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DUNSTAN, E. FLEETWOOD - ARTICLES and speeches (1947 - 1948)



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DUNSTAN

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Speech by

E. FLEETWOOD DUNSTAN

Director of Marketing

International Bank for Reconstruction and Development

before the

Annual Executive Council Sessions

of the

American Bankers Association



French Lick Springs, Indiana

April 13, 1947

It is a privilege and a pleasure to be here today to discuss with you some of the more important aspects of the International Bank. This is doubly so, since there have been many misconceptions about the Bank and before it can hope to play its contemplated part in fostering world economic recovery it must receive enthusiastic support—particularly in this country.

I know of no audience we could address which means more to the future of its operations than this one. In the last analysis, it is what the bankers and institutional investors of this country think about the Bank and how they react to it, that will largely determine its usefulness. But let me make clear at the outset that in forming your opinion of our institution, its functions and potentialities, we expect—and prefer—that you will be hard-boiled.

For the time being, we are going to assume that you are all from Missouri. You are going to turn the cold calculating eye of the banker as he is pictured—not as he is—on the International Bank and you are going to be cruelly searching in your analysis. The first question you must necessarily ask yourselves is: Is there a need for such a Bank?

Well, let's take a look!

The indescribable destruction of global war is all too obvious to all of us. Among the great prewar industrial nations, Germany and Japan lie prostrate. For the time being, at least, they have little or nothing to contribute toward the rebuilding of the world. From the standpoint of industrial production they may be liabilities rather than assets.

Much of industrial France lies in ruins. Many of her factories must be rebuilt and reequipped before she can make an appreciable contribution to the world's imperative needs. Our allies, the British, are making a noble struggle against terrific odds to get into production and resume prewar status. Switzerland, which was neutral, is working day and night, but her contribution is lost in the face of huge world demands.

And so, by the process of elimination we arrive at the inescapable conclusion that the United States is the principal source to which the other nations of the world can turn to find the tools and equipment to resume peacetime productivity. If we were the arsenal of democracy in war—we are even more the hope of industrious and normally productive nations in peace.

It is true, we have been faced with our own shortages created through the war years. Some of them are already being filled—many others remain—but they will not last forever. As bankers you must necessarily look ahead—and as bankers, I am sure you will agree the time is not far distant, when to keep our industry humming—to maintain employment at high levels—to continue to make economic progress—we will need, not only our old prewar world markets—but vast new ones as well.

It is not only that our industrial capacity increased 50% during the war years, but under the stress of war-time production, industry learned how to take short cuts—use new products—develop new methods—speed production. This greatly increased productive capacity must find outlets. We cannot hope to be prosperous ourselves if the rest of the world is to remain in rubble or lie fallow.

The choice before our country today is whether to continue extending obvious and frank largess to keep alive the spark of life in those who have suffered the indescribable horrors of war or to strike out boldly and loan the necessary capital for the tools of production so that over a reasonable period, these same nations may resume their rightful places in a dynamic, progressive world.

No group in America knows better than this audience the tragic implications of the words—and I am speaking solely from an economic point of view—“too little and too late.” From the standpoint of self-interest alone, we must help war-torn nations to get on their feet, and under-developed countries must be encouraged and assisted in developing their resources and their productive potentials. It is for these reasons that the International Bank was created. There can be no question about the great need for it. In many questions are:

Can it do the job, and

Can it act quickly enough to restore men the world over, to an outlook of hope and will to work for tomorrow? Manifestly it is here in America that these questions must be answered—and it is audiences such as this that will answer them!

The answer to whether the Bank can do the job depends obviously upon its resources and facilities. As bankers, you are well aware of the fact that it would be fatal either to underestimate the size of the task or to overestimate the tools with which it has to work.

Unfortunately, there has been a wide-spread misconception of the Bank's capital. It is frequently referred to as an "\$8,000,000,000 Bank." The fact of the matter is that as of today, the Bank has approximately \$725,000,000 of loanable capital. I would like to outline for you, briefly, where this capital comes from and how the misconception arose.

Capital subscriptions to the Bank by its members fall into three categories:

First, 2% of the capital subscription of each member country must be paid in gold or United States dollars. In passing, I should state that a few countries have been given a five-year period in which to pay the last ½ of 1% of this 2%. These deferred capital subscriptions in gold and dollars, however, approximately aggregate only \$6,000,000.

Second, 18% of the capital subscriptions of each country may be paid in gold, dollars, or the currency of the subscribing country. Under today's conditions, this 18% is being paid in local currencies.

You will be interested to know that as of May 26 of this year, the full 20% that I have just detailed for you will be due and payable. One or two countries have requested a little more time, but these are unimportant to the capital picture as a whole.

Now the remaining 80% of the capital subscribed by each member nation is subject to call *only* to meet the outstanding obligations of the Bank and is *payable only in gold or dollars or the currency of the country in which the Bank's obligations are incurred.*

Now if we add up these three categories, it ~~does not~~ come to \$8,000,000,000, using the dollar - local ~~endeency~~

ratio as of 1944 which the Bank uses under the Articles of Agreement as developed at Bretton Woods.

But it is also provided that the currencies of no member countries can be used for loaning purposes without the consent of that country. I think it will be obvious to you that under today's conditions, with each member nation hungry for dollars, it would only weaken the member country and create a situation diametrically opposed to the purposes of the Bank to utilize for loaning purposes the currency of any country that needs help. So great is the need for dollar exchange that by and large, the member countries must husband their monetary resources until the world economy comes into better balance.

Hence, it is primarily the capital contribution of the United States, plus the 2% payable in gold or dollars by the other countries, which comprise the Bank's loanable capital. As I said a few moments ago, this sum totals \$725,000,000. While the Bank today has 43 nations as members, with two applications pending, it is manifest that the gold and dollar capital contributions to the Bank will not be appreciably increased. This is true even if, as expected, other nations eventually come in.

Thus, in order to fulfill its primary functions, the Bank must be a heavy borrower as well as a heavy lender. It plans to sell its debentures which will have a maturity of 10 to 25 years, depending upon market conditions, and the projects to be financed. These debentures will be general obligations of the bank. Therefore, they will have back of them all the assets of the Bank—cash, the entire loan portfolio, and the uncalled subscribed capital.

It is important to note that under the Articles of Agreement, the Bank's loans cannot exceed the amount of its unimpaired subscribed capital, reserves and surplus. Since it would be poor business for the Bank to issue debentures for funds it could not loan, as a practical matter, the issuance of debentures is similarly limited.

Now then, we come to what might be called the additional "factor of safety" behind the Bank's debentures. The capital subscription of the United States as authorized by Law 171, 79th Congress, aggregates \$3,175,000,000. Of this, 20% or \$635,000,000 will have been paid in by

May 26. All, or any part, of the remaining 80% (\$2,540,000) is subject to call to protect the Bank's obligations.

It is true, of course, that all member nations are subject to this call and unquestionably would do their utmost to answer, but I am painting for you the blackest of black pictures, in order that you might see what would happen under the worst conceivable circumstances.

Certainly long before the Bank reaches a point where it has $\frac{2}{2}$ billions of its debentures outstanding in this country, it will have proved its worth and, its obligations will stand on their own feet.

Now for the loan side of the picture. The Articles of Agreement provide that the borrowers of the Bank are limited to member nations. If any loan—other than a direct loan—is made *within* a member nation, it must be guaranteed by that nation, its central bank, or some similar instrumentality satisfactory to the Bank.

The Bank is not intended to compete with private banks or bankers. On the contrary, it is designed to pave the way for private finance by starting the flow from nation to nation of capital into productive enterprise, until world economic conditions become more stable and private finance is ready to take over. One of the Bank's stated functions is "to promote private foreign investment."

The Bank has power to extend credit in three principal ways:

First, it may lend directly out of its own capital funds.

Second, it may lend out of funds which it borrows through the issuance of its own obligations in private capital markets.

Third, it may guarantee loans made through the usual investment channels, or participate in them to whatever extent is deemed advisable.

At the present time, letters of intention or formal applications for loans have been received from eight member countries. Other applications are in immediate prospect. One specific provision of the Articles of Agreement is that the more useful and urgent projects, large and small alike, are to be dealt with first.

It should be emphasized that the Bank is in no sense a charitable institution. Neither is it permitted

loans for a political purpose. It is an out and out business institution, providing funds for productive purposes only and taking necessary risks.

Now about these risks. They are broader than private capital acting alone is willing to assume under today's conditions, since the Bank is prevented from loaning if the funds can be obtained from other sources, at a reasonable rate of interest.

But I want to emphasize to you that they are risks, undertaken with reasonable, prudent business judgment. The member nations are fully aware of the size of the task to be done, and the Bank is staffed with men of broad financial experience from some ten different countries, who have spent their lives in foreign lending.

As to loan policies, the Bank is fully aware of the fact that it is not enough that any particular project aid the domestic economy of the borrowing nation, but that due respect be given to the prospects of the borrowers for obtaining the needed foreign exchange to meet its obligations under the loan.

While the crying need of the whole world today is for dollars, it does not follow that this will always be the case. As other nations are assisted in regaining their productivity and the resources of undeveloped countries add to the wealth of the world, the dollar problem should solve itself. Given an expanding world economy, it can hardly help but disappear.

There is historical precedent for this statement. It is only a few generations ago that the wealth of the old world was seeking investment outlets in this country, helping us to come to economic leadership faster than any nation ever had before. And as our country developed, the very nations which were assisting us found ever increasing markets for their own goods and services.

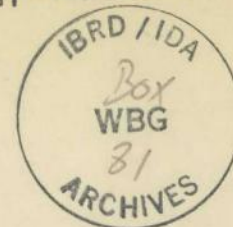
We undoubtedly shall find in an expanding world economy not only more outlets for our goods, but more things that we can buy from those we help and the productive capacity and, hence, the living standards of both the borrowing and lending nations will be raised.

Closing, I would like to picture the Bank to you as an economic bridge from war to peace, created through the

cooperative efforts of the member nations. So great was the destruction and economic dislocation of global war that such a bridge could only be built through international concert. Across this bridge the war-torn member nations may be assisted to return to economic productivity, while the underdeveloped nations may take the road to the full utilization of their resources.

Surely, it is no less than good business for us to do everything in our power to restore a sound world economy. We will thrive or perish as other nations thrive or perish. The world cannot remain half skyscraper and half rubble. The Bank is managed by competent experienced men. It is so set up that the funds it must borrow are well protected. The contribution that it can make in the immediate loans ahead is of the utmost importance. How well it succeeds depends upon a broad realization on the part of all of us of the vital role it has to play.

As one final word, let me emphasize that the Bank is no panacea. It cannot help those who do not help themselves. Each member nation agrees that the Bank shall proceed on the basis that, granting the importance of its financial assistance, the major effort must be made in each case by the borrowing nations. In the last analysis, the future of any country must depend primarily on its willingness and ability to utilize its own resources to the fullest extent for productive purposes.



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

ADDRESS BY E. FLEETWOOD DUNSTAN, MARKETING DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, BEFORE THE ASSOCIATION OF NEW YORK SAVINGS BANK BOND MEN, HOTEL ASTOR, NEW YORK, N. Y., ON WEDNESDAY, MAY 14, 1947, AT 2:30 P.M.

In addressing the Association of New York Savings Bank Bond Men on the subject of the International Bank, I feel more assured of sympathetic understanding than I would before almost any other group. This is because I know from personal experience, going back to my own conversations eighteen months ago with Mr. Phillip Benson - then president of the Dime Savings Bank of Brooklyn - that many members of your association have long concerned themselves with the potentialities of the Bank and have given considerable thought to its securities.

In the Fall of 1945 I approached Mr. Benson at the request of The Staff Committee of The National Advisory Council in Washington. Mr. Scheer then called a meeting of the Savings Bank Bond Men of New York, at which representatives of this Committee presented the story of the International Bank. The savings bank men were definitely interested and from the start understood the inherent capacity of the Bank as an agency designed to aid member nations in reconstruction and development. Legislation was introduced and a bill was passed at the 1946 session of the New York State Legislature, later signed by the Governor, making the Bank's securities legal investment for savings banks in New York.

We have come a long way since then but still we have far to go. Certain other States have followed the lead of New York and have likewise made the Bank's securities legal investments for their savings banks and insurance companies. Still others are now considering legislation. In some States no action is required. As you know, the Bank has, up to this point, marketed no securities and consequently who can or cannot buy its debentures is at the moment academic. Within a matter of a very few months, however, we expect to come to market with the first offering of securities and at that time, who can buy them will be, of course, of paramount importance.

In the few weeks that some of us, the management of the Bank, have been preparing the way for the first offering, we have been greatly encouraged. At the outset, we were confronted with the unfortunate fact that many potential investors had only a vague understanding of the Bank and its purposes. We set out to correct this situation since it was clearly our first job to inform people as to what the Bank is and what it hopes to do before they would consider it a suitable medium for their investment funds.

We began preparing basic literature about the Bank - its organization, its management, and its objectives. Today our first booklet is off the press and will be distributed to banks, insurance companies, securities firms, businessmen and others. The aim of this booklet is to explain the

Bank and its securities in non-technical language. The first order is for 100,000 copies and we hope that the demand for extra copies will be so great that we will have to run off many more.

You will agree, I am sure, that in any industrial company, management is important. We feel that the same is true of an institution such as the International Bank. Consequently, we are also preparing a booklet telling something about the people who operate the Bank. Other booklets are in course of preparation, some of them concerning the more technical aspects of the Bank, loan policy and related matters.

We also have had made a pilot survey in the financial centers of the United States in an effort to obtain the current thinking of savings and commercial bankers, securities dealers, insurance men and others, about the International Bank. Many of those whom we have interviewed admittedly know, at this time, very little about the Bank. They definitely are interested in learning more, however, and their comments and questions have been most helpful. The purpose of this pilot survey has not been to sell securities but to guide us in the preparation of our booklets and other material.

We have been encouraged by the alacrity with which important investors have availed themselves of the opportunity to come to Washington and sit around the conference table with members of the Bank's staff and discuss the International Bank. We have had several such conferences in the past few weeks and others are now being scheduled. It would be our pleasure to have a group of you Savings Bank men visit the Bank. Please consider this a definite invitation. The procedure has been to limit these meetings to a small number so that after each Bank official has explained that phase of the Bank's operations with which he is concerned, there is ample opportunity for round table discussion. In reverse, the officers of the Bank have been going to various sections of the country, addressing groups of bankers and other businessmen in an effort to acquaint them further with the Bank.

Already we are beginning to see some of the results of this preliminary spade work. Various banks and investment houses have taken it upon themselves to supplement our own effort in getting the facts about the Bank across to the public, by preparing and distributing descriptive material of their own.

I realize that some members of this association are very well informed about the Bank and its operations. I am not, however, going to assume that everyone here is in that position. Therefore, I would like to give you a brief summary of the organization and its objectives.

It was at the invitation of the United States that representatives of nations from all over the world met at Bretton Woods, New Hampshire, in 1944, and created the International Bank for Reconstruction and Development. There are today forty-four member countries of the Bank. We believe as time goes on that other nations will apply for membership. The admission of Australia to membership has this month been approved by the Board of Governors.

It is anticipated that that country will have become a member on or

before August 31 of this year.

The main objective of the Bank is to promote the international flow of all types of long-term capital for productive purposes - to assist in financing the rebuilding of war-torn areas and in the development of now under-developed member countries. Another primary purpose of the Bank is to encourage private foreign investment by guaranties of, and participations in, private loans.

The Bank is organized along lines which can be compared to an ordinary industrial corporation. The stockholders are, in effect, the Board of Governors of the Bank. All of the powers of the Bank are vested in this Board of Governors but most of these powers have been delegated to the Executive Directors, of which there are twelve. Five of them are appointed by the member countries having the largest subscriptions in the Bank: the United States, United Kingdom, China, France and India. The remaining seven are elected by the Governors who represent the other member countries. These Executive Directors may be compared to the directors of an industrial corporation. The president of the Bank is elected by the Executive Directors. In addition to being Chairman of the Executive Directors, he heads up the staff of the Bank and, with the other officers, is the management. As you know, the headquarters of the Bank is in Washington. In New York we have the marketing division located in the Federal Reserve Bank Building.

To obtain funds for the Bank's loans in great quantity, we must of necessity depend on the investment market. While it is true that the International Bank has a subscribed capital of approximately \$8 billion, a large portion of this - eighty per cent in fact - is specifically set aside, not for lending purposes, but for protection of the Bank's obligations. Nor is all of the remaining twenty per cent available for loans. In fact, since most of this twenty per cent paid-in capital is in the local currencies of member countries and cannot be used for loans without their consent, a large share of this is static and at present unavailable. The net result is that approximately \$725 million United States dollars is the only portion of the Bank's capital available for loans. In fact, this amount is now reduced by the \$250 million loan to France announced over the week-end.

Before the Bank's first offering of securities is made, which probably will be within a few months, in an amount not yet fully determined but perhaps in the neighborhood of \$250 million, it is possible that other loans will be made. Member countries in addition to France, which have to date indicated their intention to apply for loans, or have made formal application, are Denmark, Poland, the Netherlands, Chile, Czechoslovakia, Luxembourg, Iran and Mexico. These requests relate to both reconstruction and development programs. Allow me to say at this point that even though applications for loans now exceed \$2 billion, this does not in any sense mean that that amount of money will be loaned simply because it has been sought. The plain fact is that a long and searching analysis of each loan application is made. A Loan Committee is set up in the Bank which screens out the unproductive loan before recommending to the president that an application be granted. The president, when, if he approves, recommend to the Bank's directors that the loan be advanced.

Here again there is a careful check on the loan application, chiefly because of the multi-lateral character of the International Bank. As you know, the Bank is a cooperative undertaking of many nations and a loan made to one member country has an effect on each and every member country. If the project for which funds are sought seems unsound and the directors think that they can foresee a possible default, they will realize immediately that such an outcome will adversely affect all member countries. This, we know, is an effective safeguard in the early stages of a loan application.

The Bank's loan policy will be searching, and careful estimates will be made as to the borrowing country's ability to obtain sufficient foreign exchange to meet interest and amortization charges. Conditions relating to the loan project not only in the borrowing country but also in surrounding countries will be examined. Months necessarily may be spent in examining a loan application and then setting up the terms of the particular loan. The French loan, for example, was under discussion generally for several months and particularly for many intensive weeks.

We who make up the management of the International Bank firmly believe that, as time goes on and the first few constructive loans are made, investors will become increasingly aware of the productive type of loans which the Bank is making or guaranteeing and that eventually the loan portfolio will be considered the main protection for the Bank's debentures. This protection is really three-deep: First, there is the Bank's loan portfolio. An important point to be emphasized here is that loans cannot be made in an amount exceeding the total of the Bank's unimpaired subscribed capital, surplus and reserves. Second, there is the Bank's cash and reserves as they are built up out of earnings. These earnings will include a 1 per cent commission which will be charged annually on all loans and which will be set aside especially to meet the Bank's obligations. Third, there is the requirement that, should it ever become necessary, the Bank must call upon member countries for all or any part of the 80 per cent of their \$8 billion total capital subscriptions to meet its obligations. Under these circumstances payment will have to be made, at the option of the member country, in gold, United States dollars or the currency required to meet the Bank's obligations. It should be noted here that of the United States' capital subscriptions of \$3,175 million, 80 per cent, or \$2,540 million, is the United States' share along of this important reserve.

It is evident, then, that the financial stake of the United States in the International Bank is powerful and far-reaching. This, we believe, is as it should be because no country in the world today has more to gain through the re-establishment of world economic peace and prosperity than has our country. In a free economy the investment of private capital is essential to the re-establishment of world stability.

Grants-in-aid and relief loans made by one nation to another at times are both necessary and urgent, but they offer no lasting solution. Under economies cannot be corrected in that fashion. In the long run, it is far more efficient and less expensive to devise a program where effectively constructive loans can be put into operation which will enable the

borrowing member country itself to assume the task of reconstruction or development with its own tools. These loans, even though they may, in some cases, appear relatively small, spark the energy needed for a dynamic and progressive world.

In the United States we have our own and pressing problems which have followed in the wake of World War II, but they are nothing compared to the problems which face so many member countries of the International Bank. Moreover, our own problems cannot themselves be solved, except temporarily, if we should blindly choose to build a wall around ourselves and let the rest of the world go by.

The Honorable Douglas Abbott, Minister of Finance of Canada, speaking of his own country said recently: "Our stake in world recovery is so great that we are obliged in our own interest to back the reconstruction of our traditional customers and friends to the limit of our resources. These countries need a breathing space in which to restore their productive equipment from the ravages of war before they are able to make both ends meet on international account. If the breathing space is inadequate and they run out of foreign credits before they have re-established their economies, they will be forced into defensive measures of economic policy. We should then witness a revival of all the destructive action of the 1930's -- restrictionism, discrimination, excessive protection. Surely we in Canada have suffered so much from this type of economic policy in the past that it is the plainest common sense for us to leave no stone unturned in the effort to prevent its revival."

What the Minister of Finance of Canada said applies doubly to the United States, because our productive capacity is so great that it stands to gain more than the productive machinery of any other country-- indeed of many other countries added together.

Three precious years have elapsed since the inception of this Bank at Bretton Woods. We cannot afford to lost more time. Politically, economically, morally, this institution must succeed. We of the International Bank are grateful for the past interest of you Savings Bank bond men, and are leaning heavily on your cooperation in the future.

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Speech Series # 15

INTERNATIONAL BANK
FOR
RECONSTRUCTION AND DEVELOPMENT
1818 "H" STREET, N.W.,
WASHINGTON 6, D.C.



SPEECH BY E. FLEETWOOD DUNSTAN
BEFORE THE ANNUAL CONVENTION
MASSACHUSETTS BANKERS ASSOCIATION
SWAMPSCOTT, MAY 16, 1947.

The New England States -- and particularly Massachusetts -- have long been noted as the cradle of individual enterprise in this country. Your people have been brought up in an atmosphere of thrift. Their savings have contributed -- in times of peace -- to the rapid growth of American industry, and in times of war to the defense of our freedom. Nowhere is there a better understanding of the basic position of private capital in the development of natural resources, or in the sound expansion of industry.

Indeed, some generations ago when the vast western plains of our country were being opened, capital from New England joined with capital from Old England to hasten that development. As the wealth of these new lands poured forth, both pioneers and investors profited. Great new markets for your goods and services mushroomed into being almost overnight. So there is here in New England appreciation of what an important role private capital plays in creating

new outlets for goods and how necessary it is in establishing a dynamic economy.

There is another phase of our national economic growth in which New England pioneered. Your sailing masters of old first carried the American flag to the far ports of the world -- bringing back the silks and spices of the Orient in return for your raw materials and the products of your budding industries. Hence, it was New England that nurtured our growing world trade.

In view of this brilliant history of pioneering, which all of you know in far greater detail than I, it seems a misnomer, at first glance to refer to conservative New England. Yet the adjective is a most appropriate one. What it really means is that with your generations of experience in the investment of hard-earned savings, you have learned to differentiate between sound investment opportunities and fly-by-night schemes. You exemplify both the spirit of the pioneer in seeking growing markets and the wisdom of the experienced investor.

It is for all of these reasons that this opportunity to chat with you about the International Bank is so greatly appreciated. It cannot hope to fulfill its proper functions without the wholehearted support of audiences such as this. If, after careful study, you are convinced the Bank merits your confidence, then I think you will see it as we do -- as a necessary

precursor to a dynamic world economy with rising living standards for all.

In describing the ultimate objective of the Bank, I use the words necessary and precursor deliberately -- first, because so great have been the economic dislocations caused by war that some institution -- international in concept, effort, management and ownership -- is required to lead the way for our accepted and proved system of private investment and, second, because the Bank has no intention of staying on the scene once it has performed this function.

As to why the Bank is necessary, the answer lies all around us. Not only was our productive capacity unscathed by war, but it was actually greatly increased. Fifty per cent has been given as a conservative estimate.

The United States, today, is the one great source to which the freedom-loving nations of the world must turn to find the necessary machinery and materials to restore their productive capacities and develop their resources. Until these vital tools are made available to them, their outlook is bleak indeed. They can produce little. They can contribute less to a healthy world economy.

Since we are the hope of the world in supplying the plowshares of peace -- so the great immediate demand is for dollars to buy them.

Many of the member nations have used up their foreign exchange or were so denuded by the war and occupation forces that they came out of it with no foreign exchange and with no ability to acquire any except by the most rigid self-discipline, denial and will to work. These qualities they willingly exhibit, but they are not enough. The people of war-torn nations are still possessed of their wants and their ambition to improve their position.

Mr. McCloy, the president of the International Bank, tells a revealing story of the urge to get things into operation which he observed when, as Assistant Secretary of War, he was a part of General Patton's advance. Surging down the road in the opposite direction pushed a crowd of refugees hurrying to find shelter before night-fall. Mr. McCloy followed them off the road into their hasty bivouac behind a great rubble-heap which had been a German cavalry stable. Weary as they were, the women of the group began putting things in shape, clearing away masses of debris, sweeping what remained of floors with bundles of brush, lighting fires to warm what little food they might have picked up along the way. Men moved stones and sections of wall to provide shelter against the wind. Behind a heap of rubbish lay a dead man and on the other side a woman was giving birth to a baby. Life was going on in the midst of death; and the inevitable desire for shelter, food, order, cleanliness, and the implements to make a home were plainly evident. "If only I could have given those women brooms and those men shovels,"

Mr. McCloy stated, "they would have had that mass of ruins in shape to live in within a day."

This is what the International Bank, in broad economic terms, was set up to do. It will get the tools of production, the goods and equipment necessary for economic life, into the hands of people whose every instinct impells them to better their own positions.

At this point, it is important to emphasize again that the Bank's loans are not to be considered adequate in themselves to produce the results I have outlined. We are exporting, at the moment, dollar exchange -- not bricks and mortar and labor and self-sacrifice. These must come from the people of the countries which receive the loans. This means that the situation in each country which applies for money from the International Bank must be carefully and thoroughly scrutinized. Have the people of that country given evidence of their willingness to bring forth the effort needed to make full and productive use of the money they seek from us? That is the primary question, which must be answered to our satisfaction.

The news of the Bank's first loan was published in the press over the past week-end, the loan of \$250,000,000 at 3 1/4 per cent annually to the Credit National, a semi-public corporation created to assist in the reconstruction and development of the French economy. It

will aid in the economic reconstruction program adopted by the French Government and has the full guarantee of that Government.

There is no better evidence that the people of France are determined to help themselves out of their economic morass than the provisions of their own reconstruction program. On the basis of the French calculations, this program envisages the investment of the equivalent of some \$18,900 million during the four years 1947-50. As much as 84 per cent of this proposed investment expenditure is expected to come from domestic resources - the savings of the French people and of corporate enterprises. This is estimated to equal about one-fifth of the net resources available for domestic utilization (total domestic production, plus imports, less exports and maintenance expenditures). The successful achievement of this program will depend mainly on the efforts and self-discipline of the French people.

The French loan agreement assures that the proceeds of the loan will be used for productive purposes -- to finance the import of specific goods and equipment necessary to economic rehabilitation. The French steel industry will be modernized. For example, the French are purchasing equipment for a modern continuous strip mill. Transportation is to be improved by the acquisition of locomotives, and freight cars, cargo ships and canal barges, and commercial airplanes. In addition, the French

will buy coal and oil and numbers of industrial raw materials including semi-finished steel products and non-ferrous metals.

It is not too much to expect that purchases of this sort, plus the French will to work will pay off in production in a reasonable period of time. The French believe that by 1950 they will be able to restore equilibrium in the transactions of the franc area with the rest of the world. Thus during the early years of the life of the loan no repayment of principal is scheduled. Thereafter amortization begins at a modest rate and increases gradually so that the loan will be completely amortized by its due date.

If you are aware of the capital structure of the Bank and the present pressing need throughout the member nations for United States foreign dollar exchange, it will be clear to you that it is necessary for the Bank to go into the private investment market for the great bulk of its loanable funds. This is not only a necessity, it is a stated purpose of the Bank which is actually a bridge of guarantees and safeguards to help carry private funds to those who need it. The way the Bank will get this additional loanable money is by the sale of its debentures, initially in the United States. These debentures will be general obligations of the Bank and not tied to any specific loan or loans. They will be backed, in short, by the Bank's loan portfolio, by cash and reserves such as the special reserve to be built from commissions of from 1 to 1 1/2

per cent on all loans and guarantees. They will also be secured by the Bank's mandate to call on its members for the additional 80 per cent of their capital subscriptions in gold, dollars or the currency necessary to meet its obligations.

A fact which must not be forgotten is the unique relationship between the borrower and the lender which exists. In effect, the Bank can make loans only to the member countries. Should a borrowing nation default on its obligations to the Bank -- in spirit or in fact -- it would not be defaulting only to the nation in whose currency it borrowed the funds, but actually it would be defaulting to all its sister member nations.

Such a default would cause each of the other 43 member nations' loss either through the dissipation of accumulated earnings, of which each member nation is naturally entitled to its proportionate share, or, under more serious conditions, a proportionate share of the 80 per cent capital subscription guarantee.

It would seem a practical matter -- and a strict business proposition -- that any borrowing nation would make every effort to make good on a liability common to so many friendly nations.

But let's assume for a moment that one should take the darkest possible view. The United States has contributed

approximately 40 per cent of the Bank's capital. The 80 per cent of its subscription, which is subject to call for the protection of the Bank's debentures, amounts to \$2,540,000,000. The entire capital contribution of the United States was authorized by Public Law 171 -- 79th Congress, and no further Congressional action is necessary to make all or any part of it available should the Bank ever find it necessary to issue a call.

Long before the amount of the Bank's outstanding debentures reaches a point where it equals the call against the United States, alone, the Bank will have a record of performance inviting careful analysis.

Let's get back to New England and the conservative investors and pioneers. How does this Bank fit into that picture? Simply put, it offers the advantages of pioneering and the safety associated with conservatism. It is a pioneer in that it is something new under the sun -- a cooperatively erected bridge to carry private funds where they will do the most good, where they will create jobs and goods and purchasing power to create more and more jobs and goods both here and in the rest of the world. It offers conservatism of investment in that its debentures will be soundly backed by the assets I enumerated earlier.

We of the International Bank hope for your support and ask that you examine the Bank and its operations with the eyes of conservative investors who are still pioneers. The successful functioning of the Bank is important to New England, to the United States and to the entire freedom-loving world.

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300 copies ordered 2/25/48

Talk by
E. Fleetwood Dunstan
before the luncheon meeting of
The Analysts Society
Providence, Rhode Island
February 18, 1948

It was gratifying to me to receive your invitation to be your guest today. As Director of Marketing of the International Bank for Reconstruction and Development I welcome the occasion to review with you some phases of the program and operations of our institution, and also to discuss with you the legal status of our bonds in Rhode Island.

The International Bank is now ready and qualified to undertake its responsibilities in the field of financing sound reconstruction and development projects. Up to the present it has made an important contribution to the four nations to which we have made loans; and it may logically be expected to assume an increasingly constructive role in the future, as credit is extended to more nations. It should be borne in mind that while the dollars which the bank lends in the course of its operations are earmarked for a specific purpose within a specific country, this does not mean that the spending or sustaining power of these dollars is limited to that country. Actually, the power of such purchasing is diffused over a wide geographic area, reaching into a number of countries, in the search for a variety of raw materials, machinery, and industrial equipment of all kinds.

To date our institution has granted loans totaling \$497,000,000, and it has borrowed \$250,000,000. We have stabilized its internal current operations to the point, where, for the year ending June 30, 1948 its activities should result in a surplus sufficient to absorb all of the deficit created through the period

of organization. This showing is more commendable when it is realized that the Bank followed the ultra-conservative course of charging against current earnings the entire discount and expense resulting from the issue of its bonds, amounting to over \$1,275,000. It did not choose to follow the accepted method of amortizing this item over the life of the issues. It should further be noted that there will be a substantial deduction from income for the "Special Reserve Fund" which is set aside as an added protection for the Bank's outstanding bonds. This Fund amounted to \$1,104,000 on December 31, 1947 and will of course be materially increased by the end of this fiscal year.

The Bank's loan policy will continue to be based on the realization that the major effort must come from within the borrowing nation itself, and that each loan application will receive the most critical investigation of the planned use of the funds. Bankers and businessmen realize fully that the greatest service that any bank can render is to lend in such a way that the borrower will reap sufficient benefit from the loan to assure orderly liquidation of the indebtedness.

By making carefully considered loans we hope to supply, not the whole effort, but merely the vital link welding the resources and manpower into a coordinated plan enabling full utilization of the borrower's national advantages. Loans of this nature are the type that can be repaid and are made with the full expectation that they will be met when due.

One significant feature common to all of our loans is that they are earmarked for definite productive purposes; and this constitutes a new and healthy departure in the record of international financing. Our loan agreements provide for the purchase of specific commodities which the borrowing countries vitally need to get production going. When the Bank makes a contract to grant a loan it sets up on its books a credit in the name of the borrower, and the borrower is permitted to draw against this credit only to meet expenses in connection with

projects as they are actually incurred. Withdrawals are made either for reimbursement of purchases for which the borrower has paid or as advances or collateral deposits for purchases not yet completed. In the case of reimbursements, the borrower submits copies of invoices describing the goods purchased, evidence of payment, and evidence of shipment to the borrower's country. In the case of advance payments, the borrower submits pro forma invoices or copies of orders or contracts, followed up on completion of purchases by final invoices, evidences of payment and shipment. In some cases a collateral deposit is made with a commercial bank, which in turn makes payment against prescribed documents which are submitted to the International Bank. All applications for disbursement, together with supporting documents, are carefully checked to see that the merchandise purchased is eligible as to type and is within the available category limits. Further checking is made to ascertain that the price is reasonable, that calculations are correct, and that the transaction has not been previously reimbursed.

Even after these precautions are taken, the Bank goes a step further in meeting the Articles of Agreement which provide that it shall ensure "that the proceeds of any loan are used only for the purposes for which the loan was granted." Representatives of the Treasurer's Department have been appointed for all countries to which loans have been made. These representatives ascertain whether the borrower has a system of control of imports and internal distribution adequate to safeguard the requirements of the loan agreement. These representatives check shipments of goods through the various stages to their end-use.

This system established by the Bank for the supervision of end-use of the proceeds of loans is, as stated above, a new element in the relations between international lenders and borrowers. It has been briefly reviewed here to convey to you some idea of the care with which the Bank is administering its responsibilities, both to its members and to the investors who have purchased International Bank bonds.

It should be noted in this process of checking end-use that the financial aspects of each project financed by the Bank are closely followed. Money is not made available more rapidly than are the required supplies of goods to be purchased.

This latter fact is an explanation of why some borrowing nations draw down the balances of their loans more rapidly than others, which is a subject about which we are frequently questioned. Delay in disbursing the proceeds of a loan usually is due either to slowness in obtaining necessary documents on which the funds are paid out, or to the nature of the project, which may require many months for delivery of necessary equipment or machinery.

It is interesting to see how much more rapidly some of the loans made by the Bank are utilized than are others. The first loan by the Bank was \$250 million to the Credit National, of France. The agreement was signed on May 9, 1947. By the end of January, last, this entire sum had been disbursed, in the purchase both of raw materials and equipment.

Of the \$12 million Luxembourg loan, signed on August 28, 1947, only \$5,692,370 had been disbursed up to January 31st, last. Less than half of the total sum has been thus far employed, due to the fact that the entire sum was earmarked for industrial and railroad equipment, and some of it will not be delivered for several months more.

The Kingdom of the Netherlands has drawn down only about \$83 million of the commitment for \$195 million specified in the agreement of August 7, 1947. The Kingdom of Denmark loan agreement was signed on August 22, 1947 and was for \$40 million. Up to the end of January only \$1,960,719 had been disbursed on this account, which had been anticipated because the Danes had no intensive program under way. Their need for dollars is not as urgent as is that of some other countries, so there was no necessity for haste. I am informed, however, that this program has been accelerated in the last few weeks and Denmark, too, now is drawing upon her balance at a much more rapid rate.

Thus, of the original loan commitments totaling \$497 million, \$340,857,903 has been disbursed. There remains \$156 million in the "unused balance of commitment"; so, it is apparent that the force of International Bank financing is not spent by any means. The trade which these loans made possible is an economic factor in several directions. The Netherlands Government, for instance, has done substantial primary purchasing in Belgium and Switzerland. All purchases are not made in the United States alone. In fact, the borrower has placed upon him no restrictions as to where his goods shall be bought.

Now in order to make loans, the Bank must obtain the major part of its lending funds by borrowing from private investors. A brief review of the unusual safeguards surrounding our bonds will, therefore, interest you.

In the first place we expect to build up a sound loan portfolio which will provide the means of meeting our obligations as they mature, without resort to other safeguards. Behind the bonds are, first, the Bank's portfolio of loans, the principal amount of which outstanding at December 31, 1947, was \$300,115,648; second, its liquid assets in cash and marketable securities, including demand notes of members, which at December 31, 1947, aggregated approximately \$681,000,000 in United States' dollars and gold (not including the equivalent of approximately \$909,000,000 in other currencies); and, third, the 80 per cent of the subscribed capital stock of the Bank which is subject to call only to meet the obligations of the Bank and which at the present time aggregates \$6,610,480,000, of which \$2,540,000,000 is the share of the United States.

During the first 10 years of its operations the Bank is required to charge on all loans guaranteed by it and on all loans made by it out of borrowed funds a commission of not less than 1 per cent and not more than 1 1/2 per cent per annum on the amount of the loan outstanding. That commission is required to be kept in liquid form in a special reserve to meet the Bank's obligations. The

present policy of the Bank is to charge a commission of 1 per cent per annum on all loans whether made out of capital or out of borrowed funds.

When the proceeds of the loans approved to date have been entirely withdrawn, the sum of \$4,970,000, will accrue annually to the Fund and this figure will increase rapidly as the amount of outstanding loans expands. With operations at this early date on a satisfactory basis, the ordinary reserves and surplus also could within a relatively short time become quite sizable.

Such resources behind the Bank's bonds should assure even the most faint-hearted investor that he will be well protected until both the Bank and the borrowing countries have had fair opportunities to prove the soundness and value of the Bank's operations.

There has been a great deal of public discussion regarding the effect of the proposed European Recovery Plan on the operations of the International Bank. It has become apparent that economic disruption wrought by the last war is far greater than could have been foreseen when this Bank was created in 1944. A far more extensive program of assistance is necessary than can be undertaken by the Bank, which is not a relief agency, and may make only productive loans. Moreover, the Bank is comprised of forty-six member nations. Thus, its potential loan applicants far exceed those sixteen countries which form the Committee of European Co-operation. But a European Recovery Program as contemplated under the Marshall Plan, if wisely shaped, would have vitalizing effects on operations of the International Bank. If some of Europe's critical needs -- such as food, fuel, and raw materials -- are provided under a recovery program, the productive potentialities of Europe as a whole will be increased, and the security of the loans which the Bank makes to the European area thereby improved.

Assistance furnished Europe on a grant rather than a loan basis will serve as an additional equity base for such loans as the Bank may make for capital

equipment. Thus, the European Recovery Program and the Bank's operations should complement each other rather than interfere in any manner.

Now, gentlemen, as executives of finance, industry and commerce, you have a direct interest in the policies and program of the International Bank. I should like to think we could interest you also in our program for broadening the market for our bonds, particularly in Rhode Island. As you know, commercial banks and insurance companies in this State may purchase our bonds, but new legislation is required to extend this privilege to savings banks. I understand that a bill to accomplish this will be introduced in your Legislature at the current session.

It is in the interest of the Bank, its present bondholders and its future bondholders that the potential market for International Bank securities be sufficiently broad as to include the great financial institutions in all of our states. Material progress in this direction already has been achieved, as is indicated by the number of states in which the bonds now are legal. For instance, 90% of total bank deposits in the United States are held by commercial banks in the states where the bonds are legal for investment by those banks.

Better than 75% of the country's mutual savings bank deposits lie in those states where official approval has been given our bonds, and there are only 7 states remaining on the list where qualification is necessary. Rhode Island, with more than \$250 million of savings bank deposits, is one of these. None of the 6 other states have legislative sessions scheduled for this year.

Turning to the insurance companies, we find that insurance companies and fraternal organizations featuring insurance that have been authorized by their respective states to invest in International Bank bonds hold about 79% of the admitted assets of ALL insurance companies in the United States. In Massachusetts, a most important investment center among those states not previously acting, the

legislature has just passed a Bill which now goes to the Governor for signature, making bonds of the International Bank legal investments for Life Insurance companies and all other domestic insurance companies within the State. Including Massachusetts, the percentage of admitted assets of insurance companies domiciled in those States where necessary qualification has been made would be raised to 88%. Incidentally, I understand that in addition to passing new laws, the Legislature of the Commonwealth of Massachusetts also has been busy repealing some of its old laws!

Officials of the International Bank are gratified at the ready recognition accorded our bonds in state after state. We feel that such action reflects confidence in the sound operating policies of the Bank and the conservative lending practice adhered to in all transactions. Naturally we are anxious to add the remaining states as rapidly as practicable.

It should be emphasized that the Bank has not thrown open its doors with an invitation to the world to "come and get it". The Bank is bound by the limits established in its charter and the rules of sound financial practice. We feel that our bonds are entitled to an excellent credit rating, and we therefore earnestly solicit your aid in having them made available to all investors in Rhode Island.

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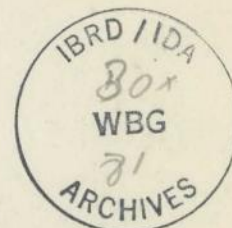
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
Washington

TO BE RELEASED AT APPROXIMATELY 6:00 P.M., MONDAY, JUNE 14, 1948

FOR THE PRESS

Press Release No. 103

Address by E. Fleetwood Dunstan, Director of Marketing of the International Bank for Reconstruction and Development, before the Investment Dealers Association of Canada at Murray Bay, Quebec, Monday, June 14, 1948



It is always a pleasure to come to Canada and it is particularly enjoyable to meet with her investment bankers. As I have been a bond man for many years, I feel at home among investment bankers. Especially welcome is the opportunity to present to you the more essential facts about our world bank. Because of your profession it is eminently desirable that you be thoroughly acquainted with the construction, activities and policies of this international and financial institution.

Canada's interest in the International Bank is more than academic. She has a vital stake in it as a stockholder and is indeed an important part of it. Canada is most ably represented on the governing boards of the Bank by Messrs. Abbott, Towers and Parkinson. You know, of course, that the Bank's first Director of its Loan Department was Mr. Charles C. Pineo, formerly Vice President of the Royal Bank of Canada. He did a magnificent job and it was with extreme regret that his resignation was accepted last fall. His position has been taken by Mr. William A.B. Iliff, who has served in various financial positions in the British Government at home and abroad; so, we may expect a continuation of British straight-thinking in our Loan Department.

Canada, as well as other forward-looking nations, is as fully concerned as the United States in promoting the free flow of trade throughout the world. That is one of the major aims of the International Bank. Canada, like the United States, is not and does not anticipate being a borrower. She is a lender and has granted direct credits to Europe in the amount of about \$2,000,000,000 since the end of the war. It should be noted in passing that the consumption of these credits in about one half of the time anticipated for their use definitely indicates the urgent need of such assistance.

The first purpose of the Bank is to assist in the reconstruction and development of its 46 members by facilitating the investment of capital for productive purposes. When private capital is not available on reasonable terms, loans may be granted by the Bank. Be assured that we exercise every precaution in granting these loans, a policy for which the Bank is sometimes roundly criticized by idealists who see only the great need and overlook the only possible source of

large funds -- the private investor. The Bank has not thrown open its doors and extended a blanket invitation for all to "come and get it", not only because it cannot endanger its money-raising ability but because it is prevented from so doing by its Constitution. There are too many projects presented that are not sufficiently advanced, and some of them are not well enough thought out, to permit such an open-handed policy. Many countries have over-all programs that would require anywhere from 5-25 years to complete. Some have unfavorable internal situations such as unbalanced budgets, loan defaults or false currency situations that require adjustment before credit could be considered. All these factors are carefully weighed by competent loan specialists and economic authorities before a formal application is accepted. Programs are broken down into projects and considered on individual merit. National economies are studied in relation to the over-all credit problems. Needs and resources are given balanced thought. In each case the Bank offers guidance, technical assistance and recommendation, but it does not lend in any instance nor even encourage hope until it is satisfied that the contemplated loan is sound.

The Bank does not relinquish its responsibility nor its stewardship over moneys advanced with the making of the loan. It follows through. Money is advanced only on documents showing that it is to be used for the specific purpose for which the loan was made. It is not made available for political or for free spending. To make sure that the conditions of use are met, the Bank's staff carefully checks up on the use of the proceeds of all loans. Arrangements have been made with the borrowing countries whereby Bank observers assure themselves that the goods purchased are used only as specified in the loan agreements. In addition, the borrowing countries are required to provide the Bank regularly with full information on the effect the loan has had on their entire reconstruction or development effort. In fact, the Bank's system of supervision over the use of its loans is a major contribution to sound international financing, and its technique is being studied by the European Cooperation Administration. Under its Constitution, the International Bank is required to ascertain that any loan granted is to be used for productive purposes, and it must pay due regard to the prospects that the borrower will be able to meet its obligation under the loan. The investor is constantly on watch to see that these injunctions are strictly observed.

This month the Bank will complete two years of operation. During that time we have established a pattern for lending, formulated policies and procedures, gathered an expert staff and a vast amount of information necessary to the successful and sound operation of the Bank. We have also made six loans totaling \$513,000,000:

France	\$250,000,000
The Netherlands	195,000,000
Denmark	40,000,000
Luxembourg	12,000,000
Chile (two)	16,000,000.

Up to May 31 there had been disbursed on these loans a total of roughly \$442,000,000. Of this amount over \$12,000,000 was expended by the borrowing countries in Canada. This figure represents the expenditures we have been able to trace up to Feb. 1 of this year. As time goes on it is reasonable to expect that the amount in Canada should increase.

France had used her entire amount early this year, and the experience there is typical of what we may expect. France purchased many items of capital equipment, including new locomotives for the French National Railways, steel mill equipment, cranes, drilling and automotive machinery. Bank observers on the spot have found that the use of these commodities has contributed materially to the restoration of French industry. Production figures in recent months have been encouraging. In some industries they have surpassed pre-war levels.

At this time we have under consideration loan requests from over fifteen other nations. These requests are in various stages from preliminary, exploratory talks to advanced negotiation. Some of them look promising.

The Bank is not limited in its operations to loans to governments. It can and will lend to private concerns. It can guarantee the loans of others as well as underwrite or otherwise participate in loans which may be made by private capital. Its constitution does require, however, that the government, the central bank or some comparable agency acceptable to the Bank of the country in which any project to be financed is located guarantee both the principal and the interest of the loan.

It should not be inferred from what I have said that the International Bank wishes to do all the international lending. It does not. A stated objective of the Bank is to encourage private foreign investment. In fact, where private financing is available on reasonable terms, the Bank is prohibited from lending. In the absence of private capital the Bank makes productive loans on reasonable terms, thereby strengthening the economy and the credit standing of the borrowing nation. This, in turn, will develop both a sounder environment for private lending and will broaden the country's trade base. The Bank is establishing a pattern for a sound resumption of private international investment on terms equitable to both lender and borrower; in fact, it is setting the example. These are objectives which the Bank's staff keeps constantly in mind.

It is noteworthy that despite its comparatively few loans during the two years of its operation the Bank has absorbed organization expenses and the expense of its \$250,000,000 bond issue of last July, has set aside special reserves against losses, has paid all charges and operating expenses and still has been able to show a surplus. From the beginning of operations to March 31, 1948, there was a profit representing a net income over all out-go of \$1,178,792. In addition, it has been possible to set aside almost \$2,000,000, in the Special Reserve Fund - which is available only for meeting the Bank's obligations under its own borrowings or guarantees. All Bank loans carry a fixed 1% annual commission charge which we are required to hold in liquid form in this Special Reserve. When the proceeds of the loans approved to date have been entirely withdrawn, a sum approximating \$5,000,000 should accrue annually to the Special Reserve Fund; and this figure should increase in proportion to the amount of outstanding loans.

The one fact that must always stand out in any consideration of the resources available for the tremendous task of reconstruction and development is that the International Bank has not sufficient capital to undertake all that it has been, and will be, called upon to finance. There is a common misconception that the Bank has \$8,000,000,000 available for lending because the 46 nations which are its stockholders have subscribed that amount to the Bank's capital. The facts are that only 20% of that amount was called for payment, and the remaining 80% is

subject to call only IF NEEDED to meet the obligations of the Bank. It is NOT AVAILABLE FOR LENDING PURPOSES. It is in the nature of a guarantee designed to encourage and induce private capital to invest in the Bank's obligations. Actually, less than half of the 20 per cent paid in capital is available for lending because only \$730,000,000 is in United States dollars. The remainder is represented by the currencies of the various members other than the United States -- pounds, francs, guilders, pesos, and the like. That part of the Bank's capital can be loaned only with the consent of the particular member whose currency is used. Most of the members of the Bank are not now in position to permit the export of capital and, therefore, to consent to the lending of their currencies by the Bank. Belgium is the only country, other than the United States, which has so consented. Belgium has consented to the lending of the equivalent of \$2,000,000 of Belgian francs out of its subscription.

The Bank must, therefore, look for its lendable funds partly to this \$730,000,000 but more importantly to the sale of its securities in the private investment market -- now predominantly the United States but which, we hope, soon will also embrace Canada, Switzerland, Belgium, The Netherlands, and at a later date even England and France. In other words, most of the Bank's loans, as we go along will be made out of funds borrowed by it from private investors, and not out of funds contributed by the member governments. This dependence of an inter-governmental organization on the private investment community makes the International Bank a most unique financing institution.

The Bank's reliance on the private money market is one of the cardinal elements of its strength. This connection with private enterprise keeps the Bank close to economic realities, because, despite the protection provided by the 80 per cent unpaid portion of the capital subscription of members, private investors will not entrust their money to the Bank unless they are convinced that it follows sound lending practices. Also it relieves the Bank of pressure to which it might otherwise be subjected -- that is, of making loans for relief purposes or political purposes -- for it is generally understood that if the Bank should ever embark on such a course its ability to borrow and, therefore, to lend would be at an end.

The bonds which the International Bank sells to private investors have behind them the following assets: (A) the Bank's own portfolio of carefully made loans; (B) the Bank's liquid assets including the Special Reserve; and (C) the eighty per cent of the Bank's uncalled capital subscription amounting to approximately \$6,600,000,000.

Whenever the assets behind the International Bank's securities are discussed, one often places most emphasis upon the United States' part of the uncalled capital stock which amounts to \$2,540,000,000. It is true that this sum already has been authorized by Congress, and must be paid, regardless of what other nations may do in the event of calls upon them. However, the other items making up the security behind the bonds are not to be overlooked. They have just been enumerated: the Bank's portfolio of loans, its liquid assets, and the virtual guaranty provided by all of its 46 members. The type of international financing which the Bank is undertaking differs from the usual bilateral form of foreign lending, in that on loans or guaranties by the International Bank the risk is spread among all member nations of the Bank. In addition to tangible assets, it must be remembered that the bonds are backed by the good faith of this important group of nations.

These 46 nations have certain common interests, one of which is the re-establishment and maintenance of both private and governmental credits. Another is the re-establishment of the free convertibility of currencies which would make possible a broad resumption of international commerce. The more quickly international trade is restored, the sooner will Canada's home economy permit her to resume international lending. When that time comes, it is hoped that Canada's financial interest in the International Bank will become even greater than at present through investment in the Bank's bonds -- those issues presently outstanding and possibly a future Canadian dollar issue. Due to the complex factors involved, it is not possible to foretell how soon a bond issue may be offered in the Canadian market in Canadian dollars, but one would be lacking in faith not to expect that the time will come when such financing will be practicable. As to Canadian purchases of the U.S. dollar issues of the Bank, there have been some substantial amounts already so invested. That is why we in the Bank welcome every opportunity to acquaint the Dominion with our methods of operation and are particularly glad to address financial groups such as this. You, as investment specialists, are frequently consulted about the soundness of certain investments and the employment of idle funds. Regarding funds available in the United States, it seems appropriate that you should be fully conversant with the position of the International Bank.

One fact that should be made clear I think is that at present we have no bonds to sell. The time is coming, of course, when we will be offering more bonds but not before late this year and perhaps not until 1949. The Bank now has on hand approximately \$475,000,000 available for lending or investing. This sum is more than we currently need or have any desire to hold in the cash drawer. As a practical matter the Bank management feels that under present conditions cash balances should not be far below \$250,000,000, so you can see that we have \$225,000,000 to lend before any need for raising additional loan capital is anticipated. The condition of the investment markets, institutional demand, loans pending and similar considerations would be determining factors in such financing. A particularly important feature would be the amount of loans pending. As you know, interest on borrowed money is expensive if the funds are not profitably employed. Therefore, the timing of new borrowing is important in order to avoid having financing run too far ahead of loan demands or conversely to lag too far behind use. So it is not with immediate needs in mind that I have come to familiarize you with International Bank policies and procedures. It is merely that in the giving of opinion or the granting of investment advice, you may be conversant with what the International Bank can and cannot do under its charter, what its policies are, and what security is behind its bonds.

May I leave with you another thought right here. I refer to the legal status of International Bank bonds for investment by financial institutions. In the United States, these securities are eligible for purchase by life insurance companies in states holding 88 per cent of all life insurance and fraternal association admitted assets. They are a legal investment for mutual savings banks in states holding 94½ per cent of such deposits. National banks and state chartered banks holding 91 per cent of all commercial bank deposits may also own them. This is impressive recognition by the federal and state legislatures. Subject to foreign exchange regulations, Canadian banks and Canadian insurance companies may legally own International Bank bonds. Moreover, foreign insurance companies may legally include bonds of the Bank in securities which are deposited with the Superintendent of Insurance of Canada.

It is fortunate that the men who gathered at Bretton Woods, New Hampshire in July 1944 in anticipation of post-war problems had vision, foresight and imagination. They recognized that the years immediately following the holocaust would be marked by severe political and economic uncertainty in which private investors would be reluctant to risk their money. Their program required the cooperation of many nations. However, it was not apparent in 1944 nor for some time thereafter how great the need would be, how tragic and widespread the destruction, nor how deeply it would touch human lives. It was because the immediate needs were so vast that extensive emergency relief, such as that provided by UNRRA and some later agencies, had to be forthcoming and because destruction was so far-reaching that a European Recovery Program had to be evolved. None of these measures, however, has lessened to any appreciable degree the need for the International Bank. As that fact clearly emerges, it also becomes evident that the ECA and the International Bank will work closely together in a common purpose but possibly in somewhat different spheres, one complementing the other and both essential to the whole job.

The operations of the Economic Cooperation Administration are circumscribed in its direct activities to countries covered by the Foreign Assistance Act of 1948 (which is the successor to the Marshall Plan) while the International Bank is not so curtailed. A large share of ECA assistance in Europe will be in the form of grants which are badly needed in some parts of that vast area. Additional assistance will be required in loans of a type which the Bank's Constitution would not permit it to effect. However, there are projects within these countries which the International Bank can finance. Some of these now are being examined by the Bank and loan negotiations are in progress. Our role in Europe in the future, as in the past, will be to make productive loans with reasonable prospects of repayment largely in the equipment and capital goods fields. The International Bank should be able to play an important part in the provision of additional investment funds for Western Europe if a broad base is given to the re-establishment of a sound economy there by the recovery program now under way. Because International Bank loans will be long term and its operations are not limited in period of time, the Bank should continue in useful existence long after the ECA has passed from the scene.

And so, gentlemen, from the standpoint of need, permanence, soundness of purpose and procedure there is every reason to recognize the importance and scope of the International Bank for Reconstruction and Development in world finance. We, of the Bank, hope that you, the investment authorities of Canada, will entertain that same point of view. The International Bank needs the complete cooperation of Canada.

September 12, 1947

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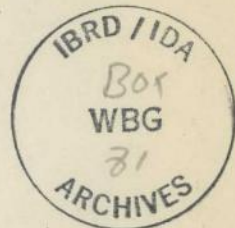
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

SECOND ANNUAL MEETING
BOARD OF GOVERNORS
LONDON



Document No. 10

STATEMENT OF MR. E. F. DUNSTAN, DIRECTOR OF MARKETING,
TO THE COMMITTEE ON FINANCE OF THE BOARD OF GOVERNORS.



MARKETING THE FIRST SECURITIES ISSUED BY THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.

The first securities issued by the International Bank for Reconstruction and Development were sold on July 15, 1947. The amount was \$250,000,000 of which \$100,000,000 represented 2 1/4% ten year obligations maturing July 15, 1957, and \$150,000,000, 3% twenty-five year obligations maturing July 15, 1972. The public offering price was par for each obligation, while dealers in securities were allowed a concession of \$2.50 per \$1,000 ten year bond and \$5.00 per \$1,000 twenty-five year bond. The marketing operation was entirely successful; and we believe the policies and methods pursued were satisfactory to the investor, to the dealer and to this institution. This report will contain a resume of that operation.

Knowing the advantages of locating the Marketing Department in the financial center of the country, we requested accommodations of the Federal Reserve Bank of New York. Space was assigned to us in its building, 33 Liberty Street, and we organized an office. At the same time, arrangements were made whereby the Federal Reserve Bank agreed to supply us with sufficient clerical help at busy periods. This enabled us to function with a small permanent staff, avoiding the expense of a large organization with peaks and valleys in activity.

In cooperation with the Public Relations Department, an intensive educational program was planned. To acquaint the investing public with the organization and purposes of the Bank, many speeches were made by its officials before groups of managers of financial institutions, including commercial banks, savings banks, insurance companies and securities dealers, in the east, mid-west and Pacific Coast areas. Over a period of three months a most important segment of the investment community was actively cultivated in this manner. In addition, many potential investors accepted our invitation to visit the Bank in Washington and became acquainted with some of our Officers and Executive Directors, with whom Bank policies and functions were discussed at firsthand. Descriptive literature was prepared and circulated widely. This close relationship with bond merchants and bond buyers enabled us to gauge the curve of investor opinion during the period we were preparing the bond issue for market.

The three leading securities statistical services (Moody, Standard-Poor and Fitch) were also approached. Because these organizations place "ratings" on securities, they have an important influence on the investment purchases of many institutions and individuals. They were supplied with all our basic documents, our literature and copies of our speeches. Personal discussions followed, and at our suggestion each sent executives to Washington to study the Bank's operations at firsthand. Fitch rated the bonds AA (their second grouping), Standard Poor A (their third-grouping) while Moody did not place any rating on them. All three

services have recommended International Bank securities for investment.

Another necessary part of our planning related to the laws and regulations of the United States and the several states governing the investment in our bonds by financial institutions. We engaged in intensive work toward broadening the field of investment and were rewarded with favorable legislation in several states, including Pennsylvania, New Jersey and Connecticut, where sizeable funds are located. The Comptroller of the Currency, at our request, ruled that national banks could purchase International Bank debentures up to 10% of capital and surplus funds; and the Bureau of Internal Revenue held that neither the issuance of our bonds nor subsequent trade in them was subject to the transfer tax of 50 cents per \$1,000 bond which is required in transactions in corporate securities.

Knowing the necessity for the existence of a market in the bonds after issuance, we conferred with large trading houses who are most active in "over-the-counter" transactions. Many of these firms reported their intention of establishing and maintaining active quotations. We also arranged to have the bonds listed on the New York Stock Exchange.

As to the method of marketing our initial bond issue, we carefully considered but discarded competitive bidding; selling to an underwriting group of dealers for distribution; and organizing a "sponsor group". We decided to use the selling power of the largest possible number of securities dealers throughout the United States by inviting them to take direct part in the offering.

We agreed that the Bank would not make sales to investors, either on a "group" sale basis or "directed" sales basis. The distribution would be through dealers only. We also concluded that all dealers would be given the same concession, with no "reallowance" to be granted to any other dealer or to any buyer because of size or status.

The question of distributing the bonds in countries other than the United States was thoroughly explored. Conferences were held with some of the investment firms in New York who have important contacts and customers abroad. Mr. D. Crena de Iongh, our Treasurer, informed the Marketing Department of his findings in Europe, particularly Switzerland. Most of the discussions centered around possible placement in the Swiss market. However, due to money rates prevailing there, it seemed desirable to make our offering to United States dealers only. We agreed that any reputable securities dealer in another country who requested membership in the selling group could be included on the basis that his purchases were for New York delivery and payment. A few bond dealers in Canada approached us and came in under that arrangement.

In order to include non-registered (non-registered with the Securities and Exchange Commission) United States Government Bond dealers and Municipal Bond dealers, permission had to be given by the Securities and Exchange Commission. This was requested and granted. At the same time, the Securities and Exchange Commission exempted all participating dealers from underwriters' liabilities under the Securities Act of 1933. It also agreed that our bonds

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could be traded on a when-issued basis on the New York Stock Exchange. This action was of aid in automatically qualifying the securities for sale under the laws of a number of states.

Having decided to invite all responsible merchants of securities to participate in the distribution of our bonds, we prepared a list of 2,650 names from all available sources. As soon as our registration statement was filed with the Securities and Exchange Commission, we communicated with these dealers by telegram asking if they wished to be included. Favorable replies, supplemented by a few newly organized firms, Canadian dealers and new applicants, gave us a working list of 1725 distributing houses.

The number of inquiries from dealers and investors confirmed our estimate of a large prospective demand for the Bank's bonds. It was decided therefore to work with dealers on the basis of offering each one a definite fixed amount of bonds which he could sell to his customers. To obtain additional bonds from us, subscriptions were permitted. Such a large percentage of the bonds were offered on a fixed or "firm" basis, however, a total of only \$50,000,000 par value including both maturities were available to allot against these subscriptions. The demand was very large indeed.

July 15 was selected as the formal offering date and a price of par was fixed.

Careful checking of prospective new financing at this period indicated that our date was satisfactory. As proper pricing was vital to a successful offering, we scrutinized the market prices of all high grade bonds on the Exchange and in the over-the-counter market, keeping before us at all times the daily quotations of U.S. Government Bonds and other securities of approximately 10 year and 25 year maturities. Our issues were new to the market in all senses. We faced a touchy market question in deciding on the price. Something of a price inducement had to be offered to insure success, yet underpricing might have transformed an orderly accumulation of investment interest into a speculative spree. The price of par was generally acclaimed. The New York Times quoted experienced market men as saying we had hit a "bullseye". The New York Herald Tribune said that we had gauged the offering terms with shrewd precision. The Wall Street Journal credited the Bank with accurate pricing.

Advertising arrangements had previously been made. Therefore, on July 15+ the advertisement of the issues appeared in 127 newspapers, in 56 cities, in 30 states and the District of Columbia. In addition, the advertisement appeared in 9 financial publications, 3 sectional banking publications and 11 insurance trade publications. As a matter of policy, the use of these publications was limited to those in which the advertisement could appear during the week of offering. The total cost of space and production was \$34,980.08.

+ Except in a very few instances when, for lack of space on the part of the paper, it appeared on the 16th, 17th or 18th.

At the opening of trading on the floor of the New York Stock Exchange, the first block of our bonds to change hands was \$100,000 3's at 103, followed by \$50,000 2 1/4's at 102. The volume of trading in International Bank bonds on the exchange that week totaled \$9,301,000. The over-the-counter market traded in somewhat larger volume, although the exact amount is unobtainable.

The largest amount of bonds sold by the Bank to any one dealer was \$3,465,000. par value and the smallest, \$10,000. par value. The leading 51 dealers were sold bonds in the following amounts:

14	dealers	@	\$ 3,465,000	each
2	"	@	2,800,000	"
7	"	@	2,665,000	"
3	"	@	1,825,000	"
10	"	@	1,500,000	"
13	"	@	1,250,000	"
2	"	@	1,150,000	"

51 dealers Total \$111,790,000.

Geographically, dealers in every state participated, except Montana, New Mexico, South Dakota, Vermont and Wyoming. 59.38% of the issue was sold to dealers in New York State, 7.03% to dealers in Illinois, 4.70% to dealers in Pennsylvania, 4.15% to dealers in California and 3.95% to dealers in Ohio.

Shortly after distribution was accomplished, there was prepared and mailed to each participating dealer a questionnaire, requesting him to report his sales by classes of investors as well as by states. The composite of the replies shows that the bonds were sold to investors in each of the 48 states, the District of Columbia, Hawaii and Puerto Rico. Canadian investors, in the main life insurance companies, purchased \$4,944,000 bonds. Investors in Switzerland bought \$345,000. Investors in Argentina, Panama, Cuba, France, Belgium and Italy purchased small amounts.

73% of the bonds were purchased by investors in the states of New York, Pennsylvania, Illinois, New Jersey, California, Massachusetts, Ohio and Connecticut.

The number of sales made by dealers in placing the \$250,000,000 bonds with investors totaled 32,087.

Classification by types of investors reveals that the bonds were purchased as follows:

Commercial Banks	\$114,713,000
Insurance Companies	53,022,000
Individuals	38,474,000
Savings Banks	18,787,000

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Fraternal, Charitable and Educational Institutions	\$7,093,000
Corporations	7,004,000
Trust Funds	5,979,000
Investment Trusts	1,736,000
Miscellaneous	3,192,000

The figure for commercial banks includes the bonds which these banks purchased for the account of their clients. We have no information as to what these purchases for others totaled, but it can safely be assumed that commercial banks for their own investment portfolio were the largest type of buyer. Insurance Companies were a very important second.

Upon completion of the financing, the Bank received commendation from many sources. The financial community was pleased, and the press in general was complimentary.

In an editorial on July 17, the New York Times said, "This initial borrowing operation obviously represents a tribute to the organizational efficiency of the new Bank". The Neue Züricher Zeitung, Zurich, Switzerland, thought the operation was a masterpiece of issue technique from the point of view of both timing and price. The New York Herald Tribune of July 21 stated, "In the initial borrowing by the Bank, the officials displayed a superb skill. Only those with an intimate knowledge of securities distribution can have any appreciation of the difficulties faced in placing any issue that is new in all senses...The excellent judgment and high efficiency displayed in this transaction have gained immense prestige for the Bank".

While our bonds are still quoted at premiums in the market, we cannot be complacent. We shall again have to approach investors for more money. This raises the question of proper timing of new bond issues. It is not advisable to offer new securities too frequently. Proper spacing should allow intervals between issues of at least three months. A six months period would be preferable. Therefore, under normal conditions, approximately three issues per year would appear to be reasonable. It is recognized, of course, that special circumstances would have to be considered and financing done at times which were not the most propitious.

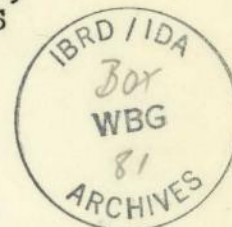
The investment market is particularly sensitive to the development of political and economic factors affecting world trade. This has shown itself in the market prices for our bonds. The ten year 2 1/4's which have sold at over 102 can now be purchased at 100³/₈ while the twenty-five year 3's which have sold at over 103 can now be bought at 100⁷/₈. At the present time the demand for other high grade investments is pronounced. A new supply of bonds meeting institutional requirements can be readily absorbed. Yet, if Europe is not able to come to some reasonable settlement of its problems, obligations of the Bank will not be properly received by investors in the United States. Continual bad news and unfavourable developments will check the demand even before we reach a \$2 or \$2¹/₂ billion figure. Our movements will be limited by the world economic and political scene.

September 12, 1947



STATEMENT OF MR. E. F. DUNSTAN, DIRECTOR OF MARKETING,
TO THE COMMITTEE ON FINANCE OF THE BOARD OF GOVERNORS

INVESTMENT STATUS OF THE BANK'S BONDS



At the meeting of this Committee of the Board of Governors in 1947, it was possible to report the first successful flotation of the Bank's bonds in the American market aggregating \$250,000,000. The Bank had reason to be encouraged by the enthusiastic reception accorded the securities and the immediate premium they commanded in the investment market. It was not then possible to foresee that the United States monetary authorities, in the following months, would take steps that would bring about an upward readjustment in interest rates, or that there would be an endless flow of unfavorable international news that would have a decided bearing on the appraisal of the Bank's issues by many investors.

The monetary actions taken by United States government authorities were for the purpose of combatting certain inflationary tendencies. They involved methods designed to curtail commercial bank credit, such as permitting interest rates on short term United States Treasury securities to rise, increasing the Federal Reserve discount rate, and requiring larger bank reserves. These steps affected the prices of all high grade bonds in the United States market.

Furthermore, large sums of institutional investment funds were absorbed through the sale of Treasury bonds held in government investment accounts, the sale of a special issue of moderately long, non-marketable Treasury bonds, and the temporary lifting of existing limitations on institutional purchases of certain series of the non-marketable United States savings bonds.

These actions, combined with the effect of international events, by mid-January 1948 forced the International Bank bonds to discounts of more than 5-1/2% below their original offering prices.

From this low level the bonds recovered rapidly as large institutional investors re-entered the market. The improvement continued during the early months of 1948 and in May sales were reported in the over-the-counter market at 99 for the 2-1/4's and 99-1/8 for the 3's. Thereafter the bonds, again reacting to general market conditions, sold off from these levels and on September 16, 1948, the date this statement was prepared, the 2-1/4's were selling at 96 and the 3's at 97.

The general weakness and uncertainty of the bond market, which persisted during most of the period since the last Governors' meeting, constituted a severe trial for the Bank's bonds. Careful studies, however, have shown that the Bank's obligations displayed a better than average market performance during the year, notwithstanding the conditions I have outlined and the fact that the bonds are still unseasoned.

Contributing to this good showing have been the continuous efforts that have been and are being made constantly to broaden the market for the bonds and to make the security behind them better known and understood by investors.

Considerable progress has been achieved in clarifying the investment status of the Bank's bonds in certain states, in some cases through obtaining favorable rulings by administrative authorities and in others through procuring the enactment of legislation. For instance, in recent months, legislative action has made the bonds permissible investment for insurance companies and savings banks in Massachusetts, savings banks in Rhode Island and insurance companies in Virginia and Kentucky. Today, states authorizing investment in the Bank's bonds contain within their borders an overwhelming majority of commercial and savings bank deposits and insurance company assets in the United States.

During the year, a ruling was obtained from the United States Treasury Department to the effect that interest on obligations issued by the Bank is exempt from United States income taxes, including withholding taxes, if paid to an individual who is not a national or resident of the United States, or to a corporation (except a life insurance company) organized under the laws of a country other than the United States, whether or not such corporation is engaged in trade or business in the United States. This ruling should act as a stimulant to the purchase of the Bank's bonds by nationals and enterprises of other countries.

Correspondence has been had with all Governors of the Bank regarding the investment status of the bonds in each of the member nations, and it is hoped that this will eventually contribute to the establishment of a broad and truly international market for the obligations.

A first step was taken toward the establishment of such a market by the sale last June of an issue of the Bank's 2-1/2% Swiss Franc Serial Bonds maturing in 1953 and 1954, in the aggregate principal amount of 17,000,000 francs. The entire issue was purchased for investment by the Bank for International Settlements of Basle, Switzerland at par and accrued interest.

In the American market, the Bank also successfully concluded a transaction designed to facilitate the flow of private international investment through use of the Bank's guarantee powers. The Bank made loans aggregating \$12,000,000 to four Netherlands shipping companies for the purchase of six merchant ships in the United States. These loans were represented by serial mortgage notes repayable in twenty equal half-yearly maturities. The Bank added its guarantee to \$8,100,000 of these notes and resold them to a group

of ten commercial and savings banks. Notes covering the balance of the loan, amounting to \$3,900,000 and including the later maturities, have been retained in the Bank's portfolio.

Efforts to create a better understanding of the Bank's structure and operations have included the continuation of Information Conferences at the Bank's headquarters. To these are invited bank and insurance company executives and investment bankers to meet the officers and Executive Directors of the International Bank. This affords an opportunity for a free discussion of the Bank's operations and a view of the progress that has been achieved. In addition, frequent conversations are held with holders of the bonds, investment bankers and others interested in the Bank. Officers and Executive Directors of the Bank accept many invitations to address gatherings of investment and other groups in an effort to create a better understanding of the Bank, its structure, operations and purposes.

While a great deal has been accomplished, much remains to be done in the United States alone. Desired legislation in certain states has not been obtained, and it is planned to accomplish this wherever possible in the legislative sessions scheduled for 1949. Certain measures beneficial to the Bank failed of enactment in the session of Congress which adjourned in June 1948 and it is hoped they may be reconsidered when Congress next convenes.

One of the Congressional proposals would have authorized national banks to underwrite or deal in the Bank's securities. Participation by these banks, we feel, would contribute substantially towards the widest possible initial distribution of the bonds and would provide holders with a broad secondary market and a healthy source of informed opinion concerning the Bank and its operations.

A second measure would have exempted securities issued or guaranteed by the Bank from the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. Neither of these Acts was drawn with any institution such as the Bank in mind and their provisions are not, therefore, adapted to the operations of the Bank. The Bank believes that the proposed exemption would greatly facilitate distribution of future issues of its securities.

A year ago the Annual Report stated that at that time the United States was the only market available in which the Bank's securities could be sold in large amounts and that the demand was then almost exclusively for dollars to make purchases in the dollar area. The report looked forward to the day when nations other than the United States would be in a position to permit the export of capital and anticipated the time when non-American capital might be available to the Bank. We have made a start, however modest, in this direction and intend to pursue all opportunities which present themselves to draw funds from other than United States sources. This will require a great deal of time and effort and the full cooperation of the governmental authorities of the Bank's member nations. Only as the Bank can utilize for its loans funds derived from the capital markets of many nations throughout the world will it be able to function with full effectiveness as a truly international agency.

September 29, 1948