addition to that, there is a \$500 bonus per country.

Mr. UPTON. 500 votes.

Senator WILLIAMS. 500 votes, I mean, for each country.

Would not the mathematics of this setup be as follows: Those countries under part I would contribute their \$763 million, which would be hard currencies or convertible into gold. On the other hand, of the \$236 million contributed by the 51 countries under part II, there would only be \$23.6 million which would be convertible into gold. Is that correct?

Mr. UPTON. That is correct.

Senator WILLIAMS. The net effect of it would be the United States would be providing 41 percent of the gold and we would have 27½ percent of the vote; is that right?

Mr. UPTON. That is correct. The voting power runs equally to soft currencies as to hard currencies.

Senator WILLIAMS. Whereas under the International Bank we contribute 32 percent of the hard currencies and we have approximately 30 percent of the voting power; is that not true? The 2-percent differential being by this extra contribution to the countries.

Therefore, on this particular phase of it, we lose about 12 or 14 percent in voting power under this agency that we have in the International Bank, do we not, as compared to our contribution of gold?

Mr. UPTON. I would like to give some thought to that, Senator, but I am under the impression we have not lost any voting power in conjunction with the—

Senator WILLIAMS. I am speaking of it from the standpoint of our contributions measured in hard currencies. We are proceeding on the premise that the contributions of the soft currencies do not really represent usable contributions. And confining this to a comparison of the hard currencies contributed under the International Bank and the hard currencies or gold contributed to IDA, we do lose voting power?

Mr. UPTON. Well, the reason I am hesitating to give you a specific answer is that in the International Bank our contributions of gold and hard currencies were immediately 2 percent plus our 18 percent, whereas that of the other countries was immediately 2 percent but since that time they have made their 18 percent in many cases convertible and the equivalent of ours, but this goes on over a period of time.

So without some research, I would be unable to determine exactly what our voting percentage is in the World Bank based exclusively on the contributions made in convertible currencies or gold by all of the countries.

Senator WILLIAMS. But I am considering not only the contributions made to the International Bank but also the guarantees which are made. Our guarantees for payments on International Bank loans are guarantees to be paid in hard currencies; is that not true?

Mr. UPTON. That is correct.

Senator WILLIAMS. So you cannot just stop at the 2 percent and the 18 percent. We have got several billion dollars in guarantees back of that, which conceivably the Bank can ask us to put up and it must be in hard currencies or gold.

Mr. UPTON. That is correct; but we must not forget that there are also the other industrial countries whose currencies are extremely strong today, guaranteed, and also could be proportions of that guarantee.

Senator WILLIAMS. That is true of the International Bank. But what I am pointing out is when you move over into the IDA situation, that would not be true, because the 51 countries would only be obligated to their 10 percent of their contributions in hard currencies and 90 percent would be in soft?

Mr. UPTON. The group II countries.

Senator WILLIAMS. Yes. Is that not true?

Mr. UPTON. That is correct. But I repeat, Senator, that it would take a detailed arithmetical calculation to come up to a conclusion on this voting power, because of the 18-percent variation.

In other words, many of the countries have made that 18 percent fully available, many have made it restrictively available, and some have not made it available at all.

#### VOTING POWER IN RELATION TO GOLD CONTRIBUTIONS

Senator WILLIAMS. But to get back to the IDA in terms of the voting power, there would be about 234,000 votes if all of the members joined, if everybody pays up? You are putting a billion dollars in and you get 1 vote for each \$5,000; that would be 200,000 votes.

Mr. UPTON. That is correct; 234,000 votes.

Senator WILLIAMS. 234,000 votes in the total amount. Of that amount, the United States would get 64,558 votes; is that not true?

Mr. UPTON. Yes.

Senator WILLIAMS. And we put up 41 percent of the gold or hard currency?

Mr. UPTON. That is correct.

Senator WILLIAMS. And we would have 27½ percent, that may not be exact, of voting power. But moving down to the part II countries, the 51 countries would contribute \$23,693,000 in gold—is that correct—10 percent of it would be in gold or hard currency?

Mr. UPTON. That is correct.

Senator WILLIAMS. And that is equivalent to 3 percent of the gold?

Mr. UPTON. That is correct.

Senator WILLIAMS. And the combined voting power of those 51 countries would be 71,886 votes, or about 31 percent of the vote, with 3 percent of the gold. Is that correct?

Mr. UPTON. Thirty-one percent of the vote; that is right.

Senator WILLIAMS. They would have 31 percent of the vote with 3 percent of the gold, whereas the United States would put up 41 percent of the gold and we would have 27 percent of the vote; is that correct?

Mr. UPTON. That is correct. But I would like to add this: that there is a very important question here of sensitivity and relationships with other countries, that they consider that they have put up a cur-

rency, i.e., their own currency, which is just as difficult for them to raise through their own internal processes as it is for us to make available our own currency.

Senator WILLIAMS. I am not questioning the merits, but just pointing out the mathematics.

Mr. UPTON. Yes.

Senator WILLIAMS. There was much made, as I understood it, of the voting relationship and control of this agency. It would be held by the countries putting up the money, and it would be more or less in proportion to that which is presently the vote in the International Bank. That is not true, is it?

Mr. UPTON. Well, I think that the reason we say this—

Senator WILLIAMS. I would like for you to answer the question. Am I not correct that we do lose voting power under this IDA that we have under the International Bank; we lose control of part of that which we put in?

Mr. UPTON. Not if we consider all currencies together in the IDA as we did in the International Bank voting power. If we consider them separately and just attached your voting power to your gold and currencies, I would have to give you that answer later because I do not have that calculation.

Senator WILLIAMS. That is what we are attaching. We are moving over, considering soft currencies, are we not?

AUTHORIZATION TO PUT EXISTING HOLDINGS OF INTERNATIONAL CURRENCIES UNDER NEW AGENCY

Another question: Part of the purposes of this bill, running parallel to the agreement, as I understand them, is to authorize us to put up some of our existing holdings of international currencies that have been accumulated under various programs and turn them over to this agency; is that true?

Mr. UPTON. There is a provision for that.

Senator WILLIAMS. It is the purpose and intent to turn some of these currencies over to this agency?

Mr. UPTON. That is correct.

Senator WILLIAMS. Now, do we get any voting credit for these currencies?

Mr. UPTON. No; we do not.

Senator WILLIAMS. Then nonvoting power?

Mr. UPTON. Yes.

Senator WILLIAMS. And we lose control of them when we put them in this pocket?

Mr. UPTON. We provide for the control of the loaning purposes by the IDA.

Senator WILLIAMS. We have, as I understand it, about \$1.5 billion in so-called soft currencies on hand now; is that correct?

Mr. UPTON. I think it is slightly larger figure.

Senator WILLIAMS. \$1.5 billion to \$2 billion; is that correct?

Mr. UPTON. About \$2 billion.

Senator WILLIAMS. \$2 billion. Right.

Now, assuming that we turn that over to the IDA, and they have loaned it, that would be turned over to them for the purpose of making loans in the respective countries, would it not?

Mr. UPTON. Well, Senator, may I question your assumption? They may only be turned over to IDA if there is an agreement on the part of the country whose currency is concerned—

Senator WILLIAMS. That is correct.

Mr. UPTON. And if IDA sees a use for that, and is in agreement with the United States.

Now, we cannot foresee the amount that might be turned over to IDA, but undoubtedly it would be only a modest amount.

#### INTEREST ON ACCRUED CURRENCIES

Senator WILLIAMS. Well, to whatever extent it would be, I understand it would have to be with the approval of the country. But assuming that the country gives that approval, and I cannot conceive of IDA turning it down, whom would it be loaned to, who would collect the interest on this? Would the interest accruing on these currencies go to IDA then as an additional earning power, or would it be returned to the United States?

Mr. UPTON. Well, that would depend upon the terms and conditions under which the individual amounts were turned over to IDA.

Senator WILLIAMS. What are your intentions?

Mr. UPTON. We intend to deal with each one of these in an individual negotiation. I think that if one might speak generally, one might say that one would expect that these would be turned over to IDA with a minimum of restrictions on them, but there is nothing in the charter which describes this other than—

Senator WILLIAMS. That is the reason I am asking the question. I noticed that it would be your plan to turn them over to them, and allow the accumulated interest to accrue to IDA; is that correct?

Mr. UPTON. That is correct. That would be the general desire.

Senator WILLIAMS. Now, once these loans have been made and repaid, does this repayment fund become property of IDA, or would that repayment come back? Do we hold a claim to it or would we relinquish all title and claims once we turn them over?

Mr. UPTON. That would be again completely up to the arrangements which were made at the time the funds were turned over to IDA.

Senator WILLIAMS. But if we pass this bill, as far as Congress is concerned, we are through with it so far as our authority is concerned. Therefore, I would like to ask you, what are your plans on this and what do you plan to do?

#### REVOLVING FUNDS

Mr. UPTON. I might make one remark that would clarify this. We consider that our own local currency funds which are for development under ICA or 104(g) as basically revolving funds, in other words, they are loaned out and they will come back in due course.

Now, although at the present time they do come back to the Government, I think it has to be assumed that the only reasonable use for those in the foreseeable future would be to reloan them for further development, rather than transfer them back into dollars.

Now, the same thing presumably will take place in IDA, this will become a revolving loan fund.

Senator WILLIAMS. You are not figuring on the need for this running into perpetuity, are you, or is that the plan?

Mr. UPTON. I do not think I can possibly think that far ahead, Senator.

Senator WILLIAMS. Well, I think as an individual if you were turning over a portion of your own money to some agency, you would want to know when it was coming back and in what terms it is coming back.

Mr. UPTON. Yes, indeed.

Senator WILLIAMS. As an official of the Government, do you not think every one of us should likewise know what we are doing and have some plans in advance?

Mr. UPTON. Yes, I do.

Senator WILLIAMS. What are those plans?

Mr. UPTON. We do not have plans at the present time because the bill has not been passed and no arrangements have been made.

Senator WILLIAMS. As one who has to vote on this bill, I would like to know what your plans are before I vote on it. Do you not think Congress should have something in mind before it votes? We are dealing with a couple of billion dollars.

Mr. UPTON. May I prepare a statement for you?

Senator WILLIAMS. Yes, that would be satisfactory. Do you not think it would be appropriate to have that in the record?

Mr. UPTON. Yes, I do.

(The material submitted by Mr. Upton follows:)

Senate Resolution 264 (85th Cong., 2d sess.) suggested as one of the objectives of the International Development Association "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." This objective was kept in mind in the negotiation of the articles of agreement of the Association in the Executive Board of the International Bank, and, accordingly, article III, section 2(a) of the proposed articles provides for arrangements whereby one member may make available to the International Development Association supplementary resources in the currency of another member. The terms and conditions on which such resources may be made available are subject to agreement between the International Development Association and the United States, as the country providing the resources, and the transfer to the International Development Association is subject to the consent of the country whose currency is transferred.

It is the present view of the administration that, if it transfers Public Law 480 currencies to the International Development Association under this provision, it would not require the International Development Association to return these currencies to the United States, except in the event of the liquidation of the International Development Association or the withdrawal of the United States from membership. The currencies thus initially provided by the United States to the International Development Association could be used for loans principally to the country whose currency is involved in a given case. Repayments of principal would accrue to the International Development Association, and be available for further loans. In this way the International Development Association would have a revolving fund of local currencies which it could use in its operations separately or in conjunction with loans of foreign exchange. Accordingly it will be possible to program such uses in advance, and it will eliminate renegotiation on the reuse of these local currency funds with the countries concerned. Continued availability of these local currency resources should make for more effective use of them in promoting economic development.

At the present time somewhat more than half the proceeds from the sale of goods under title I of Public Law 480 is returned in the form of loans or grants, principally loans, to the foreign country which purchased the agricultural sur-

plus. It is from this portion of the future sales proceeds that it is expected that a moderate proportion may be agreed upon in future sales agreements for transfer to the International Development Association. These loans are now being made in local currencies and are being repaid in local currencies. Under existing arrangements the amounts of local currencies expected to accrue to the United States in some countries will be in excess of the amounts which can be used for U.S. Government purposes. The main use which can be made of interest and amortization payments received in these local currencies, when in excess, will be to make further loans of these currencies back to the country. Unless these currencies at some future time could be transferred into other currencies or used to meet U.S. requirements for these currencies, the United States would not, in any event, receive a dollar income from these reflows.

Generally speaking, it is our present view that similar considerations would apply to the payment of interest by the International Development Association as apply to the repayment of principal of local currencies supplied to it under these arrangements. The United States in transferring local currencies could agree with the International Development Association, however, on the disposition of net earnings on loans made with the currencies so supplied, in accordance with the articles of agreement.

It should be noted that each initial transfer of currency to the International Development Association will have to be negotiated. If the United States, because of a change in the situation at some future time wished to change the conditions on which it provided local currencies for lending by the International Development Association, it could propose different terms applicable to later transfers, subject to agreement with the International Development Association and the countries concerned.

#### BASIS FOR ELECTING DIRECTORS

Senator WILLIAMS. Now, assuming further that IDA is approved by the Congress, as I understand it, it becomes effective when 65 percent of the contributions have been approved; is that right?

Mr. UPTON. Yes; that is correct.

Senator WILLIAMS. Sixty-five percent of the contributions?

Mr. UPTON. Yes.

Senator WILLIAMS. Suppose in the approval of the 65 percent—and this may be a wrong supposition, but in business you have got to deal with what could happen—if the part II countries all approved and the United States approves, that is about 55.6 percent. You would only need 10 percent more of the hard currency countries to approve and this is in effect.

Now, we will assume we only get that minimum approval, and this agency begins functioning with the 65 percent. It could function with that contribution of \$650 million, could it not?

Mr. UPTON. That is correct.

Senator WILLIAMS. Now, how would you elect your directorship then? Would those contributing this \$650 million, or 65 percent, elect the directors for this agency, or would they be elected by the International Bank with the votes of the 35 percent of the membership that did not join this?

Mr. UPTON. No, they would just represent those who have contributed and are members of this organization.

Senator WILLIAMS. They would be elected only by those who have contributed?

Mr. UPTON. That is correct. Insofar as informal voting takes place in the Board of Directors, however, it is generally by a simple majority. So that you can see even a minor difference in the number of directors due to a lack of complete identity of membership would

not destroy in any way the identity of purpose when you consider that you are voting generally by a simple majority.

Senator WILLIAMS. Then, would it not be more practical to say that this agency could only come into effect when it has been approved by the Bank itself, and that by the present directors of the Bank rather than 65 percent?

Mr. UPTON. No, I do not think so, Senator. I think you have to set for any institutions a specific percentage of the total contributors and the funds that are going to have to be contributed to have it come into being. I do not think it would be appropriate for the Congress or the parliaments of other countries to leave the decision to the International Bank as to when it would come into being.

Senator WILLIAMS. I do not think so either.

Mr. UPTON. Because it would have no knowledge as to what percentage of the members of the International Bank might decide to join IDA.

Senator WILLIAMS. I just wonder if this 65 percent is realistic.

Now, carrying this supposition through that IDA is approved with a minimum of 65 percent, it is natural to assume that part II countries who only have to put up 10 percent would be able to and would subscribe to it. In that event it would be mathematically possible to have a situation where this agency would be declared fully operative with the United States having put up 73 percent of the hard money.

Mr. UPTON. Senator, it would be mathematically possible but quite unlikely.

Senator WILLIAMS. That is right.

#### GENERAL UNDERSTANDING AMONG MAJOR CONTRIBUTING COUNTRIES

Mr. UPTON. Because you must not overlook the fact that before negotiations were undertaken there were informal talks between Secretary Anderson and Under Secretary Dillon and others with all of the major contributing countries, and that there was a basis of general understanding reached in these talks, and that the negotiations themselves followed that pattern.

Senator WILLIAMS. There is a general understanding that they will all approve, is that correct?

Mr. UPTON. There was a general understanding they were all in agreement in principle with the setting up of such an organization. No, this does not mean that their parliaments will approve, because the people who have these conversations are not necessarily the people who take the decisions on this.

Senator WILLIAMS. I realize that, and assuming that they did not, mathematically the result could be that you would have this fund fully operative, with the United States contributing 73 percent of the total, with less than 40 percent of the voting power, and you find the part II countries contributing 5½ percent of the gold with a majority of the voting power.

Mr. UPTON. No, because if it went into effect with 65 percent, the percentage of voting power would substantially increase on the part of the United States as well as on the part of the other contributors.

Senator WILLIAMS. That is right, it would increase, but it would not increase our voting power to the point where we would have over

64,558 votes. We would not have any more. The 51 countries would have 72,886 votes, and they would have the same and you would, in effect, be transferring the voting power and the power to run this agency, using a hypothetical case, where those who would put up the least could run the agency and we who contributed 73 percent would have absolutely nothing to say about anything applying against us—could it not happen?

Mr. UPTON. Well, Senator, you have made a series of very interesting hypotheses, but I do not think in our background we have any basis at all for assuming—

Senator WILLIAMS. I agree with you, we do not, and if you do not, what is wrong with changing the figure from 65 percent to 100 percent and saying that it cannot—

Mr. UPTON. The problem is this: You must always allow a certain leeway for joining of these organizations if in effect it is going to be administratively feasible.

We have had this experience with the Inter-American Development Bank where we set a considerably higher figure and it was hardly achieved in time because of the fact that Cuba did not enter and the fact that one or two other countries had not completed their processes.

So in an effective organization, it is generally presumed reasonable to leave a certain leeway. Now, this 65 percent figure, I believe, was the same figure which was used in the establishment of the World Bank.

(The following additional information was subsequently furnished by Mr. Upton:)

The articles of agreement of the IDA, article XI, section 1, provide that the "agreement shall enter into force when it has been signed on behalf of governments whose subscriptions comprise not less than 65 percent of the total subscriptions set forth in Schedule A." Various factors were taken into account by the Executive Directors of the International Bank, who drafted the articles of agreement, in their decision to select the 65 percent figure. An important consideration was the precedent of the articles of agreement of the International Bank, which required 65 percent of the capital subscriptions for entry into force. Further, there was broad agreement on the advisability of establishing the IDA at as early a time as feasible. It was believed that a larger percentage might unduly delay the establishment of IDA due to the inevitable procedural delays on the part of some of the large number of nations which must comply with their varied internal governmental procedures before ratifying. In addition, the IDA project had had wide international acceptance in principle, and it is expected that most or all of the subscriptions will over time be provided. The coming into being of the organization should, in itself, stimulate further ratifications.

Questions have been raised, however, concerning some of the consequences which could theoretically arise if the IDA were to commence operations with minimum part I country participation.

Assuming, for the purpose of the example, participation by all 51 part II countries (23.693 percent of subscriptions) and by the United States (32.029 percent), a minimum of \$92.78 million by additional part I countries would also be necessary for the agreement to enter into force. This would be the approximate result if the other part I countries were France (or Germany), Japan, and Norway, which have combined subscriptions of \$93.27 million. These countries, together with the United States, would represent the minimum number of part I countries required for the agreement to enter into force with the minimum total initial subscriptions.



The relative subscriptions and voting power which would result from this hypothetical example would be as follows:

	Subscriptions		Voting power	
	Millions of dollars	Percent of total	Votes	Percent of total
United States.....	320.29	49.2	64,568	41.0
France, Japan, and Norway <sup>1</sup> .....	93.27	14.3	20,154	12.8
Part II (51 countries).....	236.93	36.5	72,886	46.2
Total.....	650.49	100.0	157,608	100.0

<sup>1</sup> It should be noted that because each member receives 500 votes in addition to 1 vote per \$5,000 of its initial subscription, the total votes of this group of part I members would vary depending upon the number of countries in the group. For example, if France were excluded from this group, sufficient subscriptions could be obtained to commence operations with membership to include Austria, Denmark, Italy, Luxembourg, Sweden, and the Union of South Africa. The combined subscriptions of these 6 countries would, with Japan and Norway, total \$93.44 million; they would receive combined votes of 22,688, representing 14.2 percent of the 160,132 total votes.

In the example illustrated by the table above, the United States would provide 49 percent of the total initial subscriptions and receive 41 percent of the total votes. The 51 part II members would provide 36 percent of total subscriptions, and they would receive 46 percent of the total votes. Regardless of the particular countries which would form the membership, the IDA could not come into existence with the majority of voting power in the hands of the part II members. Therefore, effective voting control would in every case be held by the United States and the other part I members whose position in the IDA would be parallel with that of the United States.

The example above is, of course, hypothetical and does not, especially so far as the part I countries are concerned, represent the probable membership of the IDA. We have recently been informed that two of the larger part I countries, the United Kingdom and Japan, have already commenced the legislative processes necessary for their acceptance of the articles of agreement. These countries together have initial subscriptions totalling \$164.7 million, which combined with the U.S. subscription would represent 48.5 percent of the total.

Senator WILLIAMS. But in that instance they were all hard currencies that did join, and you would have had this difference. Had you started the World Bank with only 65 percent, those that had the voting power would have retained their voting power in proportion to the amount of hard currency or gold that they put up. In this instance you can get a complete twist as a result of the part II countries having to put up only 10 percent of the gold.

Mr. UPTON. No, sir; I cannot agree with you on that. Because in the International Bank they did not all put up hard currencies. They only put up 2 percent in gold or in dollars and the other 18 percent was put up in the countries' own currencies, but with restrictions on it, and in theory, this same thing could have happened in the International Bank and we would have been putting up an even greater percentage in gold and dollars than we put up here.

Senator WILLIAMS. But those restrictions, as I understand it, had the effect of keeping their currency on a par with its valuation—they are different restrictions from what you have in here; there are no such restrictions here, is that true?

Mr. UPTON. Well, I think the chief difference was this: that in the International Bank the 18 percent applied to all members of the International Bank, and the restrictions had to be lifted by each one of them separately. We lifted ours right away.

Now, in this institution, the part I countries have automatically, you might say, not imposed any restrictions on their total 100 percent

contribution, and the restriction on the 90 percent only applies to the underdeveloped countries. So this is a rather significant difference.

OTHER INDUSTRIALIZED COUNTRIES IN A POSITION TO MAKE  
THEIR CONTRIBUTIONS CONVERTIBLE

In other words, at the time the International Bank was formed, there were practically no other countries that were in a position to make all of their contributions convertible. Now the other industrialized countries of the world are in a position to make their contributions convertible and are doing so immediately by so stating that not only their 10 percent but their 90 percent will be usable immediately, and the restrictions will only apply to the 90 percent subscription of the underdeveloped countries.

Senator WILLIAMS. But you will admit that we are putting up a larger percentage of hard currency or gold under this agency proportionate to the total amount than we did in the International Bank and we would have less voting power?

Mr. UPTON. No, sir; I do not admit that. I say I could only reach a conclusion on this after a detailed arithmetical calculation.

Senator WILLIAMS. Maybe it would be better to defer questioning—

Mr. UPTON. Shall I make that research and present you with it?

Senator WILLIAMS. I wish you would, because you were agreeing with the mathematics earlier.

Mr. UPTON. I believe I am correct in saying that I have reserved my observation with respect to the International Bank because of this complexity of the 18 percent.

In other words, we have never made an effort in any of these institutions to divide the voting power of gold or dollars from the voting power of any other currency.

You have brought this up for the first time, and in order to, you might say, confirm the mathematical validity of your conclusions, I would wish to go back and actually measure this against what has taken place in the International Bank based on what has actually happened in the 18 percent.

Senator WILLIAMS. Well, I wish you would.

Mr. UPTON. I will be very happy to do that.

(The information referred to was subsequently furnished by Mr. Upton:)

The voting power of original members of the IDA, as set forth in article IV, section 3, of the articles of agreement, is generally based on the pattern of voting power in the International Bank. A small adjustment was made, however, to restore the voting power of the smaller countries which was somewhat diluted as the result of the recent capital increases in the International Bank. This largely accounts for the slightly higher proportion of votes held by the United States in the International Bank than in the IDA, as shown in table 1 (p. 81). On the assumption that all countries listed in schedule A of the articles become members of the IDA, the United States would hold 27.6 percent of the total votes. As of December 31, 1959, the United States held 31.4 percent of the total votes in the International Bank.

In the IDA the voting rights are not related to the degree of convertibility of the subscriptions; that is, no account is taken in the determination of votes of the degree to which the 90-percent portion of the subscriptions of the 51 part II members may come to be used in connection with IDA projects outside the respective member territories. This is the same principle as in the International Bank, in which the voting rights are not related to the convertibility of the sub-

scriptions of any member and, in addition, not affected even if one portion of the subscriptions has not been released to the Bank for its operations.

In the IDA, all of every member's currency must be paid in, according to a fixed schedule or as required for use; 90 percent of the subscriptions of part II members is, however, restricted to use in connection with projects within the subscriber's territory unless otherwise agreed by the member. In the IBERD, the articles of agreement require only 2 percent to be paid by each member in gold or dollars, and 18 percent to be paid in the member's own currency. Beyond the 2 percent of the original subscriptions, however, the 18-percent portion may be released as agreed upon between the member and the Bank—and it may be restricted, tied, or limited in any way. The remaining 80-percent portion of each member's subscription may be called by the Bank, pro rata among all members, in dollars or any other currency needed, only when required by the Bank to prevent default on its own obligations. No country has been called upon to pay in any currency under the 80 percent, nor do we believe any such call will be necessary. We therefore believe that the 80-percent portion should be eliminated in comparing the relative hard-currency contributions to the Bank by the member countries with their respective voting power.

Any comparison of the U.S. voting power in the two institutions as related to its portion of the hard-currency resources of the institutions must take into account the foregoing factors, and therefore no completely satisfactory comparison is possible. Some observations might be made, however, relating the U.S. voting power to (a) the gold and hard-currency resources IDA would have at the outset of its operations, i.e., ignoring the usability to IDA of its soft-currency resources; and to (b) that amount of the subscriptions of the International Bank which has been used in its loans or considered "usable" by the Bank at various times in its operations.

Under the articles of agreement of the IDA, the United States would provide 41 percent of the gold and freely convertible currencies payable by the countries listed in schedule A, and the United States would hold 28 percent of the voting power. The future relationship will, of course, depend upon total membership in the IDA and upon the use made and degree of usability of the national currency subscriptions of the part II members.

The data in table 2 (p. 81) show as of three dates the proportion of the used and usable resources of the International Bank provided by the United States. As of June 30, 1947, at the end of the first full fiscal year of the Bank's operations, the Bank's resources available from subscriptions for lending totaled \$729 million, 87 percent of which had been paid by the United States, which held 35 percent of total votes. At that time almost the only usable resources provided by all the other members were accounted for by the 2-percent portion of their subscriptions. By December 31, 1957, the U.S. proportion declined to 48 percent, mainly as the result of whole or partial "releases" by some of the other members of their 18-percent portions; the United States at that time held 29 percent of the votes. As of December 31, 1959, the United States accounted for 39 percent of these resources and held 31 percent of total votes.

Over the period of its operations, therefore, the U.S. Government payments have accounted for a progressively smaller proportion of the used and usable subscriptions in the International Bank available for lending, declining from 87 percent at the end of 1947 to 39 percent at the end of 1959. The membership has grown, and many members have come to permit the Bank to make greater and greater use of their (18 percent) subscribed capital.

The principle of weighted voting, based upon the total contributions of member governments, has good precedent in the International Monetary Fund as well as in the International Bank. We consider this to be an important principle in international institutions of this kind, and at the same time this provides the basis for a reasonable voice in management by the governments of less-developed countries.

TABLE 1.—IDA and IBRD—Comparative subscriptions and voting power

	United States	Other pt. I	Pt. II	Total
IDA: <sup>1</sup>				
Initial subscriptions.....million dollars..	\$320.3	\$442.8	\$236.9	\$1,000.0
Percent of total.....	32.0	44.3	23.7	100.0
Votes.....	64,558	96,556	72,856	234,000
Percent of total.....	27.6	41.3	31.1	100.0
IBRD: <sup>2</sup>				
Subscribed capital.....million dollars..	\$6,350.0	\$8,488.6	\$3,775.8	\$18,614.4
Percent of total.....	34.1	45.6	20.3	100.0
Votes.....	63,750	88,886	50,508	203,144
Percent of total.....	31.4	43.7	24.9	100.0

<sup>1</sup> Assumes membership of all countries listed in schedule A.

<sup>2</sup> As of Dec. 31, 1959; the division into pt. I and pt. II countries is that provided by the IDA articles of agreement and has no significance within the IBRD.

TABLE 2.—International Bank—2 percent and 18 percent portions of subscribed capital<sup>1</sup>

[Data in millions of dollars unless otherwise specified]

Date	June 30, 1947 (44 mem- bers)	Dec. 31, 1957 (64 mem- bers)	Dec. 31, 1959 (68 mem- bers)
Total 2 percent portion:			
United States.....	63.5	63.5	63.5
Others.....	92.1	120.6	132.0
18 percent portion on loan or "usable": <sup>2</sup>			
United States.....	571.5	571.5	571.5
Others.....	2.0	566.6	849.7
18 percent portion, neither on loan nor "usable":			
United States.....	0	0	0
Others.....	870.9	541.9	361.2
2 percent portion +18 percent portion on loan or "usable":			
United States.....	635.0	635.0	635.0
Others.....	94.1	687.2	981.7
Total.....	729.1	1,322.2	1,616.7
United States as percent of total percent.....	87.1	48.0	39.3
U.S. vote as percent of total percent.....	35.1	29.3	31.4

<sup>1</sup> Under the terms of the articles of agreement of the International Bank, 2 percent of each member's original subscription is payable in gold or dollars; 18 percent is payable in the member's own currency, subject to specified calls by the Bank for its operations, and released for loans only with the approval of the member. In connection with the doubling of the capital as of Sept. 15, 1959, the Board of Governors decided that the 2 percent and 18 percent portions of the increased subscriptions would not be called except when required to meet the obligations of the Bank.

<sup>2</sup> Defined as including all releases of the 18-percent portion on a convertible basis to be available to the Bank during the following 5 years and all releases on a tied basis for which the Bank has a specific use in sight under existing loans.

#### EXAMPLE OF LIBYA

Senator WILLIAMS. Mr. McCloy, in referring earlier to some of the countries that have changed their position where they would now be able to be eligible for hard loans rather than soft loans, I think you cited Libya; is that not true?

Mr. McCLOY. Yes.

Senator WILLIAMS. I noticed Libya is still counted here, though, as a member of the soft currency group.

Mr. UPTON. That is correct.

Senator WILLIAMS. Libya, in addition, I have noticed, has two loans and is in default on one of them now.

Mr. UPTON. I think that perhaps I could clarify this question of Libya.

Senator WILLIAMS. One of them was June 28, 1957, \$1,223,752.17, on which she has paid no interest, a 3-percent loan. She paid no interest or anything on the principal.

Senator AIKEN. Will the Senator yield? Whom are they in default to?

Senator WILLIAMS. U.S. Government, mutual security program, and the loan was made by ICA loan No. X-70-1.

Mr. UPTON. What Mr. McCloy referred to was the very recent discovery of oil in Libya which is so recent that the country has not yet had any benefit or very little opportunity to benefit from the discovery economically.

Now, to continue with your question about Libya, the fact that Libya may now come into a position to service dollar loans does not mean that Libya will not need capital for development.

I also point out that it may not be paid in soft currency. It is conceivable that a country like Libya needing capital but receiving dollars each year from its natural resources could be made a loan repayable in dollars, but over a period of time. It is not contemplated by any means that all of the loans of this institution will be repayable in soft, that is, local, currencies.

Senator WILLIAMS. I understand that. I just was interested in the statement about Libya because Mr. McCloy brought it up. And I noticed that in 1957 we did make this \$3.5 million loan, or we authorized a \$3.5 million loan, of which we disbursed \$1,225,000 at 3½ percent and that was a dollar loan repayable in dollars.

Last year we approved another \$5 million loan on the basis of 3½ percent, and it was dollars loaned repayable in local currencies; so I am pointing out we are doing these things now under existing authority. We do have existing authority. That loan was made under Public Law 85-477. We have the authority, as I understand it, under 13 different sections of the law, to do that which you could do under this IDA if it was passed. Is that not true?

### 13 SECTIONS OF LAW AUTHORIZING LENDING

Mr. UPTON. I cannot confirm the number of sections of the law, but there are certainly certain ones, particularly 104(g) of Public Law 480, under which development loans for balanced economic purposes can be made.

Senator WILLIAMS. I was interested and I asked the Department of State for the list of various lending authorities. I have it here under the date of February 24. There are 13 different authorities that you have now under various sections of the law where we can make direct loans to individuals, many of them direct loans to countries on these soft currencies.

Mr. UPTON. This refers specifically to soft-currency loans?

Senator WILLIAMS. They are dollar loans under this, this was dollars under national—

Mr. McCLOY. All national; are they not? They are not international?

Senator WILLIAMS. All international.

Mr. UPTON. All made by us bilaterally.

Mr. McCLOY. That is what I meant by "international."

Senator WILLIAMS. I do not think so. To be honest about it, I am not sure because I have only been working on this for about 3 months and I have not been able to find all of them yet.

Mr. UPTON. I think these refer to American laws which would presumably—

Senator WILLIAMS. What I am referring to are American laws, various laws—Public Laws 329, 759, 48, 165—I will not go into all of them, but they are all listed here, 13 different ones. In this report they sent down, they list various loans made to countries under these laws. This is what I am interested in and I thought maybe Mr. McCloy had this in mind when he suggested we eliminate some of these and consolidate some of them so we know what we are doing.

Mr. McCLOY. When you asked me whether or not we did not already have this authority, I said, no, we did not, because my impression is that all those 13, if there are 13, are national rather than international, in the sense that it is American money and American authority that is involved.

Senator WILLIAMS. It is American authority that I am speaking of. I am not speaking of the World Bank.

Mr. McCLOY. This is the only time we put money or propose to put money into a strictly international organization for this purpose.

Senator WILLIAMS. I understand that.

Mr. UPTON. I might add one other thing, Senator, that may help clarify this. There is a great value, I think, in effective development use of this currency and having it available to a lending institution which is also in a position to make loans repayable in hard currency, in whole or in part, and thus tie into the same project the hard-currency end for importing goods and the soft-currency end perhaps for local expenditures.

So although this authority may exist in a number of other places, I do not think it follows that it is being used in the same way, in the same effective way that it might be used if it were tied in with an international lending body.

Senator WILLIAMS. I can see some advantages to it from an international basis, providing it has the proper safeguards. That is the reason I raise these points as to whether or not we will retain our proper voting power and control over an agency in which we may very well end up as the largest contributor. I think if you will check the mathematics of it, while I will agree they are purely hypothetical cases, you will agree they can happen.

Mr. UPTON. Except that I think my tentative conclusion is, when I check the mathematics of it, we will find that the situation existed even more in the World Bank than it does in this institution.

Senator WILLIAMS. All I can say, I was not here at the time of the World Bank, or I would have asked you the same questions. The fact that we did something once does not mean we should take the chance again. The question I want answered is whether either of us as businessmen would not safeguard against that before we take chances that it may happen?

Now, the reason that I have asked these questions—and I am somewhat concerned—

Mr. UPTON. If I might interrupt, Senator, the same situation might arise with a number of other countries since we have 27 percent of the vote and since IDA can come into existence with 65 percent. In theory, these other countries might come in without the United States coming in. Obviously, it would take a large number of them to do it, but it might have the same effect.

#### SPECIFIC LOANS DISCUSSED

Senator WILLIAMS. I respect that. The reason I am asking is that I notice we do have this authority. I will not mention the country—I do not think we ought to single out countries—but I have before me here one country which has had five loans at the rate of 2½ percent from the U.S. Government. One of them was made in 1949. It was due in 1956. It was a \$67 million loan, from which we have only collected \$4.2 million principal.

And they have another one here dated September 13, 1950, which was due June 30, 1956, a \$6 million loan, upon which we have collected \$375,000 on principal.

And we have another loan which was dated June 27, 1952, due June 30, 1960, 2½ percent dollar loan, \$22.6 million, upon which we collected \$1.7 million interest and nothing on principal.

And two other loans, one in 1957 and one in 1958, for \$30 million and \$51 million. On those we have had no interest and no principal.

This is a total of \$159 million that has been disbursed to this country on loans at an average interest rate of 3 percent. Those two loans which are payable in local currency are 4 percent dollar loans payable in local currency. It is a total of \$159 million in loans; we have collected \$14,296,000 in interest and \$4,575,000 on the principal.

But an interesting part of it is that this country holds \$1,218 million of U.S. Government bonds, drawing an average of 4¼ percent, which are giving us concern.

If this country can hold \$1,250 million of U.S. Government bonds, can they not pay some of their debts? And why should we keep carrying countries like that? That is the question that is in my mind.

Mr. UPTON. Well, Senator, I do not think I can answer that question unless I had the opportunity to study the specific case and learn more about it and just what the background of the country was and what arose that caused a situation like this, because I am not familiar at least from your description of it, with the country of which you are speaking. And even if I did know, I still would like to consider all of the factors before I gave an answer to that question.

Senator WILLIAMS. There are several countries involved there. I will not name them, but I wish you would check this and I would like to have a report, because I know the Secretary of the Treasury is expressing concern over the fact we have about \$9 billion of our short-term loans outstanding which can be called immediately, and can demand gold. Yet many of the countries which are holding these are in default with loans through the various programs we have. What I do not understand is why we just cannot pay them off in some of their own paper.

Senator AIKEN. Will the Senator yield? Are these countries you refer to in part I or part II? I notice the countries are parted in two parts instead of being classified.

## LOANS TO COUNTRIES HOLDING U.S. BONDS QUESTIONED

Senator WILLIAMS. The country to which I referred is one in part I. I might say that there are several of them in there that are in similar positions, and I just wondered if there was any consideration given to that. We have another country in part I that has \$1,221 million in U.S. Government bonds with an average maturity of less than 6 months, and they are listed as drawing an average rate of interest at a little better than 4 percent, which can be called. It is a part I country. I wonder if it is not about time that some of them began helping us a little bit?

Mr. UPTON. If you will submit a list of those countries, we will be—

Senator WILLIAMS. I will call them to your attention.

Mr. UPTON. Well, the fact that you mentioned it is about time that the countries are making a greater contribution, I think comes back to the basic reason for setting up IDA. With this institution, for the first time they are making a contribution toward the financing of economic development in a way which, up to this time, was done only by the United States.

Senator WILLIAMS. This second country to which I have referred is listed as having received in 1952, a \$16.9 million loan upon which it paid us \$1,266,000 in interest, and nothing on principal. The loan is marked becoming due January 30, 1960. It is a 2½-percent loan. It has nothing at all paid on the principal, and yet we are paying 4¼ percent to this same country which has in its investment in U.S. Government bonds.

How long can we keep loaning 2½-percent money to these countries for reinvestment in our 4- or 5-percent Government bonds?

Do you think that is a matter that should be examined?

Mr. UPTON. Yes, sir; I think that we will look into it and see exactly what are the circumstances under which these countries have been in arrears on this and what steps have been taken to bring this to attention and bring it up to date.

Senator WILLIAMS. Will you furnish a report on these?

Mr. UPTON. Yes.

(The information referred to is as follows:)

The loans to which attention was directed have been reviewed. The first point I would like to make with respect to them is to clear up any misconception which may exist as to whether these loans are in default. They are not. All interest and principal which has so far become due to the United States under these loans has been paid. The reason that repayments made to date are comparatively small is that the loan agreements contained deferment periods for payment of both interest and principal. The deferment period before any principal repayments fell due ranged, in the dollar repayable loans, between 6 and 8 years.

Of the two countries involved, one received a dollar loan in 1952 and the other dollar loans in 1949, 1950, and 1952. It is these loans which bear 2½ percent interest. The subsequent loans made to one of the countries were ones made in the currency of the country itself out of a portion of the proceeds from Public Law 480 sales. In the case of these later Public Law 480 loans made in 1957 and 1958, the interest rate called for is 3 percent if repayment is made in dollars and 4 percent if repaid in foreign currency. No payments have yet fallen due on these loans in view of the deferment periods provided for in the agreements.

At the time the dollar loans referred to were made, the U.S. assistance program was primarily on a grant basis. Thus, even though a generous deferment period was allowed before repayments began to fall due, these loans nevertheless represented relatively hard terms in comparison to most U.S. aid of that period.



It might also be noted that at the time these loans were made and the dollars disbursed by the United States, the rate of interest at which the United States could borrow was much lower than at present.

We, of course, fully recognize the greatly improved financial position of the countries referred to and the fact that they have accumulated substantial dollar reserves. It is in recognition of this fact and our belief that they should now do more to assist the less-developed nations that IDA is proposed. We believe the hard-currency subscriptions to IDA of these and other countries which are in similar financial condition are an important step in this direction.

Senator WILLIAMS. I have no further questions at this time, Mr. Chairman.

Senator AIKEN. May I ask just one more question, Mr. President?

The CHAIRMAN. Yes.

#### PART II COUNTRY AUTHORIZED TO BORROW FROM IDA

Senator AIKEN. That is: Would a borrower in a part II country who now is in debt to the World Bank be eligible to borrow from IDA?

Mr. UPTON. Oh, yes; because, in fact, most of the part II countries have received hard loans from the World Bank, and therefore are in debt to the World Bank, and it is these countries who are expected to borrow also from IDA.

Senator AIKEN. And they can borrow?

Mr. UPTON. None of them are in default to the World Bank.

Senator AIKEN. But if they were on the verge of being in default, not quite in default, could they borrow from IDA?

Mr. UPTON. Well, I think that would be a decision to be taken by the Board of IDA as to whether or not the circumstances were such that they should receive a loan.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. Just one question. Mr. Upton, I heard your testimony last Friday and I heard most of Mr. McCloy's this morning. I have one question. As I see it, there will be a possibility of using these local currencies for the IDA.

#### LOCAL CURRENCY USE BY ICA

Now, as I gathered from your testimony, we have about \$2 billion of local currency. What will happen to the work that is being done by the ICA through the use of these funds for very worthy projects in these countries if we give them to the IDA?

Mr. UPTON. Well, I think the answer to that is that since the giving of them to IDA requires a three-part agreement, of which the United States is a part, if we felt that our currency in that specific country was sufficiently limited and that ICA was making good use of it and continued to make good use of it, why, we would not turn that currency over to IDA.

In a number of countries we will have amounts of local currency which appear to be considerably in excess of what we can foresee any use for by ICA or by any other Government agency. But this would come into consideration in the decision of the United States as to whether making an agreement with IDA and the country whose currency was concerned should be done at that time.

Senator CARLSON. It was not your thought, then, that funds taken or local currency taken over by IDA would be replaced in the future by additional grants from this country?

Mr. UPTON. No, sir. It is our thought that any decision to turn funds over to IDA would be discussed thoroughly with these agencies with respect to their present use for them.

Senator CARLSON. Thank you very much.

The CHAIRMAN. Any other questions of either of these witnesses?

#### COUNTRIES MUST JOIN IDA TO BE ELIGIBLE FOR LOANS

Senator WILLIAMS. Mr. Chairman, one question just to clear this up. Would these countries, either in part I or part II, be eligible for a loan under the International Development Association should they not join; by virtue of the fact they are members of the International Bank, would they be eligible for a loan?

Mr. UPTON. No, sir; they would not.

Senator WILLIAMS. They must join to get loans.

The CHAIRMAN. Any further questions?

Thank you very much; thank you, Mr. McCloy. You have been very helpful indeed and, Mr. Upton, thank you for coming back.

Mr. Hardwick, from the U.S. Chamber of Commerce, do you have a statement you wish to read?

Mr. HARDWICK. We have submitted a statement, and I would like to read it.

The CHAIRMAN. You may proceed.

#### STATEMENT OF C. CHEEVER HARDWICK, IN BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. HARDWICK. I am Cheever Hardwick, a partner in the investment banking firm of Smith, Barney & Co. I am also a member of the finance committee of the national chamber and appear today to present the views of the Chamber of Commerce of the United States on the proposed International Development Association.

I have with me Mr. Don Lester Waage, assistant manager for finance, and secretary of the finance committee, of the Chamber of Commerce of the United States.

The Chamber of Commerce of the United States recommends that the Committee on Foreign Relations approve S. 3074, which provides for the participation of the United States in its proposed association.

#### TWO FUNDAMENTAL PROVISIONS

There are two fundamental provisions contained in this bill that we consider to be of vital importance, namely:

1. That the International Development Association be established as an affiliate of the International Bank for Reconstruction and Development (World Bank); and

2. That its membership be the same as that of the World Bank.

Within the framework of these provisions, the national chamber believes that the IDA will provide a means by which the United States and other nations of economic and financial strength can effectively cooperate in meeting some of the more pressing and deserving capital requirements of underdeveloped nations.

## FLEXIBLE BASIS NEEDED FOR FINANCIAL ASSISTANCE

It has become increasingly apparent in recent years that the needs for development financing in many underdeveloped countries far exceed the moneys that can be provided for such purposes by existing national or international institutions upon so-called hard-loan terms—and that failure to make available some additional financial assistance on a more flexible basis may well result in serious economic and political consequences unfavorable to the free world.

## MULTILATERAL APPROACH URGED

We believe that recognition must be given to the fact that the burden of international economic development that has been placed upon the United States has become unduly great and that other industrialized nations of sound economy—such as Belgium, Germany, Great Britain, the Netherlands and Japan, to name a few—must also advance their resources on a multilateral basis under conditions which will minimize the impact upon the balance of payments of the borrowers.

This multilateral approach through the IDA will stimulate a more active role on the part of other industrialized nations and will also utilize the experience and existing facilities of the World Bank, with its highly favorable record of competence in international finance.

The achievement of greater economic progress in the less-developed areas of the world is vital to the United States, and the national chamber has long favored a program of economic and technical assistance to friendly countries of the free world. U.S. capital, private and public, has played a significant role in improving the utilization of resources in these areas, thereby promoting economic conditions of mutual benefit.

However, the capital requirements in some of those less-developed areas substantially exceed the lendable funds that are available upon conventional terms. Many of the economically stronger countries have attained positions which enable them to supply a more important portion of those requirements.

The establishment of the IDA would constitute a concrete acceptance of the principle that a new means must be found to further justifiable development financing of an international and multilateral nature; that such additional financing will not exceed the capacity of debtor countries to repay; and that other economically strong countries stand ready to share with the United States the burden that will be involved.

## SUPPORT FOR INCREASING THE RESOURCES OF THE IMF

On March 5, 1959, the national chamber filed a statement with subcommittee No. 1 of the House Committee on Banking and Currency in support of legislation involving increases in the resources of the International Monetary Fund and the World Bank. With respect to the Bank, the national chamber stated:

This institution has made a major contribution to the growth of free world economies by encouraging and financing of sound investment projects. It has helped many countries in the free world to achieve a foundation for continued and balanced growth.

The Chamber also pointed out at that time the important advantages of an international approach in assisting economic development in the less-developed areas.

In making its resources available on flexible terms, adapted to the circumstances surrounding individual projects in particular countries, IDA financing of necessity would depart from strictly conventional lending principles.

#### INCREASED OPPORTUNITIES FOR PRIVATE INVESTMENT EXPECTED

Such financing might be expected to result in increased opportunities for private commerce and investment in the areas involved. Safeguards are therefore necessary to assure that the IDA will not compete with private capital which might be available for such purposes or otherwise infringe upon presently existing avenues to such financing.

#### AFFILIATION WITH WORLD BANK

We believe that those safeguards are provided by specific language contained in the IDA articles of agreement and also through the nature of the organizational framework of the proposed association as an affiliate of the World Bank. This affiliation would assure that the administration of IDA would be governed by the sound banking judgment that has characterized the World Bank's operations in the past and also that IDA will benefit from the experience and highly trained staff of the World Bank in the furtherance of its objectives.

In substance, it would appear that the IDA will result in a broadening of the scope of the World Bank and an important increase in its effectiveness.

The need for a new multilateral medium to undertake the functions contemplated by creation of the IDA is not an entirely new concept in the United States. The Senate, by means of Resolution 264 of July 23, 1958, made a notable contribution to the recognition and advancement of that concept. The President and various members of his administration contributed to its broad international acceptance and initiated the discussions which resulted in the preparation of the articles of agreement.

In the light of present international economic and political conditions and the widely recognized need for additional assistance to the underdeveloped areas of the free world, it is the opinion of the national chamber that the IDA affords the most practicable means of providing such assistance on a multilateral basis.

We therefore urge the early enactment of S. 3074.

The CHAIRMAN. Thank you very much, Mr. Hardwick.

Senator Aiken, any questions.

Senator AIKEN. No questions.

The CHAIRMAN. Senator Williams, any questions?

Senator WILLIAMS. No questions.

The CHAIRMAN. Mr. Hardwick, I am very pleased that the chamber has taken this view. It is very helpful to have these views from the chamber of commerce, which is representative, really, of all of our commercial interests.

Thank you very much for coming here before the committee.

Mr. HARDWICK. Thank you, sir.

The CHAIRMAN. The next witness is Mr. Bert Seidman, of the AFL-CIO.

Mr. Seidman, we have had you before, I believe, on some occasions, and we are very pleased to have you back again.

**STATEMENT OF BERT SEIDMAN, ECONOMIST, RESEARCH DEPARTMENT, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS**

Mr. SEIDMAN. Thank you very much, Mr. Chairman.

My name is Bert Seidman. I am an economist in the research department of the AFL-CIO, and I am appearing before this committee this morning on behalf of the American Federation of Labor & Congress of Industrial Organizations to support the proposal for authorizing United States participation in the International Development Association contained in S. 3074 introduced by Senator Fulbright, the distinguished chairman of this committee.

The AFL-CIO particularly welcomes the establishment of the IDA because we have long favored efforts to increase economic assistance to underdeveloped countries through multilateral agencies. This was reaffirmed most recently at our convention which met last September in our resolution on international policy.

I have attached to my statement an excerpt from the resolution dealing with foreign economic policy, and I respectfully request that this attachment be made a part of the record of this hearing.

The CHAIRMAN. Yes, it shall be done.

Mr. SEIDMAN. The convention resolution to which I have referred pointed out that for some time to come the largest part of economic assistance would have to continue to be extended through U.S. agencies, but urged that this assistance should be channeled increasingly through international and regional organizations, and the resolution specifically called for effective U.S. financial support for and participation in the proposed IDA.

The resolution also urged that the assistance provided by the IDA should take the form of low-interest loans, repayable in local currencies.

**BIPARTISAN SUPPORT FOR IDA CITED**

Mr. Chairman, the AFL-CIO particularly welcomes the bipartisan support which thus far has been given to the IDA here in the United States. We are particularly gratified by the fact that while it was a Democratic Member of the Senate who first put forth the idea, it has been promoted vigorously, both here in our own country and in international bodies, by the Republican President and members of his Cabinet.

The AFL-CIO has been glad to be a supporter of this proposal from the very beginning.

**LIMITED FUNCTIONS OF PRESENT LENDING INSTITUTIONS**

A year ago I had the privilege of appearing before this committee in connection with the then proposed authorization for the International Monetary Fund and the World Bank, and at that time we stated that while those agencies have played a very important role

in assisting economic development, they have had, nevertheless, relatively limited functions which ought to be supplemented by other programs.

At that time we specifically called attention to the fact that the World Bank makes only what may be called bankable loans, and that the extent to which countries could obtain such loans is determined largely by their ability to repay them, and, in turn, particularly by the ability of the country to earn foreign exchange.

For this reason, the World Bank has not been able to make loans for certain very important types of social capital projects such as schools, hospitals, and other types of projects including highways where a country did not have the general ability to repay in hard currencies.

We think that the proposed IDA will help to fill that gap because it will make loans under less stringent conditions than the World Bank for a variety of products in these less developed countries which will make an important contribution to the basic economic growth of these countries.

Yet since the IDA will be administered by the World Bank, its activities will be closely coordinated with those of the older agency.

#### U. S. SHARE OF INITIAL CAPITALIZATION

Since other witnesses have covered some of the main features of the IDA, I will not go into them in detail. The initial capitalization proposed is \$1 billion for a 5-year period of which the United States' share would be approximately \$320 million, and a somewhat larger amount to be contributed by other economically stronger nations.

On this basis the administration has requested only about \$73 million for fiscal 1961 and about \$61 million for each of the subsequent 4 years. And as I shall indicate in a moment, we think these amounts are too restrictive in view of the job that needs to be done.

The IDA will make available loans on flexible terms which are especially suitable to meet the requirements and capacities of less-developed countries. They will be made for any sound purposes which constitute an integral part of a less-developed country's overall economic development program.

#### MAIN FEATURES OF THE IDA

As we understand it, the IDA will make loans including some combination of the following features: Low interest rates, long maturity periods, grace period before repayment must begin, and repayment in local currencies.

During the discussion on the IDA at the meeting of the Board of Governors of the World Bank last October, some fears were expressed that the influence of individuals with the traditional bankers' point of view in the World Bank might outweigh in the councils of that organization the views of those who recognize the need for flexible nonbankable loans for economic development in the less-developed countries.

## FLEXIBLE LENDING POLICY SUPPORTED

We recognize that as of now the organizers of the IDA have fully subscribed to the principle of a flexible lending policy, and we sincerely hope that they will not deviate from that policy. Because such a change, in our opinion, would smash the hopes of those who look to IDA for meaningful support for economic advances in the less-developed countries.

I would emphasize at this point, Mr. Chairman, that organized labor in the United States will continue to endorse U.S. participation in and support for the IDA only as long as the IDA maintains policies fully attuned to the needs and capacities of the less-developed countries. Indeed, we would urge this committee in its report to the Congress to recommend the continued U.S. support for IDA be made conditional upon its maintaining a flexible lending policy and that U.S. support be withdrawn if the IDA should adopt a hard bankable loan policy.

As I have already indicated, the articles of agreement of the IDA would permit financing for any project which will make an important contribution to the development of the area or areas concerned whether or not the project is revenue-producing or directly productive. These projects may yield no immediate monetary returns, but we think they will in time pay for themselves many times over by their invaluable contribution to the expansion of the entire economy in these areas.

## ADVANTAGES OF THE MULTILATERAL APPROACH

Mr. Chairman, the AFL-CIO has long favored the idea of channeling an increasing proportion of our economic assistance to the less-developed lands through multilateral agencies. We believe that for some time to come the United States, through the technical cooperation program and the Development Loan Fund, should considerably expand its bilateral economic assistance effort until the IDA and other multilateral organizations are prepared to effectively take over the major responsibility, but we should work toward the goal of channeling increasing amounts through the multilateral agencies because we think there are some very important benefits to be derived from the multilateral approach to economic assistance.

Perhaps the most important is in the IDA we will have a genuine cooperative undertaking of 68 free world nations, both developed and less developed, in which they can pool both their financial and technical resources.

From the United States point of view, this is, of course, important. As it has been stressed by earlier witnesses this morning, it means we alone will not be shouldering the entire financial burden. But there are other gains in this approach. One of the most important is that the skills and talents of individuals in all member countries will be available to advance the program as rapidly as possible.

It also means that a multilateral agency can state its recommendations for effectively and efficiently carrying out the programs it wants to finance in more stronger terms than can a single lending country.

Still another advantage is that as we know from our own experience, even the best of motives of lending countries are sometimes questioned by people in borrowing countries.

They may suspect that the lending country is motivated principally by political considerations or by its own narrow economic interests. The Soviet Union and its satellites have not hesitated to heap coals on this smouldering fire of possible suspicion, although their own activities in this field, I must hasten to add, are, in the main, directed toward their political interests.

But an international agency such as IDA in which virtually all free world nations participate will not be as vulnerable to such attacks.

There should be acceptance of its good faith and this is likely to be a tremendous asset in the cooperative drive to accelerate the pace of economic advances.

#### PROPOSED SCOPE OF IDA SHOULD BE ENLARGED

The foregoing comments should certainly make clear our wholehearted support for U.S. participation in the IDA. Our only concern is that the resources which are to be made available to IDA may be entirely too small to accomplish more than a small fraction of the job to be done.

Mr. Chairman, we know that there are grave dangers to world freedom when countries as yet uncommitted accept Soviet assistance, as some of them have been doing increasingly during the recent period.

We know that the Soviet Union wants to make them satellites under the Soviet yoke. But the fact remains, since the Soviet Union has entered the foreign aid picture in a big way, we can ignore this development only at our own peril. We must recognize that unless the more fortunate industrially advanced nations of the free world, and especially the United States, which is still by far the richest, are prepared to make available to less developed countries economic assistance on a scale commensurate with their minimum needs, they will reluctantly, but inevitably, turn to the Soviet Union.

In our opinion, this is an important reason for increasing the capitalization of the IDA substantially above the presently contemplated level.

Experts have estimated that if \$3 billion a year additional could be made available to less developed countries, this would make possible a growth rate in the 1960's in such countries twice that of the 1950's.

Actually, in 100 countries of the non-Communist world where the average income is \$100, this would mean only that we would have an average annual increase of \$2 a year in the 1960's, instead of \$1 a year in the 1950's.

Obviously, this would by no means bring on the millennium, but it might, in some of these countries, permit breakthroughs toward the ultimate goal of putting their economies on a self-sustaining basis.

It would also improve the prospects for raising now intolerably inadequate living standards.

In order to accomplish this objective, we feel that the \$70 million or so a year that the administration is prepared to allocate to the IDA during the next 5 years is not adequate. It amounts to only about one one-hundredth of 1 percent of our gross national product, and only one-fourth of 1 percent of the annual increase of gross national product we should easily attain.



And roughly the same proportions hold true for the other countries expected to provide the bulk of the funds for the IDA.

Surely the industrial nations of the free world, and especially the United States, can afford to devote more than the puny resources thus far allocated to assure real progress in the drive to eliminate hunger, want, illiteracy, and sickness in the uncommitted less developed countries.

We therefore strongly urge that this committee by all means recommend authorization for U.S. participation in IDA in accordance with the present proposal. But we also express the hope that you will recommend that at the earliest opportunity the United States take the lead in expanding the resources of the IDA so that it will be assured of at least \$1 billion a year.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you very much, Mr. Seidman. That is a very strong statement, and we are very pleased to have the views of the AFL-CIO on this legislation.

(The prepared statement submitted by Mr. Seidman is as follows:)

PREPARED STATEMENT BY BERT SEIDMAN, ECONOMIST, RESEARCH DEPARTMENT,  
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

I appreciate the opportunity to appear before this committee on behalf of the American Federation of Labor and Congress of Industrial Organizations to support the proposal for authorizing U.S. participation in the International Development Association contained in S. 3074, introduced by Senator Fulbright, the distinguished chairman of this committee.

Let me state at the outset, Mr. Chairman, that the AFL-CIO particularly welcomes the establishment of the International Development Association because we have long favored efforts to increase economic assistance to the less developed countries through multilateral agencies. This position was reaffirmed at the most recent AFL-CIO Convention which met last September. I have attached to my testimony that part of the convention resolution on international policy which relates to foreign economic policy. I respectfully request that this attachment be made a part of the record of this hearing.

In the convention resolution to which I have referred, the AFL-CIO frankly stated that for some time to come, the largest part of economic assistance would have to continue to be extended through U.S. agencies. But the resolution urged that our foreign economic efforts should increasingly be channeled through international and regional organizations. Such assistance should be on a sufficient scale and on a long-term basis. The convention resolution specifically called for effective U.S. financial support for and participation in the proposed International Development Association as an essential part of an expanded, long-term and fully effective program of economic and technical assistance to the industrially less developed nations. Moreover, the resolution urged that the assistance provided by the IDA should take the form of low-interest loans repayable in local currencies.

Before discussing some of the specific aspects of the IDA proposal, I should like to mention one general consideration which we find most encouraging. I refer to the bipartisan support which has been given to the IDA here in the United States. We in the labor movement are proud of the leadership role the United States has had in the development of this challenging new concept for aiding worldwide economic progress. We are particularly gratified by the fact that leading spokesmen of both our political parties have been in the forefront of this effort. It was a Democratic member of the Senate who first put forth the idea. It has been promoted vigorously both in our own country and in the appropriate international bodies by a Republican President and the members of his Cabinet. The AFL-CIO is glad to have been a supporter of this proposal from the very beginning.

## NEED FOR THE INTERNATIONAL DEVELOPMENT ASSOCIATION

I had the privilege of appearing before this committee just 1 year ago to support the authorization you were then considering for necessary funds for the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank). At that time I stated that while these two agencies have undoubtedly played a very important role in assisting economic development, they nevertheless have relatively limited functions which must be supplemented by other programs to aid economic growth in the less developed countries. If I may, I should like to restate a brief portion of what I then said:

"The IBRD plays a direct role in economic development but only in a relatively restricted area. The IBRD makes only what may be called bankable loans. These are at the going interest rate for customary repayment periods and repayable in hard currencies.

"The extent to which countries may obtain IBRD loans is determined by their ability to repay such loans and this, in turn, is determined by the type of projects for which the loan is sought—particularly the amount of revenue they are likely to produce—and the overall ability of the country to earn foreign exchange. As already indicated, the projects financed by IBRD loans do not include 'social capital' projects such as schools and hospitals, nor do they ordinarily include technical assistance, except incidentally. They do not even ordinarily include such projects as highways which do not immediately produce revenue, particularly where a country does not have general ability to repay in hard currencies. Yet, projects of the types that are not covered by IBRD loans are vital not only to improve the living conditions of the people of the underdeveloped countries but also for economic growth itself."

The proposed IDA will help to fill that gap. It will make loans under less stringent conditions than the IBRD for a variety of projects in less developed countries. These projects will make an important contribution to basic economic growth in the less developed countries, but they are projects which are not and, for the most part, cannot be assisted by the IBRD. Yet, since the IDA will be administered by the IBRD, its activities will be very closely coordinated with those of the older agency.

## MAIN FEATURES OF THE IDA

The initial capitalization proposed for the IDA is \$1 billion. The U.S. share of this amount would be approximately \$320 million, while the contributions of the other economically stronger nations would be approximately \$443 million. All of these funds would be in convertible currencies. The remaining \$237 million would be subscribed by the less developed countries themselves and 10 percent of this amount would be in convertible currencies.

The proposal in its present form specifies that these amounts are intended for a 5-year period. On that basis the administration has requested only \$73,666,700 for fiscal 1961 and \$61,635,000 for each of the subsequent 4 years. As I shall indicate in a moment, we regard these amounts as being much too restrictive in view of the size and scope of the job that urgently needs to be done.

The IDA will make available loans on flexible terms which are especially suitable to meet the requirements and capacities of less developed countries. It is true that the IBRD and the Export-Import Bank have assisted industrialization in the less developed countries. However, these sources of funds have been limited in two important ways in meeting the economic development requirements of these areas. First, their assistance has been limited to what may be called "hard" or "bankable" loans. That is, they have made their funds available only at going interest rates for customary repayment periods and repayable in hard currency. Second, because of the stringent nature of these loans, they have been available only for types of projects which are immediately revenue producing and largely self-liquidating.

The IDA, on the other hand, will make loans on flexible terms and for any sound purposes which constitute an integral part of a less developed country's overall economic development program. The fact is that most of the less developed countries have reached the limit of their economic capacity to assume the financial responsibility of additional hard loans. For this reason, the IDA will make loans including some combination of the following features: Low interest rates, long maturity periods, grace periods before repayment must begin and repayment in local currencies.

During the discussion on the IDA at the meeting of the Board of Governors of the IBRD last October, some fears were expressed that the influences of individuals with the traditional bankers' point of view in the IBRD might outweigh in the councils of that organization the views of those who recognize the need for flexible nonbankable loans for economic development in the less developed countries. We recognize that as of now, the organizers of the IDA have fully subscribed to the need for the new organization to have a flexible lending policy. We sincerely hope that they will not deviate from that policy and veer in the direction of a hard loan policy. Such a change, in our opinion, would smash the hopes of those who look to IDA for meaningful support for economic advances in the less developed countries.

I would emphasize at this point, Mr. Chairman, that organized labor in the United States will continue to endorse U.S. participation in and support for the IDA only as long as the IDA maintains policies fully attuned to the needs and capacities of the less developed countries. Indeed, we would urge this committee in its report to the Congress to recommend that continued U.S. support for the IDA be made conditional upon its maintaining a flexible lending policy and that U.S. support be withdrawn if the IDA should adopt a hard, bankable loan policy.

According to the articles of agreement of the IDA, it would be authorized to finance, within the limits of available funds, "any project \* \* \* which will make an important contribution to the development of the area or areas concerned, whether or not the project is revenue producing or directly productive." Thus, the funds can be used not just for revenue-yielding projects but for roads, communication, housing, sanitation, education, and other projects. These are projects which may yield no immediate monetary returns but will in time pay for themselves many times over by their invaluable contribution to the expansion of the entire economy. While they may not be appropriately financed by bankable loans, they are tremendously important from the point of view of achievement of sound economic progress in the less developed areas.

#### ADVANTAGES OF THE MULTILATERAL APPROACH

I have already stated that the AFL-CIO has long favored the idea of channeling an increasing proportion of our economic assistance to the less developed lands through multilateral agencies. True, it cannot be expected that the IDA or other multilateral or regional agencies will establish themselves on a broad enough scale so quickly as to make unnecessary further bilateral aid programs. On the contrary, we believe that the United States, through the technical cooperation program and the Development Loan Fund should considerably expand its bilateral economic assistance effort until the IDA and other multilateral organizations are prepared to effectively take over the major responsibility.

But we should work toward that goal for there are some very important benefits to be derived from the multilateral approach to economic assistance. Perhaps the most important advantage is that the IDA, as a multilateral organization, will be a genuinely cooperative undertaking of 68 free world nations, both developed and less developed, in which they can pool their financial and technical resources. From the U.S. point of view, this is important because it means that we alone will not be shouldering the entire financial burden.

But there are other gains in the multilateral approach. The skills and talents of individuals in all member countries will be available to advance the program as rapidly as possible. Moreover, an international agency is much less likely to offend the sensibilities and pride of recipient nations. This means that a multilateral agency can state its recommendations for effectively and efficiently carrying out the programs it helps to finance in much stronger terms than can a single lending country.

There is still another advantage in the multilateral approach. As we know from our own experience, even the best of motives of lending countries are sometimes questioned by people in borrowing countries. They may suspect that the lending country is motivated principally by political considerations or by its own narrow economic interests. The Soviet Union and its satellites have not hesitated, of course, to heap coals on this smoldering fire of suspicion although their own activities in this field are, in the main, directed toward their political interests. But an international agency such as IDA in which virtually all free world nations participate will not be as vulnerable to such attacks. Its stated

objective of contributing toward the economic advancement of the entire free world is much more likely to be accepted at face value, and this acceptance of good faith in itself is likely to be a tremendous asset in the cooperative drive to accelerate the pace of economic advancement.

PROPOSED SCOPE OF IDA SHOULD BE ENLARGED

The foregoing comments should certainly make clear our wholehearted support for U.S. participation in the IDA. Our only concern is that the resources which are to be made available for IDA seem to be entirely too small to accomplish more than a small fraction of the job to be done.

Just a few days ago, on March 6, the New York Times reported that in the first 9 weeks of 1960 the U.S.S.R. had committed itself to credits of almost \$700 million in five countries not in the Soviet bloc in Asia, Africa, and Latin America: United Arab Republic, Indonesia, Cuba, Guinea, and Afghanistan. In addition, during this same short period, the Soviet Government announced additional aid will be extended to two underdeveloped Communist countries, Outer Mongolia and North Korea.

We know that there are grave dangers to world freedom when these as yet uncommitted countries accept Soviet assistance. We know that the Soviet Union wants to make them the same kind of satellites as Outer Mongolia, North Korea and other Communist countries now under the Soviet yoke. But the fact remains that the Soviet Union has entered the foreign aid picture in a big way and this we can ignore only at our own peril. We must recognize that unless the more fortunate industrially advanced nations of the free world, and especially the United States which is still by far the richest, are prepared to make available to less developed countries economic assistance on a scale commensurate with their minimum needs, they will reluctantly, but inevitably turn to the Soviet Union.

This is an important reason for increasing the capitalization of the IDA substantially above the presently contemplated level. But it is by no means the only one. Mr. Chairman, as Paul Hoffman has recently reminded us, the average annual per capita income in 100 countries in the non-Communist world is \$100. In more than half of these countries the figure is actually below \$100, including such important countries as India, South Korea, Pakistan, Thailand, and Vietnam. During the decade of the 1950's, per capita income in these areas grew by only 1 percent or \$1 a year. People who are no longer willing to submit to the age-old yoke of hunger, disease, and poverty, will not long be satisfied with that kind of snail's pace progress. If we cannot help them in their yearning for a better life, they will inevitably look elsewhere for assistance.

Experts have estimated that if \$3 billion a year additional could be made available to less developed countries, this would make possible a growth rate in the 1960's in such countries twice that of the 1950's. Let me hasten to say that in the 100 countries to which I have previously referred, this would by no means bring on the millennium. But it would, at least in some of these countries, permit breakthroughs toward the ultimate goal of putting their economies on a self-sustaining basis. It would also immeasurably improve prospects for raising now intolerably inadequate living standards by significant amounts. These are goals well worth striving for.

If this extremely modest objective is to be reached, the IDA must be equipped to make a major contribution toward its achievement. Let me point out that the \$70 million or so a year the administration is prepared to allocate to the IDA during the next 5 years amounts to only about one one-hundredth of 1 percent of our gross national product and only about one-fourth of 1 percent of the annual increase of gross national product we should easily attain. Roughly the same proportions hold true for the other countries expected to provide the bulk of the funds. Surely, the industrial nations of the free world, and especially the United States, can afford to devote more than the puny resources thus far allocated to assure real progress in the drive to eliminate hunger, want, illiteracy, and sickness in the uncommitted less developed countries.

We therefore strongly urge this committee by all means to recommend authorization for U.S. participation in IDA in accordance with the present proposal. But we also express the hope that you will recommend that at the earliest opportunity the United States take the lead in expanding the resources of the IDA so that it will be assured of at least \$1 billion a year.

FOREIGN ECONOMIC POLICY—EXCERPT FROM NO. 110<sup>1</sup>

"The possibility of economic development and industrialization has brought to hundreds of millions of people in the less developed parts of the world the hope that they can emerge from the age-old morass of poverty, disease, and hunger. Many millions of these people live in newly independent countries where political awakening has been accompanied by a determination to improve their way of life.

"Escape from poverty with the assurance of freedom is possible in these lands only if economic cooperation is forthcoming from the more industrialized nations. While we hope that other countries will make whatever contributions they can to this effort, the United States, as the wealthiest and most industrially advanced country in the world, should continue to make the major contributions toward helping economic growth in the less developed countries.

"Although the largest part of this assistance will for some time continue to be extended through U.S. agencies, our foreign economic effort should increasingly be channeled through international and regional organizations. It should be on a sufficient scale and on a long-term basis.

"Economic progress fostered by our cooperation should assure the maximum tangible benefits to the people in the aided areas. The fruits of economic development must be widely shared, and the foundations laid for an economic structure in the less developed countries which will strengthen the forces of freedom and democracy. An effective and equitable foreign economic program will also lessen the growing threat of the Soviet bloc to utilize its own economic assistance program to forge political bonds with and subvert the less developed countries.

"The AFL-CIO calls upon the Congress to authorize an expanded, long-term and fully effective program of economic and technical assistance to the industrially less developed nations. This program should include:

"1. A long-term authorization for 5 years of a minimum of \$1.5 billion a year for the Development Loan Fund to make loans for economic development on a basis appropriate to the financial capacity of recipient countries. These funds should be made available without requirement of year-to-year appropriation.

"2. Effective U.S. financial support for and participation in the proposed International Development Association, Latin American Development Association and other regional development associations that may be organized to provide long-term, low-interest loans repayable in local currencies through international or regional channels for economic development in less developed areas.

"3. Expanded support for technical cooperation programs through both United States and United Nations agencies.

"4. Expanded programs to distribute surplus foods and fibers abroad in order to help improve living standards and assist economic development in the less developed countries."

The CHAIRMAN. Senator Aiken, do you have any questions?

Senator AIKEN. You would approve, would you not, Mr. Seidman, that such safeguards as may be necessary to insure that whatever money is provided is actually used for new development purposes and not used in such ways that new development would not result and increases of living levels would not result?

Mr. SEIDMAN. Yes, we would certainly favor, by all means, all steps necessary to assure that these funds are not dissipated, and that the funds are used to the maximum extent to build up the economies of these less developed countries.

Senator AIKEN. I assure you that is the purpose of some of the questioning that has taken place in these hearings. I, for one, am concerned that whatever money is provided be actually used for the purpose for which we intend it, and not be dissipated so as to get only negligible results.

Mr. SEIDMAN. Well, we would certainly support you in that view, Senator.

<sup>1</sup> This resolution was adopted at the third convention of the AFL-CIO, September 1959.

Senator AIKEN. That is all.  
The CHAIRMAN. Senator Williams.

#### FUNDS SHOULD BE USED FOR ADDITIONAL DEVELOPMENT PROJECTS

Senator WILLIAMS. One question: In line with what Senator Aiken said, as I understand it, you would recommend that we include safeguards to make sure that these funds were not used to bail out existing loans of various agencies, international or private?

Mr. SEIDMAN. I would think that these funds should be used for additional development projects, rather than to attempt to pay off the loans on projects which are already under way.

Senator WILLIAMS. Well, that was my thought: That they would not be used just to bail out someone who may have a weak loan and just use this as another vehicle to bail them out. That it would be used for new development.

Mr. SEIDMAN. Yes, I think it should be used for new development. I do think, however, that if some countries have been unable, let's say, to pay back hard loans, this may be even more of an indication of why this agency is needed to make these flexible loans.

Senator AIKEN. But if they use this to pay back their hard loan, and get no development at all, then they miss the point.

Mr. SEIDMAN. I am not suggesting that they should use this for that purpose, but I am saying this may be a clear indication of just why it is that this agency is needed.

Senator AIKEN. In the course of time, if they can get a loan from IDA to start new developments, then they would probably be able to pay back their other loan some day. But if they take this money and almost immediately use it to pay present indebtedness, that doesn't get them any further along the road to prosperity and better living.

Mr. SEIDMAN. I agree with you, but I would also hope that countries which, because their economies have been functioning at such a low level, have been unable to pay back on the loans that they have received would not be automatically disqualified from obtaining this entirely different type of loan from the IDA for sound development purposes.

Senator AIKEN. That is all.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. No questions.

#### VIEWS CONCERNING HIGHER TAXES

The CHAIRMAN. Mr. Seidman, just one question.

I think your only criticism is the inadequacy of the sums provided, especially by the United States.

Is it proper to infer from that statement, if it is necessary to maintain a balanced budget, that you and your organization would support higher taxes to obtain the income for the U.S. Government to finance this kind of an organization?

Mr. SEIDMAN. Well, Senator, on other occasions representatives of our organization have appeared before congressional committees with specific proposals as to ways in which we think that additional taxes can be raised, if necessary. And last year, if I recall correctly, I entered into the record of the hearing, when a similar question was

raised, the specific proposals which our organization has put forward on this question.

The CHAIRMAN. In other words, if it is necessary—I don't know whether it is necessary for this particular purpose, but it certainly would be some drain on the Treasury—you would not object to raising more money for such a worthy purpose; is that correct?

Mr. SEIDMAN. That is correct. And, of course, we would be concerned about the way in which the additional taxes would be raised.

The CHAIRMAN. Yes, everybody is concerned about the way. I take it by that you would not like a sales tax, is that right?

Mr. SEIDMAN. That is correct.

The CHAIRMAN. By the way, what way would you prefer, or is it too complicated to go into now?

Mr. SEIDMAN. Well, there are a number of different proposals which we have suggested. One of them relates to the depletion allowances on petroleum. There are a number of others. This is not a field in which I am particularly expert, but I would be glad to provide you with that.

The CHAIRMAN. It is not the jurisdiction of this committee to go into the ways. I was just wanting merely a broad statement.

But, generally, you feel this kind of project is worth our making a greater effort which, if it requires greater taxes, you would go into? You are not committing yourself to any specific type of program, but you think, in general, it would be worthwhile?

Mr. SEIDMAN. If that were necessary.

The CHAIRMAN. Yes.

Thank you very much, Mr. Seidman.

Mr. SEIDMAN. Thank you.

The CHAIRMAN. We appreciate your taking the trouble to come in and present your views.

The next witness is Mr. Elton Atwater, Friends Committee on National Legislation.

Mr. Atwater, we are very pleased to have you this morning.

#### **STATEMENT OF ELTON ATWATER IN BEHALF OF THE FRIENDS COMMITTEE ON NATIONAL LEGISLATION**

Mr. ATWATER. Thank you, Mr. Chairman. I will read my statement, if that is agreeable.

The CHAIRMAN. Yes, you may proceed.

Mr. ATWATER. Mr. Chairman and members of the committee, my name is Elton Atwater. I am professor of political science at the Pennsylvania State University. Today I am speaking on behalf of the Friends Committee on National Legislation. The views which I express will, I believe, have the support of many Friends (Quakers), although I do not pretend to speak for all Friends, since our democratic structure does not lend itself to official spokesmen.

I have come to urge your strong support for the proposed authorization for U.S. participation in the International Development Association (S. 3074). The Friends Committee on National Legislation especially welcomes this proposal as a major step toward greater use of multilateral agencies for economic assistance to the underdeveloped countries of the world.

As President Eisenhower and many members of this committee have frequently indicated, the United States has a clear interest in the economic growth of the less developed countries. The International Development Association will be an important additional link in the network of national and international agencies dedicated to this objective.

I have followed with great interest the development of the IDA proposal ever since it was submitted 2 years ago by Senator A. S. Mike Monroney. I would like here to pay special tribute to the initiative and efforts of Senator Monroney on behalf of this idea which is now coming to fruition.

I was then on leave of absence from my university, working as a Quaker nongovernmental organization representative at the United Nations. In this position, I was concerned, among other things, with exploring ways whereby greater economic assistance to the underdeveloped countries could be channeled through the United Nations and its specialized agencies.

In the spring of 1958, when the IDA plan was first being considered by the Senate, few United Nations delegates had heard much about it. I tried in a small way to interest as many delegates as I could in the proposal, and I found Senator Monroney very helpful in supplying materials and information for these United Nations representatives.

The representatives were very grateful for the information and showed considerable interest in the plan, particularly because it seemed likely to attract greater support from both the potential suppliers of capital and the underdeveloped countries than had any other capital development program which had been previously considered by the United Nations.

Many excellent reasons have been advanced in support of the International Development Association by President Eisenhower, Secretary Anderson, Senator Monroney, the Executive Directors of the International Bank and others. I should merely like to emphasize two of these reasons which seem especially significant:

#### 1. THE FLEXIBILITY OF ITS LENDING OPERATIONS

This will be important in promoting more rapid and comprehensive economic growth on the part of the underdeveloped countries than would be possible if they had to depend largely on conventional loans, public or private. Because of their low levels of productivity, the underdeveloped countries are often unable to repay loans on terms required by normal commercial banking (6 to 8 percent interest; 10 to 20 years maturity). Their export earnings are often too low, particularly if they lack natural resources, to enable them to repay in convertible currencies.

On top of this, some of the most basic needs for economic development such as improved services of public health, sanitation, education, transportation, and social welfare, are not revenue-producing projects and therefore will not attract either private investment or public loans which have to be made according to orthodox commercial banking standards.

If a more intensive rate of economic development is to be achieved, it is clear that more flexible terms of capital assistance (longer



periods for repayment, lower interest rates, greater use of local currencies, and the possible use of grants in some cases) must be employed.

The U.S. Development Loan Fund is designed to do this, but until now there has been no multilateral agency with more flexible lending operations. The World Bank, despite its admirable record, cannot do the entire job because it must limit its operations to projects which will measure up to orthodox commercial standards.

The International Development Association will therefore supplement the World Bank, as well as the Development Loan Fund, very usefully. Moreover, since it is to be affiliated with the World Bank and directed by the same personnel, it will be able to operate with all the skill and experience of the World Bank itself.

#### MULTILATERAL CHARACTER OF THE AGENCY

My second reason for supporting the IDA is because of the multilateral character of the agency.

This is one of the most important reasons for supporting the International Development Association. Economic development, insofar as it depends on public funds, can, in my opinion, be fostered more effectively and less expensively through a multilateral rather than through a bilateral program. Because of the special needs of the underdeveloped countries for more flexible credit arrangements, public funds are likely to play an increasingly major role. Larger multilateral programs of capital assistance must therefore be available.

A multilateral program can allocate projects more on a basis of economic merit and without reference to political conditions or strings. There is a tendency in every bilateral program to give priority in allocations to countries whose political or strategic position is important, without applying the same rigid standards of economic merit or need which characterize the approach of the World Bank.

There is also the temptation in a bilateral program to award projects in order to avoid offending particular nations. For these reasons, the same amount of money may not go so far in a bilateral program as it might in a multilateral program.

As Paul Hoffman has recently pointed out in his excellent study, "One Hundred Countries, One and One-quarter Billion People," when economic aid is used "to win friends and influence people" or as an instrument in the cold war, it loses some of its effectiveness and tends to become distorted by political considerations.

"The recipient countries are tempted to rely on their political position rather than their own efforts to solicit the flow of funds, and the donor countries are tempted to slash constructive programs if the recipients do not show gratitude and sympathy toward them \* \* \*. The best way to avoid the intrusion of political factors into this process of economic building is to rely, to the fullest possible degree, on multinational rather than bilateral operations."

A multilateral agency, furthermore, is in a much better position than a national government to suggest measures of internal economic reform in a recipient country without seeming to be engaged in an offensive kind of interference in the internal affairs of that country.

I do not believe that the United States' interest in the economic improvement of the underdeveloped countries is any less effectively promoted by a multilateral program than by a bilateral program.

Our interest lies in helping the underdeveloped countries improve their living standards to the point where they will be increasingly able to sustain their freedom in internal affairs and their independence in external affairs. The capital investment programs of the World Bank and those contemplated by the International Development Association can do this effectively provided sufficient resources are available to them.

I might add, at this point, in view of the advantages of a multilateral program for capital assistance, that our organization believes it would be desirable for our own Government, as well as other governments, both east and west, to switch their emphasis from bilateral to multilateral operations.

The economic improvement of the underdeveloped countries is a desirable objective in itself, and our interest in seeing it accomplished would actually be better served by a well administered multilateral program than by a bilateral program.

Bilateral programs tend to become competitive with one another, and this sometimes has the effect of increasing rather than decreasing international tension.

I would also like to make a comment, if I might, regarding Senator Williams' earlier hypothetical examples regarding voting in the International Development Association.

It seems to me that in his comments he overlooked two points:

First, the votes of the other countries in schedule A, that is the developed countries, particularly of western Europe. The votes of these countries in combination with those of the United States would always be larger than the combined votes of the schedule B countries, the underdeveloped countries, regardless of whether you go on the basis of 65 percent of the total capital or 100 percent of the total capital.

And, secondly, it seems to me that Senator Williams, in his hypothetical case, assumes that the 51 underdeveloped countries would always vote as a block and would always vote against the United States.

Senator WILLIAMS. Might I interrupt.

I don't think you will find I made any such assumption. I raised the hypothetical case as to the change in the voting power if certain countries didn't join. I pointed out the amount of power that the part II countries would have in the number of votes and the percentage of power. Whether they voted as a block, no one living can state.

Mr. ATWATER. That is correct, but I think there would still need to be sufficient capital from the other developed countries. If my figures are correct, if all of the 51 underdeveloped countries contributed and if the United States contributes its full amount, you would still need nearly \$93 million from the other schedule A countries.

Senator WILLIAMS. You were correct, and I so stated, that the majority voting power, by a few percentage points, would be with the hard currency countries. But, still, the part II countries would increase their percentage from 23 to 31 percent.

Mr. ATWATER. Yes.

Senator WILLIAMS. I wasn't raising that as an objection, but was pointing it out.

Mr. ATWATER. Yes.

Senator WILLIAMS. My other point was that it would not be possible to say with any degree of certainty that you would have the same Board of Directors administering the Bank and IDA—which was the clear intent of all concerned in supporting this legislation.

Mr. ATWATER. Yes.

Senator WILLIAMS. And I was pointing out there is a possibility where you may not be able to accomplish that which you, as I understand it, and everybody else intended to accomplish, if you didn't get 100 percent participation, and I thought it was well to bring it out.

Mr. ATWATER. Well, it does seem to me that the weighted voting gives the United States and the other developed countries adequate representation of their views as against the underdeveloped countries. Your argument seemed to be suggesting that they would be losing in the long run if this were to take place.

And I don't, myself, feel that that necessarily would be the case.

Senator WILLIAMS. Do you not think we would lose in the long run if only 65 percent of the nations participated? Would it not need a relatively higher percentage for this to work? If you were going to get a minimum of 65 percent ratification, and no more at any time, don't you think you would lose a lot?

Mr. ATWATER. We would not have so much if 100 percent didn't participate. But I think there would still be a net gain over what we might have if we did not have an institution of this sort.

I think we would gain, but we would not gain so much if we didn't have 100 percent.

Senator WILLIAMS. I agree with that.

#### INCREASE IN CAPITAL

Mr. ATWATER. My final point, Mr. Chairman, concerns an increase in the capital urged for the International Development Association.

The total capital envisaged for the International Development Association—\$1 billion over a 5-year period—is far from sufficient to enable the underdeveloped countries as a whole to raise their living standards very significantly. The proposed schedule of capital subscription calls for only approximately \$230 million in 1961 and \$192 million in each of the succeeding 4 years.

The U.S. contribution would be \$73.6 million the first year and \$61.6 million each of the next 4 years. This is less than half of what we are presently spending for technical assistance and seems hardly commensurate with our ability to pay in terms of our total national income and productivity.

A number of economists have indicated that the underdeveloped countries could effectively absorb \$3 to \$4 billion a year of capital investment in addition to what is now being invested. This is about as much as is currently being invested in the underdeveloped countries by all outside sources, public and private (\$4 billion in 1958).

According to the estimates of United Nations economists, working under Paul Hoffman, the \$4 billion being presently invested each year

in the underdeveloped countries has resulted in a net increase of barely 1 percent in their living standards. If an additional \$3 billion a year could be invested over the next decade, it is estimated that an average increase in living standards from 1 to 2 percent would be achieved. This would also mean that in the case of a few countries a significant breakthrough to 4 or 5 percent would be accomplished.

The International Development Association is well designed to play an important part in this program of economic development if its sights could be raised and more capital subscribed. Paul Hoffman has suggested that the IDA attempt to provide \$10 billion over the next 10 years, or \$1 billion per year, instead of the present \$1 billion goal over a 5-year period. We wholeheartedly support this suggestion of Mr. Hoffman's and urge, Mr. Chairman, that you and the committee seriously consider recommending an increase in the capitalization of the International Development Association along these lines.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Atwater.

Senator Aiken, do you have any questions?

Senator AIKEN. I don't think so.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Just one.

#### ADDITIONAL OUTLAY URGED

Mr. Atwater, in recommending this \$10 billion over a period of 10 years, would you recommend that in addition to all other programs, or would you suggest that as we moved over into this International Development Agency, there should be a corresponding reduction in other unilateral agencies?

Mr. ATWATER. This is recommended in addition to everything that is now being done.

Mr. Hoffman, and other United Nations economists, have estimated that roughly \$30 billion over the next 10 years, or roughly \$3 billion every year, would be needed in addition to everything now being done, if the net increase in living standards of the underdeveloped countries is to go from 1 to 2 percent.

Now, of that \$3 billion, Mr. Hoffman has suggested that \$1 billion might come from private investment, and he is suggesting that \$1 billion might come from the International Development Association, and that \$1 billion would then still have to come from other sources.

But he is suggesting, and I concur and my organization concurs, I think, in the hope that the IDA might undertake to find one-third of what would be needed in new money to raise the living standards of the underdeveloped countries by 1 percent additional.

Senator AIKEN. I have one question.

I noticed, Mr. Atwater, that you put considerable stress on Mr. Hoffman's statement, and also that we should make multilateral, rather than bilateral, loans, because in making bilateral loans we make them to countries that show gratitude and sympathy.

## EFFECT OF SOVIET PARTICIPATION IN MULTILATERAL LOANS

In other words, we make bilateral loans to our friends, whereas multilateral loans might not take that into consideration.

Is there any way that we can convince Russia that she should make loans to countries that don't like her as well as those that do?

Mr. ATWATER. I don't suppose that we could convince her. She would have to be convinced on the merits of the program. It does seem to me, though, that if you had a really large-scale multilateral program which was helping countries on the basis of their economic need, where political considerations were reduced to a minimum, that you would have perhaps the most effective means of, if you like, competing with the Soviet offers.

You could mobilize far greater resources. And it seems to me, from the standpoint of psychological impact on countries in the underdeveloped parts of the world, you would have a far greater effect in offsetting what the Soviet Union may try to offer on a bilateral basis.

I would like to see the Soviet Union participate in multilateral programs. I think this would tend to make it much easier to control the purpose for which their money is used.

Senator AIKEN. I wonder why they don't participate.

Mr. ATWATER. Because, basically, I think they don't find that through a multilateral program they can foster their national interests as well as they can through a national program.

Senator AIKEN. What would you think of, in some cases, the United States and Russia going 50-50 on loans in an underdeveloped country? Would that work out?

Mr. ATWATER. I think that this certainly should be very carefully explored and considered. It would tend, certainly, to take the thing out of the area of competition, which, it seems to me, is important.

The minute you compete with the other countries for the right to lend money, you get yourself into a more expensive situation than if you allocated your projects on the basis of the economic merit of the case.

Senator AIKEN. In other words, you would not undertake to bid against Russia for the purpose of making loans to an underdeveloped country?

Mr. ATWATER. It seems to me we should try to get away from that, and by having a multilateral agency capable of offering credit and loans on cases of economic merit, that you do have the best way of dealing with that.

Senator AIKEN. That is all.

The CHAIRMAN. Thank you very much.

Senator WILLIAMS. Mr. Chairman, may I ask one question?

The CHAIRMAN. Yes.

## POLITICAL CONSIDERATIONS EXCLUDED FROM DECISIONS ON LOANS

Senator WILLIAMS. In considering the application of a loan from one of these countries, as I understand it, you would not recommend that they take into consideration the political form of government involved?

Mr. ATWATER. That is, by the IDA?

Senator WILLIAMS. By the IDA.

Mr. ATWATER. Well, the IDA is expressly precluded by its charter from making any kind of interference in the internal affairs of another government, and that would presumably preclude their making a consideration of the form of government.

It seems to me they would be looking at the project which was requesting the money, and examining the merits of that project, and trying to decide on that basis what was the best thing to do in the interests of the world economic community.

Senator WILLIAMS. If this were approved, you would suggest that they should give the same consideration to Castro's Cuba as to any other country that might wish to make a loan?

Mr. ATWATER. I would think this would depend on the nature of the project concerned.

Senator WILLIAMS. What I mean is this: All things being equal, Castro's Cuba would get the same consideration as any other country?

Mr. ATWATER. Well, the executive directors and the board of governors of the International Development Association, in making their decisions upon economic merit essentially, I would think, would be guided by that. Perhaps the assumption might be that a sound program of economic development is, in the long run, the best way of dealing with some of the cases of extremism which we seem to find in world affairs.

Senator WILLIAMS. That is all.

The CHAIRMAN. Thank you very much, Mr. Atwater. We appreciate your taking the trouble to come here.

Mr. Herbert Harris, the American Farm Bureau Federation.

Mr. Harris, we are very pleased to have you come before the committee.

#### STATEMENT OF HERBERT E. HARRIS II, ASSISTANT LEGISLATIVE DIRECTOR, THE AMERICAN FARM BUREAU FEDERATION

Mr. HARRIS. Thank you, Mr. Chairman.

My name is Herbert Harris, the assistant legislative director of the Farm Bureau. In the interest of time, I would like to suggest—I am conscious of the time, and I am sure that the committee is, too—that I simply file the statement and make one or two comments on the main points in the statement.

The CHAIRMAN. I think that would be very well. I am sure that many of the basic ideas have been covered. The whole statement will be inserted in the record.

Mr. HARRIS. Thank you, Mr. Chairman.

I won't bother to describe to you the Farm Bureau; I know the distinguished men present are familiar with the Farm Bureau.

The CHAIRMAN. I think we know it.

Senator AIKEN. And I have read the testimony which he would have given, had he read it.

## EFFECT OF IDA ON BALANCE OF PAYMENTS

Mr. HARRIS. I would like to make these main points.

First of all, Farm Bureau is very concerned about the current balance-of-payments situation. We feel that a strong trade-agreements program and a high-level mutually advantageous trade are important to the United States and to the strength of the free world.

Now, this trade program and the balance-of-payments situation, we think, go hand in hand. If something is not done to correct this serious balance-of-payments situation immediately, or at least tend to correct it, this is going to be used as a club toward eliminating a strong trade program for the United States.

We think this would not be in the best interests of the American farmer, or the best interests of the free world.

We recognize, also, that there are many countries, formerly recipients of our aid, who are now able to take on some of the burden of development and defenses of the free world.

We recognize that IDA has been proposed as a vehicle, as a mechanism, to allow them to take on some of this burden. Now, to the extent that it is used as such a mechanism, we support the IDA. However, we feel the committee will want to be very careful to assure that the IDA is implemented in this manner. We have doubts, I think shared by many, that this may be a mechanism to enlarge the burden on the United States in this area, rather than to shift the burden.

We feel there is one good way to indicate that this is not the purpose of IDA, and this is to reduce the Development Loan Fund appropriation this year to the extent that the United States contributes to the IDA. It is certainly not a method of transferring the burden to keep our Development Loan Fund appropriations at the present level and to add to it the appropriations necessary for IDA.

This is enlarging the burden on the United States, not transferring it.

To be specific, the Development Loan Fund now has an appropriation, in the current fiscal year, of \$550 million. We will be required to make a contribution to IDA in the first year of about \$73 million.

We feel that the appropriation to DLF should be reduced from \$550 million to \$477 million, or a reduction of \$73 million. We have tabulated the agencies that have been created to supply credit and capital for the various countries of the free world.

We are referring to the International Monetary Fund, the World Bank, the Export-Import Bank, Inter-American Development Bank, and, of course, the Development Loan Fund. Not including the Development Loan Fund, this totals \$17,960 million of credit that the United States has contributed for underdeveloped countries.

In addition to this, of course, there has been \$1,400 million created bilaterally through the Development Loan Fund.

We feel there is a point where a country reaches the limit of the amount of credit and capital that it can provide. We feel that perhaps that limit may be reached now.

But, again, if we are going to utilize IDA as a method of shifting this burden, let's use it to shift it, not to expand it.

We feel our present fiscal condition, the present fight against inflation, requires a reduction of Government expenditures.

Now, the World Bank has a very fine record, and it is one that we admire very much. We are afraid that this record could be destroyed if, in attaching an agency like IDA to it, there is no effort made to assure that IDA is used judiciously and with prudence. It should be that little bit of soft loan that allows hard financing to be made. We would hope that it would be used in just this way, and in this way alone.

We would like to see it substituted for the bankable types of loan that the World Bank has made.

#### FOREIGN CURRENCY ACCUMULATED UNDER PUBLIC LAW 480

There have been suggestions made that foreign currency accumulated under Public Law 480 and otherwise be turned over to the IDA. There is no doubt that there will be, and that there have been, instances where foreign currency under Public Law 480 has been used on the same project that loans from the World Bank or other lending institutions are also used.

It is not unusual to obtain financing through several different sources, and there is no reason why this type of arrangement cannot continue. But we can see no benefit from turning these foreign currencies over to IDA for its administration.

This \$2,574 million worth of foreign currencies that we have accumulated under Public Law 480 and earmarked for economic development is a tremendous responsibility, and it is one that we are not going to be able to get rid of by donating it to an international agency at this point. It is one the Farm Bureau feels the United States should maintain its control over.

In conclusion, Mr. Chairman, I should like to say that the Farm Bureau would urge that this bill, S. 3074, not be reported out, until this committee has considered the Mutual Security Act.

We feel that mutual security and IDA are interrelated and, of course, our recommendations as to reduction of the Development Loan Fund in connection with the IDA relate them even more. We would hope that the committee consider both bills before reporting out either.

That concludes our statement, sir.

The CHAIRMAN. Thank you very much, Mr. Harris.

Do you have a question, Senator Aiken?

Senator AIKEN. Apparently, Mr. Harris, you realize that the Congress last year authorized aid in one form or another to other countries of the world in the form of gold or dollars or guarantees which amounted to approximately \$10 billion, and I gather from your testimony you don't regard that as a niggardly contribution.

Mr. HARRIS. No, sir; we do not.

Senator AIKEN. I don't think people realize that our contributions and increased guarantees last year came to approximately \$10 billion, but they did; and we hope it was spent wisely and yields good returns.

That is all.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. No. I want to congratulate you on your statement, and I think it is a very constructive suggestion. The witnesses



preceding you have indicated that it was their intention that IDA be an agency whereby we could do on an international basis that which we are now doing alone.

And it is your opinion, as I understand it, that you would be in favor of that if it meant a reduction in some of these other programs, a corresponding reduction.

Mr. HARRIS. Yes, sir; not so much reduction, as it would be a transferring.

Senator WILLIAMS. Transfer.

Mr. HARRIS. The same level would be maintained, and actually expanded when you consider the contributions of the other countries.

Senator WILLIAMS. I appreciate that, but that is what I meant, a transfer of that which we are contributing to one program now over to this international agency.

Mr. HARRIS. Yes, sir; exactly.

Senator WILLIAMS. And it not be used as an additional agency with additional expenditures.

Mr. HARRIS. Yes, sir.

The CHAIRMAN. Thank you very much, Mr. Harris. We appreciate your taking the trouble and time to come here.

Mr. HARRIS. Thank you, Mr. Chairman.

(The prepared statement submitted by Mr. Harris is as follows:)

PREPARED STATEMENT OF HERBERT E. HARRIS II, ASSISTANT LEGISLATIVE DIRECTOR, THE AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation appreciates this opportunity to present its views with regard to U.S. participation in the International Development Association. The IDA originated as a U.S. proposal made to the Board of Governors of the World Bank. Under this proposal all the members of the World Bank—but chiefly the 17 most economically advanced countries—would contribute \$1 billion to a fund which would be administered in conjunction with the World Bank to make loans for economic development to underdeveloped countries. These loans could be repaid in local currency rather than the currency lent. The terms of the loans could allow longer maturity and lower interest rates than the type of loans now being made by the World Bank. The IDA articles specify that it will not provide financing when it is available from private sources on reasonable terms for the recipient or could be provided by a loan of the type made by the World Bank.

Farm Bureau is a free, independent, nongovernmental, voluntary organization of 1,602,117 farm and ranch families in 49 States and Puerto Rico.

Farm Bureau policies continue to recognize the need for international cooperation and the necessity for the United States to maintain its leadership in the pursuit of lasting peace. We believe that the United States should continue to stand ready to support needed constructive assistance to nations of the free world.

We feel that one of the paramount factors that will give strength to the free world is a high-level, mutually advantageous trade. We have given strong support to the reciprocal trade agreements program and continue our firm belief that two-way mutually advantageous trade is preferable to unilateral transfers by the United States through grants or excessively long-term easy credit.

A sound international trade program should be the keystone in America's foreign policy. Today our trade program is seriously threatened by our present balance-of-payment position. It is imperative that constructive steps be taken immediately to correct this situation.

For over a decade, the United States has contributed vast amounts of military equipment, capital investment, and technical assistance to nations throughout the free world. The rehabilitation of Western Europe and the common defense against communism required the expenditure of large amounts of human and economic resources. The economic resurgence of many nations that formerly were recipients of our aid makes mandatory a comprehensive revision of programs designed to assist other free nations.

Last December the voting delegates of our member State organizations adopted the following Farm Bureau policies for 1960:

"We should continue to stand ready to support constructive assistance to less-developed nations that show a willingness and a desire to use such assistance properly.

"However, the economic resurgence of many nations that were formerly recipients of our aid makes mandatory a comprehensive revision of our mutual security program. These nations should now assume a greater share of the burden of the defense and development of the free world. This will make possible a substantial decrease in the financial contribution required of the United States."

While Farm Bureau recognizes America's responsibility in the free world, we reject the proposition that the United States can or should assume total responsibility for the defense and development of the whole free world.

It has become apparent that it is time for other industrialized nations of the free world to assume a greater share of the burden of economic development. They have earned the right to participate more fully in the fight against communism and the struggle for development. We should not deny them this opportunity.

#### U.S. FISCAL POLICY

It is necessary that the United States adopt and maintain domestic policies which will keep our country economically strong and financially sound. This is important not only to our own country's future but also to our position as the leader of the free world. We have a duty—and it is a serious obligation—to set an example to less developed countries that we have the ability and courage to manage our own fiscal affairs. The fight against inflation requires the reduction of Federal Government expenditures.

Farm Bureau supports U.S. participation in the International Development Association to the extent that this institution is implemented as a means to permit and encourage other economically advanced countries to share the burden of development of the free world. It should not be used as a device to increase the burden on the United States or to enlarge the amount of public funds provided by the United States for economic aid.

Of course, this support also is conditioned on the assumption that IDA will be operated in accordance with its articles of agreement and will not be used when financing is available from private sources or from public "bankable loan" institutions.

#### BALANCE OF PAYMENTS

As indicated above, the present balance-of-payment situation has serious implications to our foreign trade policy. The following table shows the balance-of-payment position.

#### *Balance of payments*

[Billion dollars]

	1956	1957	1958
Dollars paid by other countries to United States for—			
Goods and services United States sold to other countries (including income from investments).....	23.5	26.4	23.1
Other exchange earnings.....	1.2	1.3	.4
Total exchange earnings.....	24.7	27.7	23.5

**IN 1958 WE EARNED \$4.2 BILLION DOLLARS LESS THAN IN 1957; \$1.2 BILLION LESS THAN IN 1956**

[Billions of dollars]

	1956	1957	1958
Dollars paid to other countries for—			
Goods and services sold to the United States.....	17.5	18.3	18.0
Private investment.....	3.0	3.2	2.9
Military expenditures overseas.....	2.9	3.1	3.4
Economic aid.....	2.3	2.6	2.6
Total exchange payments.....	25.7	27.2	26.9

IN 1958 WE SPENT \$300 MILLION LESS THAN IN 1957; \$1.2 BILLION MORE THAN 1956

The result, a gold or dollar "outflow" of \$3.4 billion in 1958 compared to an "inflow" of \$500 million in 1957 and an "outflow" of \$1 billion in 1956.

Although complete figures are not available for 1959, present information indicates a gold or dollar outflow for the first three quarters of \$3.1 billion. The total outflow for the year appears to have been approximately \$4 billion.

It is obvious that immediate steps must be taken to correct this deficit. Farm Bureau firmly believes that the sound, long-range, solution lies in expanded "dollar exports"—not in trade restrictions. This means that U.S. industry and agriculture must keep costs under control and prices competitive. It also means that the United States must insist that other countries promptly remove discriminations against imports of U.S. products. These discriminatory restrictions were originally instituted by other countries when they had balance of payment difficulties. For the most part this is no longer a valid justification and, under the trade agreements program and the General Agreements on Tariff and Trade, these countries have the obligation to remove the restrictions.

It is true that some progress has been made in this regard. However, there still remains numerous discriminatory restrictions against American exports. American agriculture especially has been placed at a serious disadvantage because of this situation. Unless more progress is made toward the goal of expanded U.S. exports, trade restrictionists may very possibly win their fight to wreck America's trade agreements programs. Indeed, their success is almost assured unless we take prompt action to bring our international payments into better balance.

Expanded exports constitute a long-range program which cannot be achieved if at the same time the United States is applying greater import restrictions. This means that immediate action must be taken to reduce our "dollar outflow."

Farm Bureau believes that this necessitates that other economically advanced countries assume more of the burden of the defense and development of the free world. This will make possible a reduction in the "dollars" expended by the United States and will contribute toward the solution of our balance of payments problem.

#### FUNDS AVAILABLE FOR ECONOMIC DEVELOPMENT

In recent months, numerous additional sources of credit have been established for underdeveloped countries. Farm Bureau supported the increase in the U.S. quota to the International Monetary Fund of \$1,344 million. This brought the U.S. share to \$4,125 million. We supported the increase in the U.S. subscription to the World Bank from \$3,175 million to \$6,350 million. In 1955 we supported the establishment of the International Finance Corporation with an available capital of \$100 million.

We believe these institutions provide important sources of credit to the countries of the free world. Farm Bureau has given vigorous support to the Export-Import Bank. The Bank is now authorized to have loans and guarantees outstanding at any one time of \$7 billion.

During the last session, Congress authorized U.S. participation in the Inter-American Development Bank which was established to provide credit facilities of \$1 billion to Latin American countries. We understand that this is to be increased by \$500 million in 1962. The United States is authorized to contribute \$450 million toward this institution. The total U.S. contributions to these institutions amount to \$17,960 million. In addition, the U.S. Congress has to date appropriated \$1,400 million for the Development Loan Fund.

There is a limit to the amount of capital funds the U.S. Government can provide to other countries. Many believe that limit has already been reached. The administration is now proposing the International Development Association which is designed to provide initially \$1 billion for "easy-term" economic development loans. The United States will be expected to provide \$320,290,000 toward this institution when fully established—approximately \$73,666,700 the first year.

We understand that the purpose of this institution is to provide a mechanism through which other industrialized countries can share the burden of providing funds for economic development to underdeveloped countries. If this is the purpose, then it stands to reason that the Development Loan Fund—the present U.S. program for "easy-term" credit—should be reduced at least to the extent that the United States contributes to the International Development Association.

Therefore, Farm Bureau recommends that authorization for U.S. participation in IDA should be made only with the firm understanding that the present level

of appropriation for the Development Loan Fund will be reduced by the amount of the appropriation necessary to fulfill the U.S. contribution to IDA. To illustrate: IDA will increase the available "easy-term" credit for underdeveloped countries by \$1 billion—approximately \$230 million the first year. The U.S. share of the total will be \$320 million. Appropriations of about \$74 million will be requested in fiscal year 1961. Fiscal year 1960 appropriation for the Development Loan Fund amounted to \$550 million. If this was reduced to \$476 million in fiscal year 1961, the United States would be maintaining its current level of providing funds for economic development and there would be at the same time a net increase of \$156 million "easy-term" credit available to underdeveloped countries.

#### WORLD BANK

IDA as proposed would be an affiliate of the World Bank, administered in large part by the Bank's officers and staff.

The World Bank has established an excellent record for careful fiscal management and sound constructive use of funds. It has lent money to countries only under terms and conditions which made it realistic to expect repayment as prescribed. This has induced a fiscal discipline in some countries which in turn contributed substantially toward that country's economic development. Underdeveloped nations need a great deal more than the capital that can be provided through public funds. Private investment is essential. It is as unfair as it is unsound to indicate to such countries that loans for economic development will be provided regardless of the economic policies which these countries maintain. These international institutions are efforts to help countries help themselves. The capital should be provided under conditions and terms which induce countries to develop programs and adopt policies which are economically sound and which in the long run will contribute substantially to their development.

"Easy-term" credit can be a service to a country only when it is used as a means of making additional financing available through private investment or through established "bankable loan" institutions. Easy term loans are an expedient and must be administered with caution and prudence. Otherwise, a disservice may be done to the recipient. If these principles are not applied to the IDA, the sound constructive policies of the World Bank will not be maintained and this institution will be torn from the sound operating basis which has resulted in its past success.

#### PUBLIC LAW 480

It has been proposed that part of the foreign currency acquired under Public Law 480 be turned over to IDA.

Under title I of Public Law 480, the Agricultural Trade Development and Assistance Act, the United States has sold for foreign currency tremendous quantities of agricultural surpluses. There is over \$2,574 million in foreign currency accumulated under this program that have been designated for economic aid. There is additional authorization for Public Law 480 which will generate more foreign currency which can be used for economic development.

There is presently no barrier for using such foreign currencies on projects which are partially financed by the World Bank or other "bankable loan" institutions. Indeed, we feel certain that there are many instances where this has been done. We do not see the necessity to turn such foreign currencies over to the IDA. Farm Bureau recommends that the United States maintain the control it now exercises over the disbursement of foreign currencies generated under Public Law 480.

Farm Bureau further recommends that this committee not report out a bill authorizing U.S. participation in the IDA until it has completed its deliberations on the Mutual Security Act. We believe that these programs are so interrelated that the committee should give full consideration to both programs before reporting out either. We sincerely believe that better legislation will result from such a procedure.

The CHAIRMAN. I wish to insert in the record at this point letters from the National Council of Farmer Cooperatives, the Women's International League for Peace and Freedom, American Merchant Marine Institute, Inc., the National Grange, the National Council of

Churches of Christ in the U.S.A., the Council-affiliated United Church Women, and the United Christian Missionary Society.

(The letters referred to follow:)

NATIONAL COUNCIL OF FARMER COOPERATIVES,  
Washington, D.C., March 16, 1960.

Re S. 3074.

Honorable J. W. FULBRIGHT,  
Chairman, Senate Foreign Relations Committee,  
Washington, D.C.

DEAR SENATOR FULBRIGHT: The National Council of Farmer Cooperatives, which is composed of approximately 5,000 farmer cooperative business organizations engaged in marketing farm products and procuring farm production supplies, desires to support the principles contained in S. 3074 relating to the establishment of the International Development Association.

The farmers of this country have a very great stake in the improvement of economic conditions in underdeveloped countries. It is our belief that constructive efforts to bring about better balanced economies in such countries and the development of sound methods by which their citizens may eventually approach the level of purchasing power found in the more developed areas, is good not only for them but for the rest of the world as well.

As one reason for our support we have become somewhat concerned that continued accumulation of soft currencies under the Public Law 480 program may lead to an unused surplus of those currencies which can, in some respects, become almost as embarrassing as the continued accumulation of unneeded surplus commodities. We hope we can avoid both types of accumulation and we are pleased to see that one of the stated objectives of the proposed International Development Association is to provide the means for greater utilization of such currencies.

We also are pleased to note that the underdeveloped countries, as well as the more developed areas, will be participants in important ways in the financing and constructive operation of the association, and that it will be under the management of the International Bank which has proven its capability in the field of financing worthwhile projects in underdeveloped areas. We think that one byproduct of the participation by such countries is that the accelerated use of many soft currencies may well be a strong contributing factor to increasing convertibility and acceptance.

We have on many occasions laid great emphasis upon our belief that maximum use must be made of private investment capital in underdeveloped areas and we are pleased to see that the association has as one of its objectives supplementing and facilitating such private investment. It would be our hope that the loan program could be directed toward the development of those basic facilities in underdeveloped areas which in themselves would not attract private investment but which would greatly facilitate the use of such investment for corollary purposes.

There has been much interest from time to time in a number of countries, and among certain groups in this country, for development of such organizations as SUNFED within the United Nations. We have consistently and vigorously opposed such an approach and will continue to do so on the basic grounds that economic development in the underdeveloped areas can best be achieved through the application of know-how by people trained in business, finance, and economics rather than by those most greatly influenced by political considerations of an international nature. We would hope that while the International Development Association might be brought into an area of cooperation with applicable United Nations agencies, every care should be taken to see that its active management and control remains with the International Bank and that its objectives remain economic rather than political.

It will be greatly appreciated if our views as stated above may be incorporated in the hearing record of your committee.

Sincerely,

HOMER L. BRINKLEY,  
Executive Vice President.

WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM,  
*Washington, D.C., March 21, 1960.*

HON. J. WILLIAM FULBRIGHT,  
*Chairman, Senate Committee on Foreign Relations,  
 Senate Office Building,  
 Washington, D.C.*

DEAR SENATOR FULBRIGHT: The Women's International League for Peace and Freedom wishes to file the enclosed statement in the record of the hearings on the participation of the United States in the International Development Association

Sincerely yours,

Mrs. ANNALEE STEWART,  
*Legislative Secretary.*

STATEMENT IN SUPPORT OF S. 3074 BY THE WOMEN'S INTERNATIONAL LEAGUE FOR  
 PEACE AND FREEDOM

The U.S. section of the Women's International League for Peace and Freedom supports S. 3074, providing for participation of the United States in the International Development Association, and wishes to congratulate Senator A. S. Mike Monroney for the imagination, initiative, and persistence which have brought this dream of his to reality. Our support is based on our belief that participation in the economic growth of the less-developed countries is a tangible expression of humanitarian ideals and is in the interest of our country's own continued economic growth. For these reasons we are happy to see opened this avenue of aid which is more nearly free from political implications than bilateral aid can be, and which helps to satisfy the need for development loans on more flexible terms than are provided by other international institutions. We note also that the absence of "buy American" restrictions on the initial subscriptions will enable this agency to contribute to a healthier international trade situation. The close affiliation with the International Bank for Reconstruction and Development should enable the association to impose conditions of sound economic policy in connection with its loans, without danger that these conditions will be misinterpreted as "political strings."

We have one important reservation concerning the International Development Association. This is the limitation of membership to the so-called free-world nations, a fact practically guaranteed by certain provisions of the articles of agreement and emphasized by the President and the National Advisory Council in their introduction of the articles of agreement. We regret that, at a time when urgent efforts are being made to end the cold war in the military field, it should be built into an important international economic institution. That most of the participating countries would have preferred a world body rather than a free-world body is shown by the overwhelming vote for a United Nations Capital Development Fund at the last session of the U.N. General Assembly (63 for and 12 abstaining). We understand the desire of the major capital-exporting nations to have a greater voice in the association than they would have had in the U.N. fund, but regret that the door should be closed in advance to the Russian bloc.

We are pleased to note that the articles of agreement make no mention of an ideological limitation of memberships and that the expected membership embraces democratic governments and authoritarian governments of the right and left, as well as many politically undeveloped countries not yet enjoying the attributes we associate with a free society. We think this is proper because it is our belief, based on recent history, that economic development itself will prepare the way for, and generate, social forces compelling governments to grant wider participation in government and greater individual freedom of choice. Many scholars and research groups have pointed to the desirability of treating economic development as a goal in its own right and not as a political weapon. The door should be kept open for the Soviet Union to join in this task if and when it is ready. Furthermore, we doubt that acceptance by the American people requires that an association of this kind be made to appear as a coalition of democratic nations.

While calling attention to this serious defect in its structure, which we hope may be corrected, we nevertheless support U.S. participation in the International Development Association.

AMERICAN MERCHANT MARINE INSTITUTE, INC.,  
Washington, D.C., March 18, 1960.

HON. J. W. FULBRIGHT,  
Chairman, Foreign Relations Committee,  
U.S. Senate, Washington, D.C.

DEAR SENATOR FULBRIGHT: S. 3074, now before your committee, is a bill to provide for the participation of the United States in the International Development Association. The Association is a proposed billion dollar international lending organization which would operate as an affiliate of the International Bank for Reconstruction and Development. There is one aspect of this proposed organization, as discussed below, which we believe to be detrimental to the best interests of the United States. This aspect has not, to our knowledge, been analyzed or faced up to in any of the deliberations which have preceded the proposals now before Congress. For this reason we believe that careful consideration is indicated.

The objective of the proposed international lending association is to furnish a medium for providing developmental loans on terms which are more flexible than conventional loans available through the International Bank. It is, in effect, an international copy of our Development Loan Fund, and bears much the same relationship to the objective and programs of the International Bank as does our Development Loan Fund to the objectives and programs of our International Cooperation Administration. We, of course, are in sympathy with such objectives.

The concept underlying an international approach to the financing of assistance for underdeveloped countries is a laudable one. We find that certain of those countries which the United States has helped to regain their own feet are now able to join with us in helping others. This is also reflected in other foreign assistance proposals such as the billion dollar Indus Basin project contained in pending mutual security legislation. Such proposals create a picture that the burden of underwriting foreign assistance will now be shared. However, in the process of distributing this burden the funds which the United States would otherwise be administering in its own name would be relinquished for administration by an international association in lieu of the controls and procedures established by Congress for mutual security programs. Moreover, at least for the present, it would not appear that these international programs will result in any material lessening of the total outlay of funds required by the United States for foreign assistance overall. Thus, it may well be found that the primary accomplishment is the transfer to an international entity of the administration and control of U.S. foreign assistance funds. Whether the method of administration by such international entity is in the best interests of the United States is the question at hand.

This then is our concern. Under our bilateral mutual security programs, U.S. labor and industry have benefited along with the recipient nations. During the early stages of our mutual security endeavors, almost all procurement was obtained from the United States. This favorable condition has dwindled steadily until at present less than half of our mutual security expenditures result in procurement from the United States. It is a well-known fact that this has had its effect on our balance of payments, and that in recent months it has been necessary to take administrative steps to slow down the almost 100 percent offshore procurement which was taking place under the development loan programs. Since this situation has developed under conditions where the United States has had control over its own assistance funds, we feel sure our concern can be readily understood that, lacking some direction from Congress over the use of U.S. funds contributed for international lending, there will be little or no procurement from the United States.

An examination of the articles of agreement of the International Development Association reveals that any U.S. control over the use of U.S. funds is not only not intended but it is specifically precluded. The United States, which would be contributing 32 percent of the capitalization of the Association, and over 40 percent of the total contribution of all participants in unrestricted funds, is asked to make all of its contribution in unrestricted funds. On the other hand, those nations which are making token contributions for the purpose of sharing in the benefits of the Association may place restrictions on the use of their funds up to 90 percent of their contribution. Moreover, article V(f) of the agreement, concerning the use of resources, provides as follows:

"(f) The Association shall impose no conditions that the proceeds of its financing shall be spent in the territories of any particular member or members. The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these articles, including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor."

The above recognizes the restrictions which may be put on the use of funds by the small contributors, but prohibits the imposition of conditions by the United States and some others.

The U.S. shipping industry, together with its thousands of personnel, has been one of the many U.S. industries which has benefited from our mutual security programs. As a related aspect of these programs, the Congress has provided that 50 percent of the commodities or materials procured with Government assistance funds shall be moved overseas by U.S.-flag commercial vessels. There will be little or no such opportunity for U.S.-flag ships to participate in the programs of the International Development Association as presently conceived. We will, in fact, be hit two ways. First, the relinquishment of all control to the international association will mean less overall procurement from the United States; and second, we will lose the reasonable participation (which Congress has assured to us) in the ocean transportation of such reduced procurement as may be made from the United States, even though such procurement is made with U.S. contributed funds.

The above considerations reflect a very serious problem, and we would urge that every effort be made to develop some protection for U.S. industry and labor affected. We are not opposed to the concept of multilateral assistance as such. We do believe, however, that some method must be developed whereunder a reasonable proportion of the financial outgo for such multilateral programs can be kept under the control and direction of the United States, and utilized in accordance with policies adopted by the United States for its own foreign assistance programs.

It is requested that this letter be included in the record of this legislation.

Sincerely yours,

ALVIN SHAPIRO.

NATIONAL GRANGE,  
Washington, D.C., March 18, 1960.

Re Grange support in principle of S. 3074.

Hon. J. W. FULBRIGHT,  
Chairman, Senate Foreign Relations Committee,  
Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The National Grange supports in principle S. 3074, which provides for U.S. membership in the proposed International Development Association. The IDA will be an affiliate of the International Bank. This Bank, we believe, has made an impressive global record in the furtherance of the economic development of many countries. The resources of the International Bank have been applied skillfully, with the view toward improving the economic base of the borrowing country. In addition, Bank technicians provide valuable services to these countries in connection with specific development problems and also in the consideration of broad economic questions.

It is our opinion that the Bank is achieving these results in a manner consistent with the best interests of the United States. The importance of U.S. participation and leadership, too, in the International Bank is widely recognized and gives proof to the genuine interest within this country in working with all free people cooperatively for economic advancement and mutual well-being.

The strength of the free world depends in a very real way on the balanced growth of mutually advantageous international trade and private investment. The achievement of this growth requires the constant attention of all countries. Primary reliance must be placed upon private enterprise which produces the soundest and most enduring benefits for all. It is in the self-interest of the economically strong nations that they support and assist the less developed countries of the free world. The International Bank, which brings together 68 nations in every stage of development and from all regions, is a primary hub around which the countries of the free world work together to promote economic growth and development. The Bank does not compete with private capital. It devotes its resources to projects which open the way for more private opportunities. It relies primarily upon the private capital markets for its own



resources and in this way serves to increase the effective amount of private capital available to the less developed countries.

The International Development Association, meanwhile, under the terms of its articles of agreement, may make its resources available only when private capital is not available on reasonable terms, and in addition, only when financing could not be provided by a loan of the type made by the Bank itself.

The proposal for an International Development Association grew out of the recognition that credit needs for sound development cannot be met in certain significant cases by the International Bank. The Bank has the experience and the technical know-how to do more in this field, but its resources can be made available only on terms related to private capital market terms. A need was seen therefore for a new institutional arrangement, financially separate from the International Bank but governed by the same officers and served by the same staff. Broad international acceptance of the proposal grew, and the detailed arrangements have been set forth in the articles of agreement of the IDA.

Essential to the success of the proposal is the readiness of the other industrialized nations of the free world to provide an important and equitable portion of the resources of the IDA. These resources will be provided from Government budgets. The negotiations which have been completed so successfully demonstrate that the burden which the United States has borne almost alone is now to be taken up in part by others. We hope that this new and responsible action through the IDA will mark only the beginning.

The National Grange has in the past made clear its belief that the achievement of a nation's own aspirations is basically its own responsibility. Assistance in achieving economic progress, if it is to be effective and if genuine results are to be obtained, should be dependent upon a firm desire and determination by the recipient nation to help itself within the limits of its capabilities. This concept is well embodied in the IDA proposal. All member countries will subscribe to its initial resources. The economically less developed members have subscriptions totaling about \$237 million, 10 percent of which will be in the form of gold or convertible currencies and 90 percent in their own national currencies. The convertible currency portion will be made available to the IDA on the same basis as the total subscriptions of the economically stronger members: for use in connection with IDA projects in any member territory. The national currency portion of the subscriptions of less developed members may be used by the IDA for the purchase of goods and services for development projects within the subscribing member's country, and, with the agreement of the subscribing member, for projects in other countries. The principle of self-help is therefore an essential feature of the IDA.

American farm producers recognize the importance of the sale of agricultural commodities for foreign currencies under Public Law 480. The more effectively such foreign currencies are used, the greater will be the effectiveness of the Public Law 480 program, and the greater the benefit to the United States. In this connection the National Grange has urged that still greater use of such currencies be made directly for market development programs for the benefit of American agriculture. More broadly, however, we believe that the careful use of these currencies through an international institution for the promotion of economic development in many fields of endeavor will result in higher world trade and in higher consumption generally. The provision in the IDA articles which will permit the United States to make some of these currencies available as supplementary resources is consistent with the objectives of the Public Law 480 program. IDA thus represents an additional outlet for such currencies as are allocated for economic development purposes. The use by IDA of a portion of these currencies will help conserve its hard-currency resources which is, of course, of direct importance to the United States as well as to other member countries.

The IDA, through its ability to make its resources available on flexible terms, will be able to work with countries in especially critical financial positions which have heretofore been able to obtain little, if any, international financing. In addition, IDA will be enabled to provide an important margin of assistance to its members whose foreign indebtedness weighs especially heavy, or who need special assistance for development projects which might not themselves quickly yield monetary returns, but which provide opportunities for important productive enterprises. Its close affiliation with the International Bank provides adequate assurance that the resources of IDA will complement those of the International Bank. This affiliation will also permit the two institutions to undertake joint operations.

We believe the IDA will be an effective new institution which will meet needs of the most pressing character in the less developed areas. IDA is imaginative in concept, and is well suited to demonstrate the confidence of the economically stronger nations of the free world in the capabilities of the weaker nations and to demonstrate our continued sympathy with and support for their aspirations. The objectives and purposes of the IDA are fully consistent with our own foreign economic policies. These policies are and must always be founded on the conviction that individual initiative within a framework of free institutions will best serve society. The IDA will provide greater opportunities to less developed areas for economic advancement based on these principles. U.S. leadership in the IDA will further emphasize our awareness of their needs.

For these and other reasons, the Grange urges you and the members of your committee to recommend to the Congress that it approve the idea of the International Development Association along the lines spelled out in S. 3074.

Respectfully yours,

HERSCHEL D. NEWSOM, *Master.*

NATIONAL COUNCIL OF THE  
CHURCHES OF CHRIST IN THE U.S.A.  
*New York, N.Y., March 23, 1960.*

HON. J. W. FULBRIGHT,  
*Chairman, Committee on Foreign Relations,  
U.S. Senate, Washington, D.C.*

GENTLEMEN: This is to request that the statement herewith on behalf of the National Council of Churches be made a part of the record of your current hearings on the proposal for an International Development Association (S. 3074).

We shall appreciate your consideration of this request and, if possible, your acceptance of the request and the statement.

Sincerely yours,

KENNETH L. MAXWELL, *Executive Director.*

STATEMENT SUBMITTED IN BEHALF OF THE NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A. BY KENNETH L. MAXWELL, EXECUTIVE DIRECTOR

This statement has been authorized by the responsible officers of the National Council of Churches and is based upon the official policies and practices of the council.

In presenting statements to Government agencies, the National Council of Churches never presumes to speak for each of the 33 constituent denominations nor for each of their more than 38 million members. We do present official positions adopted by the general board or the general assembly, which are its policy-making bodies. These positions are arrived at through careful study and deliberation by the official representatives of the constituent denominations.

The National Council of Churches does not seek to express its approval or disapproval of specific congressional bills as such. It presents the principles expressed in its official statements of policy which are most relevant to specific proposals.

The position of the National Council of Churches on issues involved in the proposal for the International Development Association are as follows:

"As Christians we feel compelled to give our special support to the further development of foreign economic policies of the United States which will reflect our interest in man's welfare in other countries, as well as our own. We believe that constructive policies of international aid and trade are essential to the creation of conditions of peace with justice and freedom.

"The natural wealth of the world and the capacity to transform raw materials into desirable goods are not evenly distributed among nations. Our own country is richly endowed and highly developed. Some countries may be able to produce many commodities efficiently but have shortages in other essentials. Still other lands have such a low level of production that most of their citizens live in poverty, disease, and illiteracy. These nations are all in our world and their people are all in God's concern. As Christians, we cannot help but be distressed by human misery and misfortune wherever it may be, and seek appropriate ways by private and public means to promote the welfare of our fellow men.

"We recognize that trade alone will not enable underdeveloped countries to realize their potentialities for economic growth and social progress including freedom. Both private and public aid, in the form of technical cooperation and capital, is indispensable. Assistance on long-time capital loans on favorable terms and capital grants, on a more limited basis, will be needed over a longer period of time to enable such areas to establish their own economies and their place in the world market. Greater use should be made of international agencies, such as the United Nations and regional organizations. Technical and economic aid, while related to other parts of foreign policy, should not be primarily for political and military considerations, but for the purpose of helping people to meet economic and social needs and opportunities."

The quotations above are excerpts from "International Aid and Trade," a statement of policy adopted by the General Assembly of the National Council of the Churches of Christ in the U.S.A., December 1-6, 1957. That was the last meeting of our general assembly, which meets triennially. Subsequent votes of the general board and authorized activities of our department of international affairs in both education and action have carried forward this general position.

At the present time, our cooperating churches are conducting a Nationwide Program of Education and Action for Peace across the 50 States of our land, under the aegis of our department of international affairs, and one of the major emphases is on world economic development, dealing with the specifics of mutual aid and trade. There has been much discussion in this program of the proposal for the International Development Association and firsthand observers report that the reaction has been universally favorable to such an undertaking after the matter has been clearly presented and fully discussed. It is our conviction that through and following this program there will be increasing support among the people of our churches for improved, expanded programs for world economic development, including various kinds of constructive mutual aid and trade.

We trust that this statement of official positions, of some of our educational work in this field, and of firsthand observations among our constituency across the United States will be of value to your committee in its important deliberations and action on the proposed International Development Association.

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UNITED CHURCH WOMEN,  
NATIONAL COUNCIL OF THE  
CHURCHES OF CHRIST IN THE U.S.A.,  
*New York, N.Y., March 22, 1960.*

HON. J. W. FULBRIGHT,  
*Senate Office Building, Washington, D.C.*

MY DEAR SENATOR FULBRIGHT: In view of the fact that S. 3074, providing for U.S. participation in the International Development Association, is being considered by the Senate Foreign Relations Committee, I would like to bring to your attention a resolution which was adopted recently by the administrative committee of the United Church Women.

United Church Women, a general department of the National Council of the Churches of Christ in the U.S.A. has 2,300 local and State councils made up of women representing the 33 affiliated denominations.

The Christian World Relations Advisory Committee, after study of the proposed International Development Association, recommended support for U.S. participation. The administrative committee, made up of our national leaders, at their meeting on February 3, 1960, adopted the following resolution.

"Remembering that United Church Women has repeatedly endorsed programs aimed toward economic development;

"Noting the new emphasis on cooperative responsibility among the industrialized countries in carrying forward new programs to promote economic development:

"The administrative committee endorses the ratification by the Senate of the International Development Association as part of this new planning—

"Takes note of this changing emphasis to a long-term attack on poverty through assistance to promote economic growth in the low-income areas of the non-Communist world;

"And urges local councils to help create the public opinion to shift from an attitude of philanthropy to one of sharing and widespread understanding of the need for greatly increased assistance in cooperation with other countries to meet human need in the developing areas of the world."

United Church Women, over a period of years, has studied the problems of the less developed areas, has published a pamphlet and a leaflet on this subject, and has made available through the pages of its monthly magazine many articles on related questions. An article on the International Development Association appears in the magazine which is now in the hands of 35,000 local chairmen and officers.

The above resolution is in line with action which has been taken by United Church Women consistently in support of measures to promote economic growth.

I believe that the resolution adopted by the Administrative Committee of United Church Women fairly interprets the informed opinion of women in the churches affiliated with the local councils in every State. It is hoped that support for U.S. participation in the International Development Association will be forthcoming by the Senate Foreign Relations Committee.

Thanking you for the consideration of the position expressed in the resolution adopted by the Administrative Committee of the United Church Women, I am

Sincerely yours,

ESTHER W. HYMER,  
*Director, Christian World Relations.*

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THE UNITED CHRISTIAN MISSIONARY SOCIETY,  
*Indianapolis, Ind., March 21, 1960.*

HON. J. WILLIAM FULBRIGHT,  
*Senate Foreign Relations Committee,  
Senate Office Building, Washington, D.C.*

DEAR MR. FULBRIGHT: I understand that your committee is presently considering legislation which would permit U.S. participation in the International Development Association. The principles upon which IDA is promulgated have frequently been endorsed by the International Convention of Christian Churches (Disciples of Christ). Therefore, we write to support in principle an organization such as IDA.

IDA would do several things in the field of international economic development that seem to us desirable. First of all, it provides long-term, low-interest loans to the underdeveloped areas of the world. Secondly, the multilateral nature of the program appeals to us. The participation of all of the countries associated with the World Bank in IDA will make it possible to give badly needed assistance without some of the cold war complications that are inherent in bilateral foreign aid program.

In 1954 our International Convention meeting in Miami passed a resolution containing the following statements on world economic development:

"1. We recommend to the U.S. Government that it maintain and strengthen the original idea of technical assistance carried out apart from defense measures and department and that such a program be conceived as a long-term effort rather than as an emergency measure.

"2. We strongly favor the multilateral technical assistance program of the United Nations and urge our Government to provide it with increasingly financial support."

Our convention meeting in St. Louis in 1958 said on the subject of world economic development:

"WORLD ECONOMIC DEVELOPMENT

"The economic development of underprivileged areas is one of the ways in which poverty may be lessened in the world. Technical assistance programs which aid in lifting levels of technological skill may be of real help in improving the life of the people of the underdeveloped areas. Capital funds in the form of grants or loans are often needed to realize the greatest benefit from economic development programs. In many instances multilateral programs of economic assistance are to be preferred over bilateral arrangements. There is certainly no general rule at this point, however. Two things seem certain—that economic assistance programs should be separated from military aid and development programs; and that assistance should be granted with only such stipulations attached as are designed to see to it that assistance reaches people who are actually in need, rather than political fortune hunters. The use of such economic programs as diplomatic weapons is to be deplored."

In closing we would like to urge your most serious consideration of U.S. participation in the International Development Association.

Cordially,

ROBERT A. FANGMEIER,

National Director, Christian Citizenship.

The CHAIRMAN. I would announce to the committee that tomorrow morning at 10 o'clock in this room the Secretary of State will be heard on the mutual security program.

The committee is adjourned.

(Whereupon, at 1 p.m., the hearing was adjourned.)

X

RETURN TO  
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FORM No. 198A  
(6-59)

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

FROM: THE SECRETARY

Date JUN 17 1960

SecM 60-118

D I S T R I B U T I O N

Executive Directors and Alternates

President

Vice Presidents

Department Heads

Assistant Department Heads

Division Chiefs

Secretary, IMF

Hamilton P-100

86TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT  
2d Session } No. 1766

INTERNATIONAL DEVELOPMENT ASSOCIATION

JUNE 8, 1960.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H.R. 11001]

The Committee on Banking and Currency, to whom was referred the bill (H.R. 11001) to provide for the participation of the United States in the International Development Association, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF THE BILL

The bill authorizes the President to accept membership on behalf of the United States in the International Development Association; authorizes to be appropriated the full amount of the U.S. subscription of \$320,290,000; contains several provisions of law necessary to make our membership effective; and provides for the coordination of the activities of the U.S. representatives to the International Development Association by the National Advisory Council on International Monetary and Financial Problems.

The International Development Association offers a new approach to a longstanding problem: through the Association, other highly developed nations will join with the United States in providing financing geared to the special needs of the less developed areas of the free world.

HISTORY AND DESCRIPTION OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION

The International Development Association, which will be an affiliate of the International Bank for Reconstruction and Development, is proposed as an international cooperative venture to provide development financing on flexible terms to the less developed countries



of the free world. It is designed to complement the development financing that is now available through national and international agencies providing capital to the less developed areas. Like the International Bank itself, it would not provide financing when such financing is available from private sources on reasonable terms. The need for a new multilateral institution to help accelerate progress in those areas was first most clearly recognized in the United States, which has taken the lead in advancing the proposal and in obtaining agreement on the articles.

The Association is designed to perform on a multilateral basis roughly the same functions which the U.S. Development Loan Fund performs bilaterally. Financing will be provided by the Association to its less-developed members for purposes of high developmental priority and, except in special circumstances, for specific projects. This financing will not be provided if it can be obtained from private sources on reasonable terms or through a loan of the type made by the International Bank. In their report on the articles of agreement, the Bank's Executive Directors supplement these intentionally broad provisions by explaining that projects such as pilot housing, sanitation, water supply, etc., are eligible, although the major portion of the Association's resources would probably be devoted to basic economic projects, such as railway programs or a group of integral parts of a country's or region's development program.

The concept of an International Development Association was significantly advanced by Senate Resolution 264 of July 23, 1958, which recommended that a study be conducted by the National Advisory Council with a view to determining the feasibility of establishing an IDA as an affiliate of the International Bank. According to the resolution, the objectives of the proposed Association would be to provide long-term capital on terms not presently available, facilitate the use of local currencies available to the United States, and insure that contributions from other nations be available for this purpose. With the endorsement of the President, broad international support for such a proposal was elicited by the Secretary of the Treasury and members of the executive branch through discussions and negotiations with representatives of other free world nations. During the summer of 1959 the National Advisory Council concluded that creation of an International Development Association was both feasible and desirable. In its report to the Senate on August 14, 1959 (S. Doc. 45, 86th Cong., 1st sess.), the Council described the discussions to date and indicated that in general the reaction of most countries had been favorable; in addition, certain guidelines for the proposed organization were suggested. The Council stated in its report at that time:

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.

On October 1, 1959, at the annual meeting of the Board of Governors of the International Bank, a resolution introduced by the United States urging that the Executive Directors formulate articles of agreement was unanimously adopted by the Governors. Negotiating sessions commenced promptly, and on January 26, 1960, the Executive Directors approved the articles of agreement for submission to member governments. The text of these articles, a report of the Executive Directors, and the President's message and the National Advisory Council's Report recommending membership by the United States, are printed as House Document No. 345.

The International Development Association will be an international organization whose members must be members of the International Bank. It will be an affiliate of the International Bank so far as organization and management are concerned; the Governors and Executive Directors of the Bank are to serve ex officio in corresponding capacities for the Association. The Association will, however, be a separate financial entity whose funds must be kept apart from those of the Bank.

The initial resources of the International Development Association will total \$1 billion, if all members of the International Bank join. Member countries are divided into two groups for subscription purposes: 17 countries designated in part I of schedule A will contribute about \$763 million in gold or convertible currencies, while the other 51 nations in part II will provide the remaining \$237 million, 10 percent in gold or convertible currencies and the balance in their own national currencies. The IDA subscriptions are based upon the relative capital subscriptions to the International Bank, and, as in the Bank, voting rights are roughly proportionate to subscriptions. The 90-percent portion contributed by the less developed countries may not be converted into other currencies by the International Development Association or used to finance exports from the country concerned without its consent. The following schedule lists the contributions to be made by each proposed Association member:

100,000,000

Schedule of subscriptions  
 (In millions of U.S. dollars <sup>1</sup>)

PART I		PART II—Continued	
Australia.....	20. 18	Guatemala.....	0. 40
Austria.....	5. 04	Haiti.....	. 76
Belgium.....	22. 70	Honduras.....	. 30
Canada.....	37. 83	Iceland.....	. 10
Denmark.....	2. 74	India.....	40. 35
Finland.....	3. 83	Indonesia.....	11. 10
France.....	52. 96	Iran.....	4. 54
Germany.....	52. 96	Iraq.....	. 76
Italy.....	18. 16	Ireland.....	3. 03
Japan.....	33. 59	Israel.....	1. 68
Luxembourg.....	1. 01	Jordan.....	. 30
Netherlands.....	27. 74	Korea.....	1. 26
Norway.....	6. 72	Lebanon.....	. 45
Sweden.....	10. 09	Libya.....	1. 01
Union of South Africa.....	10. 09	Malaya.....	2. 52
United Kingdom.....	131. 14	Mexico.....	8. 74
United States.....	320. 29	Morocco.....	3. 53
		Nicaragua.....	. 30
Total.....	763. 07	Pakistan.....	10. 09
		Panama.....	. 02
PART II		Paraguay.....	. 30
Afghanistan.....	1. 01	Peru.....	1. 77
Argentina.....	18. 83	Philippines.....	5. 04
Bolivia.....	1. 06	Saudi Arabia.....	3. 70
Brazil.....	18. 83	Spain.....	10. 09
Burma.....	2. 02	Sudan.....	1. 01
Ceylon.....	3. 03	Thailand.....	3. 03
Chile.....	3. 53	Tunisia.....	1. 51
China.....	30. 26	Turkey.....	5. 80
Colombia.....	3. 53	United Arab Republic.....	6. 03
Costa Rica.....	. 20	Uruguay.....	1. 06
Cuba.....	4. 71	Venezuela.....	7. 06
Dominican Republic.....	. 40	Vietnam.....	1. 51
Ecuador.....	. 65	Yugoslavia.....	4. 04
El Salvador.....	. 30		
Ethiopia.....	. 50	Total.....	236. 93
Ghana.....	2. 36		
Greece.....	2. 52	Total.....	1, 000. 00

<sup>1</sup> In terms of U.S. dollars of the weight and fineness in effect on Jan. 1, 1960.

The United States subscription will be payable in five annual installments; the initial payment will be about \$74 million. The following table gives in detail the projected payments by the United States:

*U.S. subscription payments*

[In U.S. dollars]

Installments and fiscal years	10-percent portion	90-percent portion	Total
	(1)	(2)	(3)
I—1961	<sup>1</sup> \$16, 014, 500	<sup>2</sup> \$57, 652, 200	<sup>5</sup> \$73, 666, 700
II—1962	<sup>2</sup> 4, 003, 625	<sup>4</sup> 57, 652, 200	<sup>6</sup> 61, 655, 825
III—1963	<sup>2</sup> 4, 003, 625	<sup>4</sup> 57, 652, 200	<sup>6</sup> 61, 655, 825
IV—1964	<sup>2</sup> 4, 003, 625	<sup>4</sup> 57, 652, 200	<sup>6</sup> 61, 655, 825
V—1965	<sup>2</sup> 4, 003, 625	<sup>4</sup> 57, 652, 200	<sup>6</sup> 61, 655, 825
Total	32, 029, 000	288, 261, 000	320, 290, 000

<sup>1</sup> 50 percent of 10-percent portion (5 percent of total subscription) payable within 30 days after date on which Association begins operations, or on date on which original member becomes a member, whichever is later.

<sup>2</sup> 12½ percent of 10-percent portion (1¼ percent of total subscription) payable 1 year after beginning of operations of Association, and at annual intervals thereafter until 10 percent portion fully paid.

<sup>3</sup> 20 percent of 90-percent portion (18 percent of total subscription) payable within 30 days after date on which Association begins operations, or on date on which original member becomes a member, whichever is later.

<sup>4</sup> 20 percent of 90-percent portion (18 percent of total subscription) payable 1 year after beginning of operations of Association, and at annual intervals thereafter until 90-percent portion fully paid.

<sup>5</sup> 23 percent of total subscription (5 percent plus 18 percent).

<sup>6</sup> 19¼ percent of total subscription (1¼ percent plus 18 percent).

The articles provide for a periodic review by the Association of the adequacy of its resources and for the authorization if, when, and to the extent deemed desirable, of general increases in subscriptions. Also, the International Development Association may accept from any member supplementary resources in the currency of another member, provided the latter country does not object. While the Association has the power to borrow, it is not contemplated that there will be any issue of securities in the private market.

NEED FOR ESTABLISHING THE INTERNATIONAL DEVELOPMENT ASSOCIATION

On February 18, 1960, the President recommended to the Congress that legislation be enacted authorizing U.S. membership in the International Development Association. The President stated:

The less-developed countries need to secure from abroad large amounts of capital equipment to help in their development. Some part of this they can purchase with their current savings, some part they can borrow on conventional terms, and some part is provided by private foreign investors. But in many less-developed countries, the need for capital imports exceeds the amounts they can reasonably hope to secure through normal channels. The Association is a multilateral institution designed to provide a margin of finance that will allow them to go forward with sound projects that do not fully qualify for conventional loans.

On March 15, 16, and 17, 1960, public hearings on H.R. 11001 were held by your committee. Secretary of the Treasury Anderson, Under Secretary of State Dillon, and representatives of the AFL-CIO, the U.S. Chamber of Commerce, and the U.S. Council of the International

Chamber of Commerce testified in support of the bill. Mr. John J. McCloy, chairman of the board of the Chase Manhattan Bank, and a former President of the International Bank, and other prominent members of the banking profession also appeared and urged favorable action on the proposed legislation. In addition, statements and letters in support of the International Development Association were received from numerous farm organizations and religious groups.

In testifying before your committee in support of the legislation, the Secretary of the Treasury pointed out that:

While economic progress in the less-developed countries must come in large part from their own efforts, they need outside assistance in financing their imports of capital goods. With increasing productivity they will be in a better position to utilize and mobilize their own resources. \* \* \* This means that the economically stronger countries of the free world must, individually and collectively, provide a share of the capital goods needed.

\* \* \* \* \*

The IDA inaugurates a new phase in international financial help for the less-developed countries. We have recognized their need. We have recognized that many of them cannot develop their economies effectively unless they can obtain capital on terms which bear less heavily on their economies than the types of loans which are now available. In this cooperative venture, other countries will join with us. We feel that the economic development of the less developed countries must go on at a more rapid pace. This will be a source of hope to the peoples in these countries. It will serve to advance their economic life under free institutions, which we all desire. It is up to the United States to take the initial steps to bring this venture into active operation.

Under Secretary of State C. Douglas Dillon, addressing himself to the need for economic growth in the less-developed countries, stated:

Today, in a world community in which two-thirds of the world's people are striving to throw off the tyranny of poverty, disease, and illiteracy, it is imperative that all free nations help, lest these peoples, overwhelmed by massive problems, exchange the tyranny of poverty for the tyranny of the all-pervasive, all-controlling state. We, who value liberty, tolerance, and the free and open exchange of ideas, owe it to ourselves to enlarge the community of nations that can meet the aspirations of their peoples for economic and social betterment in an environment of freedom.

Your committee feels this statement takes on particular significance in the light of the present crisis in our international relations.

The existing international financial institutions are examples of successful cooperation among nations in the accomplishment of economic objectives, and so the cooperative nature of the IDA is, we believe, worthy of particular emphasis. The IDA will signify both the willingness and determination of other economically strong nations to join with this country in the task of providing development capital on more flexible terms. Further, the fact that the assisted nations will

contribute a portion of the resources and share in the management of the institution is an important aspect of the Association's structure, and will help develop a sense of participation and responsibility in those countries.

The peoples of the less-developed lands are in need. Depressed national economies create international tensions. The achievement of sound and sustainable economies in those lands is of vital importance to the free world and represents a significant step forward in the advancement of the cause of world peace. The International Development Association affords an opportunity to demonstrate that the other free nations are prepared to contribute to their development to help them go forward in freedom.

#### U.S. FINANCIAL PARTICIPATION

The U.S. subscription to the International Development Association is \$320,290,000, payable over 5 years. This represents 30 percent of the total capital and is comparable to the proportion of the capital of the International Bank subscribed by the United States. The initial payment of the United States will be \$73,666,700, and must be paid within 30 days after the Association begins operations. The agreement will enter into force when it has been signed by governments whose subscriptions aggregate 65 percent of total subscriptions, but not before September 15, 1960. In each of the subsequent 4 fiscal years the U.S. payment will be \$61,655,825. While the articles provide for a periodic review of the Association's resources, no additional U.S. subscription may be made without the approval of Congress. In addition, the United States may make available to the Association as supplementary resources currencies of other countries which it has acquired.

A primary aspect of U.S. interest in the Association has been the possibility of contributing local currencies accumulating under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480, 83d Cong., 2d sess.). If placed under the control of the Association, such currencies might well be of broader usefulness. The degree to which the United States might make such currencies available to the Association will depend on the future amounts and terms of Public Law 480 sales, among other factors. Nevertheless, the executive branch informally indicates that perhaps a 10-percent portion of any such sale might be so utilized with the consent of the country whose currency is involved. While the administration believes it technically has authority under Public Law 480 to provide foreign currencies to the IDA, it has submitted to Congress a proposed amendment to that statute to make the authorization explicit.

#### OPERATIONS

The operations of the Association are described in broad terms in its charter to give wide latitude to shape its financing to meet specific needs as they arise. In general, the International Development Association will make loans on terms which bear less heavily on the balance of payments of the borrower than is the case with conventional loans. The Association may make loans which are wholly or partly repayable in the borrower's own currency. Or, loans may be made payable

in the currency lent but for longer maturities or at lower interest rates than conventional loans.

The financing provided by the Association must be used to further development in the less developed areas of the world included within the Association's membership. Financing can thus be provided to less-developed member countries or to less-developed dependent and associated territories of members of the Association, but not to countries or their territories which are not members. Whenever financing is provided by the Association, it must be for purposes which are of high developmental priority in the light of the needs of the area or areas concerned, and, except in special circumstances, financing must be for specific projects. The Association will not provide financing if it concludes that such financing can be obtained from private sources on reasonable terms for the recipient. Private enterprises, as well as governments or public bodies, are eligible to receive financing from the Association. By ameliorating difficult financial and economic conditions in the less developed areas, the Association should contribute to a stronger economic base providing opportunities for further private capital investment, both domestic and foreign.

Witnesses before your committee discussed the probability of projects being financed jointly by resources from the IBRD and the IDA. In such circumstances, IDA would provide the added margin of capital, on flexible repayment terms, which will enable many worthwhile projects to go forward.

#### THE RELATIONSHIP OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO EXISTING LENDING INSTITUTIONS

The establishment of an International Development Association is predicated upon the recognition that the reasonable requirements in many of the less developed countries for development capital from an international source cannot be satisfied by existing lending institutions. Many countries are reaching the limit of their ability to service additional development loans in hard currencies. The IDA is specifically designed to fill existing needs. As was pointed out by numerous witnesses before your committee, there is no broadly based international institution which can help finance sound projects requiring a wide flexibility in repayment terms.

The International Bank for Reconstruction and Development now finances its operations almost entirely by borrowing in capital markets. Accordingly, its loans must carry rates of interest sufficient to cover the Bank's own interest and administrative costs and to provide reserves against the possibility of default. The Bank cannot prudently lend unless there is the probability that borrowers can service loans on the terms required by the conditions of the Bank's operations. It is of the utmost importance, however, that the International Development Association, while a distinct entity, will be an affiliate of the Bank so that the management and operations of the two institutions will be closely coordinated in the interest of achieving maximum efficiency. The utilization of the successful lending experience of the Bank will assure that similar requirements for loans from the IDA with respect to planning, engineering standards, and so forth, will be observed.

The Export-Import Bank makes development loans on terms comparable to those of the International Bank; its loans must be repaid in

dollars, and it too may make loans only where there is reasonable prospect that they may be serviced in the terms which the Bank can offer. The operations of IDA will not conflict with the operations of the International Bank or the Export-Import Bank or the private-capital market, since IDA will not make loans to countries or for projects which should properly be financed by these banks or the private-capital market. The size of IDA in itself, will mean that the resources of IDA will have to be reserved for those priority projects which cannot be financed on more conventional banking terms but will make a significant contribution to economic development. The possibility of "bad loans driving out good" has been recognized, and we have been assured it will be avoided by careful use of the limited resources of IDA and good judgment on the part of its management.

The Development Loan Fund, most of whose loans are repayable in the borrower's currency, does provide financing of a type similar to that in which the International Development Association will engage. Its resources are, of course, provided entirely by the United States. As Under Secretary Dillon observed, the United States must have economic instruments of its own which will be responsive to national needs and foreign policy considerations. In this connection, Mr. Dillon further stated:

The IDA can be most clearly grasped if it is thought of as an institution with the same basic purpose as the DLF but, by virtue of its international membership, one in which others can participate fully in doing the job that must be done. The IDA, like the U.S. Development Loan Fund, would provide growth capital for meritorious projects on terms that do not overburden the economies of the borrowers.

Your committee recognizes that the International Development Association is not large enough to meet all the demands of the less-developed countries. It is not designed to be a substitute for existing sources of capital. It will mobilize additional free world resources to contribute to the sound economic growth of the less-developed countries and provide a framework within which further efforts by the economically stronger countries may be undertaken.

U.S. participation in the operations of the International Development Association will require careful coordination with U.S. participation in other national and international institutions. The bill provides that the provisions of the Bretton Woods Agreements Act dealing with the responsibilities of the National Advisory Council on International Monetary and Financial Problems shall apply with respect to the Association to the same extent as with respect to the International Bank for Reconstruction and Development and the International Monetary Fund. Similar provisions exist in the legislation establishing the International Finance Corporation and the Inter-American Development Bank. The Bretton Woods Agreements Act set up the National Advisory Council to coordinate the policies and operations of the representatives of the United States on the Bank and the Fund and also agencies of the Government which make or participate in making foreign loans. Accordingly, the U.S. representatives on the Boards of the International Development Association will receive policy guidance from the National Advisory Council in the same manner as the U.S. representatives on the other international financial institutions. Further, it is noted that the U.S. Executive Director of the IDA would also be a member of the



Board of Directors of the Development Loan Fund. Through these coordinating mechanisms, the U.S. representatives can exercise an important influence toward insuring that the International Development Association is operated in harmony with the activities of other lending institutions and agencies.

#### ACTS REQUIRING APPROVAL OF CONGRESS

The bill contains essentially the same provisions as those contained in the Bretton Woods Agreements Act relative to certain actions which may not be taken by the President or any person or agency on behalf of the United States without specific congressional authorization. These acts are: (1) Subscription to additional funds under article III, section 1 of the articles; (2) acceptance of any amendment to the articles; and (3) any loan or other financing to the Association, except by a person or agency authorized by law to do so.

#### SECTION-BY-SECTION SUMMARY OF THE BILL, AS REPORTED

Section 1. The first section provides that the act may be cited as the International Development Association Act.

Section 2. The President is authorized, by section 2, to accept membership for the United States in the Association. The effect of this section is to give congressional approval to the articles of agreement proposed by the Executive Directors of the International Bank, establishing the International Development Association.

Section 3. This section provides that the U.S. Governor of the International Bank, the U.S. Executive Director of that Bank, and their alternates shall serve the new Association in corresponding capacities. This is required by the articles of agreement of the Association. The Governor and his alternate, who serve 5-year terms, and the Executive Director and his alternate, who serve 2-year terms, are nominated by the President and confirmed by the Senate. None of these officials may, under section 3(c) of the Bretton Woods Agreements Act, receive any compensation from the United States for their services in these capacities.

Section 4. This section provides that the coordinating responsibilities of the National Advisory Council on International Monetary and Financial Problems shall apply to the Association to the same extent as to the International Bank for Reconstruction and Development and the International Monetary Fund. The reporting requirements affecting the Association will be the same as those pertaining to the above-mentioned international financial institutions.

Section 5. Certain actions with respect to the Association, comparable to restrictions on actions with respect to the International Bank which were imposed under the Bretton Woods Agreements Act, are prohibited except with the authorization of Congress:

1. Any subscription by the United States to additional funds under article III, section 1, of the articles. That section provides that the Association shall periodically review the adequacy of its resources, and, if it deems desirable, shall authorize a general increase in subscriptions.

2. Acceptance of any amendment to the articles of agreement.

3. Any loan or financing by the United States to the Association, except by an agency of the United States authorized by law to make loans or provide other financing to international organiza-

tions. The provision means that the Association may borrow or receive funds from agencies of the United States only to the extent that agencies have been authorized by the Congress to provide such funds. The excepting clause does not confer upon any U.S. agency any authority it would not otherwise have and is intended to make clear that the prohibitory language does not in any way narrow, or preclude the use of, authority which any agency of the U.S. Government, including the President, possesses under other legislation to make loans or provide other financing to international organizations, including the International Development Association.

Section 6. The Federal Reserve banks are to act as depositories or fiscal agents for the Association, and in so acting, they will be supervised and directed by the Board of Governors of the Federal Reserve System.

Section 7(a). This section authorizes the appropriation, without fiscal year limitation, of \$320,290,000, the full amount of funds necessary to meet the subscription of the United States to the Association. This subscription is to be paid in five annual installments, pursuant to the provisions of article II, section 2, of the articles.

Section 7(b) authorizes the Secretary of the Treasury to issue to the Association non-interest-bearing, nonnegotiable demand notes in exchange for dollars paid in or payable to the Association and not needed in its operations. Such notes are authorized by section 2(e) of article II, and their issuance would reduce the interest cost to the United States in providing funds to the Association.

Section 8. Whenever the Association is a party to litigation brought in the United States, the district courts of the United States will have jurisdiction to try the case. This section also authorizes the removal of cases from a State court to a Federal court when the Association is a defendant.

Section 9. This section gives full force and effect in the United States, its possessions, and the Commonwealth of Puerto Rico to the provisions of the articles of agreement that confer upon the Association a legal status, and certain immunities and privileges, as follows:

1. The Association will have legal personality and the capacity to contract, to acquire and dispose of property, and to sue in our courts.

2. The Association will be subject to suit but will not be subject to having its property attached, except to execute a judgment.

3. The assets and archives of the Association will be free from all types of interference.

4. The official communications of the Association will be treated with the same respect as those of foreign governments.

5. The officials and employees of the Association will be given treatment substantially similar to that accorded to persons in the diplomatic service.

6. The Association will be immune from taxation and each official and employee will be immune from taxation on his salary or emoluments by any country other than his own. Any obligations of the Association will be protected against discriminatory taxation, but will have no special tax privilege.

The Association thus has the same legal status and immunities and privileges given to the International Bank under the Bretton Woods Agreements Act.

...the provision that the Administrator may have all of the funds of the United States only to the extent of appropriations made by Congress for that purpose. The Administrator may not have more than the amount of appropriations made by Congress for that purpose.

### DISSENTING VIEWS OF WRIGHT PATMAN

This bill is, in effect, a distressed-areas bill for foreign countries. As one who has previously supported foreign aid and loan programs I appreciate both the reasoning and the motives of those Members of Congress who now support this legislation. In good conscience, however, I cannot agree to this bill, or to any similar proposal for establishing still another foreign lending agency. I cannot reconcile the totally different attitudes and policies of our Federal Government toward the economic problems of our own people and those of people in foreign lands.

Only a few days ago the President vetoed a distressed-areas bill which was intended to help spark economic recovery in the distressed areas of the United States. That bill proposed to use only \$251 million of Federal funds for this purpose. The present bill proposes to use another \$320 million of Federal funds for such purposes abroad.

Two years ago the President vetoed a similar bill to help distressed areas in the United States. Yet at that time our Government was already operating or contributing to four different agencies making foreign loans for economic development. Meanwhile the administration has requested Congress to authorize, and Congress has authorized, two additional agencies to make foreign loans for these purposes. This now gives us a total of six as follows:

The Export-Import Bank of Washington.

The International Bank for Reconstruction and Development (World Bank).

The International Cooperation Administration.

The Development Loan Fund.

The International Finance Corporation.

The Inter-American Development Bank.

This bill would establish still a seventh agency. In addition, there are at least 16 other foreign lending agencies in operation by the Western nations.

When this administration came into office there were already two foreign lending agencies. One, the Export-Import Bank, operates exclusively on U.S. funds and is under the exclusive control of the U.S. Government. The other, the International Bank for Reconstruction and Development (the World Bank), provided a means for our cooperation in an international agency, under international control, in making economic development loans abroad. Yet the administration has asked Congress to approve new foreign lending agencies, and the Congress has approved them, at the rate of better than one new agency every 2 years.

The new agencies were not intended to replace, and have not replaced, the old agencies. Rather, the purpose of each new agency is to do more or less the same things the older agencies were already doing, and are still doing. The principal justification which has been advanced for each new agency is that a new agency was considered to be needed to make "softer" loans than the previously existing

agencies were making. This process has long since reached a point where it would be difficult to imagine that softer loans could be made. Yet the same justification is now advanced for this bill. The World Bank is already authorized to make loans for any and all kinds of economic development, in any and all countries of the world that wish to join the Bank. This bill is to establish a new international authority to make "softer" loans for the same purposes. It anticipates that foreign loans for economic development will be made for long terms, at low interest rates, and with repayment, if any, to be made in local currencies.

There is no agency and no money for doing for our own people what any of these foreign lending agencies are doing for people abroad. I do not argue that charity should begin at home. But it does seem to me that if such assistance as all of these foreign lending agencies are providing for people abroad is based upon sound economics, such assistance for our own people is equally sound economics. Alternatively, if this Nation cannot afford the money to help distressed areas at home, we cannot afford the money to help distressed areas abroad.

As has been indicated, this bill would provide a program of foreign lending in cooperation with, and in coordination with, other friendly nations able to contribute funds for this purpose. In this respect the bill is good. Yet the need is not, as I see it, for still another lending agency. Rather the need is for a consolidation of lending programs and a cooperative endeavor to develop a rational plan of economic development. If our efforts are to be effective in raising living standards in the underdeveloped countries, they must, I think, plan for trade as well as local productive resources.



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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

FROM: THE SECRETARY

Date MAY 18 1960

SecM

60 84

D I S T R I B U T I O N

Executive Directors and Alternates

President

Vice Presidents

Department Heads

Assistant Department Heads

Division Chiefs

Secretary, IMF

## INTERNATIONAL DEVELOPMENT ASSOCIATION ACT

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MAY 13, 1960.—Ordered to be printed

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Mr. GREEN, from the Committee on Foreign Relations, submitted the following

## R E P O R T

[To accompany S. 3074]

The Committee on Foreign Relations, to whom was referred the bill (S. 3074) providing for U.S. participation in the International Development Association, having considered the same, report the bill favorably without amendment and recommend that it do pass.

## 1. PURPOSE OF THE BILL

S. 3074 authorizes the President to accept membership for the United States in the International Development Association. The articles of agreement providing for this Association were approved by the Executive Directors of the International Bank for Reconstruction and Development on January 26, 1960, for submission to member governments of the Bank. The bill also authorizes appropriations by Congress totaling \$320,290,000 without fiscal year limitation for the subscription of the United States to the Association.

## 2. BACKGROUND

On February 24, 1958, Senator A. S. Mike Monroney, of Oklahoma, introduced a resolution (S. Res. 264, 85th Cong., 2d sess.) calling for a study respecting the—

establishment of an International Development Association, as an affiliate of the International Bank for Reconstruction and Development.

The major premise behind the resolution was that there existed a great and increasing need among the free world's underdeveloped countries for capital loans on a flexible, long-term basis, and that the need could not be satisfied through private investment or through international institutions which required relatively high interest rates and stringent

repayment terms. On July 23, 1958, the Senate by a vote of 62 to 25 adopted the Monroney resolution, 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, 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.

As requested in the resolution, the National Advisory Council on International Monetary and Financial Problems<sup>1</sup> carried out a study, and a favorable report on the proposed Association was submitted to the Committee on Foreign Relations on August 14, 1959. Meanwhile, commencing in October 1958, extensive informal discussions authorized by President Eisenhower had been undertaken by Secretary of the Treasury Anderson and Under Secretary of State Dillon (U.S. Governor and Alternate U.S. Governor, respectively of the International Bank) with representatives of other interested countries and with Mr. Eugene Black, President of the Bank. The Board of Governors of the Bank therefore came to its annual meeting in 1959 prepared to consider a resolution, introduced by the United States, which requested the Executive Directors—

to formulate articles of agreement of such an Association for submission to the member Governments of the Bank.

The resolution was adopted unanimously on October 1, and the articles were submitted in the following January.

<sup>1</sup>The National Advisory Council was created by the Bretton Woods Agreements Act to coordinate U.S. policies and operations regarding the International Monetary Fund and the International Bank with those of all Government agencies involved in foreign economic transactions. The members are the Secretary of the Treasury (Chairman), the Secretaries of State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the President of the Export-Import Bank.



### 3. COMMITTEE ACTION

On February 18, 1960, the Congress received a message from the President of the United States in which he submitted the articles of agreement for the establishment of the International Development Association. The President urged the Congress to enact legislation authorizing him to accept U.S. membership in the Association, and to assume the financial obligations described in the articles. Acceptance of membership in the Association by the United States was strongly recommended by the National Advisory Council in a special report which accompanied the President's message; the message and the report, along with the articles of agreement, are contained in House Document 345. By request, Senator Fulbright on February 19, 1960, introduced S. 3074 to give effect to the administration's recommendations. The President's message and the bill were both referred to the Committee on Foreign Relations.

The committee began hearings on March 18, at which time Senator Monroney appeared first in support of the legislation which his efforts had done so much to stimulate. A statement by Secretary Robert B. Anderson, as well as other testimony in favor of the bill, was presented by Mr. T. Graydon Upton, Assistant Secretary of the Treasury and U.S. Executive Director of the International Bank. Under Secretary of State C. Douglas Dillon continued the administration's case for S. 3074. On March 21, Assistant Secretary Upton gave additional testimony and the nongovernmental witnesses were heard. Mr. John J. McCloy, chairman of the Chase Manhattan Bank, appeared in favor of the bill in a private capacity. Mr. C. Cheever Hardwick testified for the U.S. Chamber of Commerce, Mr. Bert Seidman for the AFL-CIO, Prof. Elton Atwater for the Friends Committee on National Legislation, and Herbert E. Harris II for the American Farm Bureau Federation. All but the last of these witnesses gave full support to S. 3074; Farm Bureau support was conditioned on a number of reservations. Statements in support of the measure were also received from representatives of the National Council of Farmer Cooperatives, the Women's International League for Peace and Freedom, the National Grange, the National Council of Churches of Christ in the U.S.A., the council-affiliated United Church Women, and the United Christian Missionary Society. A statement from the American Merchant Marine Institute, concentrating on the institute's specific interests, neither supported nor opposed the bill.

In executive session on May 9 the committee, by a vote of 10 to 3, ordered the bill reported favorably without amendment.

### 4. NATURE OF THE ASSOCIATION

The preamble to the articles sets forth the considerations motivating the signatory governments in joining the Association. It is noted that a cooperative approach to economic development and international trade fosters the maintenance of world peace and prosperity; that accelerated development of the less economically strong countries furthers the interests of the free world as a whole; and that these objectives would be served by an increased flow of public and private capital into the less-developed countries on an internationally concerted basis. Within this context, as stated in article I:

The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank \* \* \* and supplementing its activities.

In order to promote the above-described objectives most efficiently and to instill confidence that they will be achieved, the Association is to be an affiliate of the Bank. The Bank has never had a default, and it has amassed total reserves amounting to almost \$500 million. Membership in the Association will be open to the 68 members of the Bank; these in turn are members of the International Monetary Fund, since membership in the Fund is a prerequisite for joining the Bank. The President of the Bank will also be the head of the Association, and the Governors, Alternate Governors, and Executive Directors appointed by members of the Bank which are also members of the Association will represent their countries in the Association in the same capacities. Because all members of the Bank will not necessarily join the Association, the total number of these officials in the latter institution may be smaller, but the identity of such representatives will be the same as those in the Bank. Officers and staff of the Bank concurrently will serve the Association, which at least initially will have no separate personnel. However, the number of personnel with dual responsibilities may in time have to be augmented; in addition, article VI is flexible enough to permit the appointment of officers (other than the President) and staff to serve only the Association should that become necessary.

Despite this very close affiliation between the Bank and the Association, the latter will be a distinct entity and its funds will be kept separate and apart from those of the Bank. It will not borrow from or lend to the Bank, except that it may invest funds (not immediately necessary for operations) in Bank obligations.

As in the case of the Inter-American Development Bank Act of 1959, S. 3074 conforms in almost all its clauses to the Bretton Woods Agreements Act providing for U.S. participation in the International Bank and Monetary Fund. The bill makes similar provisions establishing procedures for dealing with possible legal disputes in U.S. courts, and for coordinating U.S. activities through the National Advisory Council, as well as giving the Association necessary immunities from domestic laws (as, for example, tax exemption).

#### 5. FINANCIAL PROVISIONS

The articles provide for total initial subscriptions of \$1 billion—to be paid in over a 5-year period—assuming that all 68 International Bank members become original members of the Association. Each member's subscription is based on that member's proportional share of the Bank's capital stock, taking into account the authorized capital increases of 1959. The following schedule lists the contributions to be made by each proposed Association member.

## Schedule of subscriptions

[In millions of U.S. dollars <sup>1</sup>]

PART I		Part II—Continued	
Australia.....	20. 18	Guatemala.....	0. 40
Austria.....	5. 04	Haiti.....	. 76
Belgium.....	22. 70	Honduras.....	. 30
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<sup>1</sup> In terms of U.S. dollars of the weight and fineness in effect on Jan. 1, 1960.

In keeping with the purposes of the Association, the 17 more industrialized member countries of the Bank are grouped separately under part I, while the 51 less-developed countries are placed in part II. Both groups will pay 10 percent of their initial subscriptions in gold or freely convertible currencies; one-half of that percentage is to be paid in during the first year of operations, and one-quarter of the other half is to fall due in each of the 4 succeeding years. With regard to the remaining 90 percent of the subscriptions, the part I countries would pay the total in freely convertible currency or gold in five equal annual installments. The part II countries, on the other hand, would pay their 90-percent portion in installments of their national currencies, which the Association would not be free to convert into other currencies or use to finance exports from the country concerned without its consent. The Executive Directors of the International Bank, in their report, express the hope that the more developed of the part II countries will soon be in a position to

release at least some part of their respective 90-percent portions from these restrictions.

It will be noted that while the overall U.S. share is \$320.29 million, the other more industrialized countries will contribute almost \$443 million to the Association. An appropriation of \$73,666,700 will be required for the U.S. payments to the Association during its first year of operations. The following table gives in detail the projected payments by the United States.

*U.S. subscription payments*

[In U.S. dollars]

Installments and fiscal years	10-percent portion	90-percent portion	Total
	(1)	(2)	(3)
I—1961.....	<sup>1</sup> \$16, 014, 500	<sup>2</sup> \$57, 652, 200	<sup>3</sup> \$73, 666, 700
II—1962.....	<sup>4</sup> 4, 003, 625	<sup>5</sup> 47, 652, 200	<sup>6</sup> 61, 655, 825
III—1963.....	<sup>7</sup> 4, 003, 625	<sup>8</sup> 47, 652, 200	<sup>9</sup> 61, 655, 825
IV—1964.....	<sup>10</sup> 4, 003, 625	<sup>11</sup> 47, 652, 200	<sup>12</sup> 61, 655, 825
V—1965.....	<sup>13</sup> 4, 003, 625	<sup>14</sup> 47, 652, 200	<sup>15</sup> 61, 655, 825
Total.....	32, 029, 000	288, 261, 000 <sup>16</sup>	320, 290, 000

<sup>1</sup> 50 percent of 10 percent portion (5 percent of total subscription) payable within 30 days after date on which Association begins operations, or on date on which original member becomes a member, whichever is later.

<sup>2</sup> 12½ percent of 10 percent portion (1¼ percent of total subscription) payable 1 year after beginning of operations of Association, and at annual intervals thereafter until 10 percent portion fully paid.

<sup>3</sup> 20 percent of 90 percent portion (18 percent of total subscription) payable within 30 days after date on which Association begins operations, or on date on which original member becomes a member, whichever is later.

<sup>4</sup> 20 percent of 90 percent portion (18 percent of total subscription) payable 1 year after beginning of operations of Association, and at annual intervals thereafter until 90 percent portion fully paid.

<sup>5</sup> 23 percent of total subscription (5 percent plus 18 percent).

<sup>6</sup> 19¼ percent of total subscription (1¼ percent plus 18 percent).

Voting power in the Association is roughly based upon the size of a country's initial subscription and thus upon the pattern of voting rights in the International Bank. However, since each original member obtains 500 votes (compared with 250 in the Bank) plus 1 additional vote for each \$5,000 of its subscription, the ratio of votes to contributions is slightly different from that in the Bank. In both institutions this pattern is designed to give the less developed countries increased participation and interest in efficient management. The United States, which contributes about 32 percent of the Association's total resources, will get 27.6 percent of the vote, or 64,558 out of a possible 234,000 votes. At the same time, this disparity also affects the voting rights of the other large contributors: for example, the United Kingdom will put up 13.1 percent of the initial subscriptions, but will receive only 11.4 percent of the votes.

Because of the long-term character of the Association's projected loan operations, in conjunction with the relatively limited initial resources, it is contemplated that periodic replenishment of those resources may be necessary. The articles therefore provide for a review of the adequacy of the subscriptions prior to the end of the initial 5-year period, and then for similar reviews at about 5-year intervals. In addition, general or individual increases in resources may be authorized at any time, but will be made only on a voluntary basis in either case. In this connection, S. 3074 requires the approval of Congress for any increase in the U.S. subscription.

Besides the subscriptions which members are obligated to make, supplementary resources may also be contributed by a member in

the currency of another member provided the latter agrees and accepts the terms that may be worked out among the two members and the Association. While such currency transfers would not entitle the contributor to more votes, they would be recognized in a "special development certificate" recording the amounts and the terms under which they were provided; these terms could include arrangements for the contributing country to receive some portion of the Association's earnings from the currencies.

Section 5(c) of the bill prohibits, without further congressional authorization, U.S. loans or other financing for the Association—

except that loans or other financing may be provided to the Association by a United States agency created pursuant to an Act of Congress which is authorized by law to make loans or to provide other financing to international organizations.

This exception is intended to make clear that section 5(c) neither increases nor diminishes existing legal authorities.

A primary aspect of U.S. interest in the Association has been the possibility of contributing local currencies accumulating under title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480, 83d Cong., 2d sess.). If placed under the control of the Association, such currencies might well be of broader usefulness. The degree to which the United States might make such currencies available to the Association will depend on the future amounts and terms of Public Law 480 sales, among other factors. Nevertheless, the executive branch informally indicates that perhaps a 10-percent portion of any such sale might be so utilized with the consent of the country whose currency is involved. While the administration believes it technically has authority to employ this provision, it has submitted to Congress a proposed amendment to Public Law 480 to make the authorization explicit.

#### 6. OPERATIONS OF THE ASSOCIATION

The Association is designed to perform on a multilateral basis roughly the same functions which the U.S. Development Loan Fund performs bilaterally. Financing will be provided by the Association to its less-developed members for purposes of high developmental priority and, except in special circumstances, for specific projects. This financing will not be provided if it can be obtained from private sources on reasonable terms or through a loan of the type made by the International Bank. In their report on the articles of agreement, the Bank's Executive Directors supplement these intentionally broad provisions by explaining that projects such as pilot housing, sanitation, water supply, etc., are eligible, although the major portion of the Association's resources would probably be devoted to basic economic projects, such as railway programs or a group of integral parts of a country's or region's development program.

The very general language of the articles with respect to the terms and forms of the Association's financing permits that flexibility considered vital to the success of the institution. Again, according to the Executive Directors' report, the Association may implement the articles, in the case of loans made in freely convertible currencies—

in any of a number of ways: for example, by providing for lenient terms of repayment (such as loans repayable in foreign exchange with long maturities or long periods of grace or both, or loans repayable wholly or partly in local currency), by lending free of interest or at a low rate of interest, or by some combination of the foregoing.

Financing may be provided to a member government or its subdivisions, to a public or private entity in the territories of a member so long as no member government objects, or to a public international or regional organization. The Association will not impose conditions that the proceeds of its financing shall be spent in the territories of any particular members, nor will the Association be influenced by any but economic considerations in making decisions. At the same time, the Association may accept any restrictions on the use of initial or supplementary resources which are in accordance with the articles.

Following the International Bank's practices in general, the Association will encourage borrowers to take advantage of international competition in placing orders. It will also conform to the Bank practice of making funds available only to meet expenses in connection with a project as they are actually incurred, and it will exercise continuing supervision over the project. However, while the Bank requires a member government's guarantee on a loan to a private entity in the member's territory, the Association may exercise an option in this regard. Finally, the Association will cooperate with other international and national entities providing assistance to less developed areas, and specifically will enter into formal arrangements with the United Nations.

#### 7. PROVISIONS FOR ESTABLISHMENT

The proposed Association will come into existence when the articles of agreement have been accepted by governments contributing not less than 65 percent of the total \$1 billion in subscriptions, and when instruments to that effect have been deposited with the International Bank. However, in no event will the agreement enter into force before September 15, 1960. The agreement will remain open for signature through December 31, 1960, and if it has not entered into force by that date, the Executive Directors of the Bank may extend the period for signature but for no more than 6 months.

A member country may at any time withdraw from membership, and its withdrawal will become effective upon the date notice in writing is received. A withdrawing member would receive back either the sums paid on account of its subscription or a proportionate share of the net assets of the Association. Should the Association permanently suspend its operations, members would receive pro rata shares in its assets in proportion to amounts paid on subscriptions. Prior special arrangements would determine the disposition of any supplementary resources that had been turned over to the Association.

## 8. CONCLUSIONS

The Committee on Foreign Relations believes that greater efforts must be made in concert by the economically stronger countries of the free world to provide the capital, skills and goods needed for the effective development of resources in the less fortunate members of the free-world community. Such efforts are essential not only to the immediate and future independence and well-being of peoples in the less-developed countries, but also to the long-range interests of the world community in expanded markets and communication between free peoples. While the United States has recognized these requirements, and has done much to meet them, a number of the other more developed countries have not devoted comparable attention or resources to this central problem of our times.

In this context, the committee draws particular notice to the fact that the other part I members of the proposed Association collectively would contribute about \$123 million more than would the United States. The Association will provide a mechanism—not hitherto available—to stimulate those other members to accept in the future a more nearly proportionate responsibility for the provision of capital on a flexible and long-term basis. The Association also will offer an instrument for less limited and thus more effective use of accumulations of presently inconvertible currencies held, especially by the United States, among the proposed original members. Finally, the committee emphasizes that sound planning and fiscal responsibility are essential to the creation of those basic economic facilities which will stimulate an expanded flow of private and public investment. The admirable record of the International Bank in this regard promotes confidence that the objectives of the proposed affiliated Association will be achieved.

The committee urges the Senate to enact S. 3074.



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INTERNATIONAL DEVELOPMENT ASSOCIATION

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# Development Credit Regulations No. 1

Applicable to Development Credit Agreements  
with Member Governments

DATED JUNE 1, 1961

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INTERNATIONAL DEVELOPMENT ASSOCIATION

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# Development Credit Regulations No. 1

Applicable to Development Credit Agreements  
with Member Governments

DATED JUNE 1, 1961

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**INTERNATIONAL DEVELOPMENT ASSOCIATION**  
**DEVELOPMENT CREDIT REGULATIONS NO. 1**

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# Development Credit Regulations No. 1

Dated June 1, 1961

## ARTICLE I

### **Purpose; Application to Development Credit Agreements**

SECTION 1.01. *Purpose.* The purpose of these Regulations is to set forth certain terms and conditions generally applicable to development credits granted by the Association directly to its members.

SECTION 1.02. *Application of Regulations.* Any development credit agreement between the Association and a member may provide that the parties thereto accept the provisions of these Regulations. To the extent so provided, these Regulations shall apply to such agreement and shall govern the rights and obligations thereunder of the parties thereto with the same force and effect as if they were fully set forth therein. No revocation or amendment of these Regulations shall be effective in respect of any development credit agreement unless the parties thereto shall so agree.

SECTION 1.03. *Inconsistency with Development Credit Agreements.* If any provision of a development credit agreement is inconsistent with a provision of these Regulations, the provision of the agreement shall govern.

## ARTICLE II

### **Credit Account; Service Charges; Repayment; Place of Payment**

SECTION 2.01. *Credit Account.* The amount of the Credit shall be credited to a Credit Account which the Association

shall open on its books in the name of the Borrower. The amount of the Credit may be withdrawn from the Credit Account as provided in the Development Credit Agreement and in these Regulations.

SECTION 2.02. *Service Charges.* A service charge at the rate specified in the Development Credit Agreement shall be payable on the principal amount of the Credit withdrawn from the Credit Account and outstanding from time to time. A service charge at the same rate shall be payable on the principal amount of any special commitment entered into by the Association pursuant to Section 4.02 and outstanding from time to time.

SECTION 2.03. *Computation of Service Charges.* Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 2.04. *Repayment.* (a) The principal amount of the Credit withdrawn from the Credit Account shall be repayable in installments as provided in the Development Credit Agreement.

(b) The Borrower shall have the right to repay in advance of maturity all or any part of the principal amount of one or more maturities of the Credit specified by the Borrower.

SECTION 2.05. *Place of Payment.* The principal of, and service charges on, the Credit shall be paid at such places as the Association shall reasonably request.

### ARTICLE III

#### Currency Provisions

SECTION 3.01. *Currency in which Proceeds of the Credit are to be Withdrawn.* The proceeds of the Credit shall be withdrawn from the Credit Account in the respective currencies in which the cost of goods financed under the

Development Credit Agreement has been paid or is payable or in such other currency or currencies as shall be agreed upon between the Borrower and the Association.

SECTION 3.02. *Currencies in which Principal and Service Charges are Payable.* The Borrower shall pay the principal amount of, and service charges on, the Credit in any currency or currencies of members of the Association which the Association from time to time determines to be freely convertible or freely exchangeable by the Association for currencies of other members of the Association for the purposes of its operations. The Borrower and the Association may from time to time agree on any specific such currency or currencies in which payment shall be made.

SECTION 3.03. *Amount of Repayment.* The principal amount of the Credit repayable shall be the equivalent (determined as of the date, or the respective dates, of repayment) of the value of the currency or currencies withdrawn from the Credit Account expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960, determined as of the respective dates of withdrawal; provided, however:

- (i) that if a uniform proportionate reduction in the par values of the currencies of all its members is made by the International Monetary Fund, the principal amount of the Credit then outstanding and repayable after such reduction shall be reduced by the same proportion; and
- (ii) that if the Association shall at any time determine that there has been a substantial reduction in the par value or the foreign exchange value of one or more major currencies of members of the Association in terms of United States dollars of the weight and fineness in effect on January 1, 1960, which in



the opinion of the Association shall justify a general reduction in the principal amount repayable on development credits then outstanding, the principal amount of the Credit then outstanding and repayable after such determination shall be reduced by such proportion as the Association shall decide.

SECTION 3.04. *Valuation of Currencies.* Whenever it shall be necessary for the purpose of the Development Credit Agreement to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Association.

## ARTICLE IV

### Withdrawal of Proceeds of Credits

SECTION 4.01. *Withdrawal from the Credit Account.* The Borrower shall be entitled to withdraw from the Credit Account amounts expended or to be expended for the Project in accordance with the provisions of the Development Credit Agreement and of these Regulations. Except as shall be otherwise agreed between the Borrower and the Association no withdrawals shall be made on account of expenditures in the territories of any country (other than Switzerland) which is not a member of the Bank or for goods produced in (including services supplied from) such territories.

SECTION 4.02. *Special Commitments by the Association.* Upon the Borrower's request and upon such terms and conditions as shall be agreed upon between the Association and the Borrower, the Association may enter into special commitments in writing to pay amounts to the Borrower or others in respect of the cost of goods to be financed under the Development Credit Agreement notwithstanding any subsequent suspension or cancellation.

SECTION 4.03. *Applications for Withdrawal or for Special Commitment.* When the Borrower shall desire to withdraw any amount from the Credit Account or to request

the Association to enter into a special commitment pursuant to Section 4.02, the Borrower shall deliver to the Association a written application in such form, and containing such statements and agreements, as the Association shall reasonably request. Applications for withdrawal, with the necessary documentation as hereinafter in this Article provided, shall, except as the Association and the Borrower shall otherwise agree, be made promptly in relation to expenditures for the Project.

SECTION 4.04. *Supporting Evidence.* The Borrower shall furnish to the Association such documents and other evidence in support of the application as the Association shall reasonably request, whether before or after the Association shall have permitted any withdrawal requested in the application.

SECTION 4.05. *Sufficiency of Applications and Documents.* Each application and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Association that the Borrower is entitled to withdraw from the Credit Account the amount applied for and that the amount to be withdrawn from the Credit Account is to be used only for the purposes specified in the Development Credit Agreement.

SECTION 4.06. *Payment by the Association.* Payment by the Association of amounts which the Borrower is entitled to withdraw from the Credit Account shall be made to or on the order of the Borrower.

## ARTICLE V

### Cancellation and Suspension

SECTION 5.01. *Cancellation by the Borrower.* The Borrower may by notice to the Association cancel any amount of the Credit which the Borrower shall not have withdrawn

prior to the giving of such notice, except that the Borrower may not so cancel any amount of the Credit in respect of which the Association shall have entered into a special commitment pursuant to Section 4.02.

SECTION 5.02. *Suspension by the Association.* If any of the following events shall have happened and be continuing, the Association may by notice to the Borrower suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account:

(a) A default shall have occurred in the payment of principal or service charges or any other payment required under the Development Credit Agreement or any other development credit agreement or any guarantee agreement between the Borrower and the Association.

(b) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower under the Development Credit Agreement.

(c) A default shall have occurred in the payment of principal or interest or any other payment required under any loan agreement or guarantee agreement between the Bank and the Borrower, or any bonds or other obligations issued thereunder.

(d) The Association (i) shall have suspended in whole or in part the right of the Borrower to make withdrawals under any development credit agreement between the Borrower and the Association because of a default on the part of the Borrower, or (ii) shall have suspended in whole or in part the right of the borrower to make withdrawals under any development credit agreement with the Association guaranteed by the Borrower because of a default on the part of the Borrower.

(e) The Bank (i) shall have suspended in whole or in part the right of the Borrower to make withdrawals under

any loan agreement between the Borrower and the Bank because of a default on the part of the Borrower, or (ii) shall have suspended in whole or in part the right of the borrower to make withdrawals under any loan agreement with the Bank guaranteed by the Borrower because of a default on the part of the Borrower.

(f) An extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations under the Development Credit Agreement.

(g) The Borrower shall have been suspended from membership in or ceased to be a member of the Association.

(h) The Borrower shall have ceased to be a member of the International Monetary Fund or shall have become ineligible to use the resources of said Fund under Section 6 of Article IV of the Articles of Agreement of said Fund or shall have been declared ineligible to use said resources under Section 5 of Article V, Section 1 of Article VI or Section 2 (a) of Article XV of the Articles of Agreement of said Fund.

(i) After the date of the Development Credit Agreement and prior to the Effective Date any event shall have occurred which would have entitled the Association to suspend the Borrower's right to make withdrawals from the Credit Account if the Development Credit Agreement had been effective on the date such event occurred.

(j) Any other event specified in the Development Credit Agreement for the purposes of this Section shall have occurred.

The right of the Borrower to make withdrawals from the Credit Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to

exist or until the Association shall have notified the Borrower that the right to make withdrawals has been restored, whichever is the earlier; provided, however, that in the case of any such notice of restoration, the right to make withdrawals shall be restored only to the extent and subject to the conditions specified in such notice, and no such notice shall affect or impair any right, power or remedy of the Association in respect of any other or subsequent event described in this Section.

SECTION 5.03. *Cancellation by the Association.* If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days or (b) by the date specified in the Development Credit Agreement as the Closing Date an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may by notice to the Borrower terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice such amount of the Credit shall be cancelled.

SECTION 5.04. *Amounts Subject to Special Commitment Not Affected by Cancellation or Suspension by the Association.* No cancellation or suspension by the Association shall apply to amounts subject to any special commitment entered into by the Association pursuant to Section 4.02 except as expressly provided in such commitment.

SECTION 5.05. *Application of Cancellation to Maturities of the Credit.* Except as otherwise agreed between the Association and the Borrower, any cancellation shall be applied *pro rata* to the several installments of the principal amount of the Credit.

SECTION 5.06. *Effectiveness of Provisions after Suspension or Cancellation.* Notwithstanding any cancellation or suspension all the provisions of the Development Credit

Agreement and these Regulations shall continue in full force and effect except as in this Article specifically provided.

## ARTICLE VI

### **Enforceability of Development Credit Agreement; Failure to Exercise Rights; Arbitration**

SECTION 6.01. *Enforceability.* The rights and obligations of the Association and the Borrower under the Development Credit Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any state, or political subdivision thereof, to the contrary. Neither the Association nor the Borrower shall be entitled in any proceeding under this Article to assert any claim that any provision of these Regulations or the Development Credit Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of the Association or for any other reason.

SECTION 6.02. *Failure to Exercise Rights.* No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the Development Credit Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

SECTION 6.03. *Arbitration.*

(a) Any controversy between the parties to the Development Credit Agreement and any claim by either such party against the other arising under the Development Credit Agreement which shall not be determined by agree-

ment of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Association and the Borrower.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the Association; a second arbitrator shall be appointed by the Borrower; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought, and the name of the arbitrator appointed by the party instituting such proceeding. Within 30 days after the giving of such notice, the adverse party shall notify the party instituting the proceeding of the name of the arbitrator appointed by such adverse party.

(e) If, within 60 days after the giving of such notice instituting the arbitration proceeding, the parties shall not have agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) Subject to the provisions of this Section and except as the parties shall otherwise agree, the Arbitral Tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Development Credit Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.



(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties to the Development Credit Agreement and any claims by either party against the other party arising thereunder.

(k) The Association shall not be entitled to enter judgment against the Borrower upon the award, to enforce the award against the Borrower by execution or to pursue any other remedy against the Borrower for the enforcement of the award, except as such procedure may be available against the Borrower otherwise than by reason of the provisions of this Section. If, within 30 days after counterparts of the award shall be delivered to the parties, the award shall not be complied with by the Association, the Borrower may take any such action for the enforcement of the award against the Association.

(l) Service of any notice or process in connection with any proceeding under this Section or (to the extent that such remedy shall be available) in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 7.01. The parties to the Development Credit Agreement waive any and all other requirements for the service of any such notice or process.

## **ARTICLE VII**

### **Miscellaneous Provisions**

SECTION 7.01. *Notices and Requests.* Any notice or request required or permitted to be given or made under the Development Credit Agreement and any agreement between the parties contemplated by the Development Credit Agreement shall be in writing. Except as otherwise provided in Section 8.03 such notice or request shall be deemed to have been duly given or made when it shall be delivered

by hand or by mail, telegram, cable or radiogram to the party to which it is required or permitted to be given or made at such party's address specified in the Development Credit Agreement, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

SECTION 7.02. *Evidence of Authority.* The Borrower shall furnish to the Association sufficient evidence of the authority of the person or persons who will sign the applications provided for in Article IV or who will, on behalf of the Borrower, take any other action or execute any other documents required or permitted to be taken or executed by the Borrower under the Development Credit Agreement, and the authenticated specimen signature of each such person.

SECTION 7.03. *Action on Behalf of the Borrower.* Any action required or permitted to be taken, and any documents required or permitted to be executed, under the Development Credit Agreement on behalf of the Borrower may be taken or executed by the representative of the Borrower designated in the Development Credit Agreement for the purposes of this Section or any person thereunto authorized in writing by him. Any modification or amplification of the provisions of the Development Credit Agreement may be agreed to on behalf of the Borrower by written instrument executed on behalf of the Borrower by the representative so designated or any person thereunto authorized in writing by him; provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Borrower under the Development Credit Agreement. The Association may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of the Development Credit Agreement effected by such instrument is reasonable in the circumstances and will

not substantially increase the obligations of the Borrower thereunder.

SECTION 7.04. *Execution in Counterparts.* The Development Credit Agreement may be executed in several counterparts, each of which shall be an original. All such counterparts shall collectively be but one instrument.

## ARTICLE VIII

### Effective Date; Termination

SECTION 8.01. *Conditions Precedent to Effectiveness of Development Credit Agreement.* The Development Credit Agreement shall not become effective until evidence satisfactory to the Association shall have been furnished to the Association that

(a) the execution and delivery of the Development Credit Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental action, and

(b) all other events specified in the Development Credit Agreement as conditions to its effectiveness have occurred.

SECTION 8.02. *Legal Opinions.* As part of the evidence to be furnished pursuant to Section 8.01, the Borrower shall furnish to the Association an opinion or opinions satisfactory to the Association of counsel acceptable to the Association showing:

(a) that the Development Credit Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and constitutes a valid and binding obligation of the Borrower in accordance with its terms; and

(b) such other matters as shall be specified in the Development Credit Agreement.

SECTION 8.03. *Effective Date.* Except as shall be otherwise agreed by the Association and the Borrower, the Development Credit Agreement shall come into force and effect on the date upon which the Association dispatches to the Borrower notice of its acceptance of the evidence required by Section 8.01.

SECTION 8.04. *Termination of Development Credit Agreement for Delay in Becoming Effective.* If all acts required to be performed pursuant to Section 8.01 shall not have been performed before the date specified in the Development Credit Agreement for the purposes of this Section or such other date as shall be agreed upon by the Association and the Borrower, the Association may at any time thereafter at its option terminate the Development Credit Agreement by notice to the Borrower. Upon the giving of such notice the Development Credit Agreement and all obligations of the parties thereunder shall forthwith terminate.

SECTION 8.05. *Termination of Development Credit Agreement on Full Payment.* If and when the entire principal amount of the Credit and all charges which shall have accrued on the Credit shall have been paid, the Development Credit Agreement and all obligations of the parties thereunder shall forthwith terminate.

## ARTICLE IX

### Definitions; Headings

SECTION 9.01. *Definitions.* Except where the context otherwise requires, the following terms have the following meanings wherever used in these Regulations or in a development credit agreement to which these Regulations have been made applicable:

1. The term "Association" means International Development Association.

2. The term "Bank" means International Bank for Reconstruction and Development.

3. The term "Development Credit Agreement" means the particular development credit agreement to which these Regulations shall have been made applicable, as amended from time to time; and such term includes these Regulations as thus made applicable, all agreements supplemental to the Development Credit Agreement and all schedules to the Development Credit Agreement.

4. The term "Credit" means the development credit provided for in the Development Credit Agreement.

5. The term "Borrower" means the member of the Association to which the Credit is granted.

6. The term "currency" means such coin or currency as at the time referred to is legal tender for the payment of public and private debts in the territories of the government referred to. Whenever reference is made to the currency of the Borrower, the term "currency" includes the currencies of all territories on whose behalf at the time referred to the Borrower has accepted membership in the Association.

7. The term "dollars" and the sign "\$" mean dollars in currency of the United States of America.

8. The term "Credit Account" means the account on the books of the Association to which the amount of the Credit is to be credited as provided in Section 2.01.

9. The term "Project" means the project or projects or program or programs for which the Credit is granted, as described in the Development Credit Agreement and as the

description thereof shall be amended from time to time by agreement between the Association and the Borrower.

10. The term "goods" means equipment, supplies and services which are required for the Project. Wherever reference is made to the cost of any goods, such cost shall be deemed to include the cost of importing such goods into the territories of the Borrower.

11. The term "Effective Date" means the date on which the Development Credit Agreement shall come into force and effect as provided in Section 8.03.

12. The term "tax" and "taxes" shall include imposts, levies, fees and duties of any nature, whether in effect at the date of the Development Credit Agreement or thereafter imposed.

Reference in these Regulations to Articles or Sections are to Articles or Sections of these Regulations; references in a development credit agreement to Articles or Sections are to Articles or Sections of such agreement.

SECTION 9.02. *Headings.* The headings of the Articles and Sections and the Table of Contents are inserted for convenience of reference only and are not a part of these Regulations.



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

**DECLASSIFIED**

SecM60-22  
(IDA 60-9)

**AUG 17 2023**

**WBG ARCHIVES**

FROM: The Secretary

February 10, 1960

INTERNATIONAL DEVELOPMENT ASSOCIATION

In the Memorandum of Meeting of the Executive Directors (IDA 60-7) held on Monday, January 25, from 2:45 p.m. to 5:10 p.m. on the International Development Association Draft Charter, the second sentence of paragraph 18 on page 6 should read as follows:

"He had in mind as an example, housing project or project for the establishment of an engineering school to educate and train engineers and technicians which form an essential part not only of specific development or projects such as power, irrigation and highways, but also of an economic development program as a whole."

Distribution:

Executive Directors and Alternates  
President  
Vice Presidents  
Department Heads



(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

DECLASSIFIED

AUG 17 2023

WBG ARCHIVES

SecM60-18  
(IDA 60-8)

FROM: The Secretary

February 5, 1960

INTERNATIONAL DEVELOPMENT ASSOCIATION

In the Memorandum of Meeting of the Executive Directors held on Monday, January 25, from 10:00 a.m. to 12:30 p.m. on the International Development Association Draft Charter (IDA/60-7), paragraph 12 on page 5 should read as follows:

"12. Mr. Ismail regretted that he was unable to say that all the governments he represented were satisfied with the present draft. He was aware of the hard work that had gone into it, both on the part of Bank staff and the Financial Policy Committee. However, some of the governments he represented had expressed dissatisfaction with the draft. At the request of Indonesia, Libya and Malaya he would, at the appropriate time, propose certain amendments."

Distribution:

Executive Directors and Alternates  
President  
Vice Presidents  
Department Heads

Sec. 60-45  
IDA Sec. 60-6

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

*Fries* ✓

DECLASSIFIED

AUG 17 2023

WBG ARCHIVES

CONFIDENTIAL

SecM60-10  
(IDA 60-7)

FROM: The Secretary

January 29, 1960

INTERNATIONAL DEVELOPMENT ASSOCIATION

1. The attached memoranda of staff notes of the discussion on the International Development Association during the January 25-26 meetings of the Executive Directors are not approved records. This procedure is the same as was followed for the proceedings of the Financial Policy Committee on the International Development Association.
2. Draft formal minutes of the meetings, incorporating those statements which Executive Directors wished to have recorded, will be distributed shortly for the approval of the Executive Directors in the usual manner.

Distribution

Executive Directors and Alternates  
President  
Vice Presidents  
Department Heads



# Record Removal Notice

<b>File Title</b> Organization - Development - IDA International Development Association - Correspondence - Volume 2		<b>Barcode No.</b>  30283618		
<b>Document Date</b> January 29, 1960	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Memorandum of Meeting of Executive Directors held on Monday, January 25, 1960 from 10:00 am to 12:30 pm on the International Development Association Draft Charter (IDA/59-49)				
<b>Exception(s)</b>				
<b>Additional Comments</b> 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.		
		<table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> August 17, 2023</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023			



# Record Removal Notice

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<b>Document Date</b> January 29, 1960	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Memorandum of Meeting of Executive Directors held on Monday, January 25, 1960, from 2:45 pm to 5:10 pm on the International Development Association Draft Charter (IDA/59-49)				
<b>Exception(s)</b>				
<b>Additional Comments</b> 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.		
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# Record Removal Notice

<b>File Title</b> Organization - Development - IDA International Development Association - Correspondence - Volume 2		<b>Barcode No.</b>  30283618		
<b>Document Date</b> February 10, 1960	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Minutes of the 199th Special Meeting of the Executive Directors held in the Board Room of the Bank, January 25-26, 1960				
<b>Exception(s)</b>				
<b>Additional Comments</b> 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.  <table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> August 17, 2023</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023			

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*Free*

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

R 60-13  
IDA 60-4

(To be considered by the  
Executive Directors on  
January 26, 1960)

**FOR  
EXECUTIVE  
DIRECTORS'  
MEETING**

**DECLASSIFIED**

**AUG 17 2023**

**WBG ARCHIVES**

FROM: The Secretary

January 26, 1960

IDA ARTICLES OF AGREEMENT

Attached are the amendments to the draft IDA Articles  
of Agreement, as agreed at the meeting of Executive Directors  
on Monday, January 25, 1960.

Distribution

Executive Directors and Alternates  
President  
Vice Presidents  
Department Heads

Sec. 60-31  
IDA Sec. 60-4

Agreed Changes in Draft IDA Articles of Agreement

1. On page 5, in paragraph (g) of Section 2 of Article II, third line, delete the words "the preceding" and add "of this Section," after the words "subsection (d)" in the fourth line.

2. On page 7, in Section 2(a) of Article III, eighth line, delete the words "does not object" and substitute the following: "agrees to the use of such currency as supplementary resources and to the terms and conditions governing such use."

3. On page 9, in Section 1(e) of Article IV, fifth line, delete the word "the" before the word "subscriptions" and substitute the word "such."

4. On page 11, in Section 1(c) of Article V, third line, delete the word "should" and substitute the word "could."

5. On page 13, Section 2(c) of Article V should read as follows:

"(c) The Association may provide financing to a member, the government of a territory included within the Association's membership, a political subdivision of any of the foregoing, a public or private entity in the territories of a member or members, or to a public international or regional organization."

6. On page 13, in Section 2(d) of Article V, the first clause should read as follows:

"(d) In the case of a loan to an entity other than a member,".

7. On page 16, in Section 2(c)(ii) of Article VI, add the following after the word "subscriptions":

"and determine the terms and conditions relating thereto;".

8. In Schedule A, add an asterisk after "(US \$ millions)" under the heading, and add a footnote at the bottom of the page to read as follows:

"\*In terms of United Statesdollars of the weight and fineness in effect on January 1, 1960".





# Record Removal Notice

<b>File Title</b> Organization - Development - IDA International Development Association - Correspondence - Volume 2		<b>Barcode No.</b>  30283618		
<b>Document Date</b> January 5, 1960	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Memorandum of Meeting of Financial Policy Committee held on Thursday, December 31, 1959 from 11:00 am to 12:55 pm on the International Development Association Draft Charter (IDA/59-48)5				
<b>Exception(s)</b>				
<b>Additional Comments</b> 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.  <table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> August 17, 2023</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023			



# Record Removal Notice

<b>File Title</b> Organization - Development - IDA International Development Association - Correspondence - Volume 2		<b>Barcode No.</b>  30283618		
<b>Document Date</b> January 5, 1960	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Memorandum of Meeting of Financial Policy Committee held on Thursday, December 30, 1959 from 2:30 pm to 4:05 pm on the International Development Association Draft Charter (IDA/59-47)				
<b>Exception(s)</b>				
<b>Additional Comments</b> Declassification review of this record may be initiated upon request.		<p>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.</p> <table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> August 17, 2023</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023			

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M. L.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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AUG 17 2023

IDA/59-50

WBG ARCHIVES

FROM: The Secretary

December 31, 1959

INTERNATIONAL DEVELOPMENT ASSOCIATION

Attached is the revised draft Report of the Executive Directors to be used in connection with the submission of the IDA Articles of Agreement, as agreed at the Committee's meeting today.

Attachment

Distribution

Members of the Financial Policy Committee  
President  
Vice Presidents  
Department Heads

IDA Sec. 59-51

Draft of December 31, 1959

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

1. Resolution No. 136, adopted by the Board of Governors of the International Bank for Reconstruction and Development (herein called "the Bank") on October 1, 1959, provides as follows:

"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."

2. The Executive Directors of the Bank, acting pursuant to the foregoing Resolution, have formulated proposed Articles of Agreement for an International Development Association (herein called "the Association") and, on January , 1960, approved the text of such Articles, as attached hereto, for submission to member governments of the Bank. The Executive Directors' approval of the proposed Agreement for submission to governments does not, of course, imply that governments are committed to take action on the Agreement.

3. The Executive Directors invite attention to the provisions of Article XI, Section 1, pursuant to which the attached Agreement will enter into force at any time on or after September 15, 1960, when it has been signed on behalf of governments whose subscriptions aggregate at least \$650 million, and to the provisions of Article XI, Section 2 (c), pursuant to which, unless an extension of time is granted, the Agreement will remain open for signature by original members only until

the close of business on December 31, 1960.

4. While the provisions of the attached text are for the most part self-explanatory, the Executive Directors believe that brief comment on a few principal features may be useful to member governments in their consideration of the proposed Agreement.

#### Initial Subscriptions

5. The Articles provide for initial subscriptions which will aggregate \$1 billion if all present members of the Bank become original members of the Association. The initial subscription to be made by each original member, as listed in Schedule A to the Articles of Agreement, is designed to be proportionate to that member's subscription to the capital stock of the Bank. For purposes of calculating proportionality, the Bank's capitalization and each member's subscription in the Bank have been taken as if the recently authorized capital increases had already become effective as follows: (a) all members of the Bank had doubled their capital subscriptions pursuant to Resolution No. 128 of the Board of Governors, except China which has reserved its position; (b) the individual special increases in subscriptions authorized by Resolutions No. 130 and No. 132 of the Board of Governors had been effected; and (c) the "small quota" increases in subscriptions authorized by Resolution No. 130 of the Board of Governors had been effected only by Bolivia, Burma, Ethiopia, Guatemala, Iraq, Libya, Tunisia and Viet-Nam, the only members which at December 31, 1959, had indicated their intention to effect such increases.

6. Article II, Section 2, divides the initial subscription of original members into a 10% component, which must be paid by all members

in gold or freely convertible currency (as defined by Article II, Section 2(f)), and a 90% component. The 90% component is payable in gold or freely convertible currency by members listed in Part I of Schedule A, and in national currency by members listed in Part II. Pursuant to Article IV, Section 1, the national currency paid in by a member listed in Part II of Schedule A may be converted by the Association, or used by it to finance exports from the member's territories, only with the member's consent. Part I lists only those members whose economic and financial situation is such, in the opinion of the Executive Directors, as to justify making the entire amount of their subscriptions payable on a freely convertible basis. While the members listed in Part II have no legal obligation to make more than 10% of their initial subscription available to the Association on a freely convertible basis, it is hoped that the more developed of these countries, upon accepting membership in the Association or reasonably soon thereafter, will be in a position to release at least some part of the 90% portion of their subscriptions.

7. Article II, Section 2, also provides that the 90% component of the initial subscription of original members shall be payable in five equal annual instalments amounting to 18% each and that, in connection with each such payment, members may substitute non-negotiable, non-interest-bearing demand notes for their own currency until the funds are needed by the Association. The remaining 10% component of the initial subscription of original members, which, as already noted, must be paid in gold or freely convertible currency, is also payable in five annual instalments: 5% the first year and  $1\frac{1}{4}\%$  each year thereafter. Thus the first

instalment of each member's initial subscription amounts to 23% of the total (18% plus 5%) and each of the other four instalments amounts to  $19\frac{1}{4}\%$  (18% plus  $1\frac{1}{4}\%$ ).

8. Two other features concerning initial subscriptions to the Association deserve mention. The first relates to the maintenance of value obligation imposed upon each member by Article IV, Section 2(a), with respect to its own currency paid in by it as the 90% component of its initial subscription; unlike the situation under the Bank's Articles, this maintenance of value obligation extends only until the member's currency has been initially disbursed or exchanged by the Association for the currency of another member. The second feature is the provision of Article IV, Section 1(e), that the 90% component of the initial subscriptions of all members listed in Part I of Schedule A shall be used by the Association, over reasonable intervals of time, on an approximately pro rata basis.

#### Voting Rights

9. The voting rights of original members in respect of their initial subscriptions, prescribed by Article VI, Section 3, are in general based on the Bank pattern of voting rights. Assuming that all members of the Bank become original members of the Association, members will have approximately the same relative voting power in the Association as in the Bank following completion of the recent capital increases, but adjusted to restore the voting power of the smaller Bank members which was somewhat diluted by those capital increases.

10. Voting rights on subscriptions other than initial subscriptions of original members are left to be determined by the Association.

Additions to Resources

11. Article III, Section 1(a), provides for a periodic review by the Association of the adequacy of its resources and for the authorization, if, when and to the extent deemed desirable, of general increases in subscriptions. In formulating these provisions, the Executive Directors considered that, as in the case of the initial subscriptions, any general increases in subscriptions should normally be designed to provide the Association with funds for a five-year period. Section 1(c) of Article III requires the Association, when authorizing any general or individual increase in subscriptions, to give each member an opportunity to subscribe an amount enabling it to maintain its relative voting power. This provision permits the Association either to give each member an option to subscribe to all or part of the amount authorized for it, or to require each member to choose between subscribing the entire amount authorized for it or nothing at all.

12. Article III, Section 2, expressly authorizes the Association to enter into arrangements, upon such terms and conditions as may be agreed, to accept from any member supplementary resources in the currency of another member, provided that the member whose currency is involved does not object. The inclusion of this express authorization to accept supplementary resources of a particular type is not intended to preclude the Association from accepting other types of contributions for purposes and on terms consistent with the provisions of the Agreement.

Operations

13. Article V, Section 1(a) states that the Association shall provide financing to further development in the less-developed areas of the



world included within the Association's membership. Under this provision, the Association's financing is to be for less-developed member countries and less-developed dependent and associated territories included within the membership of other member countries.

14. The other provisions of Article V have been drafted in very general terms, in order to give the Association wide latitude to shape its financing to meet the needs of actual cases as they arise. For example, the Association is authorized to finance any project which is of high developmental priority, that is, which will make an important contribution to the development of the area or areas concerned, whether or not the project is revenue-producing or directly productive. Thus projects such as water supply, sanitation, pilot housing and the like are eligible for financing, although it is expected that a major part of the Association's financing is likely to be for projects of the type financed by the Bank.

15. Section 1(b) of Article V specifies that the Association's financing shall normally be in support of specific projects. The words "specific projects" are intended to include, as in the Bank's practice, such proposals as a railway program, an agricultural credit program, or a group of related projects forming part of a development program. Section 1(b) permits the Association to provide financing for other than specific projects in special circumstances.

16. Section 1(d) of Article V, which is patterned on the Bank's Articles, provides that the Association shall make financing available only upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. This provision, among other

things, assures that financing provided by the Association has the approval of the member or members in whose territories the project is located, by requiring that the committee include a nominee of the Governor or Governors representing such member or members. An exception is made to the requirement for a governmental nominee or nominees where financing is provided to a public international or regional organization, in order to avoid the practical difficulties which might otherwise arise in such a case.

17. The only directives contained in the Agreement with respect to the terms and forms of the Association's financing are the provision of Article I that the terms shall be "more flexible and bear less heavily on the balance of payments than those of conventional loans," and the provisions of Article V, Section 2(a), the effect of which is to require that financing out of initial subscriptions take the form of loans. The broad language of Article V is designed to permit the Association to carry out the directive of Article I, in the case of loans made from its freely convertible resources, in any of a number of ways: for example, by providing for lenient terms of repayment (such as loans repayable in foreign exchange with long maturities or long periods of grace or both, or loans repayable wholly or partly in local currency), by lending free of interest or at a low rate of interest, or by some combination of the foregoing.

18. Section 2(c) of Article V provides that the Association may provide financing not only to governments but to any public or private entity in the territories of a member or members and, in addition, to any public international or regional organization. Section 2(d) provides that, when a loan is made to an entity other than a member, the Association may

require a suitable governmental or other guarantee; unlike the situation under the Bank's Articles, a governmental guarantee of such a loan is discretionary, not mandatory.

19. Section 1(f) of Article V provides that the Association, in making arrangements with respect to the use of the proceeds of any financing, including currencies accepted as supplementary resources, shall give due regard to considerations of competitive international trade. It is expected that the Association, like the Bank, will require that the choice of equipment and services to be purchased with funds supplied by the Association shall normally be determined on the basis of international competition.

20. One of the powers conferred upon the Association by Article V, Section 5, is the power to provide technical assistance and advisory services at the request of any member. Such assistance may, in the discretion of the Association, be provided with or without reimbursement.

#### Organization and Management

21. Under Article VI of the Agreement, the Association is to be organized as an affiliate of the Bank, as required by Resolution No. 136 of the Board of Governors. As in the case of the International Finance Corporation, each member of the Association is to be represented on the Association's Board of Governors by the same Governor and Alternate Governor who represent it on the Board of Governors of the Bank, and each Executive Director and Alternate Director of the Bank is to serve ex officio in a corresponding capacity for the Association, provided that he represents at least one country which is a member of the Association.

Unlike the International Finance Corporation, however, the Association will not have a separate President; the President of the Bank, who is also Chairman of the Bank's Executive Directors, is to serve as both President and Chairman of the Executive Directors of the Association.

22. Section 5(b) of Article VI provides that, to the extent practicable, officers and staff of the Bank are to be appointed to serve concurrently as officers and staff of the Association, and it is contemplated that, at least initially, the Association will have no separate officers or staff. It is further expected that, as and when the aggregate volume of work of the Bank and Association requires, officers and staff serving both institutions concurrently will be augmented, with responsibilities assigned as seems appropriate from time to time. However, should a different course at any time appear desirable, Article VI is sufficiently flexible to permit the appointment of officers (other than the President) and staff who would be concerned solely with the affairs of the Association.

Status, Immunities and Privileges

23. Article VIII, dealing with status, immunities and privileges, follows exactly the corresponding provisions of the Bank's Articles of Agreement.

*Mr Hamilton*

*IDA*

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

**DECLASSIFIED**

CONFIDENTIAL

**AUG 17 2023**

IDA/59-50

**WBG ARCHIVES**

FROM: The Secretary

December 31, 1959

INTERNATIONAL DEVELOPMENT ASSOCIATION

Attached is the revised draft Report of the Executive Directors to be used in connection with the submission of the IDA Articles of Agreement, as agreed at the Committee's meeting today.

Attachment

Distribution

Members of the Financial Policy Committee  
President  
Vice Presidents  
Department Heads

IDA Sec. 59-51

Draft of December 31, 1959

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

1. Resolution No. 136, adopted by the Board of Governors of the International Bank for Reconstruction and Development (herein called "the Bank") on October 1, 1959, provides as follows:

"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."

2. The Executive Directors of the Bank, acting pursuant to the foregoing Resolution, have formulated proposed Articles of Agreement for an International Development Association (herein called "the Association") and, on January , 1960, approved the text of such Articles, as attached hereto, for submission to member governments of the Bank. The Executive Directors' approval of the proposed Agreement for submission to governments does not, of course, imply that governments are committed to take action on the Agreement.

3. The Executive Directors invite attention to the provisions of Article XI, Section 1, pursuant to which the attached Agreement will enter into force at any time on or after September 15, 1960, when it has been signed on behalf of governments whose subscriptions aggregate at least \$650 million, and to the provisions of Article XI, Section 2 (c), pursuant to which, unless an extension of time is granted, the Agreement will remain open for signature by original members only until

the close of business on December 31, 1960.

4. While the provisions of the attached text are for the most part self-explanatory, the Executive Directors believe that brief comment on a few principal features may be useful to member governments in their consideration of the proposed Agreement.

#### Initial Subscriptions

5. The Articles provide for initial subscriptions which will aggregate \$1 billion if all present members of the Bank become original members of the Association. The initial subscription to be made by each original member, as listed in Schedule A to the Articles of Agreement, is designed to be proportionate to that member's subscription to the capital stock of the Bank. For purposes of calculating proportionality, the Bank's capitalization and each member's subscription in the Bank have been taken as if the recently authorized capital increases had already become effective as follows: (a) all members of the Bank had doubled their capital subscriptions pursuant to Resolution No. 128 of the Board of Governors, except China which has reserved its position; (b) the individual special increases in subscriptions authorized by Resolutions No. 130 and No. 132 of the Board of Governors had been effected; and (c) the "small quota" increases in subscriptions authorized by Resolution No. 130 of the Board of Governors had been effected only by Bolivia, Burma, Ethiopia, Guatemala, Iraq, Libya, Tunisia and Viet-Nam, the only members which at December 31, 1959, had indicated their intention to effect such increases.

6. Article II, Section 2, divides the initial subscription of original members into a 10% component, which must be paid by all members

in gold or freely convertible currency (as defined by Article II, Section 2(f)), and a 90% component. The 90% component is payable in gold or freely convertible currency by members listed in Part I of Schedule A, and in national currency by members listed in Part II. Pursuant to Article IV, Section 1, the national currency paid in by a member listed in Part II of Schedule A may be converted by the Association, or used by it to finance exports from the member's territories, only with the member's consent. Part I lists only those members whose economic and financial situation is such, in the opinion of the Executive Directors, as to justify making the entire amount of their subscriptions payable on a freely convertible basis. While the members listed in Part II have no legal obligation to make more than 10% of their initial subscription available to the Association on a freely convertible basis, it is hoped that the more developed of these countries, upon accepting membership in the Association or reasonably soon thereafter, will be in a position to release at least some part of the 90% portion of their subscriptions.

7. Article II, Section 2, also provides that the 90% component of the initial subscription of original members shall be payable in five equal annual instalments amounting to 18% each and that, in connection with each such payment, members may substitute non-negotiable, non-interest-bearing demand notes for their own currency until the funds are needed by the Association. The remaining 10% component of the initial subscription of original members, which, as already noted, must be paid in gold or freely convertible currency, is also payable in five annual instalments: 5% the first year and  $1\frac{1}{4}$ % each year thereafter. Thus the first



instalment of each member's initial subscription amounts to 23% of the total (18% plus 5%) and each of the other four instalments amounts to 19 $\frac{1}{4}$ % (18% plus 1 $\frac{1}{4}$ %).

8. Two other features concerning initial subscriptions to the Association deserve mention. The first relates to the maintenance of value obligation imposed upon each member by Article IV, Section 2(a), with respect to its own currency paid in by it as the 90% component of its initial subscription; unlike the situation under the Bank's Articles, this maintenance of value obligation extends only until the member's currency has been initially disbursed or exchanged by the Association for the currency of another member. The second feature is the provision of Article IV, Section 1(e), that the 90% component of the initial subscriptions of all members listed in Part I of Schedule A shall be used by the Association, over reasonable intervals of time, on an approximately pro rata basis.

#### Voting Rights

9. The voting rights of original members in respect of their initial subscriptions, prescribed by Article VI, Section 3, are in general based on the Bank pattern of voting rights. Assuming that all members of the Bank become original members of the Association, members will have approximately the same relative voting power in the Association as in the Bank following completion of the recent capital increases, but adjusted to restore the voting power of the smaller Bank members which was somewhat diluted by those capital increases.

10. Voting rights on subscriptions other than initial subscriptions of original members are left to be determined by the Association.

Additions to Resources

11. Article III, Section 1(a), provides for a periodic review by the Association of the adequacy of its resources and for the authorization, if, when and to the extent deemed desirable, of general increases in subscriptions. In formulating these provisions, the Executive Directors considered that, as in the case of the initial subscriptions, any general increases in subscriptions should normally be designed to provide the Association with funds for a five-year period. Section 1(c) of Article III requires the Association, when authorizing any general or individual increase in subscriptions, to give each member an opportunity to subscribe an amount enabling it to maintain its relative voting power. This provision permits the Association either to give each member an option to subscribe to all or part of the amount authorized for it, or to require each member to choose between subscribing the entire amount authorized for it or nothing at all.

12. Article III, Section 2, expressly authorizes the Association to enter into arrangements, upon such terms and conditions as may be agreed, to accept from any member supplementary resources in the currency of another member, provided that the member whose currency is involved does not object. The inclusion of this express authorization to accept supplementary resources of a particular type is not intended to preclude the Association from accepting other types of contributions for purposes and on terms consistent with the provisions of the Agreement.

Operations

13. Article V, Section 1(a) states that the Association shall provide financing to further development in the less-developed areas of the

world included within the Association's membership. Under this provision, the Association's financing is to be for less-developed member countries and less-developed dependent and associated territories included within the membership of other member countries.

14. The other provisions of Article V have been drafted in very general terms, in order to give the Association wide latitude to shape its financing to meet the needs of actual cases as they arise. For example, the Association is authorized to finance any project which is of high developmental priority, that is, which will make an important contribution to the development of the area or areas concerned, whether or not the project is revenue-producing or directly productive. Thus projects such as water supply, sanitation, pilot housing and the like are eligible for financing, although it is expected that a major part of the Association's financing is likely to be for projects of the type financed by the Bank.

15. Section 1(b) of Article V specifies that the Association's financing shall normally be in support of specific projects. The words "specific projects" are intended to include, as in the Bank's practice, such proposals as a railway program, an agricultural credit program, or a group of related projects forming part of a development program. Section 1(b) permits the Association to provide financing for other than specific projects in special circumstances.

16. Section 1(d) of Article V, which is patterned on the Bank's Articles, provides that the Association shall make financing available only upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. This provision, among other

things, assures that financing provided by the Association has the approval of the member or members in whose territories the project is located, by requiring that the committee include a nominee of the Governor or Governors representing such member or members. An exception is made to the requirement for a governmental nominee or nominees where financing is provided to a public international or regional organization, in order to avoid the practical difficulties which might otherwise arise in such a case.

17. The only directives contained in the Agreement with respect to the terms and forms of the Association's financing are the provision of Article I that the terms shall be "more flexible and bear less heavily on the balance of payments than those of conventional loans," and the provisions of Article V, Section 2(a), the effect of which is to require that financing out of initial subscriptions take the form of loans. The broad language of Article V is designed to permit the Association to carry out the directive of Article I, in the case of loans made from its freely convertible resources, in any of a number of ways: for example, by providing for lenient terms of repayment (such as loans repayable in foreign exchange with long maturities or long periods of grace or both, or loans repayable wholly or partly in local currency), by lending free of interest or at a low rate of interest, or by some combination of the foregoing.

18. Section 2(c) of Article V provides that the Association may provide financing not only to governments but to any public or private entity in the territories of a member or members and, in addition, to any public international or regional organization. Section 2(d) provides that, when a loan is made to an entity other than a member, the Association may

require a suitable governmental or other guarantee; unlike the situation under the Bank's Articles, a governmental guarantee of such a loan is discretionary, not mandatory.

19. Section 1(f) of Article V provides that the Association, in making arrangements with respect to the use of the proceeds of any financing, including currencies accepted as supplementary resources, shall give due regard to considerations of competitive international trade. It is expected that the Association, like the Bank, will require that the choice of equipment and services to be purchased with funds supplied by the Association shall normally be determined on the basis of international competition.

20. One of the powers conferred upon the Association by Article V, Section 5, is the power to provide technical assistance and advisory services at the request of any member. Such assistance may, in the discretion of the Association, be provided with or without reimbursement.

#### Organization and Management

21. Under Article VI of the Agreement, the Association is to be organized as an affiliate of the Bank, as required by Resolution No. 136 of the Board of Governors. As in the case of the International Finance Corporation, each member of the Association is to be represented on the Association's Board of Governors by the same Governor and Alternate Governor who represent it on the Board of Governors of the Bank, and each Executive Director and Alternate Director of the Bank is to serve ex officio in a corresponding capacity for the Association, provided that he represents at least one country which is a member of the Association.

Unlike the International Finance Corporation, however, the Association will not have a separate President; the President of the Bank, who is also Chairman of the Bank's Executive Directors, is to serve as both President and Chairman of the Executive Directors of the Association.

22. Section 5(b) of Article VI provides that, to the extent practicable, officers and staff of the Bank are to be appointed to serve concurrently as officers and staff of the Association, and it is contemplated that, at least initially, the Association will have no separate officers or staff. It is further expected that, as and when the aggregate volume of work of the Bank and Association requires, officers and staff serving both institutions concurrently will be augmented, with responsibilities assigned as seems appropriate from time to time. However, should a different course at any time appear desirable, Article VI is sufficiently flexible to permit the appointment of officers (other than the President) and staff who would be concerned solely with the affairs of the Association.

Status, Immunities and Privileges

23. Article VIII, dealing with status, immunities and privileges, follows exactly the corresponding provisions of the Bank's Articles of Agreement.

*Mr Hamilton*

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

**DECLASSIFIED**

IDA 59-49

**AUG 17 2023**

**WBG ARCHIVES**

FROM: The Secretary

December 31, 1959

DRAFT IDA ARTICLES OF AGREEMENT

Attached is the revised draft of the Articles of Agreement of the International Development Association, as agreed at the meeting of the Financial Policy Committee held on December 30, 1959.

Distribution

Members of the Financial Policy Committee  
President  
Vice Presidents  
Department Heads

IDA Sec. No. 59-50

CONFIDENTIAL DRAFT

December 31, 1959

**DECLASSIFIED**

**AUG 17 2023**

**WBG ARCHIVES**

ARTICLES OF AGREEMENT

of the

INTERNATIONAL DEVELOPMENT ASSOCIATION



ARTICLES OF AGREEMENT  
of the  
INTERNATIONAL DEVELOPMENT ASSOCIATION

The Governments on whose behalf this Agreement is signed,

Considering:

That mutual cooperation for constructive economic purposes, healthy development of the world economy and balanced growth of international trade foster international relationships conducive to the maintenance of peace and world prosperity;

That an acceleration of economic development which will promote higher standards of living and economic and social progress in the less-developed countries is desirable not only in the interests of those countries but also in the interests of the international community as a whole;

That achievement of these objectives would be facilitated by an increase in the international flow of capital, public and private, to assist in the development of the resources of the less-developed countries,

do hereby agree as follows:

INTRODUCTORY ARTICLE

The INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called "the Association") is established and shall operate in accordance with the following provisions:

ARTICLE I

Purposes

The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet their important developmental requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development (hereinafter called "the Bank") and supplementing its activities.

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

ARTICLE II

Membership; Initial Subscriptions

Section 1. Membership

(a) The original members of the Association shall be those members of the Bank listed in Schedule A hereto which, on or before the date specified in Article XI, Section 2 (c), 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 the Association may determine.

Section 2. Initial Subscriptions

(a) Upon accepting membership, each member shall subscribe funds in the amount assigned to it. Such subscriptions are herein referred to as initial subscriptions.

(b) The initial subscription assigned to each original member shall be in the amount set forth opposite its name in Schedule A, expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.

(c) Ten percent of the initial subscription of each original member shall be payable in gold or freely convertible currency as follows: fifty percent within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or

on the date on which the original member becomes a member, whichever shall be later; twelve and one-half percent one year after the beginning of operations of the Association; and twelve and one-half percent each year thereafter at annual intervals until the ten percent portion of the initial subscription shall have been paid in full.

(d) The remaining ninety percent of the initial subscription of each original member shall be payable in gold or freely convertible currency in the case of members listed in Part I of Schedule A, and in the currency of the subscribing member in the case of members listed in Part II of Schedule A. This ninety percent portion of initial subscriptions of original members shall be payable in five equal annual instalments as follows: the first such instalment within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; the second instalment one year after the beginning of operations of the Association, and succeeding instalments each year thereafter at annual intervals until the ninety percent portion of the initial subscription shall have been paid in full.

(e) The Association shall accept from any member, in place of any part of the member's currency paid in or payable by the member under the preceding subsection (d) or under Section 2 of Article IV 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.

(f) For the purposes of this Agreement the Association shall regard as "freely convertible currency":

(i) currency of a member which the Association determines, after consultation with the International Monetary Fund, is adequately convertible into the currencies of other members for the purposes of the Association's operations; or

(ii) currency of a member which such member agrees, on terms satisfactory to the Association, to exchange for the currencies of other members for the purposes of the Association's operations.

(g) Except as the Association may otherwise agree, each member listed in Part I of Schedule A shall maintain, in respect of its currency paid in by it as freely convertible currency pursuant to the preceding subsection (d), the same convertibility as existed at the time of payment.

(h) The conditions on which the initial subscriptions of members other than original members may be made, and the amounts and the terms of payment thereof, shall be determined by the Association pursuant to Section 1(b) of this Article.

### Section 3. Limitation on Liability

No member shall be liable, by reason of its membership, for obligations of the Association.

ARTICLE III

Additions to Resources

Section 1. Additional Subscriptions

(a) The Association shall at such time as it deems appropriate in the light of the schedule for completion of payments on initial subscriptions of original members, and at intervals of approximately five years thereafter, review the adequacy of its resources and, if it deems desirable, shall authorize a general increase in subscriptions. Notwithstanding the foregoing, general or individual increases in subscriptions may be authorized at any time, provided that an individual increase shall be considered only at the request of the member involved. Subscriptions pursuant to this Section are herein referred to as additional subscriptions.

(b) Subject to the provisions of paragraph (c) below, when additional subscriptions are authorized, the amounts authorized for subscription and the terms and conditions relating thereto shall be as determined by the Association.

(c) When any additional subscription is authorized, each member shall be given an opportunity to subscribe, under such conditions as shall be reasonably determined by the Association, an amount which will enable it to maintain its relative voting power, but no member shall be obligated to subscribe.

(d) All decisions under this Section shall be made by a two-thirds majority of the total voting power.

Section 2. Supplementary Resources Provided by a Member in the  
Currency of Another Member

(a) The Association may enter into arrangements, on such terms and conditions consistent with the provisions of this Agreement as may be agreed upon, to receive from any member, in addition to the amounts payable by such member on account of its initial or any additional subscription, supplementary resources in the currency of another member, provided that the Association shall not enter into any such arrangement unless the Association is satisfied that the member whose currency is involved does not object. The arrangements under which any such resources are received may include provisions regarding the disposition of earnings on the resources and regarding the disposition of the resources in the event that the member providing them ceases to be a member or the Association permanently suspends its operations.

(b) The Association shall deliver to the contributing member a Special Development Certificate setting forth the amount and currency of the resources so contributed and the terms and conditions of the arrangement relating to such resources. A Special Development Certificate shall not carry any voting rights and shall be transferable only to the Association.

(c) Nothing in this Section shall preclude the Association from accepting resources from a member in its own currency on such terms as may be agreed upon.

ARTICLE IV

Currencies

Section 1. Use of Currencies

(a) Currency of any member listed in Part II of Schedule A, whether or not freely convertible, received by the Association pursuant to Article II, Section 2(d), in payment of the ninety percent portion payable thereunder in the currency of such member, and currency of such member derived therefrom as principal, interest or other charges, may be used by the Association for administrative expenses incurred by the Association in the territories of such member and, insofar as consistent with sound monetary policies, in payment for goods and services produced in the territories of such member and required for projects financed by the Association and located in such territories; and in addition when and to the extent justified by the economic and financial situation of the member concerned as determined by agreement between the member and the Association, such currency shall be freely convertible or otherwise useable for projects financed by the Association and located outside the territories of the member.

(b) The useability of currencies received by the Association in payment of subscriptions other than initial subscriptions of original members, and currencies derived therefrom as principal, interest or other charges, shall be governed by the terms and conditions on which such subscriptions are authorized.

(c) The useability of currencies received by the Association as supplementary resources other than subscriptions, and currencies derived



therefrom as principal, interest or other charges, shall be governed by the terms of the arrangements pursuant to which such currencies are received.

(d) All other currencies received by the Association may be freely used and exchanged by the Association and shall not be subject to any restriction by the member whose currency is used or exchanged; 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 received as principal, interest or other charges in connection with such financing.

(e) The Association shall take appropriate steps to ensure that, over reasonable intervals of time, the portions of the subscriptions paid under Article II, Section 2(d) by members listed in Part I of Schedule A shall be used by the Association on an approximately pro rata basis, provided, however, that such portions of the subscriptions as are paid in gold or in a currency other than that of the subscribing member may be used more rapidly.

#### Section 2. 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 2(d), and currency furnished under the provisions of the present paragraph, whether or not such currency is held in the form of notes accepted pursuant to Article II, Section 2(e), 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, or the foreign exchange value of a member's currency has, in the opinion of the Association, appreciated to a significant extent within that member's territories, 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 paragraph (a) of this Section 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.

(d) Amounts furnished under the provisions of paragraph (a) of this Section to maintain the value of any currency shall be convertible and useable to the same extent as such currency.

ARTICLE V

Operations

Section 1. Use of Resources and Conditions of Financing

(a) The Association shall provide financing to further development in the less-developed areas of the world included within the Association's membership.

(b) Financing provided by the Association shall be for purposes which in the opinion of the Association are of high developmental priority in the light of the needs of the area or areas concerned 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 from private sources on terms which are reasonable for the recipient or should be provided by a loan of the type made by the Bank.

(d) The Association shall not provide financing except upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. Each such committee shall be appointed by the Association and shall include a nominee of the Governor or Governors representing the member or members in whose territories the project under consideration is located and one or more members of the technical staff of the Association. The requirement that the committee include the nominee of a Governor or Governors shall not apply in the case of financing provided to a public international or regional organization.

(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. The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these Articles, including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor.

(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, efficiency and competitive international trade 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 2. Form and Terms of Financing

(a) Financing by the Association shall take the form of loans. The Association may, however, provide other financing, either

(i) out of funds subscribed pursuant to Article III, Section 1, and funds derived therefrom as principal, interest or other charges, if the authorization for such subscriptions expressly provides for such financing;

or

(ii) in special circumstances, out of supplementary resources furnished to the Association, and funds derived therefrom as principal, interest or other charges, if the arrangements under which such resources are furnished expressly authorize such financing.

(b) Subject to the foregoing paragraph, the Association may provide financing in such forms and on such terms as it may deem appropriate, having regard to the economic position and prospects of the area or areas concerned and to the nature and requirements of the project.

(c) The Association may provide financing to any member, the government of any territory included within the Association's membership, any political subdivision of any of the foregoing, any public international or regional organization, or to any public or private entity in the territories of a member or members.

(d) When a loan is made to an entity other than a member, the Association may, in its discretion, require a suitable governmental or other guarantee or guarantees.

(e) The Association, in special cases, may make foreign exchange available for local expenditures.

### Section 3. Modifications of Terms of Financing

The Association may, when and to the extent it deems appropriate in the light of all relevant circumstances, including the financial and economic situation and prospects of the member concerned, and on such conditions as it may determine, agree to a relaxation or other modification of the terms on which any of its financing shall have been provided.

### Section 4. Cooperation with Other International Organizations and Members Providing Development Assistance

The Association shall cooperate with those public international organizations and members which provide financial and technical assistance to the less-developed areas of the world.

Section 5. Miscellaneous Operations

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

- (i) borrow funds with the approval of the member in whose currency the loan is denominated;
- (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;
- (iv) in special cases, guarantee loans from other sources for purposes not inconsistent with the provisions of these Articles;
- (v) provide technical assistance and advisory services at the request of any member; and
- (vi) exercise such other powers incidental to its operations as shall be necessary or desirable in furtherance of its purposes.

Section 6. Political Activity Prohibited

The Association and its officers shall not interfere in the political affairs of any member; 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 purposes stated in this Agreement.

ARTICLE VI

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.

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 and Alternate Governor, respectively, of the Association. No Alternate Governor may vote except in the absence of his principal. The Chairman of the Board of Governors of the Bank shall ex officio be Chairman of the Board of Governors of the Association except that if the Chairman of the Board of Governors of the Bank shall represent a state which is not a member of the Association, then 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) authorize additional subscriptions;
- (iii) suspend a member;
- (iv) decide appeals from interpretations of this Agreement given by the Executive Directors;
- (v) make arrangements pursuant to Section 7 of this Article 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) determine the distribution of the Association's net income pursuant to Section 12 of this Article; and
- (viii) approve proposed amendments to 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 original member shall, in respect of its initial subscription, have 500 votes plus one additional vote for each \$5,000 of its initial subscription. Subscriptions other than initial subscriptions of original members shall carry such voting rights as the Board of Governors shall determine pursuant to the provisions of Article II, Section 1(b) or Article III, Section 1(b) and (c), as the case may be. Additions to resources other than subscriptions under Article II, Section 1(b) and additional subscriptions under Article III, Section 1, shall not carry voting rights.

(b) Except as otherwise specifically 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 (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 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. To the extent practicable, officers and staff of the Bank shall be appointed to serve concurrently as officers and staff of the Association.

(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.

(d) In appointing officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

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 or lend to the Bank, except that this shall not preclude the Association from investing funds not needed in its financing operations in obligations of the Bank.

(b) The Association may 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.

(c) 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 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 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. In the absence of any different designation, the depository designated for the Bank shall be the depository for 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. In the absence of any different designation, the channel of communication designated for the Bank shall be the channel for the Association.

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. Disposition of Net Income

The Board of Governors shall determine from time to time the disposition of the Association's net income, having due regard to provision for reserves and contingencies.

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 or 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 X (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 on account of its subscription and on the time and currencies of payment. The term "subscription" when used in relation to any member government shall for the purposes of this Article be deemed to include both the initial subscription and any additional subscription of such member government.

(c) If no such agreement is reached within six months from the date when the government 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, except that the government shall pay to the Association forthwith amounts due and unpaid on the date when the government ceased to be a member and which in the opinion of the Association are needed by it to meet its commitments as of that date under its financing operations.
- (ii) The Association shall return to the government funds paid in by the government on account of its subscription or derived therefrom as principal repayments and held by the Association on the

date when the government ceased to be a member, except to the extent that in the opinion of the Association such funds will be needed by it to meet its commitments as of that date under its financing operations.

- (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, except those made out of supplementary resources provided to the Association under arrangements specifying special liquidation rights. 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 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 which shall have been used or in the opinion of the Association will be needed by it to meet its commitments under its financing operations as of the date on which the government ceases to be a member. Such payment by the Association shall be made in instalments when and as such principal repayments are received by the Association, but not more frequently than annually. Such instalments shall be paid 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) Any amount due to the government on account of its



subscription may be withheld so long as that government, or the government of any territory included within its membership, or any political subdivision or any agency of any of the foregoing remains liable, as borrower or guarantor, to the Association, and such amount may, at the option of the Association, be applied against any such liability as it matures.

(v) In no event shall the government receive under this paragraph (c) an amount exceeding, in the aggregate, the lesser of the two following: (a) the amount paid by the government on account of its subscription, or (b) such proportion of the net assets of the Association, as shown on the books of the Association as of the date on which the government ceased to be a member, as the amount of its subscription shall bear to the aggregate amount of the subscriptions of all members.

(vi) 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 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 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 shall withdraw 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 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, and to any special arrangements for the disposition of supplementary resources agreed upon in connection with the provision of such resources to the Association, the Association shall distribute its assets to members pro rata in proportion to amounts paid in by them on account of their subscriptions. Any distribution pursuant to the foregoing provision of this paragraph (c) shall be 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 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 or Section 4 shall enjoy the same rights with respect to such assets as the Association enjoyed prior to their distribution.

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 territories 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, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. 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, wherever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Association.

Section 4. Immunity of Assets from Seizure

Property and assets of the Association, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation,

expropriation or any other form of seizure by executive or legislative action.

Section 5. Immunity of Archives

The archives of the Association shall be inviolable.

Section 6. Freedom of Assets from Restrictions

To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Association shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. Privilege for Communications

The official communications of the Association shall be accorded by each member the same treatment that it accords to the official communications of other members.

Section 8. Immunities and Privileges of Officers and Employees

All Governors, Executive Directors, Alternates, officers and employees of the Association

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Association waives this immunity;
- (ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

- (iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. Immunities from Taxation

(a) The Association, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Association shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Association to Executive Directors, Alternates, officials or employees of the Association who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Association (including any dividend or interest thereon) by whomsoever held -

- (i) which discriminates against such obligation or security solely because it is issued by the Association; or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Association.

(d) No taxation of any kind shall be levied on any obligation or security guaranteed by the Association (including any dividend or interest thereon) by whomsoever held -

- (i) which discriminates against such obligation or security solely because it is guaranteed by the Association; or

- (ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Association.

Section 10. 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) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a Governor or the Executive Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board, the Association shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendments, the Association shall certify the fact by formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

- (i) the right to withdraw from the Association provided in Article VII, Section 1;
- (ii) the right secured by Article III, Section 1 (c);
- (iii) the limitation on liability provided in Article II, Section 3.

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.



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 Executive Directors for their 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 VI, Section 4 (g).

(b) In any case where the Executive Directors have 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 Executive 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 governments whose subscriptions comprise not less than sixty-five 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 September 15, 1960.

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 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 December 31, 1960, at the principal office of the Bank, on behalf of the governments of the states whose names are set forth in Schedule A, provided that, if this Agreement shall not have entered into force by that date, the Executive Directors of the Bank may

extend the period during which this Agreement shall remain open for signature by not more than six months.

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

### Section 3. Territorial Application

By its signature of this Agreement, each government accepts it both on its own behalf and in respect of all territories for whose international relations such government is responsible except those which are excluded by such government by written notice to the Association.

### Section 4. 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 Executive 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 Executive Directors may exercise all the powers of the Board of Governors except those reserved to the Board of Governors under this Agreement.

### Section 5. Registration

The Bank is authorized to register 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 register 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 have entered into force under Article XI, Section 1 hereof.

December 31, 1959

SCHEDULE A - INITIAL SUBSCRIPTIONS  
(US \$ millions)

PART I

Australia	20.18	Japan	33.59
Austria	5.04	Luxembourg	1.01
Belgium	22.70	Netherlands	27.74
Canada	37.83	Norway	6.72
Denmark	8.74	Sweden	10.09
Finland	3.83	Union of South Africa	10.09
France	52.96	United Kingdom	131.14
Germany	52.96	United States	<u>320.29</u>
Italy	18.16		763.07

PART II

Afghanistan	1.01	Israel	1.68
Argentina	18.83	Jordan	0.30
Bolivia	1.06	Korea	1.26
Brazil	18.83	Lebanon	0.45
Burma	2.02	Libya	1.01
Ceylon	3.03	Malaya	2.52
Chile	3.53	Mexico	8.74
China	30.26	Morocco	3.53
Colombia	3.53	Nicaragua	0.30
Costa Rica	0.20	Pakistan	10.09
Cuba	4.71	Panama	0.02
Dominican Republic	0.40	Paraguay	0.30
Ecuador	0.65	Peru	1.77
El Salvador	0.30	Philippines	5.04
Ethiopia	0.50	Saudi Arabia	3.70
Ghana	2.36	Spain	10.09
Greece	2.52	Sudan	1.01
Guatemala	0.40	Thailand	3.03
Haiti	0.76	Tunisia	1.51
Honduras	0.30	Turkey	5.80
Iceland	0.10	United Arab Republic	6.03
India	40.35	Uruguay	1.06
Indonesia	11.10	Venezuela	7.06
Iran	4.54	Viet-Nam	1.51
Iraq	0.76	Yugoslavia	<u>4.04</u>
Ireland	3.03		<u>236.93</u>
		TOTAL	1000.00

(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

**DECLASSIFIED**

IDA/59-48

**AUG 17 2023** (For consideration by the Financial  
Policy Committee on December 31, 1959)  
**WBG ARCHIVES**

FROM: The Secretary

December 30, 1959

INTERNATIONAL DEVELOPMENT ASSOCIATION

As agreed at the Committee's meeting today, attached is a draft report by the Executive Directors to be used in connection with the submission of the IDA Articles of Agreement. This draft will be considered by the Financial Policy Committee on Thursday, December 31, 1959, at 11:00 a.m.

Attachment

Distribution

Members of the Financial Policy Committee  
President  
Vice Presidents  
Department Heads

IDA Sec. 59-49

Draft of December 30, 1959

Draft of Report by the Executive Directors  
In Connection With Submission of  
IDA Articles of Agreement

Resolution No. 136, adopted by the Board of Governors of the International Bank for Reconstruction and Development (herein called "the Bank") on October 1, 1959, provides as follows:

"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."

The Executive Directors of the Bank, acting pursuant to the foregoing Resolution, have formulated proposed Articles of Agreement for an International Development Association (herein called "the Association") and, on January , 1960, approved the text of such Articles, as attached hereto, for submission to member governments of the Bank. The Executive Directors' approval of the proposed Agreement for submission to governments does not, of course, commit governments to take action on the Agreement. Although not every Executive Director agrees with every provision of the proposed Articles, the text as approved represents a broad consensus and it is the opinion of the Executive Directors that this text provides a satisfactory framework for the establishment and functioning of the new institution.

The Executive Directors invite attention to the provisions of Article XI, Section 1, pursuant to which the attached Agreement will enter into force at any time on or after September 15, 1960, when it has

been signed on behalf of governments whose subscriptions aggregate at least \$650 million, and to the provisions of Article XI, Section 2(c), pursuant to which, unless an extension of time is granted, the Agreement will remain open for signature by original members only until the close of business on December 31, 1960.

While the provisions of the attached text are for the most part self-explanatory, the Executive Directors believe that brief comment on a few principal features may be useful to member governments in their consideration of the proposed Agreement.

#### Initial Subscriptions

The Articles provide for initial subscriptions which will aggregate \$1 billion if all present members of the Bank become original members of the Association. The initial subscription to be made by each original member, as listed in Schedule A to the Articles of Agreement, is designed to be proportionate to that member's subscription to the capital stock of the Bank. For purposes of calculating proportionality, the Bank's capitalization and each member's subscription in the Bank have been taken as if the recently authorized capital increases had already become effective as follows: (a) all members of the Bank had doubled their capital subscriptions pursuant to Resolution No. 128 of the Board of Governors, except China which has reserved its position; (b) the individual special increases in subscriptions authorized by Resolutions No. 130 and No. 132 of the Board of Governors had been effected; and (c) the "small quota" increases in subscriptions authorized by Resolution No. 130 of the Board of Governors had been effected only by Bolivia, Burma, Ethiopia, Guatemala,



Libya and Viet-Nam, the only members which at December 31, 1959, had indicated their intention to effect such increases.

Article II, Section 2, divides the initial subscription of original members into a 10% component, which must be paid by all members in gold or freely convertible currency, and a 90% component. The 90% component is payable in gold or freely convertible currency by members listed in Part I of Schedule A, and in national currency by members listed in Part II. Pursuant to Article IV, Section 1, the national currency paid in by a member listed in Part II of Schedule A may be converted by the Association, or used by it to finance exports, only with the member's consent. Accordingly, Part I lists only those members whose economic and financial situation is presently such, in the opinion of the Executive Directors, as to justify making the entire amount of their subscriptions payable on a freely convertible basis. While the members listed in Part II have no legal obligation to make more than 10% of their initial subscription available to the Association on a freely convertible basis, it may be hoped that the more developed of these countries, upon accepting membership in the Association or reasonably soon thereafter, will be in a position to release at least some part of the 90% portion of their subscriptions.

Article II, Section 2, also provides that the 90% component of the initial subscription of original members shall be payable in five equal annual instalments amounting to 18% each and that, in connection with each such payment, members may substitute non-negotiable, non-interest-bearing demand notes for their own currency until the funds are needed by the

Association. The remaining 10% component of the initial subscription of original members, which, as already noted, must be paid in gold or freely convertible currency, is also payable in five annual instalments: 5% the first year and  $1\frac{1}{4}\%$  each year thereafter.\* This 10% component is designed to provide the Association with a fund (up to the equivalent of U.S. \$50 million the first year and up to the equivalent of U.S. \$100 million over five years), which the Association could invest, if it so decides, to earn income to meet administrative expenses.

Two other features concerning initial subscriptions to the Association deserve mention. The first relates to the maintenance of value obligation imposed upon each member by Article IV, Section 2(a), with respect to its own currency paid in by it as the 90% component of its initial subscription; unlike the situation under the Bank's Articles, this maintenance of value obligation extends only until the member's currency has been initially disbursed or exchanged by the Association for the currency of another member. The second feature is the provision of Article IV, Section 1(e), that the 90% component of the initial subscriptions of all members listed in Part I of Schedule A shall be used by the Association, over reasonable intervals of time, on an approximately pro rata basis.

#### Voting Rights

The formula for voting rights of original members in respect of their initial subscriptions, prescribed by Article VI, Section 3, is in

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\* Thus the first instalment of each member's initial subscription amounts to 23% of the total (18% plus 5%) and each of the other four instalments amounts to  $19\frac{1}{4}\%$  (18% plus  $1\frac{1}{4}\%$ ).

general based on the Bank pattern of voting rights. Assuming that all members of the Bank become original members of the Association, members will have approximately the same relative voting power in the Association as in the Bank following completion of the recent capital increases, but adjusted to compensate for the dilution in the voting power of the smaller Bank members resulting from those capital increases.

Voting rights on subscriptions other than initial subscriptions of original members are left to be determined by the Association.

#### Additions to Resources

Article III, Section 1(a), provides for a periodic review by the Association of the adequacy of its resources and for the authorization, when, if and to the extent deemed desirable, of general increases in subscriptions. In formulating these provisions, the Executive Directors have had in mind that, as in the case of the initial subscriptions, any general increases in subscriptions should normally be designed to provide the Association with funds for a five-year period. Section 1(c) of Article III requires the Association, when authorizing any general or individual increase in subscriptions, to give each member an opportunity to subscribe an amount enabling it to maintain its relative voting power. This provision permits the Association either to give each member an option to subscribe to all or part of the amount authorized for it, or to require each member to choose between subscribing the entire amount authorized for it or nothing at all.

Article III, Section 2, expressly authorizes the Association to enter into arrangements, upon such terms and conditions as may be agreed,

to accept from any member supplementary resources in the currency of another member, provided that the member whose currency is involved does not object. The inclusion of this express authorization to accept supplementary resources of a particular type which the Executive Directors understand are likely to be offered to the Association is not intended to preclude the Association from accepting other types of contributions for purposes and on terms consistent with the provisions of the Agreement.

#### Operations

Article V, dealing with operations, has been drafted in very general terms, in order to give the Association wide latitude to shape its financing to meet the needs of actual cases as they arise. For example, the Association is authorized to finance any project which is of high developmental priority, that is, which will contribute importantly to the development of the area or areas concerned, whether or not the project is revenue-producing or directly productive. Thus projects such as water supply, sanitation, pilot housing schemes and the like are eligible for financing, although it is expected that a major part of the Association's financing is likely to be for directly productive projects of the type financed by the Bank.

Section 1(b) of Article V specifies that the Association's financing shall normally be in support of specific projects. The words "specific projects" are intended to include, as in the Bank's practice, broad schemes such as railway programs or related projects forming part of a development program. Section 1(b) permits the Association to provide financing for other than specific projects in special circumstances.

Section 1(d) of Article V, which is patterned on the Bank's Articles, provides that the Association shall make financing available only upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. This provision, among other things, assures that financing provided by the Association has the approval of the member or members in whose territories the project is located, by requiring that the committee include a nominee of the Governor or Governors representing such member or members. An exception is made to the requirement for a governmental nominee or nominees where financing is provided to a public international or regional organization, in order to avoid the practical difficulties which might otherwise arise in such a case.

The only directives contained in the Agreement with respect to the terms and forms of the Association's financing are the provision of Article I that the terms shall be "more flexible and bear less heavily on the balance of payments than those of conventional loans," and the provisions of Article V, Section 2(a), the effect of which is to require that financing out of initial subscriptions take the form of loans. The broad language of Article V is designed to permit the Association to carry out the directive of Article I, in the case of loans made from its freely convertible resources, in any of a number of ways: for example, by providing for lenient terms of repayment (such as loans repayable in foreign exchange with long maturities or long periods of grace or both, or loans repayable wholly or partly in local currency), by lending free of interest or at a low rate of interest, or by some combination of the

foregoing.

Section 2(c) of Article V provides that the Association may provide financing not only to governments but to any public or private entity in the territories of a member or members and, in addition, to any public international or regional organization. Section 2(d) provides that, when a loan is made to an entity other than a member, the Association may require a suitable governmental or other guarantee; unlike the situation under the Bank's Articles, a governmental guarantee of such a loan is discretionary, not mandatory.

Section 1(f) of Article V provides that the Association, in making arrangements with respect to the use of the proceeds of its financing, shall give due regard to considerations of competitive international trade. It is expected that the Association, like the Bank, will require that the choice of equipment and services to be purchased with funds supplied by the Association shall normally be determined on the basis of international competition.

Article V, Section 5, authorizes the Association to provide technical assistance and advisory services at the request of any member. Such assistance may, in the discretion of the Association, be provided with or without reimbursement.

#### Organization and Management

As required by Resolution No. 136 of the Board of Governors, Article VI of the Agreement gives the Association an organizational structure which makes it in effect an affiliate of the Bank. Affiliation is achieved, as in the case of the International Finance Corporation, by

providing that each member of the Association shall be represented on the Association's Board of Governors by the same Governor and Alternate Governor who represent it on the Board of Governors of the Bank, and that each Executive Director and Alternate Director of the Bank shall serve ex officio in a corresponding capacity for the Association, provided that he represents at least one country which is a member of the Association. Unlike the International Finance Corporation, however, the Association will not have a separate President; the President of the Bank, who is also Chairman of the Bank's Executive Directors, will serve as both President and Chairman of the Executive Directors of the Association.

Section 5(b) of Article VI provides that, to the extent practicable, officers and staff of the Bank are to be appointed to serve concurrently as officers and staff of the Association, and it is contemplated that, at least initially, the Association will have no separate officers or staff. It is further expected that, as and when the aggregate volume of work of the Bank and Association requires, officers and staff serving both institutions concurrently will be augmented, with responsibilities assigned as seems appropriate from time to time. However, Article VI is sufficiently flexible to permit the appointment of officers (other than the President) and staff who would be concerned solely with the affairs of the Association, should the volume or nature of the Association's activities at any time make that desirable.

Status, Immunities and Privileges

Article VIII, dealing with status, immunities and privileges,

follows exactly the corresponding provisions of the Bank's Articles of Agreement.



(not for public use)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IDA 59-47

(For consideration by the  
Financial Policy Committee  
on December 30, 1959)

**DECLASSIFIED**

**AUG 17 2023**

**WBG ARCHIVES**

FROM: The Secretary

December 28, 1959

DRAFT IDA ARTICLES OF AGREEMENT

In accordance with the decision of the Financial Policy Committee on December 23, 1959, attached is a revised draft of the IDA Articles of Agreement.

The attached draft will be considered at a meeting of the Financial Policy Committee to be held on December 30, 1959 in the Board Room at 2.30 p.m.

Distribution

Members of the Financial Policy Committee  
President  
Vice Presidents  
Department Heads

IDA Sec. 59-48

DECLASSIFIED

AUG 17 2023

WBG ARCHIVES

CONFIDENTIAL DRAFT

December 28, 1959

ARTICLES OF AGREEMENT

of the

INTERNATIONAL DEVELOPMENT ASSOCIATION

ARTICLES OF AGREEMENT  
of the  
INTERNATIONAL DEVELOPMENT ASSOCIATION

PREAMBLE

The Governments on whose behalf this Agreement is signed,

Considering:

That mutual cooperation for constructive economic purposes, healthy development of the world economy and balanced growth of international trade foster international relationships conducive to the maintenance of peace and world prosperity;

That an acceleration of economic development which will promote higher standards of living and economic and social progress in the less-developed countries is desirable not only in the interests of those countries but also in the interests of the international community as a whole;

That achievement of these objectives would be facilitated by an increase in the international flow of capital, public and private, to assist in the development of the resources of the less-developed countries,

do hereby agree as follows:

INTRODUCTORY ARTICLE

The INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called

"the Association") is established and shall operate in accordance with the following provisions:

ARTICLE I

Purposes

The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership, in particular by providing finance to meet important developmental requirements of the area or areas concerned, and on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the International Bank for Reconstruction and Development (hereinafter called "the Bank"), and supplementing its developmental activities.

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

ARTICLE II

Membership; Initial Subscriptions

Section 1. Membership

(a) The original members of the Association shall be those members of the Bank listed in Schedule A hereto which, on or before the date specified in Article XI, Section 2 (c), 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 the Association may determine.

Section 2. Initial Subscriptions

(a) Upon accepting membership, each member shall subscribe funds in the amount assigned to it. Such subscriptions are herein referred to as initial subscriptions.

(b) The initial subscription assigned to each original member shall be in the amount set forth opposite its name in Schedule A, expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.

(c) Ten percent of the initial subscription of each original member shall be payable in gold or freely convertible currency as follows: fifty percent within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or

on the date on which the original member becomes a member, whichever shall be later; twelve and one-half percent one year after the beginning of operations of the Association; and twelve and one-half percent each year thereafter at annual intervals until the ten percent portion of the initial subscription shall have been paid in full.

(d) The remaining ninety percent of the initial subscription of each original member shall be payable in gold or freely convertible currency in the case of members listed in Part I of Schedule A, and in the currency of the subscribing member in the case of countries listed in Part II of Schedule A. This ninety percent portion of initial subscriptions shall be payable in five equal annual instalments as follows: the first such instalment within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; the second instalment one year after the beginning of operations of the Association, and succeeding instalments each year thereafter at annual intervals until the ninety percent portion of the initial subscription shall have been paid in full.

(e) The Association shall accept from any member, in place of any part of the member's currency paid in or payable by the member under the preceding subsection (d) or under Section 2 of Article IV 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.

(f) For the purposes of this Agreement the Association shall regard as "freely convertible currency":

(i) currency of a member which the Association determines, after consultation with the International Monetary Fund, is adequately convertible into the currencies of other members for the purposes of the Association's operations;  
or

(ii) currency of a member, which such member agrees, on terms satisfactory to the Association, to exchange for the currencies of other members for the purposes of the Association's operations.

(g) Except as the Association may otherwise agree, each member listed in Part I of Schedule A shall maintain, in respect of its currency paid in by it as freely convertible currency pursuant to the preceding subsection (d), the same convertibility as existed at the time of payment.

(h) The conditions on which the initial subscriptions of members other than original members may be made, and the amounts and the terms of payment thereof, shall be determined by the Association pursuant to Section 1 (b) of this Article.

Section 3. Limitation on Liability

No member shall be liable, by reason of its membership, for obligations of the Association.

ARTICLE III

Additions to Resources

Section 1. Additional Subscriptions

(a) The Association shall at such time as it deems appropriate in the light of the schedule for completion of payments on initial subscriptions of original members, and at intervals of approximately five years thereafter, review the adequacy of its resources and, if it deems desirable, shall authorize a general increase in subscriptions. Notwithstanding the foregoing, general or individual increases in subscriptions may be authorized at any time, provided that an individual increase shall be considered only at the request of the member involved. Subscriptions pursuant to this Section are herein referred to as additional subscriptions.

(b) Subject to the provisions of paragraph (c) below, when additional subscriptions are authorized, the amounts authorized for subscription and the terms and conditions relating thereto shall be as determined by the Association.

(c) When any additional subscription is authorized, each member shall be given an opportunity to subscribe, under such conditions as shall be reasonably determined by the Association, an amount which will enable it to maintain its relative voting power, but no member shall be obligated to subscribe.

(d) All decisions under this Section shall be made by a two-thirds majority of the total voting power.



Section 2. Supplementary Resources Provided by a Member in the Currency of Another Member

(a) The Association may enter into arrangements, on such terms and conditions consistent with the provisions of this Agreement as may be agreed upon, to receive from any member, in addition to the amounts payable by such member on account of its initial or any additional subscription, supplementary resources in the currency of another member, provided that the Association shall not enter into any such arrangement unless the Association is satisfied that the member whose currency is involved does not object. The arrangements under which any such resources are received may include provisions regarding the disposition of earnings on the resources and the disposition of the resources in the event that the member providing them ceases to be a member or in the event that the Association permanently suspends its operations.

(b) The Association shall deliver to the contributing member a Special Development Certificate setting forth the amount and currency of the resources so contributed and the terms and conditions of the arrangement relating to such resources. A Special Development Certificate shall not carry any voting rights and shall be transferable only to the Association.

(c) Nothing in this Article shall preclude the Association from accepting resources from a member in its own currency on such terms as may be agreed upon.

ARTICLE IV

Currencies

Section 1. Use of Currencies

(a) Currency of any member listed in Part II of Schedule A, whether or not freely convertible, received by the Association pursuant to Article II, Section 2 (d), in payment of the ninety percent portion payable thereunder in the currency of such member, and currency of such member derived therefrom, may be used by the Association for the payment of administrative expenses incurred by the Association in the territories of such member and, insofar as consistent with sound monetary policies, for the payment of goods and services produced in the territories of such member and required for projects financed by the Association and located in such territories; and in addition when and to the extent justified by the economic and financial situation of the member concerned as determined by agreement between the member and the Association, such currency shall be freely convertible or otherwise useable for projects financed by the Association and located outside the territories of the member.

(b) The useability of currencies received by the Association in payment of subscriptions other than initial subscriptions of original members, and currencies derived therefrom, shall be governed by the terms and conditions on which such subscriptions are authorized.

(c) The useability of currencies received by the Association as supplementary resources other than subscriptions, and currencies derived

therefrom, shall be governed by the terms of the arrangements pursuant to which such currencies are received.

(d) All other currencies received by the Association may be freely used and exchanged by the Association and shall not be subject to any restriction by the member whose currency is used or exchanged; 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 received as principal, interest or other charges in connection with such financing.

(e) The Association shall take appropriate steps to ensure that, over reasonable intervals of time, the portions of the subscriptions of members paid in gold or freely convertible currency for which notes may be substituted under Article II, Section 2 (e), shall be used by the Association on an approximately pro rata basis.

Section 2. 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 2 (d), and currency furnished under the provisions of the present paragraph, whether or not such currency is held in the form of notes

accepted pursuant to Article II, Section 2 (e), 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, or the foreign exchange value of a member's currency has, in the opinion of the Association, appreciated to a significant extent within that member's territories, 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 paragraph (a) of this Section 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.

(d) Amounts furnished under the provisions of paragraph (a) of this Section to maintain the value of any currency shall be convertible and useable to the same extent as such currency.

ARTICLE V

Operations

Section 1. Use of Resources and Conditions of Financing

(a) The Association shall provide financing to further development in the less-developed areas of the world included within the Association's membership.

(b) Financing provided by the Association shall be for purposes which in the opinion of the Association are of high developmental priority in the light of the needs of the area or areas concerned 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 from private sources on terms which are reasonable for the recipient or should be provided by a loan of the type made by the Bank.

(d) The Association shall not provide financing except upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. Each such committee shall be appointed by the Association and shall include a nominee of the Governor or Governors representing the member or members in whose territories the project under consideration is located and one or more members of the technical staff of the Association. The requirement that the committee include the nominee of a Governor or Governors shall not apply in the case of financing provided to a public international or regional organization.

(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. The foregoing shall not preclude the Association from complying with any restrictions on the use of funds imposed in accordance with the provisions of these Articles, including restrictions attached to supplementary resources pursuant to agreement between the Association and the contributor.

(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, efficiency and competitive international trade 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 3. Form and Terms of Financing

(a) Financing by the Association shall take the form of loans. The Association may, however, provide other financing, either

- (i) out of funds subscribed pursuant to Article III, Section 1, and funds derived therefrom, if the authorization for such subscriptions expressly provides for such financing;  
or
- (ii) in special circumstances, out of supplementary resources furnished to the Association, and funds derived therefrom, if the arrangements under which such resources are furnished expressly authorize such financing.

(b) Subject to the foregoing paragraph, the Association may provide financing in such forms and on such terms as it may deem appropriate, having regard to the economic position and prospects of the area or areas concerned and to the nature and requirements of the project.

(c) The Association may provide financing to any member, the government of any territory included within the Association's membership, any political subdivision of any of the foregoing, any public international or regional organization, or to any public or private entity in the territories of a member or members.

(d) When a loan is made to an entity other than a member, the Association may, in its discretion, require a suitable governmental or other guarantee or guarantees.

(e) The Association, in special cases, may make foreign exchange available for local expenditures.

#### Section 4. Modifications of Terms of Financing

The Association may, when and to the extent it deems appropriate in the light of all relevant circumstances, including the financial and economic situation and prospects of the member concerned, and on such conditions as it may determine, agree to a relaxation or other modification of the terms on which any of its financing shall have been provided.

#### Section 5. Cooperation with Other International Organizations and Members Providing Development Assistance

The Association shall cooperate with those public international organizations and members which provide financial and technical assistance to the less-developed areas of the world.

Section 6. Miscellaneous Operations

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

- (i) borrow funds with the approval of the member in whose currency the loan is denominated;
- (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;
- (iv) in special cases, guarantee loans from other sources for purposes not inconsistent with the provisions of these Articles;
- (v) provide technical assistance and advisory services at the request of any member; and
- (vi) exercise such other powers incidental to its operations 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 member; 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 purposes stated in this Agreement.



ARTICLE VI

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.

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 and Alternate Governor, respectively, of the Association. No Alternate Governor may vote except in the absence of his principal. The Chairman of the Board of Governors of the Bank shall ex officio be Chairman of the Board of Governors of the Association except that if the Chairman of the Board of Governors of the Bank shall represent a state which is not a member of the Association, then 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) authorize additional subscriptions;
- (iii) suspend a member;
- (iv) decide appeals from interpretations of this Agreement given by the Executive Directors;
- (v) make arrangements pursuant to Section 7 of this Article 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; and
- (vii) 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 original member shall, in respect of its initial subscription, have 500 votes plus one additional vote for each \$5,000 of its initial subscription. Subscriptions other than initial subscriptions of original members shall carry such voting rights as the Board of Governors shall determine pursuant to the provisions of Article II, Section 1(b) or Article III, Section 1(b) and (c), as the case may be. Additions to resources other than additional subscriptions under Article III, Section 1, shall not carry voting rights.

(b) Except as otherwise specifically 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 (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 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. To the extent practicable, officers and staff of the Bank shall be appointed to serve concurrently as officers and staff of the Association.

(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.

(d) In appointing officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

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 or lend to the Bank, except that this shall not preclude the Association from investing funds not needed in its financing operations in Bank obligations.

(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 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 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. In the absence of any different designation, the depository designated for the Bank shall be the depository for 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. In the absence of any different designation, the channel of communication designated for the Bank shall be the channel for the Association.

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. Disposition of Net Income

The Board of Governors shall determine from time to time the disposition of the Association's net income, having due regard to provision for reserves and contingencies.

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 or 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 X (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 on account of its subscription and on the time and currencies of payment. The term "subscription" when used in relation to any member government shall for the purposes of this Article be deemed to include both the initial subscription and any additional subscription of such member government.

(c) If no such agreement is reached within six months from the date when the government 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, except that the government shall pay to the Association forthwith amounts due and unpaid on the date when the government ceased to be a member and which in the opinion of the Association are needed by it to meet its commitments as of that date under its financing operations.

(ii) The Association shall return to the government funds held by the Association on the date when the government ceased to be a member and derived from amounts paid in by the government

on account of its subscription except to the extent that in the opinion of the Association such funds will be needed by it to meet its commitments as of that date under its financing operations.

- (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, except those made out of supplementary resources provided to the Association under arrangements specifying special liquidation rights. 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 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 which shall have been used or in the opinion of the Association will be needed by it to meet its commitments under its financing operations as of the date on which the government ceases to be a member. Such payment by the Association shall be made in instalments when and as such principal repayments are received by the Association, but not more frequently than annually. Such instalments shall be paid 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) Any amount due to the government on account of its subscription may be withheld so long as the government or any of its political subdivisions or public entities or agencies thereof remains liable, as borrower or guarantor, to the Association, and such amount may, at the option of the Association, be applied against any such liability as it matures.

(v) In no event shall the government receive under this paragraph (c) an amount exceeding, in the aggregate, the lesser of the two following: (a) the amount paid by the government on account of its subscription, or (b) such proportion of the net assets of the Association, as shown on the books of the Association as of the date on which the government ceased to be a member, as the amount of its subscription shall bear to the aggregate amount of the subscriptions of all members.

(vi) 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 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 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 shall withdraw 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 until all liabilities to creditors shall have been discharged or provided for 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, and to any special arrangements for the distribution of supplementary resources agreed upon in connection with the provision of such resources to the Association, the Association shall distribute its assets to members pro rata in proportion to amounts paid in by them on account of their subscriptions. 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 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 or Section 4 shall enjoy the same rights with respect to such assets as the Association enjoyed prior to their distribution.

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 territories 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 immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Association.

Section 4. Immunity of Assets from Seizure

Property and assets of the Association, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation,

expropriation or any other form of seizure by executive or legislative action.

Section 5. Immunity of Archives

The archives of the Association shall be inviolable.

Section 6. Freedom of Assets from Restrictions

To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Association shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. Privilege for Communications

The official communications of the Association shall be accorded by each member the same treatment that it accords to the official communications of other members.

Section 8. Immunities and Privileges of Officers and Employees

All Governors, Executive Directors, Alternates, officers and employees of the Association

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Association waives this immunity;
- (ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. Immunities from Taxation

(a) The Association, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Association shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Association to Executive Directors, Alternates, officials or employees of the Bank who are not local citizens, local subjects, or other local nationals.

Section 10. 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) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a Governor or the Executive Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board, the Association shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendments, the Association shall certify the fact by formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

- (i) the right to withdraw from the Association provided in Article VII, Section 1;
- (ii) the right secured by Article III, Section 1 (c);
- (iii) the limitation on liability provided in Article II, Section 3.

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

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 Executive Directors for their 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 VI, Section 4 (g).

(b) In any case where the Executive Directors have 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 Executive 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 governments whose subscriptions comprise not less than sixty-five 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 September 15, 1960.

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 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 December 31, 1960, at the principal office of the Bank, on behalf of the governments of the states whose names are set forth in Schedule A, provided that, if this Agreement shall not have entered into force by that date, the Executive Directors of the Bank may

extend the period during which this Agreement shall remain open for signature by not more than six months.

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

Section 3. Territorial Application

By its signature of this Agreement, each government accepts it both on its own behalf and in respect of all territories for whose international relations such government is responsible except those which are excluded by such government by written notice to the Association.

Section 4. 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 Executive 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 Executive Directors may exercise all the powers of the Board of Governors except those reserved to the Board of Governors under this Agreement.

Section 5. Registration

The Bank is authorized to register 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 register 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 have entered into force under Article XI, Section 1 hereof.

SCHEDULE A - INITIAL SUBSCRIPTIONS  
(US \$ millions)

PART I

Australia	20.18	Japan	33.61
Austria	5.05	Luxembourg	1.01
Belgium	22.71	Netherlands	27.75
Canada	37.85	Norway	6.73
Denmark	8.75	Sweden	10.09
Finland	3.84	Union of South Africa	10.09
France	52.99	United Kingdom	131.20
Germany	52.99	United States	<u>320.42</u>
Italy	18.17		

763.43

PART II

Afghanistan	1.01	Israel	1.68
Argentina	18.84	Jordan	0.30
Bolivia	1.06	Korea	1.26
Brazil	18.84	Lebanon	0.45
Burma	2.02	Libya	1.01
Ceylon	3.03	Malaya	2.52
Chile	3.53	Mexico	8.75
China	30.28	Morocco	3.53
Colombia	3.53	Nicaragua	0.30
Costa Rica	0.20	Pakistan	10.09
Cuba	4.71	Panama	0.02
Dominican Republic	0.40	Paraguay	0.30
Ecuador	0.65	Peru	1.77
El Salvador	0.30	Philippines	5.05
Ethiopia	0.50	Saudi Arabia	3.70
Ghana	2.36	Spain	10.09
Greece	2.52	Sudan	1.01
Guatemala	0.40	Thailand	3.03
Haiti	0.76	Tunisia	1.21
Honduras	0.30	Turkey	5.80
Iceland	0.10	United Arab Republic	6.04
India	40.37	Uruguay	1.06
Indonesia	11.10	Venezuela	7.06
Iran	4.54	Viet-Nam	1.51
Iraq	0.61	Yugoslavia	<u>4.04</u>
Ireland	3.03		

236.57

TOTAL

1000.00



# Record Removal Notice

<b>File Title</b> Organization - Development - IDA International Development Association - Correspondence - Volume 2		<b>Barcode No.</b>  30283618		
<b>Document Date</b> January 5, 1960	<b>Document Type</b> Board Record			
<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Memorandum of Meeting of Financial Policy Committee held on Thursday, December 23, 1959 from 2:45 pm to 4:50 pm on the International Development Association Draft Charter (IDA/59-18)				
<b>Exception(s)</b>				
<b>Additional Comments</b> 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.		
		<table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> August 17, 2023</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> August 17, 2023			

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CONFIDENTIAL

DECLASSIFIED

Sec 59-218

AUG 17 2023

FROM: The Secretary

December 29, 1959

WBG ARCHIVES

UN RESOLUTIONS

1. In addition to the resolutions on IDA and SUNFED, distributed on November 19, 1959 (IDA 59-17), the attached resolutions, adopted by the UN General Assembly during its recent session, on the following subjects, are circulated for information:

- A. Development of International Trade and International Commodity Problems
- B. Industrial Development Banks and Development Corporations
- C. International Measures to Assist in Offsetting Fluctuations in Commodity Prices
- D. Possibilities of International Cooperation in the Field of the Development of the Petroleum Industry in the Underdeveloped Countries
- E. Agrarian Reform
- F. Strengthening and Development of the World Market and the Improvement of the Trade Conditions of the Economically Less Developed Countries
- G. World Economic Development
- H. Latin American Common Market
- I. Commission for Industrial Development

2. Also attached for information is a Note (J) by the UN Secretary General suggesting to ECOSOC that meetings at the ministerial level be held each year during the summer session of ECOSOC and concern themselves specially with the promotion of economic development of underdeveloped countries and integration of the world economy.

Distribution:

Executive Directors and Alternates  
President  
Vice Presidents  
Department Heads



A. Development of International Trade and  
International Commodity Problems

The following Resolution was sponsored by Argentina, Chile, France and Greece, and was adopted by 72 votes in favor, none against, and one abstention (Iraq):

The General Assembly,

Recalling its resolution 1324 (XIII) of 12 December 1958 and noting Economic and Social Council resolution 726 (XXVIII) of 27 July 1959,

Convinced that economic and social progress throughout the world, especially in the under-developed areas, depends largely on a steady increase in international trade,

Bearing in mind that exports of a relatively small number of primary commodities constitute the main source of foreign exchange earnings for many countries, particularly in the under-developed areas,

Considering that excessive fluctuations in commodity prices affect the volume of export receipts and the budgetary resources of many countries, and in the case of the under-developed countries are likely to hamper the sound and stable development of the economy,

Convinced that a policy of economic assistance to the under-developed countries will be more effective if the excessive instability in commodity markets is remedied, and that to seek solutions to this problem should be one of the main concerns of all Member States,

Noting the approval by the Economic and Social Council of the programme of work of the Commission on International Commodity Trade, including the detailed study of national and international measures to deal with fluctuations in primary commodity markets,

Noting further that the Contracting Parties to the General Agreement on Tariffs and Trade have undertaken a study of the problem of long-term expansion of trade and in particular of the exports of countries producing primary commodities,

Considering, however, that the procedures of multilateral financial assistance do not always enable countries that have suffered from a sharp and sudden drop in the prices of the raw materials they export to restore the deficit in their balance of payments rapidly and at the same time to carry out their development programmes,

(1) Appeals anew to the Governments of Member States to continue their efforts to solve the problems relating to commodity production and trade, including where appropriate participation in existing international commodity agreements or the negotiation of agreements between the principal producers and the principal consumers of the same product, in their mutual interest, or the participation in international study groups;

(2) Takes note with appreciation of Economic and Social Council resolution 726 (XXVIII) approving the report and programme of work submitted by the Commission on International Commodity Trade, and expresses the hope that the Commission in the course of its studies will give careful attention to the types of comprehensive commodities schemes referred to in part I, chapter 3, of the World Economic Survey 1958;

(3) Invites the Governments of Member States to extend the greatest possible assistance to the Commission on International Commodity Trade in order to help it carry out its programme of work quickly and effectively;

(4) Recommends that the regional economic commissions, the specialized agencies concerned, especially FAO, the Contracting Parties to the General Agreement on Tariffs and Trade and the study groups dealing specifically with commodity problems give particular attention to the problems of countries dependent to a high degree on the export of a small number of primary commodities;

(5) Urges the Governments of Member States:

(a) To contribute to the greatest possible extent, either unilaterally or in the competent international organizations, to the progressive abolition of all such discrimination, quantitative limitations and other restrictive practices as prejudicial to the sound development of international commodity trade;

(b) To take account in formulating their economic policy of the effect that it may have on the export opportunities of the primary producing countries;

(6) Requests the Commission on International Commodity Trade to give particular attention, in carrying out its programme of work, to the study of means for giving temporary assistance to countries encountering serious payment difficulties as a result of a sharp and sudden drop in the prices of their raw material exports, with a view to enabling them to take the necessary measures and at the same time continue to carry out their economic development programmes.

B. Industrial Development Banks and Development Corporations

The following resolution was sponsored by Ceylon, Malaya, Haiti, Iran, Liberia, Mexico, Thailand, Tunisia, Turkey and U.S. It was adopted by 61 votes in favor, none against, with abstentions from the Soviet bloc:

The General Assembly,

Recalling General Assembly Resolution 1318 (XIII),

Taking account of the need for mobilizing additional capital for the economic development of the under-developed countries,

Noting that the Thirteenth Annual Report of the International Bank reveals the useful role which development banks and development corporations in the under-developed countries can play in mobilizing domestic savings as well as encouraging the flow of foreign capital, public and private, for industrial, mining and agricultural development,

Noting further the encouraging progress that has been made in a substantial number of under-developed countries by establishing and utilizing industrial development banks and development corporations with the valuable help of the International Bank for Reconstruction and Development and a number of Member Governments in providing technical and financial assistance to many such industrial development banks and corporations,

(1) Invites Member Governments to consider the advantages of using and encouraging industrial development banks and development corporations in accelerating their economic development;

(2) Calls upon Member countries with highly developed economies to co-operate with under-developed countries, as appropriate, in order to encourage the formation and sound growth of industrial development banks and development corporations;

(3) Requests the Secretary-General, in preparing his report for the Economic and Social Council at its 29th session, called for by General Assembly Resolution 1318 (XIII), to take account of the role of industrial development banks and corporations.

C. International Measures to Assist in Offsetting  
Fluctuations in Commodity Prices

The following resolution was sponsored by Brazil, Burma, Cambodia, Ceylon, Ethiopia, Ghana, Indonesia, Pakistan, United Arab Republic and Yugoslavia. It was adopted by 61 votes in favor, none against and abstentions by the Soviet bloc and Finland:

The General Assembly,

Recalling its resolution 1324 (XIII) and Economic and Social Council resolution 726 (XXVIII),

Bearing in mind the responsibilities laid upon Member States by the Preamble, Article 1(3), Article 13(1) and Article 55 of the Charter of the United Nations to promote international co-operation in the economic field, higher standards of living, full employment, and conditions of economic and social progress,

Taking into account the harmful potentialities of the widening gap between the levels of per capita income in developed and under-developed countries,

Having examined the report of the Economic and Social Council on International Commodity Problems and the report of the Commission on International Commodity Trade on its seventh session, particularly paragraph 62 thereof relating to compensatory financing,

Commending the work programme drawn up by the Commission on International Commodity Trade at its seventh session and approved by the Economic and Social Council,

Considering the necessity of devising means to combat large fluctuations in commodity prices when accompanied by a general fall in the price levels of primary commodities, the rising price levels of manufactured goods, and the resulting decline in the terms of trade against the under-developed countries,

Considering that such fluctuations hamper world trade,

Considering further the repercussions of adverse trade balances on the capacity of the under-developed countries to contribute to their own development,

Recognizing the imperative necessity of urgent and effective measures to enable the under-developed countries to initiate and sustain their development programmes at adequate levels,

(1) Requests the Secretary-General to appoint a group of (not more than seven) experts to assist the Commission on International Commodity Trade in their consideration of commodity problems by examining the feasibility of establishing machinery within the framework of the United Nations designed to assist in offsetting the effects of large fluctuations in commodity prices on balances

of payments, with especial reference to compensatory financing, and to submit its report and recommendations to the Commission on International Commodity Trade by its ninth session and requests the Economic and Social Council to comment on and transmit this report to the General Assembly;

(2) Further requests the Secretary-General to invite the International Monetary Fund and the Food and Agriculture Organization of the United Nations to participate in the work of the group of experts in a consultative capacity.

D. Possibilities of International Co-operation in the  
Field of the Development of the Petroleum Industry  
in the Under-developed Countries

The following resolution was sponsored by Albania, Czechoslovakia, Romania and Uruguay. It was adopted by 54 votes in favor, none against, and abstentions by Sweden and Denmark:

The General Assembly,

Recalling resolution 1319 (XIII) of the General Assembly, and resolutions 711 B (XXVII) and 740 B (XXVIII) of the Economic and Social Council,

Recalling further General Assembly resolution 626 (VIII) of 21 December 1952, which stated "the need for encouraging the under-developed countries in the proper use and exploitation of their natural wealth and resources",

Considering the importance to many under-developed nations of the effective development of their petroleum resources,

Recognizing that the discussions which took place during the symposium on the development of petroleum resources held in New Delhi under the auspices of the Economic Commission for Asia and the Far East, as well as those at the twenty-seventh and twenty-eighth sessions of the Economic and Social Council, showed the interest of numerous under-developed countries in the development of their petroleum industry,

Noting the action taken by the Economic and Social Council at its twenty-eighth session in inviting the Secretary-General to make available particulars of the specific ways in which programmes under the auspices of the United Nations can assist in developing petroleum supplies,

Recalling that the Secretary-General is authorized to include the question of the development of the petroleum industry in the United Nations programmes for the development of under-developed countries (industrialization and energy resources),

(1) Requests the Secretary-General to transmit to the Economic and Social Council for its consideration, the various views expressed on this subject, including those relating to financial aspects, during the fourteenth session of the General Assembly;

(2) Expresses the hope that the information to be provided to the Council by the Secretary-General will enable the Council as provided by its resolution 740 B (XXVIII) to determine what additional assistance to Governments is called for within the framework of the existing technical assistance and development activities of the United Nations and its specialized agencies.

E. Agrarian Reform

The following resolution was sponsored by Bolivia, Cuba, Mexico and Venezuela. It was adopted by 72 votes in favor, none against, and with one abstention, Chile:

The General Assembly,

Recalling its resolutions 401 (V) of 20 November 1950, 524 (VI) of 12 January 1952, 625 A (VII) of 21 December 1952, and 826 (IX) of 11 December 1954, and Economic and Social Council resolutions 370 (XIII) of 7 September 1951, 512 C (XVII) of 30 April 1954, 649 B (XXIII) of 2 May 1957 and 712 (XXVII) of 17 April 1959 on agrarian reform,

Recognizing the importance to certain under-developed countries of the transformation of their agrarian structure, in order:

- (a) to improve land distribution, the combination of the factors of production, the mobility of labour and the technical skills of the rural population, thus raising the level of agricultural productivity,
- (b) to secure a more satisfactory distribution of agricultural income and to raise levels of consumption and saving among rural inhabitants,
- (c) to create and extend the domestic market for various industrial and agricultural products,
- (d) to achieve the conditions necessary for industrial development, the diversification of agriculture and the balanced integration of industry with agriculture,

Noting that certain countries are at present carrying out different programmes of agrarian reform tending towards the achievement of the above objectives,

Recalling also operative paragraph 3 of Economic and Social Council resolution 712 (XXVII), which requests the Secretary-General to prepare the report on the progress of land reform for the Council in 1962 along the lines of the prospectus contained in paragraph 57 of the report submitted at the present session, taking into consideration the sources of information listed in paragraph 59 and 60 of the report and the views which Members may express in the Council and the General Assembly,

(1) Declares that it will continue to support the programmes of agrarian reform which Member States are carrying out in conformity with the charter of the United Nations and the resolutions of the General Assembly and the Economic and Social Council;

(2) Requests the Secretary-General, in consultation with the regional economic commissions, the Food and Agriculture Organization of the United Nations, and the other organs and agencies of the United Nations, as well as with Member States:

(a) to consider the best ways in which the United Nations can continue to give increasingly effective support to the land reform programmes put into operation by its Members;

(b) to report to the Economic and Social Council at its session in 1962 on possible improvements in such support including relevant comments and analyses, and requests the Council in turn to report to the General Assembly at its seventeenth session;

(3) Recommends that the International Bank for Reconstruction and Development give renewed attention to these programmes and, in conformity with operative paragraph 4 of resolution 826 (IX) of the General Assembly;

(4) Draws the attention of Member States to the possibility of requesting technical assistance in carrying out these agrarian reform programmes and reiterates the hope that, in accordance with operative paragraph 5 of the same resolution 826 (IX), high priority will be given to requests for United Nations technical assistance for the purpose of studying or carrying out land reform programmes;

(5) Expresses the hope that the Special Fund, together with any new organs which may be set up by the United Nations or any of its agencies, will, in the spirit of the present resolution and of earlier resolutions on the same subject, offer as much assistance as possible, on the most favourable terms compatible with their resources, to projects connected with the execution of agrarian reform programmes by countries members of such organizations;

(6) Further requests the Secretary-General, in consultation with Member States and the above-mentioned organizations, to examine the results of the land reform programmes in the under-developed countries in the light of the reports submitted by Members, and the effects which the programmes have had on the economic development of those countries, and to report to the General Assembly at its seventeenth session in accordance with the Council resolution 712 (XXVII) by formulating the appropriate recommendations and observations, and to the Economic and Social Council in 1962.



F. Strengthening and Development of the World Market  
and the Improvement of the Trade Conditions  
of the Economically Less Developed Countries

The following resolution was sponsored by Bulgaria, Czechoslovakia and Poland. It was adopted by 72 votes in favor, none against and with one abstention.

The General Assembly,

Guided by the principles set forth in the Charter of the United Nations and wishing to extend international economic co-operation, to bring about full employment and to foster economic and social progress and development,

Considering that world trade is a natural and reliable factor in the development of peaceful communion between States,

Desiring to promote the development and extension of trade, to ease the exchange of goods and to create the stability and welfare essential for peaceful and friendly relations between nations,

I

(1) Recommends that all States Members of the United Nations should, individually and jointly, continue their efforts to promote and extend mutually beneficial trade between all States, regardless of their economic systems;

(2) Reaffirms its belief that international organizations concerned with the regulation and development of international trade should continue to contribute to the extension of multilateral world commerce and should facilitate the expansion of trade between States regardless of their economic systems;

(3) Requests the Secretary-General, taking fully into consideration all the views expressed and proposals submitted on this subject at the present session of the General Assembly, to prepare a report on the ways and means of promoting wider trade co-operation among States, irrespective of their economic systems and stages of development, including, inter alia, the consideration of all the arrangements for such co-operation;

(4) Requests the Secretary-General to submit this report to the Economic and Social Council at its thirtieth session and to the General Assembly at its fifteenth session.

II

(1) Considers that the United Nations and the specialized agencies concerned should expand the useful work which they are doing in promoting the stabilization of the commodity markets and the development of reciprocally beneficial multilateral trade;

(2) Considers that it would be desirable to work out, within the United Nations and other appropriate forums, measures to promote the stabilization of the commodity markets and the development of trade between the highly developed and the less developed countries on a reciprocally beneficial and non-discriminatory basis, including, where appropriate, short, medium or long-term trade agreements, international commodity agreements and international study groups;

(3) Recommends that the industrially developed and the economically less developed countries should continue to encourage, by means of freely negotiated credit arrangements, the export of machinery and industrial equipment to the less developed countries, without any restriction on the freedom of these countries to buy and sell in the best market.

G. World Economic Development

The following resolution was sponsored by Austria, Bolivia, Burma, Cambodia, Ceylon, Costa Rica, Cuba, Denmark, Ghana, Greece, Guatemala, Haiti, Honduras, Iceland, India, Indonesia, Iraq, Jordan, Laos, Lebanon, Liberia, Libya, Mexico, Morocco, Nepal, Norway, Netherlands, Panama, Philippines, Saudi Arabia, Sweden, Thailand, Tunisia, U.A.R., Uruguay, Venezuela, Yemen and Yugoslavia. It was adopted unanimously:

The General Assembly,

Considering that the long-term progress of the world presents problems of resources, requirements and production methods, affecting nations in all stages of development and calling for the widest international co-operation and action,

Having regard to the increasing needs of a rapidly growing world population, and its rising social and economic expectations,

Recognizing the urgent necessity of correcting economic and social imbalances existing in the world,

Noting that the growing pace of industrialization and the rapid advance of science and technology necessitate a fresh approach to the question of the demand for, and the supply of, raw materials and other means of production,

Believing that the social and economic needs of under-developed countries require a comprehensive approach to the economic problems of the world,

Noting with appreciation the various multilateral and bilateral efforts which have been made towards meeting some of the urgent needs of the under-developed countries,

Noting further that, in terms of Economic and Social Council resolution 741 (XXVIII) of 31 July 1959, the Secretary-General is to report on the techniques of long-term projections,

- (1) Believes that a comprehensive, co-ordinated and continuing study of the above-mentioned problems is necessary in order that suggestions for possible international action may be considered;
- (2) Requests the Secretary-General to arrange for a preliminary investigation into the methods and techniques to be employed in carrying out such a study;
- (3) Further requests the Secretary-General to report on this matter to the Economic and Social Council at its thirtieth session and requests the Council to transmit the report, with its comments, to the General Assembly at its fifteenth session.

H. Latin American Common Market

The following resolution was sponsored by Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Uruguay and Venezuela. This resolution was adopted by 61 votes in favor, none against, and with seven abstentions:

The General Assembly,

Recalling Economic and Social Council resolution 679 C (XXVI) of 10 July 1959, in which the Council considers it desirable gradually and progressively to establish a Latin American regional market on multilateral and competitive bases,

Taking note of resolution 6 (II) of the Trade Committee of the Economic Commission for Latin America, whose report was adopted by the Commission at its eighth session in resolution 168 (VIII), in which it decided "to intensify efforts conducive to the increase of economic co-operation among the countries of the region, with a view to constituting a Latin American common market", 3/

Considering that when the Economic and Social Council at its twenty-eighth session examined the report of the Economic Commission for Latin America, appreciation was expressed of the part the Commission had played in preparing plans for the establishment of a common market in the region,

- 
- 3/ According to the text of resolution 168 (VIII) the Latin American common market is to:
- (a) include all the Latin American countries which decide to participate in its formation;
  - (b) remain open to the accession of other Latin American countries;
  - (c) operate on competitive bases and comprise the largest possible number of products;
  - (d) take into consideration the inequalities that exist among the Latin American countries in so far as their economic development is concerned;
  - (e) be characterized by the progressive standardization of the customs tariffs and other instruments of trade policy of the Latin American countries, in their relations with other areas, due allowance being made for international commitments;
  - (f) depend, for its realization, on the widest possible collaboration on the part of private enterprise;
  - (g) promote increasing specialization in economic activities, in order to improve utilization of the production factors available in the region;
  - and
  - (h) contribute to the expansion and diversification of trade among the Latin American countries, and between them and the rest of the world.

(1) Expresses its hope that the common market will be organized in such a way as to help to expand and diversify trade among the Latin American countries and between them and other regions of the world, and to accelerate their national and regional economic development, with a consequent rise in the level of living of their peoples;

(2) Expresses its appreciation of the work to this end being carried out by the Economic Commission for Latin America;

(3) Recommends that the Economic Commission for Latin America continue to assign high priority to the work being done in this field.

I. Commission for Industrial Development

The following resolution was sponsored by Bolivia, Brazil, Burma, Ceylon, Colombia, Costa Rica, Cuba, El Salvador, Malaya, France, Ghana, Haiti, India, Indonesia, Iraq, Italy, Jordan, Lebanon, Libya, Mexico, Morocco, Netherlands, Nicaragua, Pakistan, Panama, Saudi Arabia, Sudan, Tunisia, U.A.R., Uruguay, Venezuela, Yemen and Yugoslavia. The resolution was unanimously adopted:

The General Assembly,

Recalling its resolutions 521 (VI) and 522 (VI) of 12 January 1952, 1033 (XI) of 26 February 1957, and Economic and Social Council resolutions 461 (XV) of 23 April 1953, 560 (XIX) of 7 April 1955, 597 A (XXI) of 4 May 1956, 618 (XXII) of 6 August 1956, 649 A (XXIII) of 2 May 1957, 674 A (XXV) of 1 May 1958, 709 (XXVII) of 17 April 1959,

Mindful of the aim expressed in the preamble of the Charter "to employ international machinery for the promotion of the economic and social advancement of all peoples" and of Articles 55 and 56 of the Charter,

Convinced that,

(a) the high rate of growth of population in a certain number of under-developed countries requires an acceleration of the industrial development of under-developed countries so that the rate of growth of their production may attain a steadily increasing level which would overtake the rate of increase in their populations,

(b) industrialization will promote the diversification of the economies of under-developed countries and assure a more balanced economic and social structure, and a high rate of economic development,

(c) it is important to attain the self-sustaining stage of economic development which involves the maximum reinvestment of the increases of income,

Recognizing that instability in the foreign exchange earnings of the under-developed countries, due to fluctuations in world commodity prices and in general economic activity in the more advanced countries makes it particularly important to encourage industrialization as an essential part of development programmes or plans,

Confident that the acceleration of the industrial development of under-developed countries by diversifying the economic structure of these countries will contribute to the achievement of an expanding world economy,

Considering that the process of industrial development calls for a wider dissemination of advanced technological knowledge which is not available at present to the needed extent in the under-developed countries,

Appreciating the activities of the United Nations regional economic commissions in the field of economic growth and industrialization in their respective regions,

Convinced of the need to expand the means of providing advice, information and assistance by the United Nations to under-developed countries in the planning and execution of their industrial development, to accelerate the process of industrialization and to keep the General Assembly informed of the pace of their industrial growth,

Recommends that, in accordance with Article 68 of the Charter of the United Nations, the Economic and Social Council at its twenty-ninth session give consideration to the prompt establishment of a Commission for Industrial Development, without prejudicing the activities of the regional economic commissions in this connection, and taking into account the expression of views made during the discussion on this question at the fourteenth session of the General Assembly.

J. Organization and Operation of the  
Economic and Social Council

Note by the Secretary-General

1. A suggestion which the Secretary-General made at the twenty-eighth session concerning certain aspects of the organization and operation of the Council is referred to in paragraph 593 of the Report of the Council to the General Assembly (A/4143) and in the following paragraph of the Introduction to the Secretary-General's Annual Report to the General Assembly on the Work of the Organization (A/4132/Add.1, page 3):

"For several practical reasons it is difficult at regular meetings of the Economic and Social Council, without special arrangements, to organize the work in such a way as to render possible a searching examination and discussion of key issues of decisive general importance at a policy-making level. At the summer session of the Economic and Social Council this year, I suggested that the Council consider a development of its procedures to meet this need. I believe that short special meetings at the ministerial level, within or under the aegis of the Economic and Social Council, might make an invaluable contribution to the formulation of international economic policies adequate to vital requirements for concerted action. Were the suggestion to meet with the sympathy of Member Governments and appeal to the Council, the Secretariat would, in consultation with Member Governments, devote further study to the question and in due time present concrete proposals to the Council. It is my opinion that, in this or in such other ways as might be considered preferable, efforts should now be made to add to the usefulness of the Economic and Social Council and to give to the United Nations, through this Council, better possibilities of playing a role of the same significance in the economic field as the one which is entrusted to it in the political sphere."

2. In the course of the debate in the Third Committee of the General Assembly on the Report of the Council, the above subject was discussed on the basis of a draft resolution submitted by the delegation of Mexico. The Committee has reported on this discussion to the General Assembly in paragraphs 74-81 of document A/4250. Those paragraphs, together with the relevant summary records of the Third Committee's debate, will be brought to the attention of the Council in document E/L.849 and the delegation of Mexico has requested that an appropriate item should be included in the agenda of the Council's resumed session (see document E/3310).

3. Having been approached on this matter by a number of delegations, the Secretary-General believes it may be appropriate for him to submit certain observations which might assist the Council should it decide to examine possible arrangements for the meetings at the ministerial level which have been proposed.



4. According to the views expressed by Governments which have referred to the matter, the discussions at the ministerial level should be kept as informal as possible and should indeed be held in executive session whenever appropriate. They should not be expected to result necessarily in the adoption of resolutions or other formal action, their importance lying primarily in the influence they may exercise within the Governments of the Members of the United Nations and on the subsequent actions of the Council.

5. It would seem most appropriate, and would further present the advantage of administrative simplicity, if the meetings at the ministerial level were organized as part of the regular meetings of the Council itself, the Ministers acting, for the period of their attendance, as the principal representatives of their respective countries. The agenda of the Council's session would need to be so arranged that the discussion at that level could be concentrated within a few days.

6. It is suggested that the issues to which the ministerial meetings should, in the first instance, address themselves are the major issues of economic policy, with special reference to the promotion of economic development of under-developed countries - the overriding priority of the Council itself - and the better integration of the world economy. Such meetings might appropriately be held during the summer session of the Council on the occasion of the annual discussion of the world economic situation and of the problems of economic development in general.

7. The documentation to assist the exchange of views at the ministerial level should clearly comprise the most recent data available and an analysis of those data. Such documentation would normally include the World Economic Survey, the Regional Economic Surveys and the Commodity Survey, which are already produced annually and are available at the Council's summer session. They could usefully be supplemented by a summary or digest bringing together in a single document major events or policy decisions affecting the international economy, and particularly the development of under-developed countries. Such documents as the replies to the questionnaire sent out under General Assembly resolution 1316 (XIII) on measures to promote economic development would also be available. In addition, some delegations have suggested that the Secretary-General, in an introductory statement, might highlight certain problems of policy to which he believes the attention of the Council should be drawn, in the same way as he does in his annual report to the General Assembly.

8. Should the Council be prepared to endorse the idea of holding meetings at the ministerial level, the Secretary-General believes that a first meeting of this kind could be envisaged for its thirtieth session. In that case, he would suggest that items 2 (World economic situation) and 4 (Economic development of under-developed countries) would provide the requisite framework for a useful exchange of views on important matters and might be taken together, it being understood that specific aspects would be referred to the Economic Committee or to a continuation of the plenary meeting after the Ministers have departed.

9. The general discussion under the joint items 2 and 4, at the ministerial level, might be envisaged for the beginning of the second week of the session, i.e. 11 July 1960. Detailed arrangements for the organization of the work of the session could be considered at the twenty-ninth session, when the Secretary-General would be glad to put before the Council further suggestions concerning the scheduling of items.

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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IDA/59-45

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FROM: The Secretary

December 23, 1959

IDA - VOTING RIGHTS

On the assumption that IDA subscriptions will be approximately as listed in Schedule A annexed to Memorandum IDA/59-18<sup>\*</sup>, that all Bank members join IDA, and taking Bank subscriptions on the basis of increases completed or notified to date, attached are certain formulas.

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\* In fact, certain minor corrections are required in the Schedule; and additional changes may be needed as a result of developments in connection with Bank subscription increases.

Attachment

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IDA Sec. 59-46

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IDA/59-45

December 23, 1959

IDA - VOTING RIGHTS

1. The following formula will give IDA members approximately the same number of votes they will have in the Bank after the capital increase:

250 votes plus 1 vote for each \$5,000 of subscription.

(This will not give exactly the same number of votes in IDA as in the Bank because the total Bank capitalization is not quite 20 times the total IDA capitalization).

2. The dilution which occurred in the voting power of the smaller Bank members by reason of the capital increase could be corrected by substituting the figure "500" for the figure "250" in the formula mentioned in paragraph 1.

3. On the basis of the "250" formula mentioned in paragraph 1, members listed in Part I of Schedule A to the charter would have, collectively, about 73% of the total IDA vote.

4. On the basis of the "500" formula mentioned in paragraph 2, members listed in Part I of Schedule A would have, collectively, about 69% of the total IDA vote.

5. Mr. Khosropur has suggested the following formula:

1,000 votes plus 1 vote for each \$10,000 of subscription.

On the basis of this formula, the countries listed in Part I of Schedule A would have, collectively, about 56% of the total IDA vote.



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<b>Correspondents / Participants</b>				
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<b>Correspondents / Participants</b>				
<b>Subject / Title</b> Memorandum of Meeting of Financial Policy Committee held on Thursday, December 21, 1959 from 3:15 pm to 4:35 pm on the International Development Association Draft Charter (IDA/59-18)				
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IDA/59-41

**AUG 17 2023**

December 22, 1959

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CHANGES IN PROPOSED IDA ARTICLES OF AGREEMENT (IDA/59-18)  
(Submitted by Dr. Liefstinck)

At the request of Yugoslavia, I propose to add to Section 1 of Article II a new sub-section (c) reading:

"(c) The Association shall at such time as it deems appropriate in the light of world developments give renewed consideration to the conditions of membership and, if it deems desirable, shall allow countries which are not a member of the Bank to become a member or an associate member of the Association on such terms as the Association may determine."

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IDA/59-40

December 22, 1959

CHANGES IN PROPOSED PREAMBLE TO IDA ARTICLES OF AGREEMENT  
(Submitted by Dr. Liefstinck)

I propose to insert in the first paragraph of the preamble (IDA/59-27)  
between "international trade" and "foster international relationships":

"and mutual cooperation for constructive economic purposes"

and to substitute

a "comma" for the word "and" in the first line.

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*Mr Hamilton*

*IDA*

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IDA/59-39

December 21, 1959

FROM: The Secretary

DRAFT IDA ARTICLES OF AGREEMENT (IDA/59-18)

PROPOSED AMENDMENT TO ARTICLE VI, SECTION 7

In order to carry out the proposal of Mr. Donner at the Financial Policy Committee meeting of December 21 with respect to cooperation with other agencies and members, Section 7 of Article VI on page 19 of the draft charter might be amended to read as follows:

"Section 7. Cooperation with Other International Organizations and Members Providing Development Assistance.

(a) The Association shall cooperate with those public international organizations and members which provide financial and technical assistance to the less developed areas of the world.

(b) Present text of Section 7.7"

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<b>Subject / Title</b> Memorandum of Meeting of Financial Policy Committee held on Thursday, December 18, 1959 from 2:30 pm to 4:00 pm on the International Development Association Draft Charter (IDA/59-18)				
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IDA/59-34

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December 17, 1959

DRAFT IDA ARTICLES OF AGREEMENT (IDA/59-18)

ARTICLE VIII

Status, Immunities and Privileges

(Alternative Version Proposed by the Staff)

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 territories 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

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immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Association.

Section 4. Immunity of Assets from Seizure

Property and assets of the Association, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5. Immunity of Archives

The archives of the Association shall be inviolable.

Section 6. Freedom of Assets from Restrictions

To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Association shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. Privilege for Communications

The official communications of the Association shall be accorded by each member the same treatment that it accords to the official communications of other members.

Section 8. Immunities and Privileges of Officers and Employees

All governors, executive directors, alternates, officers and employees of the Association

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Association waives this immunity;

- (ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;
- (iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. Immunities from Taxation

(a) The Association, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Association shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Association to executive directors, alternates, officials or employees of the Bank who are not local citizens, local subjects, or other local nationals.

Section 10. 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.



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December 16, 1959

PROPOSAL OF FEDERATION OF MALAYA FOR REVISION OF  
ARTICLES II, IV, AND VI OF PROPOSED ARTICLES OF AGREEMENT OF  
INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA/59-18)

(Submitted by Mr. Ismail bin Mohamed Ali)

ARTICLE II, Section 2(f) (revised)

Add proviso as follows:

"Provided that the fact that a member's currency is freely convertible in accordance with paragraphs (i) and (ii) of this subsection shall not authorize the Association to dispose of that part of the subscription paid in the currency of the subscribing member under subsection (d) of this Section except in accordance with the provisions of Section 1 (a) of Article IV."

ARTICLE IV, Section 1(a)

Subsection (a) of Section 1 should be amended by inserting a full stop after "territories" in line 8 and delete the remainder of the subsection. A new subsection (b) should be inserted as follows:

"(b) The currency of any member received by the Association pursuant to Section 2 (d) (as revised) of Article II in payment of the ninety percent portion payable thereunder in the currency of such member and currency derived therefrom shall not be convertible or usable other than to the extent authorized by subsection (a) of this Section, except with the consent of the member concerned."

Subsection (b) of Section 1 should be amended by adding the following proviso:

"Provided that such authorization should at least permit the use of the currency in accordance with the provisions of subsection (a) of this Section."

---

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ARTICLE VI, Section 5(b)

The last sentence of subsection (b) of Section 5 should be deleted and the following sentence substituted:

"Officers and staff of the Bank shall be appointed concurrently to be officers and staff of the Association where the President is satisfied that this is desirable in the interests of economy but does not prejudice the efficiency or independence of the Association in its operations."



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December 15, 1959

CHANGES IN PROPOSED IDA ARTICLES OF AGREEMENT (IDA/59-18)  
(Submitted by Dr. Liefstinck)

A. Article IV, Section 1, sub-section (a), line 9:

Delete the words "convertible or otherwise useable" and substitute "freely convertible".

B. Article IV, Section 1:

Insert as new sub-section (d):

"(d) Currencies referred to in paragraphs (b) and (c) of this Section which are not freely convertible may, except in exceptional circumstances, be used by the Association only for the payment of administrative expenses incurred by the Association in the territories of such member and, insofar as consistent with sound monetary policies, for the payment of goods and services produced in the territories of such member and required for projects financed by the Association and located in such territories."

C. Article V, Section 2: Insert as new sub-section (d):

"(d) The Association shall not provide financing to or for the benefit of any member whose treatment of its foreign creditors or foreign investments in its territories does not meet the standards applied by the Bank to members in its lending operations."

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*Mr Hamilton*

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December 15, 1959

PROPOSAL OF FEDERATION OF MALAYA FOR REVISION OF  
SECTION 2 (e) OF ARTICLE V OF PROPOSED ARTICLES OF AGREEMENT  
OF INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA/59-18)

(Submitted by Mr. Ismail bin Mohamed Ali)

"(e) The Association may provide financing wholly or partly in freely convertible currencies or in inconvertible currencies, provided that:

- (i) The Association shall impose no condition that any freely convertible currencies shall be spent in the territory of any particular member;
- (ii) The Association shall not require any member country to accept part or the whole of any loan in its own currency except to the extent that the Association is satisfied after consultation with the Government of the country concerned that such local currency can be applied within the member country concerned for the acquisition of local goods or services for the purpose of the project and without imposing undue strain on the economy of the member country concerned.
- (iii) The Association shall not require a member country to accept the whole or a part of any loan in the inconvertible currency of another member country unless:
  - (a) the borrowing country shall consent thereto and to comply with any restrictions imposed on the use of funds in accordance with the provisions of these Articles including restrictions attached to supplementary resources;
  - (b) the borrowing country shall have decided to purchase part or the whole of the goods required for the said project or to award to tender in respect of the said project from or in a member country in respect of which the Association holds inconvertible currencies on terms and conditions which enable them to be applied by the borrowing country to such purposes or for the award of such tender."

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IDA 59-27

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FROM: The Secretary

December 15, 1959

PROPOSED PREAMBLE TO DRAFT IDA ARTICLES OF AGREEMENT

On page 1, insert the following new language preceding the "Introductory Article":

"The Governments on whose behalf this Agreement is signed,

Considering:

That satisfactory development of the world economy and balanced growth of international trade foster international relationships conducive to the maintenance of peace and world prosperity;

That an acceleration of economic development and the promotion of higher standards of living and conditions of economic and social progress in the less developed countries are desirable not only in the interests of those countries but also in the interests of the international community generally;

That achievement of these objectives would be facilitated by an increase in the international flow of capital, private as well as public, to assist in the development of the resources of the less developed countries,  
do hereby agree as follows:"

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IDA 59-26

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December 14, 1959

VIEWES EXPRESSED BY PAKISTAN, SUDAN AND IRAQ ON THE  
DRAFT IDA ARTICLES OF AGREEMENT  
(Submitted by Mr. Khosropur)

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 Article 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".

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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 IDA;

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."

ARTICLE V,

Section 2, paragraph (b)

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 it 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.

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 periods of grace or both, loans 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".

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

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.

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FROM: The Secretary

December 14, 1959

DRAFT IDA ARTICLES OF AGREEMENT

Secretary's Memorandum IDA 59-25 of December 14, 1959 should be amended as follows:

1. In paragraph numbered 10, on page 6, the words "member country or countries concerned" should read "area or areas concerned".
2. In paragraph numbered 13, on page 6, the phrase to be deleted should read "member in whose territories the project is located".

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IDA 59-25

FROM: The Secretary

WBG ARCHIVES

December 14, 1959

DRAFT IDA ARTICLES OF AGREEMENT

1. As agreed at the meeting on November 24, 1959, the Financial Policy Committee will meet on Tuesday, December 15, 1959, at 10.00 a.m. in the Board Room to discuss further the draft IDA Articles of Agreement.
2. In the light of the discussions at the previous meetings, comments subsequently made by individual Executive Directors, and drafting changes suggested by the staff, a number of amendments are suggested by the President in the draft IDA Articles of Agreement distributed earlier (IDA 59-18). The proposed amendments are attached.
3. The most important of the suggested changes 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 24% of the total subscription, with four subsequent instalments of 19% each.

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4. The other proposed changes are minor, designed either for purposes of clarification or take care of technical points. Adoption of some of these changes will require consequential changes in references in other parts of the charter.

5. In addition to the attached proposed changes, the staff has under consideration the inclusion of a preamble to the charter.

December 14, 1959

PROPOSED AMENDMENTS TO DRAFT IDA ARTICLES OF AGREEMENT

1. On page 1, Article I, line 3, delete the words "in the territories of members" and substitute "of the world included within the Association's membership".

2. On page 1, Article I, line 5, substitute for the words "member country or countries concerned" the words "area or areas concerned".

3. On pages 2-4, Article II, Section 2, substitute the following for subsections (c) - (g) and Section 3:

"(c) Ten percent of the initial subscription of each original member shall be payable in gold or freely convertible currency as follows: fifty percent within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; twelve and one-half percent one year after the beginning of operations of the Association; and twelve and one-half percent each year thereafter at annual intervals until the ten percent portion of the initial subscription shall have been paid in full.

(d) The remaining ninety percent of the initial subscription of each original member shall be payable in gold or freely convertible currency in the case of members listed in Part I of Schedule A, and in the currency of the subscribing member in the case of countries listed in Part II of Schedule A. This ninety percent portion of initial subscriptions shall be payable in five equal annual instalments as follows: the first such instalment within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or IDA Sec. No. 59-25

on the date on which the original member becomes a member, whichever shall be later; the second instalment one year after the beginning of operations of the Association, and succeeding instalments each year thereafter at annual intervals until the ninety percent portion of the initial subscription shall have been paid in full.

(e) To the extent that the currency paid in or payable by a member of the Association under the preceding subsection (d) or under Section 3 of Article IV may exceed the amount of such currency which in the opinion of the Association is currently needed for its operations, the Association shall accept from such member, in place of its currency so paid in or payable, notes or similar obligations issued by the government of the member or the depository designated by it, 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.

(f) For the purposes of this Agreement the Association shall regard as "freely convertible currency":

(i) currency of a member which the Association determines, after consultation with the International Monetary Fund, is adequately convertible into the currencies of other members for the purposes of the Association's operations; or

(ii) currency of a member, which such member agrees, on terms satisfactory to the Association, to exchange for the currencies of other members for the purposes of the Association's operations.

(g) Except as the Association may otherwise agree, each member

IDA Sec. No. 59-25



shall maintain, in respect of its currency paid in as freely convertible currency pursuant to the preceding subsection (d), the same convertibility as existed at the time of payment.

(h) The conditions on which the initial subscriptions of members other than original members may be made, and the amounts and the terms of payment thereof, shall be determined by the Association pursuant to Section 1 (b) of this Article"<sup>1/</sup>

4. On page 6, Article III, Section 2(a), line 5, change the period to a comma and add the following: "provided, however, that the Association shall not enter into any such arrangement unless the Association is satisfied that the member whose currency is involved does not object".

5. On page 6, Article III, Section 2, add the following at the end of subsection (c): "Any such distribution shall be in the currencies in which the income is earned".

6. On page 8, Article IV, Section 1, line 6, insert the following before the words "for the payment of goods and services": ", insofar as consistent with sound monetary policies,".

7. On page 9, Article IV, Section 1 (e), delete the words "for which notes may be substituted under Section 3 of Article II", and substitute the following: "under Article II, Section 2 (d)".

8. On page 9, Article IV, Section 3 (a), last line of page, insert the following after the words "present paragraph": "whether or not such currency is held in the form of notes accepted pursuant to Article II,

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<sup>1/</sup> This subsection appeared as subsection (g) of Section 2 in the earlier draft.

Section 2 (e),".

9. On page 11, Article V, Section 2 (a), delete the words "in the territories of members" and substitute "of the world included within the Association's membership".

10. On page 11, Article V, Section 2 (b), line 2, delete the comma after the word "priority" and insert the following: "in the light of the needs of the member country or countries concerned".

11. On page 11, Article V, Section 2 (c), line 2, delete the words "through market channels" and substitute "from private sources".

12. On page 11, Article V, Section 2, delete the present subsection (d) and substitute the following:

"(d) The Association shall not provide financing except upon the recommendation of a competent committee, made after a careful study of the merits of the proposal. Each such committee shall be appointed by the Association and shall include an expert selected by the Governor or Governors representing the member or members in whose territories the project under consideration is located and one or more members of the technical staff of the Association. The requirement that the committee include the nominee of a Governor or Governors shall not apply in the case of financing provided to a public international or regional organization".

13. On page 12, Article V, Section 3 (b), last line of page, delete the word "member", and substitute "area or areas concerned".

14. On page 13, Article V, Section 3 (c), delete the words "or any political subdivision thereof" and substitute the following: ", the IDA Sec. No. 59-25

government of any territory included within the Association's membership, any political subdivision of any of the foregoing,".

15. On page 13, Article V, Section 5, line 3, add the following after the words "borrow funds": "with the approval of the member in whose currency the loan is denominated".

16. On page 17, Article VI, Section 3 (a), third line of page, add the following new sentence at the end of the subsection: "Additions to resources other than additional subscriptions under Article III, Section 1, shall not carry voting rights".

17. On page 19, Article VI, Section 6(a), line 3, substitute the following for "The Association shall not borrow from the Bank.": "The Association shall not borrow from or lend to the Bank, except that this shall not preclude the Association from investing funds not needed in its financing operations in Bank obligations."