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L.B. Rist: Policy Issues of Importance

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Policy Issues of Importance - Correspondence 04

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TREASURY CHAMBERS
Great George Street,
London, S.W.1.

4th June 1951

Dear Mr. Black,

You left with me a memorandum entitled "Reflections on Non-Dollar Lending by the I.B.R.D." and asked for our observations on it.

2. I am sure that in the light of our recent conversations you do not intend this memorandum as a request for further releases in the near future from our 18 per cent sterling. We are hoping that the £ 5 millions, which the Bank is raising on the London market, will take care of its sterling needs for some time to come. I know that you appreciate that in these difficult times of rearmament and worsening terms of trade our capacity to export capital through any channel is severely restricted and even the £ 5 millions issue is in these circumstances not easy to defend. When the £ 5 millions is committed you will, no doubt, wish to raise the question of obtaining further sterling from the 18 per cent or otherwise, and we shall consider any such request as sympathetically as we can in the circumstances then existing. I am, however, a little doubtful of the usefulness of seeking to establish in advance theoretical principles on which such consideration by us would be based, since the basis for such theorising is extremely unstable. In the end we come back to some kind of judgment, inevitably coloured by short-term considerations, of the total amount of credit and investment which the U.K. can afford, how it is to be distributed, and the amount of this which can in practice be put through I.B.R.D.

3. We have no quarrel with the theme of paragraphs 5, 6 and 7 of the memorandum, that the Bank's operations (and in particular its ability to lend dollars) would be enhanced if a significant part of its lending could be made in non-dollar currencies. We agree that the international character of the Bank should, as far as possible, be maintained in every aspect and 20 per cent non-dollar lending as a desideratum appears modest enough. It would, however, be unfortunate if the formulation of such a desideratum led the pre-eminently creditor countries to limit I.B.R.D. use of their currencies so as to preserve at all times an arbitrary ratio between lending in various currencies. Apart from other considerations some countries, like the U.K., may be making a considerable contribution to development through other channels from which investment and credit cannot be diverted for historical and other reasons. This point is glanced at in paragraph 2 of the memorandum, but there is no specific mention there of loans which members of the sterling area and, in particular, the U.K. Colonies raise on the London market. We would not wish to deprive the London market of this business or deprive these countries of a traditional and cheap source of finance. In considering, however, the proportion of any dollar contribution which I.B.R.D. may make, e.g. to the development of U.K. Colonies, this direct contribution by the U.K. should be taken into

account .../

account. And, of course, I.B.R.D. is designed to supplement and not by competition to displace normal borrowing facilities.

4. The memorandum mentions one or two factors that might be regarded as lightening the burden of unrequited exports arising out of I.B.R.D. use of non-dollar currencies. Thus in paragraph 4 of the memorandum reference is made to the fact that non-dollar countries, and in particular the U.K., derive benefit from the fact that some 10%-15% of I.B.R.D. dollar loans are used for off-shore purchases. Such dollar receipts for exports are welcome, but the fact that some exports are paid for in I.B.R.D. dollars does not enable the exporting country then to afford further unrequited exports. A mere change in the currency of a receipt does not add to the capital-exporting capacity of the recipient. It is the overall balance of payments position to which regard must be had. Indeed, this point is recognized in paragraph 1 and Conclusion 2 of the memorandum.

5. It is suggested in paragraph 3 of the memorandum that the economic burden of releases of sterling to I.B.R.D. varies considerably according to the countries in which the sterling is to be exported: and in particular that sterling lent for use in another E.P.U. country involves a smaller economic burden on the U.K. than in other cases. This may sometimes be true, but it must be remembered that the E.P.U. situation may alter significantly in quite a short period: and it would be unwise to base conclusions on the assumption that the U.K. will necessarily remain in surplus with the Union.

6. Before coming to detailed consideration of the arguments in paragraph 3 of the memorandum, I would like to stress some preliminary but important points. It cannot be assumed, as is sometimes done, that exports from the U.K. to E.P.U. countries on an I.B.R.D. sterling loan would necessarily be in substitution for other exports going from the U.K. to E.P.U. countries: they might well be additional exports to such countries, i.e. exports that could, and but for the I.B.R.D. loan would, have gone elsewhere and been paid for in the ordinary way. It would in these circumstances be not a question of substituting 100% credit for 50% credit and 50% gold, but for 100% cash. I need hardly say that in present circumstances we would be unwilling to contemplate any special additions to the amount of credit we already give to Europe through E.P.U. or to add in any way to Europe's ability to attract U.K. exports which are needed elsewhere - often to help in keeping down mounting sterling balances.

7. It is not open to doubt that sterling lent by I.B.R.D. for use in E.P.U. countries need not inevitably impose an immediate physical burden on the U.K.: but this would only be true if the sterling was retained and not spent by the second country receiving it. It is, however, perhaps worth looking at the essence of the transaction. Sterling lent by I.B.R.D. is generally repayable only over a long period, perhaps 15-20 years; and it is through these repayments that relief comes to the U.K. economy for any burden assumed on the release from the 18%. In return for this long-term relief, the U.K. would forfeit an immediate 50% in gold and 50% short-term credit to the Union. Apart from the gold receipt, which comes in useful in

enabling .../

enabling us to acquire imports from the dollar area, the essential difference between the I.B.R.D. and the E.P.U. operations is that the former is long-term, and the latter callable at any time in the sense that the credit decreases or is extinguished if we incur monthly deficits with the Union. Further, in the event of liquidation of the Union, we should expect some part at least of the outstanding credit to be converted into gold; at worst, only a part would be transferred into bilateral funding arrangements. While we are willing, and indeed anxious, that E.P.U. countries with sterling balances should draw on them to settle E.P.U. deficits, we would not wish to go out of our way to put fresh sterling (e.g. from I.B.R.D. at the disposal of E.P.U. countries. Indeed, any action we take is bound to be in the opposite direction, namely to reduce by current account methods (i.e. by an increase in imports or a decrease in exports) the amount of credit we are already giving to Europe.

8. To sum up. I agree that the position of the country in which, as well as the country by which, any sterling released by I.B.R.D. is to be spent may be relevant to an assessment of the economic burden on the U.K. and consequently of the amount which we can afford to release at any time. But this is not the only factor to be taken into account: the pattern of sterling credit and the ultimate, as well as the immediate, effects on the U.K. have to be considered. In present circumstances we shall be ready to modify our normal attitude that sterling releases are for expenditure in the United Kingdom (as we have already done in the case of Iceland) and in particular to favour uses in countries which need sterling. But we must also have regard to our relations with the borrowing country and I fear that the suggestion in Conclusion (v) of the memorandum would not enable us to do this.

Yours sincerely,

(signed)

Herbert Brittain

Sir Ernest Rowe-Dutton

June 8, 1951

Paul N. Rosenstein-Rodan

Non-dollar Lending

I am most grateful for your comments and I am quite sure that my reflections were only a first approach, primarily designed to show that European countries cannot afford yet to be capital exporters on a large scale.

1. The application of the theory of the "multiplier" naturally requires many qualifications. I do not think, however, that the qualifications are so many that it ceases to have any real validity.

(a) Substitution

The burden of releasing 18% funds is measured by the net increase in foreign lending. I pointed out therefore (paragraphs 2, 8 and 9 VI) that not the whole of the 18% releases need be considered as a net increase in unrequited exports. Some of the releases will replace credits which would otherwise have been granted. To the extent, however, that the 18% released increase total net lending from the U.K., this increase creates problems which can best be analysed by the multiplier theory.

(b) Supplies

Speaking of substitutions it may be noted that three different substitutions are involved in this field:

- (i) substituting 18% for credits which would otherwise have been granted,
- (ii) substituting exports to one country for exports to other countries (Syria instead of Australia). In this case, unrequited imports may arise and they are not dealt with in my reflections, and
- (iii) substituting bond purchases for purchases of goods (equal to savings) (see your point 2).

(c) Leakages

An increase in unrequited exports will create an increase in demand for imports. This theoretical increase can be more or less adequately

measured .../

June 8, 1951

measured by the multiplier theory. I am fully aware that not the whole increase in demand for imports in the U.K. will be satisfied. Part of it will be frustrated and substituted by other available goods (services, etc.). To the extent that this takes place, however, substitution is the symptom of an increased inflationary pressure caused by unrequited exports. It is up to the U.K. authorities to decide whether and to what degree increased inflationary pressure should be met by increased imports or allowed to subsist in the economy. I submit, however, that one good way of illustrating the burden of the inflationary pressure is to measure it by the amount of additional imports which would be required to solve it.

At each step of income creation due to the operation of the multiplier, the tax collector steps in. This most important effect has been fully taken into account in the size of the multiplier in the U.K. I assumed for the U.K. that out of every 100 pounds of new income created, (a) 40% will be either taxed or saved (this is with the exception of Norway, the highest proportion anywhere in the world), (b) 30% will be imported (or will exercise the typical distortion due to additional inflationary pressure), and (c) 30% will be consumed in the form of domestic goods. It is on that assumption only that the multiplier is 1.5 (or more precisely, 1.43). If taxation and savings absorbed only 20% of the income, the multiplier would be 2 instead of 1.5. If taxation only absorbed 10%, the multiplier would be 2.5, etc. etc. The leakages due to taxation are thus fully taken into account while the leakages due to involuntary saving, i.e. waiting for opportunities to spend, are not likely to cause variations in the multiplier of more than 10 to 15%.

2. Sources of Money

My conclusions are in essence based on the effects of an 18% release. Admittedly, a bond issue presents different problems which were not considered in my conclusions. If buying bonds represents a net increase in savings (your example of buying bonds instead of a car), no multiplier effect would arise at all.

3. IBRD Dollar Loans and Expenditure

I do not think that our past experience in offshore purchases is an adequate basis for the forecast of future offshore purchases. Before 1949, availabilities in the market were such that the United States practically supplied the bulk of them. There is no doubt that this situation has changed considerably. Both the availability and the competitiveness of sterling supplies have increased very considerably. With gained experience, the Bank may also insist more successfully that all its loans be "untied." Without taking the South African loan into account, which admittedly has exceptional features, I think that in the future offshore

purchases .../

June 8, 1951

purchases of the Bank's loans may amount to 20 to 25% out of which 10 to 15% will be spent in the sterling area. Incidentally, local currency loans which the Bank will grant are one of the reasons why I assume that the proportion of offshore purchases will increase.

4. Possible Borrowers

I do not think that the EPU provides all the pounds Europe needs. EPU only provides short-term capital while some of the EPU member countries might easily require long-term capital. IBRD's loans would thus provide long-term funds to some European countries which would not otherwise be provided by the EPU, although payments resulting from such long-term credits would naturally go through the EPU mechanism. The distinction between (a) and (b) in my paragraph 3 is important in that connection because the burden on the U.K. involved in any net increase in credit given for those cases is substantially different.

As far as the members of the sterling area are concerned, I take it that all of them with the exception of Iceland have substantial sterling balances. Even so, however, some of them may consider their sterling balances (over and above the working balances) as a seven, eight or ten year's credit and might be willing with some good reason to contract debts for twenty years while keeping their ten year assets. The contrast here is not as great as in the case of short-term credits involved in the EPU countries but the same principle may still apply: it makes good economic sense to take 10,000 pounds mortgage on a house even if one has 3 or 4,000 pounds balance on one's current account.

The potential sterling borrowers would be therefore (a) the EPU countries, (b) some members of the sterling area, and (c) some other countries whose dollar creditworthiness is more limited than their pound creditworthiness.

Countries whose sterling balances are excessive should be expected to use the excess part of their reserves in long-term investment. In their case, there is no need for 18% loans.

PNRR/js

cc: LB Rist, Files

May 31st, 1951

MEMORANDUM TO: Dr. Paul Rosenstein-Rodan
FROM: Sir Ernest Rowe-Dutton
SUBJECT: Non-Dollar Lending

Mr. Black has shown me a copy of your "Reflections on non-dollar lendings by the Bank"; this is going to be so important a subject that I should like to offer a few personal comments.

1. I am frankly suspicious of the theory of the "multiplier" (your footnote on page 1.) I do not know on how recent an exposition of this theory you are working; but - in the U.K. at least - I wonder whether so many qualifications may not be needed that it ceases to have any real validity. I see various major practical qualifications: -

(a) Substitution

It is very probable that if more is lent via the I.B.R.D., less will be lent through other channels. The Capital Issues Committee is quite capable of adjusting its attitude on foreign lending, and works in the closest contact with the Treasury on this particular aspect. While I would not go so far as to say that the amount of the total contribution (your para. 2) of the U.K. is fixed, there is a real aspect of competition for places, and some beneficiaries are ruled out. A variant of this is the possibility that some short-term credit will be "killed" by the issue of the I.B.R.D. sterling funds to a borrower. I should expect purchases made by such a borrower to need less short term credit to help out the production process than purchases made in the normal way.

(b) Supplies

At present, the whole of the "contribution" of the U.K. is limited by the possibility of spending the money made available. Here again there is competition; and a loan of sterling made by the I.B.R.D. may, if spent, result in some other sterling remaining unspent. Suppose the U.K. has 50 bulldozers available, which might be sent to Canada, Australia, South Africa or (via I.B.R.D.) to Syria. The effect is very different in each case. Diversion to Syria may mean an ~~and~~ unrequited import into the U.K. of equal value. How does the theory of the multiplier deal with unrequited imports?

(c) Leakages

The whole theory seems to me to assume a degree of freedom to import which is less than realistic. In the U.K. at least, the volume of imports is dictated much more - though not entirely - by what we

can .../

can afford than by what people would like. There is of course no doubt that inflationary pressure is created, and on some multiplier theory. But the point is whether the theoretical import demand may not be frustrated, and if so what happens? There is, I imagine, a temporary rise in the level of the water behind the dam, but some of this leaks away; e.g. more may be spent on services (amusements etc.), which generates (or rather changes) new incomes. But at each change, the tax-collector steps in. The leakages in this way, and in involuntary saving, i.e. waiting for opportunities to spend, may be considerable.

I suggest to you, therefore, that the whole theory of the multiplier is qualified by "other things being equal" - and that this qualification may be very important.

2. The Source of the Money

Does your Memo distinguish adequately between funds already existing in the hands of non-residents, and those placed in non-resident hands by, e.g. an I.B.R.D. issue in London (or for that matter any other foreign loan) subscribed by the public?

Suppose I have a bank balance of £1000, and instead of buying a car, forego that purchase and invest £1000 in I.B.R.D. Stock. Then some foreigner or other buys the car, and some equivalent bit of plant. Why does that transaction involve a multiplier?

3. I.B.R.D. Dollar Loans and Sterling Expenditure

I just don't follow your figures in para. 6 suggesting that an I.B.R.D. Loan of \$100 million "would presumably result in \$15 million worth of offshore purchases in the £ area." The facts are that out of \$678.8 million actually disbursed to 15 May, 1951, by the I.B.R.D., off-shore purchases have been as follows:

	<u>\$ million</u>
Belgian francs	23.4
Canadian \$	26.3
Swiss francs	11.3
£ sterling	4.3
Others	<u>2.3</u>
	67.6
Purchases in U.S. \$	<u>611.2</u>
Total	678.8

On past experience therefore, a dollar loan of \$100 million by the I.B.R.D. will result in little over \$500,000 being spent in the £ area - not \$15 million. Or have I misunderstood you?

(Note. .../

(Note. The South African loan will change these figures. But the circumstances are so peculiar that it must be omitted from the calculations in your paper).

4. Possible Borrowers

Is your para. 3 put in the most effective way? I find it a little difficult to say why I.B.R.D. should lend to Europe for purchases in the U.K. Does not E.P.U. provide all the E-Europe needs? Or if not, is their creditworthiness allowing I.B.R.D. to lend more? I suggest that a more fruitful division would be to exclude altogether from potential borrowers of sterling from I.B.R.D. -

- (a) Members of Sterling area
- (b) Holders of substantial sterling balances
- (c) Dollar-worthy borrowers
- (d) Non-members of I.B.R.D.

The resulting number of potential sterling borrowers is pretty small, and it would be really interesting to work out what countries are likely borrowers and for how much. On the other hand, your analysis would certainly be applicable to countries other than the U.K. - e.g. Sweden or Belgium or Canada, when the cross-currents set out at (a) and (b) just above are much less important.

As I said above, these are personal comments; but the subject is very important, and I am not sure if you have said the last word. Would you like to dictate your comments, and let us see if there is anything left of my criticisms which could merit discussion?

Sir ERD-D*jw
copied June 12/51/js

April 20, 1951

REFLECTIONS ON NON-DOLLAR LENDING BY THE IBRD

1. The reduction or virtual disappearance of the "dollar gap" means that non-dollar currencies are in greater demand to-day. It doesn't follow from this that the non-dollar countries are more capable of satisfying the increased demand for long-term loans in non-dollar currencies. An improvement in the balance of payments and a notable improvement in the dollar balance of payments alone does not enable a country automatically to become a capital exporter. Exports of long-term capital are the outcome of both national income (resources) and the balance of payments situation. The first is of very much greater weight than the second. As an example, one may say that Ceylon, with a favorable balance of payments, cannot export capital, while Canada, in spite of an unfavorable balance of payments, undoubtedly can.

The increased demand for European currencies (for instance, pound sterling) cannot therefore automatically be satisfied by increased capital exports from Europe. The standard of living in Europe will presumably be lower in 1951-52 than in 1949/50, as a result of a drastic change in terms of trade and of the armament effort. To increase unrequited exports in this situation of over-full employment is so much the more difficult because such an increase would lead to a higher than usual increase in imports. 1/

1/ An increase of say £ 10 million of unrequited exports would generate via the multiplier an income of say £ 15 million. The marginal propensity to import in a period of over-full employment is necessarily very much higher than the average propensity to import. In the U.K., it would be at least 33%. Additional imports, as a result of £ 10 million unrequited exports would therefore amount to around £ 5 million.

It may be contended, nonetheless, that both on moral and on practical grounds there is a strong case to offer greater non-dollar lending facilities to the International Bank. The case will be argued on the example of the U.K. and the sterling area.

2. The total contribution of the U.K. to development consists of six separate items:

- i) Release of sterling balances,
- ii) grants to underdeveloped countries, or areas,
- iii) (a) release of 18% capital to the IBRD, and
(b) release of 18% capital by some other developed members of the sterling area, e.g. Australia,
- iv) issue of pound sterling bonds by the IBRD in London,
- v) direct capital exports from the U.K., and
- vi) bond issues by the IBRD in countries which have a sterling surplus, (e.g. Egypt and Thailand).

Any rational discussion of the extent of a desirable U.K. contribution to development should naturally take all these six chapters into consideration and not confine itself to a discussion of only one or two. Variations of the amount contributed in one or the other form can naturally occur. What is desirable is to have some discernible principles of a general policy of the U.K. in this sphere.

3. Only iii) and iv) (pound sterling made available by the release of 18% or by issues of pound bonds) are of practical importance to IBRD lending. For an estimate of the economic burden of such pound sterling releases on

the U.K., three cases have to be distinguished:

- (a) pound sterling lent to EPU countries for purchases in the U.K.,
- (b) pound sterling for purchases in EPU countries other than the U.K., and
- (c) pound sterling lent to non-EPU countries for purchases in the U.K.

In all the three cases, £ 10 million exports would generate an income of at least £ 15 million and lead to an increase in imports of about £ 5 million. (See page 1, footnote 1/).

In the case of (a), the United Kingdom increases her unrequited exports by £ 10 million and has to expect an increased demand for imports of £ 5 million.

In the case of (b), pound sterling would, in most cases, be used by countries which are in deficit with the EPU. This would diminish the U.K.'s surplus with the EPU. Gold payments to the U.K. by the EPU would be reduced, but at the same time there would be no increase in unrequited exports by the U.K. The economic burden on the U.K. would be very much smaller than in the case of (a).

In the case of (c), there would be an increase in unrequited exports of £ 10 million and a consequent increase in the demand for imports of £ 5 million. Apart from the modality of repayment, the effects are the same as those in (a).

4. It must be pointed out that the International Bank loans are and will be, in principle, untied loans. A percentage which may be estimated at anything between 10 and 15% of the total IBRD dollar lending will therefore result in "offshore purchases" from the sterling area. An International

Bank lending of say \$300 million should therefore lead to a purchase by the IBRD for dollars of about £ 15 million (\$42 million). This in itself is not yet an argument for the increased supply of pounds by the U.K. (either through 18% money or through bond issues) because the IBRD intends to fulfill the principle of untied loans without asking for a quid pro quo.

5. Total dollar lending by the International Bank can, however, be substantially raised if it were supplemented by a greater amount of non-dollar lending. And this for two reasons: (a) strictly economic, and (b) political.

6. Ad. (a) It could be demonstrated that many countries: dollar creditworthiness would be raised if these countries received *pari passu* more credit in non-dollar currencies. The argument here is somewhat similar to the one that a country's total creditworthiness is increased by wisely used grants. The IBRD could increase its dollar lending substantially if it could also lend more than token amounts in non-dollar currencies. For sheer example's sake, it might be said that the International Bank could lend 100 million additional dollars if it had at its disposal \$100 million worth of non-dollar currencies. It is probable that the proportion of pound sterling among the non-dollar currencies to be lent by the Bank should be of an order of magnitude of 50 to 60%, ie: 50 to 60 million dollars worth of pound sterling. An additional dollar lending by the International Bank of \$100 million would presumably result in \$15 million worth of offshore purchases in the sterling area.

7. Ad. (b) The main argument of supporting the Bank by making available

non-dollar currencies for lending is, however, moral and political. Such a lending will increase the total activity of the Bank, it will enhance its prestige and will widen the sphere of international, rather than bilateral national action, for the development of backward countries.

8. It is obvious that any pound sterling offered to the International Bank for lending, either in the form of 18% or through issue of bonds, would not be immediately disbursed. Moreover, only one part of such pound sterling would represent a net increase in the U.K. unrequited exports. Another part, which can be considerable, may easily represent a change of the channel of lending rather than an increase in the amount of lending.

9. Conclusions

(i) The release of 18% funds represents an increase of unrequited exports and is therefore a heavy burden.

(ii) A short-run improvement in the dollar balance of payments position does not enable soft currency countries to become long-run capital exporters. Even if the disappearance of the dollar gap were to be permanent, European countries cannot be capital exporters on a large scale.

(iii) They have a moral commitment and a political interest, however, to enlarge the scope of Bank activity. Bank lending in non-dollar currencies, while more than a token, can be only a supplement to its dollar lending. On the whole, it seems desirable that non-dollar lending should represent about 20% of the dollar lending. On the assumption of an annual lending in dollars of \$500 million, \$100 million lending in non-dollar currencies represents a desirable order of magnitude.

(iv) There are three reasons for the IBRD's claim for release of 18%.

They are in order of their importance:

- (1) moral obligation and political advantage in widening the scope of the Bank's activity,
- (2) more dollars can be lent by the Bank if non-dollar lending is increased, and
- (3) some countries' creditworthiness in pounds is larger than their creditworthiness in dollars.

(v) The sterling area, especially the United Kingdom, would have a different burden to bear in the cases of (a) plus (c) and (b). If it were impossible to obtain an overall release of 18% funds, it would be at least desirable to have an overall authorization to use 18% funds in fixed proportions for each one of the three groups of cases without having to negotiate a release for each particular loan separately.

(vi) When authorizing releases of say \$20 million equivalent for the case (a), \$30 million equivalent for the case (b) and \$10 million equivalent for the case (c), it must be kept in mind that these amounts do not represent an equivalent increase in unrequited exports from the United Kingdom. A considerable part of it, which can be varied according to the U.K. policy decisions, may represent a change in the form of lending rather than an increase in the amount of U.K. lending. Certain amounts which should have been made directly from the U.K. can be channelled through the International Bank.

From a total release from \$50 million to \$60 million, only 50 or 40 or 30% need represent an increase in net lending.

NO. 545-13 U.S.A.

I. Frank - Materials
Policy Commission

April 30, 1951

Mr. Isaiah Frank
The President's Materials Policy Commission
1740 G Street N.W.
Washington, D.C.

Dear Mr. Frank,

Pursuant to our discussion of Friday last,
I am sending you herewith for your information :

- (1) an internal confidential memorandum, dated March 16, 1950, relating to a proposed International Development Corporation (Equity corporation), which was referred to by Mr. Mikesell.
- (2) Copy of a confidential letter, dated November 2, 1950, from Mr. Eugene Black to Mr. Gordon Gray, relating to the main proposals of the Gordon Gray Committee.
- (3) Copy of a memorandum, dated January 15, 1951, from Mr. Eugene Black to the United States Executive Director, relating to the problems of development lending.
- (4) Copy of a confidential memorandum, dated April 5, 1951, relating to a request by Mr. C. H. Bonesteel for our estimates of a reasonable dollar borrowing program for development purposes for the underdeveloped countries.

I will send to you tomorrow morning the commodity studies which are sufficiently recent to be of some interest. We have deliberately left out the studies on

foodstuffs such as coffee, tea, cocoa, oils and fats, since you were not interested in foodstuffs. Some of these studies will be in draft form ; we assume that the fact that they are not in final shape will not affect their usefulness for your purpose.

You will notice also that most of the time these studies will not answer your question as to where an additional investment would be the most useful. But I feel that we could be of assistance in answering this question, at least on individual items, and Dr. Egbert de Vries, head of our Resources staff, will be ready to assist you if you have some specific queries in that connection. I would like to point out, however, that he is going to be away from Washington during the month of June.

Looking forward to further discussions with you, I remain, dear Mr. Frank,

Yours sincerely,

Leonard B. Rist,
Director, Economic Department

4 encl.

IBRD DOCUMENTS

I. Agriculture

Hemp, January 23, 1948.

Agriculture in the Belgian Congo, July 15, 1948.

Jute and the Prospects for the Marketing of Indian Jute and Jute Products in the United States, March 18, 1949.

The Effects of Devaluation on Raw Material Prices, December 21, 1949.

Current Rubber Situation and Problems, March 22, 1951 (preliminary draft).

Hides and Skins, April 30, 1951 (preliminary draft).

Prospects for Middle East Cotton, April 26, 1951.

II. Minerals

The World Copper Outlook and Its Probable Impact on Chilean Copper Exports, January 23, 1950.

Current Developments in the Canadian Petroleum Industry, March 30, 1949.

World Trade in Oil, August 15, 1950.

World Copper Balance Sheet, August 16, 1950.

Eastern Hemisphere's Dollar Earnings From Tin, October 25, 1950.

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Note: Attached are lists of studies of F.A.O. and other important sources of commodity information.

The annual report of the International Cotton Advisory Committee should be added to these sources.

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UN FOOD AND AGRICULTURE ORGANIZATION PUBLICATIONS

Commodity Reports

Animal Feedstuffs, September, 1949.
Dairy Products, September, 1949.
Wool, March 15, 1950.
Hard Fibers, May 8, 1950.
Jute, June 19, 1950.
Cocoa, June 26, 1950.
Fertilizers, August 10, 1950.
Poultry and Eggs, September 18, 1950.
Grain, November 20, 1950.
Sugar, November 22, 1950.
Citrus Fruit, December, 1950.
Rice, December 15, 1950.
Fats and Oils, December 29, 1950.
Meat and Livestock, December 29, 1950.

World Fiber Survey, August 1947.

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COMMONWEALTH ECONOMIC COMMITTEE PUBLICATIONS

1. Commodity Series

Meat
Fruit
Grain Crops
Industrial Fibers
Plantation Crops
Vegetable Oils and Oilseeds
Dairy Produce

2. Intelligence Services

Wool Intelligence
Tobacco Intelligence

List of O.E.E.C. Studies

- (1) Report on Textiles Committee Report on the Problems of Raw Cotton Supplies, TE (50) 18, October 23, 1950.
- (2) Report on Situation of the Timber Market by the Timber Committee, BO(50) 15, November 10, 1950.
- (3) Report on Rubber by Chemical Products Committee CP (50) 20, November 18, 1950.
- (4) Report on Problems Concerning the Supply of Hides and Skins MP(50) 6, November 24, 1950.
- (5) Report by the vertical Committees on the scarcity of raw materials November 1950, (timber, pulp and paper, textile, natural rubber, synthetic rubber, hides and skins).
- (6) Second report on Raw Materials (and Annex) EC(51)8, March 4, 1951 (rubber, pulp and paper, fibers, wool, timber, cotton, hides and skins).
- (7) Second report by the Economic Committee on Raw Materials - C(51)60, March 5, 1951.

List of Publications from
Purchasing Officers Association a/
on Raw Materials

- (a) Timber - No. 8
- (b) Oils and fats - No. 9
- (c) Wool - No. 11
- (d) Cotton - No. 12
- (e) Natural fibers - No. 13
- (f) Synthetic fibers - No. 14

a/ Address Wardrobe Chambers, 146a, Queen Victoria Street, London E.C. 4

Files

April 30, 1951

Leonard B. Rist

The President's Materials Policy Commission

Professor Mikesell, accompanied by Mr. Isaiah Frank, called on Mr. Sommers and myself on the 27th of April to inform us that they were working for the President's Materials Policy Commission which includes:

Mr. William Pailey, of C.B.S., President
Prof. Ed. Mason, of Harvard, Commissioner
Mr. Hodgins, former publisher of "Fortune", Commissioner
Mr. Arthur Bunker, Commissioner
Mr. G. Rufus Brown, Commissioner

The purpose is to give to the President of the United States a report on the materials problems of the United States from the long-term point of view, covering:

- (1) availabilities and requirements of supplies on the basis of the normal economic growth of this country, to be projected over the next twenty-five years;
- (2) the same problem in terms of short-term security requirements.

The point of view taken by the Commission is that it cannot concern itself with the needs of the United States alone but has to consider the needs of the free world as a whole. For the same reason, it does not want to limit itself to availabilities of critical supplies alone, but also with all developments which have to accompany an increase in critical supplies, either from economic or social standpoint.

They asked us a few questions about the Bank's policy including the following: Can we finance materials projects or projects ancillary to the production of materials? What is the position of the Bank in relation with non-guaranteed loans? Why does the Bank not give its guarantee to loans issued by other debtors?

These questions having been disposed of during the meeting, they intend to have our further views as to:

Financing and technical aspects of development;

The possibility of our financing direct investment in addition to loans (the problem raised by Mr. Nelson Rockefeller under the caption "International Finance Corporation");

The problem of absorptive capacity and the extent to which financing is a limiting factor in development.

They also asked us whether we could give them instances of the capital investment involved for developing local resources.

Their intention is to give us a full questionnaire covering these four points and we promised them our fullest cooperation. Our available commodity studies together with some earlier Bank documents have been sent to them including:

Mr. Black's letter to Gordon Gray,

Mr. Black's memorandum to Mr. Martin on coordination,

Memorandum on borrowing capacity of member countries prepared at request of Mr. Bonesteel,

Memorandum on equity subsidiary.

Proposed Reply to
Bonesteel - Apr. 4, 1951

NO. 545-13 40 U.S.A.

File *MR*
OFFICE MEMORANDUM

TO: Mr. Leonard B. Rist

DATE: April 11, 1951

FROM: Andrew M. Kamarck *amk*

SUBJECT: Lending Program Estimates

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DECLASSIFIED

OCT 30 2014

WBG ARCHIVES

The attached table brings together all the country details of the estimates prepared by the Area Sections and Divisions of the Economic Department on the reasonable borrowing capacity of the under-developed member countries of the International Bank. The final text describing the assumptions on which the estimates were based is attached.

The summary of these estimates by region was presented as shown below. Mr. Hoar, incidentally, also thought that these regional estimates were all right.

AMK/vhn

Estimates of a Reasonable Borrowing Program by the Underdeveloped
Member Countries of the Bank

(Average annual rate for the five years 1951-52 to 1955-56)

(In millions of dollars or equivalent)

	<u>\$ Loans</u>	<u>IBRD European Currency Loans</u>
Latin America	205	7
Middle East	35	55
South & Southeast Asia	75	65
Australia & Self-Governing Africa	105	3
	<hr/>	<hr/>
<u>Grand Total</u>	<u>420</u>	<u>130</u>
Dependent Overseas Territories	100	0

Estimates of Borrowing and Borrowing Capacity by
International Bank Member Countries from Non-Private Dollar Sources

			1951-52		5-year period 1951-52 thru 1955-56	
	Estimated undisbursed loans of IBRD and Ex-Im		Loans in dollars & other currencies in sight in current loan negotiations or on which negotiations can be reasonably anticipated		Estimate of maximum reasonable amount of dollar loans which could be made during this five-year period	
	July 1, 1951	IBRD	1951-52		Estimate of maximum reasonable amount of non-dollar loans IBRD could make in addition to dollar loans during this period	
	(a)	(b)	(2)	(3)	(4)	(5)
<u>Central America</u>						
Mexico	157	26	65	65	179 36	0
Guatemala	0	0	0	3	20 4	0
Honduras	0	0	0	5	10 2	0
El Salvador	0	9	0	15	20 7	0
Nicaragua	0	0	5	5	15 3	0
Panama	0	0	0	10	20 4	0
Cuba	12	0	20	50	75 15	0
Dominican Republic	0	0	0	10	25 5	0
Costa Rica	0	0	0	3	12 2	0
<u>Total</u>	169	35	90	166	376	0
<u>South America</u>						
Bolivia	9	0	0	-	15	0
Brazil	57	43	50	75	250	0
Chile	5	8	12	25	100	0
Colombia	8	4	16	50	125	0
Ecuador	11	0	0	5	15	5
Paraguay	0	0	0	5	15	5
Peru	21	0	0	15	25	25
Uruguay	3	21	0	-	50	0
Venezuela	5	0	0	-	50	0
<u>Total</u>	119	76	78	175	645	35

	(a)	(b)	(2)	(3)	(4)	(5)
	(1)					
<u>Middle East</u>						
Turkey	6	19	1	15	30	30
Iran	25	0	25	30	50	50
Iraq	0	12	13	30	20	50
Egypt	0	0	25	20	50	100
Syria	0	0	12	20	10	30
Lebanon	0	0	0	3	15	10
Jordan	<u>0</u>	<u>0</u>	<u>0</u>	<u>-</u>	<u>0</u>	<u>0</u>
<u>Total</u>	31	31	76	118	175	270
<u>South & Southeast Asia</u>						
India	0	10	50	50	75	125
Pakistan	0	0	60	60	50	150
Ceylon	0	0	0	25	100	0
Thailand	0	20	0	10	15	20
Indonesia	80	0	0	-	100	0
Philippines	0	0	0	-	25	0
Burma	<u>0</u>	<u>0</u>	<u>0</u>	<u>-</u>	<u>0</u>	<u>25</u>
<u>Total</u>	80	30	110	145	365	320
<u>Australia</u>	0	69	0	0	200	0
<u>Self-Governing Africa</u>						
South Africa	0	42	0	50	250	0
S. Rhodesia	0	0	0	10	50	0
Ethiopia	<u>0</u>	<u>5</u>	<u>0</u>	<u>5</u>	<u>15</u>	<u>15</u>
<u>Total</u>	0	47	0	65	315	15
<u>GRAND TOTAL</u>	399	288	354	669	2076	640
<u>Colonies</u>						
U.K. African	0	0	30	30	150	0
French African	0	0	0	20	100	0
Belgian African	0	0	0	60	100	0
Malaya	0	0	0	0	0	0
Indo-China	0	0	0	0	0	0
Surinam	<u>0</u>	<u>0</u>	<u>0</u>	<u>15</u>	<u>15</u>	<u>0</u>
<u>Total D.O.T.'s</u>	0	0	30	125	365	0

Other Ex-Im Countries 160

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Description of Table

A. General

Estimates have been made by the Area Sections of the Economic Department of the reasonable dollar borrowing capacity over the five-year period 1951-52 through 1955-56 of the under-developed member countries of the Bank. Included in this category are under-developed countries which have applied for membership in the Bank. For the purpose of this paper, "under-developed" is taken to mean any country outside of Europe with the exception of the United States and Canada. A separate estimate has been made for the dependent overseas territories of the Bank's European members. (The principal countries excluded as non-members are Japan, Korea, New Zealand, Argentina, Israel, Saudi Arabia, Libya, Liberia, and the Portuguese and Spanish colonies. China has also been omitted for obvious reasons.)

These estimates were built up on a country by country basis by the area experts of the Bank. No attempt was made to force figures into a preconceived total. The estimates were derived on the basis of the following assumptions:

- (a) There will be no substantial changes in the international political situation;
- (b) Neither the supply of funds nor the availability of supplies will be a limiting factor;
- (c) The present trend of improvement in preparing programs and projects will continue;
- (d) The United States will maintain continued high levels of income and there will be a slowly rising demand for imports above the January-June 1950 level;
- (e) Currencies will be neither more nor less convertible than now;
- (f) The rate of foreign private capital investment in each country will be the same as the present;
- (g) The terms of payment of loans will be similar to those recently extended by the Bank;
- (h) In the cases of India and Pakistan, the United States will make available grants in the amounts currently contemplated in the preparation of the foreign assistance program for 1951-52 and will continue this form of aid at approximately the same levels for several years;

- (i) Adequate coordination policies and procedures will be developed so that the grant, technical assistance and loan programs will supplement each other and not work at cross purposes. This involves common understandings as to objectives and delineation of the roles of participating agencies.
- (j) The "reasonable amount of loans" a country could absorb is defined as:
 - (1) within its capacity to repay;
 - (2) within its technical, social, etc. capacity to absorb;
 - (3) necessary for its economic development.

Our estimates refer to loan commitments, not loan disbursements. By "loan commitment" we do not mean in this context a line of credit authorized for purposes to be specified in the future. We refer to a commitment for a specific project or program, reasonably worked out.

Our estimates relate to loan commitments made for development purposes. We have not taken into account loans to provide new strategic materials production which would be self-liquidating in foreign exchange. It is impossible for us to make any estimates relating to such loans.

In the case of some countries, their non-dollar capacity to repay is larger than their dollar capacity to repay. As the Bank has the possibility of securing non-dollar currencies for lending, an estimate was made of the magnitude of the additional loans in non-dollar currencies which could be absorbed and utilized profitably for economic development. These estimates took account of known non-dollar currency financing plans and were based on the assumption that no great spurt would take place over current rates or known plans.

On these assumptions, an average annual rate of about \$400 million of development loan commitments in the under-developed countries (as defined above) would be within the borrower's capacity to absorb and repay and could be effectively used in high-priority development purposes. If the dependent overseas territories were included, our figure would be raised to about \$500 million. If European currencies were freely available for the lending program, a further increase to about \$600 million would be justified.

The assumptions on which these estimates are based are on the whole optimistic, but in other respects we have tried to make conservative judgments. If all of the assumptions should prove to be true, the rate of lending after the next year or two might increase substantially. On the other hand, we believe that several of the assumptions will turn out to be unrealistic as applied to 1951-52. We have in mind particularly that the following obstacles may develop:

- (1) Supply shortages;
- (2) Limited availability of European currencies;
- (3) The possibility that the international political situation may be worse than that assumed;
- (4) Failure of countries to proceed as rapidly as assumed in preparing properly developed projects or programs;
- (5) Lack of loan applications by some countries, whether due to improved financial conditions, to domestic political reasons or other causes;
- (6) Failure to achieve adequate coordination between national and international grant lending and technical assistance programs.

For background information, in addition to the estimates of reasonable borrowing capacity over five years, estimates have been made of (1) the amounts which will still be undisbursed on June 30, 1951 of existing Ex-Im Bank and IBRD loans; (2) of the loans in sight in current negotiations or which can be reasonably estimated will be made in 1951-52; (3) of the maximum borrowing capacity during the single year 1951-52 alone.

B. Detailed Country Comments

Central America

Mexico - It is assumed that during 1951-52 Mexico will receive loans of \$60 million Eximbank against the existing line of credit of \$150 million, of which \$31 million has already been firmly committed, and will also receive firm loans of \$5 million from the IBRD consortium loan. It is assumed that the balance of Eximbank line of credit (\$59 million), and of the IBRD consortium loans (\$5 million) will be used during the five-year period, and that additional IBRD loans (\$50 million) will be made assuming that a comprehensive investment program is prepared.

Nicaragua - The five-year figure assumes a comprehensive investment program.

South America

Bolivia - Figure for five-year period is rather unlikely since it assumes that administrative reforms will follow the report of the Keenleyside Mission.

Chile - The figures for "reasonable lending" assume adoption of a satisfactory development program.

Ecuador - It is assumed that there will be a high proportion of TA grants allocated to Ecuador, with open possibility of financial grant in special cases.

Paraguay - It is assumed that there will be a high proportion of TA grants allocated to Paraguay, with open possibility of financial grant in special cases.

Venezuela - Creditwise, we could lend more, but it is doubtful whether the Government would desire to borrow more.

Middle East

Turkey - Based on assumption Turkey will be able to refund the short-term Export-Import Bank and the Allied military and defense loans which mature during this period.

Iran - Figures for Iran assume a satisfactory arrangement as to oil reserves.

South and Southeast Asia

India - It may be very roughly estimated that grants over a five-year period at the rate indicated for 1951/52 would improve India's creditworthiness by roughly \$130 million, bringing the estimate of possible additional lending to around \$200 million. This is in addition to present effective loans amounting to about \$60 million.

Pakistan - At present Pakistan's creditworthiness has been assessed at at least \$150 million of which perhaps a third could be in dollars. With additional grants of the order indicated this figure might be raised to \$200 million over-all with that in dollars still limited to around \$50 million.

Ceylon - External financial assistance required for the Colombo program (excluding sterling balance releases) has been estimated at \$115 million. Such an amount should be within Ceylon's creditworthiness capacity. However, the figure has been reduced to \$100 million on the assumption of a somewhat more favorable balance of payments position than that included in the Colombo estimates with the result that external aid requirements will be somewhat less than the figures in the Colombo Plan.

Thailand - The Bank has assessed Thailand's capacity to service dollar debt obligations at about \$3.5 million per year representing a dollar creditworthiness evaluation of \$35 to \$40 million. It is assumed that the non-dollar borrowing capacity is in the same order but the country will not be able to absorb more than one-half of its non-dollar borrowing capacity. Loans to Thailand now amount to about \$25 million.

Indonesia - While Indonesia's service obligations on existing debt may be expected to reach an equivalent of about \$40 million during the present decade, balance of payments prospects indicate a capacity to assume additional annual obligations for debt service. The figure of \$100 million is based on the country's technical, physical and social capacity to absorb additional loans as well as on the creditworthiness prospects.

Philippines and Burma - The figures for these two countries are given as an indication of the possibility that both may be in a position to absorb and service small loans assuming greater internal economic and political stability than exists at present.

Colonies

Malaya - The U.K. has indicated it will meet all external financial needs of Malaya.

Indo-China - Due principally to the civil war, it is not possible to make any reasonable estimate at this time.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 4/2/51

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

FOR-

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

REMARKS

FROM-

D. Sommers

DRAFT

MEMORANDUM

April 3, 1951

In connection with the preparation of a United States foreign assistance program for the forthcoming fiscal year, Mr. C. H. Bonesteel, Special Assistant to the Secretary of State, has asked for our views on the following questions:

1. What would be our estimate of the magnitude of a reasonable dollar ^{by} ~~lending~~ ^{borrowing} program during 1951-52 for development purposes in the underdeveloped countries? Mr. Bonesteel asked us to base our estimate on favorable assumptions, including those relating to the supply of funds, the availability of supplies, and the adequate and prompt preparation of projects.
2. What should be the relationship between a grant program for development purposes and development lending activities?

In relation to the first question, there are certain preliminary comments which should be made to avoid misunderstanding. In preparing estimates, we have excluded from the underdeveloped countries the dependent overseas territories of the United Kingdom, France and Belgium, since we understand that these areas have been excluded from the breakdown on which Mr. Bonesteel is working. We have also excluded non-members of the Bank, since we have insufficient information about these countries. The principal countries excluded as non-members are Japan, Korea, New Zealand, Argentina, the Portuguese and Spanish colonies, Saudi Arabia, Libya, Liberia and Afghanistan.

Our estimate refers to loan commitments, not loan disbursements. By "loan commitment" we do not mean in this context a line of credit authorized for purposes to be specified in the future. We refer to a commitment for a specific project or program, reasonably worked out.

Our estimate relates to loan commitments made for development purposes. We have not taken into account loans which might be made for strategic purposes primarily in the interest of the lending, rather than the receiving, country or strategic materials loans to be repaid by delivery of the materials. It is impossible for us to make any estimates relating to such loans.

Our estimate has been based on the following assumptions:

- (a) There will be no substantial changes in the international political situation;

- (b) Neither the supply of funds nor the availability of supplies will be a limiting factor;
- (c) The present trend of improvement in preparing programs and projects will continue;
- (d) The United States will maintain continued high levels of income and there will be a slowly rising demand for imports;
- (e) Currencies will be neither more nor less convertible than now;
- (f) The rate of foreign private capital investment in each country will be the same as the present;
- (g) The terms of payment of loans will be similar to those recently extended by the Bank;
- (h) Except for the technical assistance aid and grants to India and Pakistan at rates currently contemplated for the foreign assistance program, no dollar grants in aid will be extended to the underdeveloped countries;
- (i) Adequate coordination policies and procedures will be developed so that the grant, technical assistance and loan programs will supplement each other and not work at cross purposes. This involves common understandings as to objectives and delineation of the roles of participating agencies.

In addition, although Mr. Bonesteel's question refers to only one year, we take it that he is interested in the kind of lending program that could continue at comparable levels over a period of several years.

On these assumptions we believe that a program of about \$400,000,000 of development loan commitments during 1951-52 in the underdeveloped countries (as defined above) would be within the borrowers' capacity to absorb and repay and could be effectively used in high-priority development purposes. We might add that if the dependent overseas territories were included, our figure would be raised by about \$100,000,000. If European currencies were freely available for the lending program, we would make a further increase of about \$100,000,000.

The assumptions on which these estimates are based are on the whole optimistic, but in other respects we have tried to make conservative judgments. If all of the assumptions should prove to be true, the rate of lending after the next year or two might increase substantially. On the other hand, many of the

assumptions may turn out to be unrealistic and therefore the actual rate of lending may in practice turn out to be considerably lower. The principle obstacles which we foresee at present for a lending program of the estimated magnitude in the years 1951-52 are the following:

- (1) Supply shortages;
- (2) Unavailability of European currencies in the amounts assumed;
- (3) The possibility that the international political situation may be worse than that assumed;
- (4) Failure of countries to proceed as rapidly as assumed in preparing properly developed projects or programs;
- (5) Possible unwillingness of some countries for domestic political reasons or otherwise to request loans;
- (6) Failure to achieve adequate coordination between national and international grant, lending and technical assistance programs.

In reference to the second question, I should like to emphasize two important problems of policy which, in our opinion, must be solved if any foreign aid program is to be effective.

First, there must be a clear conception of the roles to be played by international and national agencies. If the international agencies are to contribute, the fields in which they are to operate must be defined with reasonable clearness and they must have some assurance that national programs, having greater resources at their disposal which can be made available on more favorable terms, will not be administered in such a way as to make international programs unacceptable or ineffective.

Second, there must be a mutual understanding as to the objectives and criteria of various types of development financing, whether it takes the form of grants in aid, loans or technical assistance. With such a common understanding, the several forms of aid administered by the several agencies can effectively reinforce each other and make the combined contribution more effective. Without such an understanding funds provided may be wasted and expectations may be disappointed.

In reality these are two aspects of a single problem, that of coordinating the activities of different kinds of agencies administering different kinds of aid. We have in

the past expressed our views on this subject to representatives of the United States Government. (See Mr. Black's letter of November 2, 1950 to Mr. Gordon Gray and memorandum of January 15, 1951 entitled "United States Development Lending and the International Bank", copies of which are attached.) These documents explain our views as to the nature of the coordination problem and its significance for the prospects of economic development and international cooperation in the development field.

These documents do not propose any solution to the problem of coordination, except as it relates to coordinating the activities of the International Bank and the Export-Import Bank of Washington. The International Bank has views on how the problem of coordination in general might be solved and would welcome the opportunity of discussing them with representatives of the United States Government.

April 4, 1951

MEMORANDUM

In connection with the preparation of a United States foreign assistance program for the forthcoming fiscal year, Mr. C. H. Bonesteel, Special Assistant to the Secretary of State, has asked for our views on the following questions:

1. What would be our estimate of the magnitude of a reasonable dollar borrowing program during 1951-52 for development purposes by the underdeveloped countries? Mr. Bonesteel asked us to base our estimate on favorable assumptions, including those relating to the supply of funds, the availability of supplies, and the adequate and prompt preparation of projects.
2. What should be the relationship between a grant program for development purposes and development lending activities?

In relation to the first question, there are certain preliminary comments which should be made to avoid misunderstanding. In preparing estimates, we have excluded from the underdeveloped countries the dependent overseas territories of the European powers since we understand that these areas have been excluded from the breakdown on which Mr. Bonesteel is working. We have also excluded non-members of the Bank, since we have insufficient information about these countries. The principal countries excluded as non-members are Japan, Korea, New Zealand, Argentina, Israel, Saudi Arabia, Libya, Liberia and Afghanistan. We include as members Burma, Indonesia and Jordan, all of which have applied for membership.

Our estimate refers to loan commitments, not loan disbursements. By "loan commitment" we do not mean in this context a line of credit authorized for purposes to be specified in the future. We refer to a commitment for a specific project or program, reasonably worked out.

Our estimate relates to loan commitments made for development purposes. We have not taken into account loans to provide new strategic materials production which would be self-liquidating in foreign exchange. It is impossible for us to make any estimates relating to such loans.

Our estimate has been based on the following assumptions:

- (a) There will be no substantial changes in the international political situation;
- (b) Neither the supply of funds nor the availability of supplies will be a limiting factor;
- (c) The present trend of improvement in preparing programs and projects will continue;
- (d) The United States will maintain continued high levels of income and there will be a slowly rising demand for imports above the January-June 1950 level;
- (e) Currencies will be neither more nor less convertible than now;
- (f) The rate of foreign private capital investment in each country will be the same as the present;
- (g) The terms of payment of loans will be similar to those recently extended by the Bank;
- (h) In the cases of India and Pakistan, the United States will make available grants in the amounts currently contemplated in the preparation of the foreign assistance program for 1951-52 and will continue this form of aid at approximately the same levels for several years;
- (i) Adequate coordination policies and procedures will be developed so that the grant, technical assistance and loan programs will supplement each other and not work at cross purposes. This involves common understandings as to objectives and delineation of the roles of participating agencies.

In addition, although Mr. Bonesteel's question refers to only one year, we take it that he is interested in the kind of lending program that could continue at comparable levels over a period of several years.

the
On these assumptions we believe that an average annual rate of about \$400,000,000 of development loan commitments in the underdeveloped countries (as defined above) would be within the borrowers' capacity to absorb and repay and could be effectively used in high-priority development purposes. We might add that if the dependent overseas territories were included, our figure would be raised to about \$500,000,000. If European currencies were freely available for the lending program, a further increase to about \$600,000,000 would be justified. These figures are broken down by areas in the attached Appendix.

The assumptions on which these estimates are based are on the whole optimistic, but in other respects we have tried to make conservative judgments. If all of the assumptions should prove to be true, the rate of lending after the next year or two might increase substantially. On the other hand, we believe that several of the assumptions will turn out to be unrealistic as applied to 1951-52. We have in mind particularly that the following obstacles may develop:

- (1) Supply shortages;
- (2) *limited* Unavailability of European currencies in the amounts assumed;
- (3) The possibility that the international political situation may be worse than that assumed;
- (4) Failure of countries to proceed as rapidly as assumed in preparing properly developed projects or programs;
- (5) Lack of loan applications by some countries, whether due to improved financial conditions, to domestic political reasons or other causes;
- (6) Failure to achieve adequate coordination between national and international grant lending and technical assistance programs.

may well
Since it is probable that one or more of these obstacles will develop during 1951-52, we believe that the actual rate of lending likely to be achieved in practice during that year will be considerably below the rate indicated in the above estimates.

With reference to Mr. Bonesteel's second question, there should be emphasized the problem of coordination, on which we have previously expressed our views to representatives of the United States Government. This involves two aspects: first, the relationship between United States lending agencies and the International Bank; second, the relationship between agencies administering different kinds of development aid, loans, grants and technical assistance.

As to the relationship between United States lending agencies and the International Bank: in our opinion the International Bank could itself handle a dollar borrowing program of the magnitude indicated above, with the exception of such portions as might be placed with private investors or as might, because of special circumstances, be obviously more appropriate for United States agencies. However, the International Bank could not carry out such a program in the absence of an understanding with the United States Government as to the role which the Bank is to play and an assurance that the activities of United States lending agencies will be coordinated with those of the International Bank. This would involve no more than (1) a recognition of the International Bank as the primary source of development loans in member countries and (2) an established procedure under which requests for such development loans would normally be referred in the first instance to the International Bank and the special cases in which United States lending agencies would act would be worked out in consultation with the International Bank.

The need for this kind of coordination has been described, with a suggested solution, in Mr. Black's memorandum to Mr. Martin dated January 15, 1951 entitled "United States Development Lending and the International Bank."

As to the relationship between agencies administering different types of aid: in Mr. Black's memorandum to Mr. Martin of January 15, 1951, and in his earlier letter to Mr. Gordon Gray of November 2, 1950, we have stressed the importance of a common understanding on objectives, criteria and programs in administering loans, grants and technical assistance. Three points are of particular importance:

- (1) The amount of loans that can be given will often depend on what is given in the form of grants. Similarly, the amount of loans and grants that can be effectively used will often depend on the technical assistance made available. Unless there is agreement on programs, none of the three types of aid is likely to achieve its purposes.

- and use*
- (ii) Since foreign aid is likely to be small in amount compared to the local resources which could be mobilized even by underdeveloped countries, major emphasis should be placed on efficient mobilization of domestic resources and the aid should be conditioned on the taking of domestic action required for that purpose. We believe that the International Bank, as an international institution, is in a better position to insist on such conditions than any national agency. *influence*
look to take
study
and
- (iii) If several agencies, national and international, are discussing development with each underdeveloped country, the multiplicity of advice, perhaps expressing inconsistent or even conflicting policies, may make it difficult to induce the country to take the decisions which are needed to mobilize their own resources and otherwise to make the foreign aid effective. As a minimum, therefore, there must be an understanding among the agencies on the objectives of development, the type, timing and amount of aid and the conditions on which it will be granted.

Although these points and others were discussed in Mr. Black's memorandum and letter mentioned above, no specific solution was proposed to the problem of coordinating the activities of agencies administering different types of aid. No specific solution can be found until the United States Government has determined what kinds of aid will be made available and through what agencies it will be administered. Nevertheless we have some general views on the problem and would welcome the opportunity of discussing them with representatives of the United States.

DS/km

APPENDIX

Estimates of a Reasonable Borrowing Program by the Underdeveloped Member Countries of the Bank

(Average annual rate for the five years 1951-52 to 1955-56)

	<u>Dollar Loans</u>	<u>IBRD European Currency Loans</u>
Latin America	205	7
Middle East	35	55
South and Southeast Asia	75	65
Australia & Self-Governing Africa	105	3
	<hr/>	<hr/>
<u>Grand Total</u>	420	130

400

405

120

FINAL

P.N. Rosenstein-Rodan
Economic Department

April 20, 1951

REFLECTIONS ON NON-DOLLAR LENDING BY THE IHRD

1. The reduction or virtual disappearance of the "dollar gap" means that non-dollar currencies are in greater demand to-day. It doesn't follow from it that the non-dollar countries are more capable of satisfying the increased demand for long-term loans in non-dollar currencies. An improvement in the balance of payments and a notable improvement in the dollar balance of payments alone does not enable a country automatically to become a capital exporter. Exports of long-term capital are the outcome of both national income (resources) and the balance of payments situation. The first is of very much greater weight than the second. As an example, one may say that Ceylon, with a favorable balance of payments, cannot export capital, while Canada, in spite of an unfavorable balance of payments, undoubtedly can.

The increased demand for European currencies (for instance, pound sterling) cannot therefore automatically be satisfied by increased capital exports from the U.K. The standard of living in Europe will presumably be lower in 1951/52 than in 1949/50, as a result of a drastic change in terms of trade and of the armament effort. To increase unrequited exports in this situation of over-full employment is so much the more difficult because such an increase would lead to a higher than usual increase in imports. 1/

1/ An increase of say £ 10 million of unrequited exports would generate via the multiplier an income of say £ 15 million. The marginal propensity to import in a period of over-full employment is necessarily very much higher than the average propensity to import. In the U.K., it would be at least 33%. Additional imports, as a result of £ 10 million unrequited exports would therefore amount to around £ 5 million.

It may be contended, nonetheless, that both on moral and on practical grounds there is a strong case to offer greater non-dollar lending facilities to the International Bank. The case will be argued on the example of the U.K. and the sterling area.

2. The total contribution of the U.K. to development consists of six separate items:

- i) release of sterling balances,
- ii) grants to underdeveloped countries, or areas,
- iii) (a) release of 18% capital to the IERD, and
(b) release of 18% capital by some other developed members of the sterling area, e.g. Australia,
- iv) issue of pound sterling bonds by the IERD in London,
- v) direct capital exports from the U.K., and
- vi) bond issues by the IERD in countries which have a sterling surplus, (e.g. Egypt and Thailand).

Any rational discussion of the extent of a desirable U.K. contribution to development should naturally take all these six chapters into consideration and not confine itself to a discussion of only one or two. Variations of the amount contributed in one or the other form can naturally occur. What is desirable is to have some discernible principles of a general policy of the U.K. in this sphere.

3. Only iii) and iv) (pound sterling made available by the release of 18% or by issues of pound bonds) are of practical importance to IERD lending. For an estimate of the economic burden of such pound sterling releases on the U.K., three cases have to be distinguished:

- (a) pound sterling lent to EPU countries for purchases in the U.K.,
- (b) pound sterling for purchases in EPU countries other than the U.K., and
- (c) pound sterling lent to non-EPU countries for purchases in the U.K.

In all the three cases £ 10 million exports would generate an income of at least £ 15 million and lead to an increase in imports of about £ 5 million. (See page 1, footnote 1/).

In the case of (a), the United Kingdom runs a surplus with the EPU already, so that any increase in its surplus would have to be paid in gold to the extent of 50%. An increase of a surplus with the EPU by £ 10 million would therefore yield £ 5 million worth of gold payments. Those would just cover the additional imports resulting from this extension of credit.

In the case of (b), pound sterling would, in most cases, be used by countries which are in deficit with the EPU. This would diminish the U.K.'s surplus with the EPU. Gold payments to the U.K. by the EPU would be reduced, but at the same time there would be no increase in unrequited exports by the U.K. The economic burden on the U.K. would be considerably smaller than in the case of (a).

In the case of (c), there would be an increase in unrequited exports of £ 10 million and a consequent increase in the demand for imports of £ 5 million. There would be, moreover, no 50% gold payments as in the case of (a). It might be expected, however, that increased offshore purchases resulting from increased dollar lending by the International Bank should yield around £ $1\frac{1}{2}$ million for every \$28 million

(equal to £ 10 million) increase in IBRD lending. (See point 6). Even so, the economic burden on the U.K. is greater in this case than in either (a) or (b).

4. It must be pointed out that the International Bank loans are and will be, in principle, untied loans. A percentage which may be estimated at anything between 10 and 15% of the total IBRD dollar lending will therefore result in "offshore purchases" from the sterling area. An International Bank lending of say \$300 million should therefore lead to a purchase by the IBRD for dollars of about £ 15 million (\$42 million). This in itself is not yet an argument for the increased supply of pounds by the U.K. (either through 18% money or through bond issues) because the IBRD intends to fulfill the principle of untied loans without asking for a quid pro quo.

5. Total dollar lending by the International Bank can, however, be substantially raised if it were supplemented by a greater amount of non-dollar lending. And this for two reasons: (a) strictly economic, and (b) political.

6. Ad. (a) It could be demonstrated that many countries: dollar creditworthiness would be raised if these countries received *pari passu* more credit in non-dollar currencies. The argument here is somewhat similar to the one that a country's total creditworthiness is increased by wisely used grants. The IBRD could increase its dollar lending substantially if it could also lend more than token amounts in non-dollar currencies. For sheer example's sake, it might be said that the International Bank

could lend 100 million additional dollars if it had at its disposal \$100 million worth of non-dollar currencies. It is probable that the proportion of pound sterling among the non-dollar currencies to be lent by the Bank should be of an order of magnitude of 50 to 60%, ie: 50 to 60 million dollars worth of pound sterling. An additional dollar lending by the International Bank of \$100 million would presumably result in \$15 million worth of offshore purchases in the sterling area.

7. Ad. (b) The main argument of supporting the Bank by making available non-dollar currencies for lending is, however, moral and political. Such a lending will increase the total activity of the Bank, it will enhance its prestige and will widen the sphere of international, rather than bilateral national action, ^{for} the development of backward countries.

8. It is obvious that any pound sterling offered to the International Bank for lending, either in the form of 18% or through issue of bonds, would not be immediately disbursed. Moreover, only one part of such pound sterling would represent a net increase in the U.K. unrequited exports. Another part, which can be considerable, may easily represent a change of the channel of lending rather than an increase in the amount of lending.

Exchange Correspondence
on Non \$ Lending



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LOANS GRANTED BY INTERNATIONAL BANK AND EXPORT-IMPORT BANK, 1946-1950

(In millions of dollars)

Summary Table A

	<u>Total loans granted</u>		<u>Underdeveloped member countries of IBRD ^{1/}</u>		<u>European countries</u>		<u>Canada</u>		<u>Underdeveloped countries not IBRD members</u>		<u>Other loans not elsewhere included</u>	
	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD ^{2/}</u>	<u>Eximbank ^{3/}</u>
1946	-	1,134.9	-	73.4	-	950.0	-	5.7	-	25.2	-	80.6
1947	493.0	676.1	-	88.0	493.0	204.2	-	300.0	-	*	-	33.9
1948	32.0	117.2	16.0	53.6	16.0	15.7	-	5.0	-	4.0	-	38.9
1949	219.1	231.0	170.6	80.0	48.5	20.0	-	-	-	102.4	-	28.6
1950	279.2	437.4	260.2	186.8	-	35.0	-	-	-	200.7	19.0	14.9
Total	1,023.3	2,546.6	446.8	481.8	557.5	1,224.9	-	310.7	-	332.3	19.0	196.9

Summary Table B

	<u>Underdeveloped member countries of IBRD</u>		<u>Latin America</u>		<u>Far East</u>		<u>Near East</u>		<u>Africa</u>		<u>Oceania</u>	
	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>
1946	-	73.4	-	32.7	-	33.8	-	4.9	-	2.0	-	-
1947	-	88.0	-	66.5	-	-	-	21.5	-	-	-	-
1948	16.0	53.6	16.0	48.2	-	1.9	-	3.5	-	-	-	-
1949	170.6	80.0	126.6	69.7	44.0	0.3	-	10.0	-	-	-	-
1950	260.2	186.8	80.1	108.4	43.9	52.3	29.2	25.1	7.0	1.0	100.0	-
Total	446.8	481.8	222.7	325.5	87.9	88.3	29.2	65.0	7.0	3.0	100.0	-

^{1/} Including Export-Import Bank loans to Indonesia.

^{2/} Loans to banks (Turkey and Mexico).

^{3/} Short-term financing in the form of revolving funds intended to facilitate U.S. exports of cotton, tobacco, scientific instruments, as well as imports of handicrafts from Mexico, etc.

* Negligible.

Source: IBRD Statements of Loans, and Export-Import Bank Semiannual Reports to Congress. In order to make the data of the Export-Import Bank comparable to those shown for the IBRD, loans "granted" by the Export-Import Bank exclude general lines of credit or unallotted portion of credit authorizations; allocations out of previously authorized general (or unallotted) lines of credit have been included, however.

LOANS GRANTED BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE EXPORT-IMPORT BANK, 1946-1950

(In millions of dollars)

	<u>1946</u>		<u>1947</u>		<u>1948</u>		<u>1949</u>		<u>1950</u>		<u>Total 1946-1950</u>	
	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>
<u>I. Underdeveloped member countries of IBRD</u>	<u>-</u>	<u>73.4</u>	<u>-</u>	<u>88.0</u>	<u>16.0</u>	<u>53.6</u>	<u>170.6</u>	<u>80.0</u>	<u>260.2</u>	<u>186.8</u>	<u>446.8</u>	<u>481.8</u>
<u>A. Latin America</u>		<u>32.7</u>		<u>66.5</u>	<u>16.0</u>	<u>48.2</u>	<u>126.6</u>	<u>69.7</u>	<u>80.1</u>	<u>108.4</u>	<u>222.7</u>	<u>325.5</u>
Bolivia	-	-	3.0	-	-	0.3	-	16.0	-	-	-	19.3
Brazil	8.1	-	25.2	-	-	11.9	75.0	3.8	15.0	35.9	90.0	84.9
Chile	11.2	-	-	16.0	21.6	-	30.3	-	-	1.8	16.0	64.9
Colombia	3.5	-	1.5	-	-	-	5.0	3.6	6.1	11.4	11.1	20.0
Ecuador	0.8	-	2.7	-	-	-	-	3.3	-	1.5	-	8.3
El Salvador	-	-	-	-	-	-	12.5	-	-	-	12.5	-
Mexico	7.0	-	33.5	-	7.5	34.1	7.5	26.0	35.0	60.1	90.5	20.9
Panama	-	-	-	-	2.0	-	-	-	-	0.5	-	2.5
Peru	0.1	-	-	-	-	-	-	-	-	20.8	-	20.9
Uruguay	-	-	-	-	0.1	-	-	-	33.0	-	33.0	0.1
Venezuela	-	-	0.6	-	4.8	-	-	5.2	-	-	-	10.6
Various	2.0	-	-	-	-	-	-	-	-	1.5	-	3.5
<u>B. Far East</u>		<u>33.8</u>		-	-	<u>1.9</u>	<u>44.0</u>	<u>0.3</u>	<u>43.9</u>	<u>52.3</u>	<u>87.9</u>	<u>88.3</u>
China	33.8	-	-	-	1.9	-	-	-	-	-	-	35.7
India	-	-	-	-	-	-	44.0	-	18.5	-	62.5	-
Indonesia	-	-	-	-	-	-	-	-	-	52.3	-	52.3
Philippines	-	-	-	-	-	-	-	0.3	-	-	-	0.3
Thailand	-	-	-	-	-	-	-	-	25.4	-	25.4	-
<u>C. Near East</u>		<u>4.9</u>		<u>21.5</u>	-	<u>3.5</u>	-	<u>10.0</u>	<u>29.2</u>	<u>25.1</u>	<u>29.2</u>	<u>65.0</u>
Egypt	-	-	5.6	-	1.5	-	-	-	-	0.1	-	7.2
Iraq	-	-	-	-	-	-	-	-	12.8	-	12.8	-
Iran	-	-	-	-	-	-	-	-	-	25.0	-	25.0
Turkey	4.9	-	15.9	-	2.0	-	10.0	16.4	*	*	16.4	32.8
<u>D. Africa: Ethiopia</u>		<u>2.0</u>		-	-	-	-	-	<u>7.0</u>	<u>1.0</u>	<u>7.0</u>	<u>3.0</u>
<u>E. Oceania: Australia</u>		-		-	-	-	-	-	<u>100.0</u>	-	<u>100.0</u>	-

LOANS GRANTED BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE EXPORT-IMPORT BANK, 1946-1950

page 2

(In millions of dollars)

	<u>1946</u>		<u>1947</u>		<u>1948</u>		<u>1949</u>		<u>1950</u>		<u>Total 1946-1950</u>	
	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>
II. <u>Europe</u>		<u>950.0</u>	<u>493.0</u>	<u>204.2</u>	<u>16.0</u>	<u>15.7</u>	<u>48.5</u>	<u>20.0</u>	-	<u>35.0</u>	<u>557.5</u>	<u>1,224.9</u>
Austria	-	-	-	14.3	-	-	-	-	-	-	-	14.3
Belgium	-	-	-	50.0	-	-	16.0	-	-	-	16.0	50.0
Denmark	-	-	40.0	-	-	-	-	-	-	-	40.0	-
Finland	35.0	-	-	34.8	-	13.3	14.8	-	-	-	14.8	83.1
France	650.0	250.0	-	-	-	-	-	-	-	-	250.0	650.0
Greece	25.0	-	-	-	-	-	-	-	-	-	-	25.0
Italy	-	-	-	101.9	-	-	-	-	-	-	-	101.9
Luxembourg	-	-	12.0	-	-	-	-	-	-	-	12.0	-
Netherlands	200.0	191.0	-	3.2	16.0	-	15.0	-	-	-	222.0	203.2
Norway	-	-	-	-	-	0.2	-	-	-	-	-	0.2
Poland	40.0	-	-	-	-	-	-	-	-	-	-	40.0
Sweden	-	-	-	-	-	2.2	-	-	-	-	-	2.2
Yugoslavia	-	-	-	-	-	-	2.7	20.0	-	35.0	2.7	55.0
III. <u>Canada</u>		<u>5.7</u>	-	<u>300.0</u>	-	<u>5.0</u>	-	-	-	-	-	<u>310.7</u>
IV. <u>Underdeveloped countries not</u>												
<u>IBRD members</u>		<u>25.2</u>		*		<u>4.0</u>		<u>102.4</u>		<u>200.7</u>		<u>332.3</u>
Afghanistan	-	-	-	-	-	-	21.0	-	-	-	-	21.0
Argentina	0.2	-	-	*	-	-	-	-	125.0	-	-	125.2
Haiti	-	-	-	-	-	4.0	-	-	-	-	-	4.0
Israel	-	-	-	-	-	-	73.4	-	60.7	-	-	134.1
Liberia	-	-	-	-	-	-	4.0	-	-	-	-	4.0
Saudi Arabia	25.0	-	-	-	-	-	4.0	-	15.0	-	-	44.0
IV. <u>Other loans not elsewhere included</u>		<u>80.6</u>	-	<u>33.9</u>	-	<u>38.9</u>	-	<u>28.6</u>	<u>19.0</u>	<u>14.9</u>	<u>19.0</u>	<u>196.9</u>
a) <u>IBRD:</u>												
Mexico - Consortium									10.0		10.0	
Turkey - Industrial development									9.0		9.0	
b) <u>Export-Import Bank revolving credits:</u>												
U.S. Scientific Export Association	-	-	-	2.5	-	-	-	-	-	-	-	2.5

LOANS GRANTED BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE EXPORT-IMPORT BANK, 1946-1950

page 3

(In millions of dollars)

	<u>1946</u>		<u>1947</u>		<u>1948</u>		<u>1949</u>		<u>1950</u>		<u>Total 1946-1950</u>	
	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>	<u>IBRD</u>	<u>Eximbank</u>
b) <u>Export-Import Bank revolving credits:</u> contd.												
Amertol Service, Inc.	-	-	-	-	-	-	3.0	-	-	-	3.0	-
Cotton credits: Japan	-	-	-	-	29.0	-	-	-	-	-	29.0	-
China	33.0	-	-	-	-	-	-	-	-	-	33.0	-
Czechoslovakia	20.0	-	-	-	-	-	-	-	-	-	20.0	-
Finland	-	7.0	-	5.0	-	-	-	-	-	-	12.0	-
Germany	-	19.0	-	-	-	-	-	-	-	-	19.0	-
Italy	25.0	-	-	-	-	-	-	-	-	-	25.0	-
Tobacco credits: Czechoslovakia	2.0	-	-	-	-	-	-	-	-	-	2.0	-
Italy	-	5.0	-	-	-	-	-	-	-	-	5.0	-
Mexico - Fred Leighton, Inc.	0.1	-	-	-	-	-	-	-	-	-	0.1	-
c) <u>Reauthorization of amounts repaid</u> <u>of revolving credits:</u>												
Amertol Service, Inc.	-	-	-	-	-	-	-	-	*	-	*	-
Japan, cotton credit	-	-	-	-	-	-	25.4	-	14.7	-	40.1	-
Germany, cotton credit	-	-	-	4.6	-	-	-	-	-	-	4.6	-
Mexico - Fred Leighton, Inc.	-	-	-	*	-	*	*	-	0.1	-	0.1	-
Special importer-exporter credits	0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	1.5	-
<u>Grand Total</u>	<u>-</u>	<u>1,134.9</u>	<u>493.0</u>	<u>626.1</u>	<u>32.0</u>	<u>117.2</u>	<u>219.1</u>	<u>231.0</u>	<u>279.2</u>	<u>437.4</u>	<u>1,023.3</u>	<u>2,546.6</u>

* Negligible.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date March 30, 1951

T0-	Name	Room No.
1	Mr. L. B. Rist	
2		
3		
4		

FOR-

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

REMARKS

I find it exceedingly difficult to be as convinced as the draft sounds. Perhaps it should be softened up. Some editing may also be advisable.

FROM- J. Adler

DEVELOPMENT GRANTS AND THE GROWTHS OF FOREIGN EXCHANGE RESERVES

1. In the discussion of the various proposals to support the economic development of backward countries through grants from the United States Government and loans from public institutions, it has been claimed that the need for assistance has been substantially diminished in the course of the last few months as a result of the growth in foreign exchange earnings of many of the under developed countries. The price rises of the major exports of underdeveloped countries and the increase in the volume of these exports have given to these countries a large volume of international purchasing power which should enable them to pay for the goods needed for economic development purposes instead of obtaining them free of charge or against credit. The raw materials boom not only has made it possible for these countries to increase their expenditures for imports, but it has enabled them to accumulate gold and dollar balances at the same time. If the export proceeds of these countries remain at a high level, as it appears likely, they will be in a position to finance from their own resources a large volume of development imports, or, alternatively, they will acquire large foreign exchange reserves which can be used subsequently for the purchase of capital goods. Therefore, the argument concludes, it should not be necessary to assist these countries through grants or loans.

2. The preceding argument is open to several objections. In the first place, it is based on an overestimate of the foreign exchange earnings of the underdeveloped countries and of their prospects of further increasing foreign exchange reserves. In the course of 1950, underdeveloped countries increased their gold and dollar reserves by slightly more than \$700 million, primarily because the price increases of their exports were much larger than the price increases of their imports. The outlook of continued high level of export earnings is good; but with prices of manufactured goods which make up the bulk of the imports rising,

it is likely that a certain proportion of these gains will be offset by rising costs of import.

3. Moreover, not all underdeveloped countries are benefiting equally from the raw materials boom. In Latin America, for instance, Colombia and Venezuela experienced a decline in their dollar balances in 1950; the gains of some other countries were insignificant.

4. But even in the cases of those countries whose foreign exchange position have been substantially strengthened by the high level of demand, at favorable prices, for their exports, it cannot be assumed that their increased earnings are readily available for the financing of development programmes. In virtually all underdeveloped countries, a very high proportion of additional earnings is absorbed by commensurate increases in consumption; only a small proportion of total income from export sales is saved and becomes available for investment purposes. The rise in foreign exchange reserves can be taken only as an indication that consumption levels have not as yet caught up with the increases in foreign exchange earnings. To the extent to which incomes have risen while the volume of imports has remained low because of the unavailability of certain types of goods and the prolongation of delivery terms, consumer demand is unsatisfied and bound to exert inflationary pressures, which, in turn, are likely to further increase the backlog of demand for import.

5. Through proper fiscal and monetary policies and measures designed to stimulate production, it should be possible to channel more than the normal proportion of current income into desirable forms of investment but it is certain that the financial and real resources which can be set aside for investment purposes from local sources will be insufficient to support a substantial volume of investment activity.

6. Closely related to the preceding proposition regarding the availability of additional foreign exchange earnings for the investment purpose is the problem of the level of the monetary reserves of many of the underdeveloped countries. Although these reserves have increased, as indicated above, by \$700 million, this increase represents a gain of only 14% of the dollar and gold reserves of these countries and leaves them still substantially below the ~~the~~ reserve position which they enjoyed at the end of the war. The utilization of increased foreign exchange earnings for development purposes would leave these countries without funds to finance the backlog of import demand which is currently accumulating. Moreover, the rise in the price level of all commodities has resulted in a decline in the purchasing power of these reserves. Since the gradual abolition of exchange and trade restrictions which continues to be a major objective of American foreign economic policy presupposes the availability of adequate foreign exchange reserves, it does not appear to be inconsistent to advocate grants and loans for development purposes at a time when the foreign exchange reserves of countries obtaining such financial assistance are increasing.

FROM - 1. Office of the President

2. Office of the Vice President

Date _____

TO-

Name

Room No.

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4

FOR-

Action

Initialing

Approval

Preparing Reply

Comment

Previous Papers

Filing

Noting and Returning

Full Report

Recommendation

Information

Signature

REMARKS

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superseded
since

DECLASSIFIED

OCT 30 2014

WBG ARCHIVES

CONFIDENTIAL

MEMORANDUM

SUBJECT: Estimates of Borrowing Capacity of Under-Developed Bank Member Countries

Estimates have been made of the maximum reasonable dollar borrowing capacity in 1951-52 of the under-developed member countries of the Bank. Included in this category are under-developed countries which have applied for membership in the Bank. For the purpose of this paper, "under-developed" is taken to mean any country outside of Europe with the exception of the United States and Canada. A separate estimate has been made for the dependent overseas territories of the Bank's European members. (The principal countries excluded as non-members are Japan, Korea, New Zealand, Argentina, Israel, Saudi Arabia, Libya, Liberia, and the Portuguese and Spanish colonies. China has also been omitted for obvious reasons.)

These estimates were built up on a country by country basis by the area experts of the Bank. No attempt was made to force figures into a preconceived total. Although the estimates are given for 1951-52, they represent an annual rate of borrowing which would be valid over the next five years. The estimates were derived on the basis of the following assumptions:

- a) There is no problem of the availability of goods.
- b) There is no problem of the supply of loan funds.
- c) As far as capacity to repay loans is concerned, it is assumed that the U.S. will maintain continued high levels of income and there will be a slowly rising demand for imports above the January-June 1950 level.
- d) Currencies will be neither more nor less convertible than now.
- e) The rate of foreign private capital investment in a country will be the same as the present.
- f) The "reasonable amount of loans" a country could absorb is defined as:
 - (1) within its capacity to repay;
 - (2) within its technical, social, etc. capacity to absorb;
 - (3) necessary for its economic development.
- g) The terms of any loans are similar to those recently extended by the Bank.

- h) Delays in the preparation of proper development programs and technically adequate projects will not be a limiting factor.
- i) The estimates are loan commitments firmly made against specific agreed-on uses rather than estimates of actual disbursements on loans to be made or on existing loans.
- j) The U.S. will make available to these countries the grants currently contemplated in the presentation of the foreign assistance program for 1951-52.

The net result of the assumptions is that the estimates presented of the reasonable amounts of loans countries could absorb are on the optimistic side. The figures can be reached only if everything works out ideally. The main obstacles to achieving these objective-figures are the following:

- 1) The unwillingness of member countries to borrow for foreign or domestic political reasons.
- 2) The incapacity and, in a few cases, unwillingness of member countries, even with all the help and persuasion we can muster, to prepare economically sound development programs and properly prepared specific projects. The technical assistance given to our member countries by the U.S., U.N., and the Bank will help in this regard but it is still a slow process which will take considerable time before substantial results can be achieved.
- 3) The non-availability of commodities.

In the case of a few countries, for example, Paraguay and Ecuador, our estimate of their present capacity to repay loans is close to zero. Even the small amounts we now believe they would be good for is based on the assumption that they will receive a substantial portion of the total of the grant technical assistance the U.S. is planning to make available to Latin America. If grants were made available to these countries also to finance investment, the capacity of these countries to repay could be increased and it would be possible for the Bank to consider making larger loans to them.

These estimates do not include any loans which might be made for strategic purposes and which do not have much value for the general economic development of the country. Also excluded are that special type of strategic materials loans where repayment is made in delivery of the mineral. It is not possible for us to make any estimates of this type of lending.

With the following considerations in mind, the Bank estimates that the maximum borrowing capacity in 1951-52 and per annum for the following four years of the IBRD under-developed and near-member countries to contract reasonable dollar loans (i.e. necessary for economic development, within the borrower's capacity to absorb and to repay) amounts to around \$400 million.

In the case of some countries, their non-dollar capacity to repay is larger than their dollar capacity to repay. As the Bank has the possibility of securing non-dollar currencies for lending, an estimate was made of the magnitude of the additional loans in non-dollar currencies which could be absorbed and utilized profitably for economic development. These estimates took account of known non-dollar currency financing plans based on the assumption that no great spurt in non-dollar currency lending principally by European countries would take place over current rates or known plans.

If the IBRD can secure sufficient non-dollar currencies to make non-dollar loans, these countries would be good for an additional annual amount of non-dollar loans from the IBRD over the five-year period 1951-52 through 1955-56 equivalent to somewhat over \$100 million.

Because of the difficulties mentioned above, it cannot be expected that these figures of \$400 million and \$100 million, in actual fact, will be realized. As of today, the amount of loans currently in negotiation for the year 1951-52 or where negotiations may reasonably be expected, totals around \$300 million.

The figures given do not include dependent overseas territories of European powers. If these are included, the figure of maximum reasonable dollar loans would be increased to near \$500 million.

All other things being equal, the International Bank believes it could meet the reasonable borrowing needs of its member countries during this period with the exception of loans for strategic, and special strategic materials, purposes and those few cases where the U.S. Government has special reasons to make loans through its own agencies; e.g. the Philippines.

APPENDIX

Estimates of Borrowing and Borrowing Capacity by
International Bank Member Countries from Non-Private Dollar Sources

Country	1951-52			Five-Year Period 1951-52 thru 1955-56	
	Loans in dollars and other currencies in sight in current loan negotiations or on which negotiations can be reasonably anticipated			Estimate of maximum reasonable amount of dollar loans which could be made during this five-year period	Estimate of maximum reasonable amount of non-dollar loans IBRD could make in addition to dollar loans during this period
	(1)			(2)	(3)
<u>Central America</u>					
Mexico	65	65	0	179	0
Guatemala	0			20	0
Honduras	0			10	0
El Salvador	0			20	0
Nicaragua	5	5	0	15	0
Panama	0			20	0
Cuba	20	20	0	75	0
Dominican Republic	0			25	0
Costa Rica	0			12	0
<u>Total</u>	90	90	0	376	0
<u>South America</u>					
Bolivia	0			15	0
Brazil	50	50		250	0
Chile	12	12		100	0
Colombia	16	16		125	0
Ecuador	0			15	5
Paraguay	0			15	5
Peru	0			25	25
Uruguay	0			50	0
Venezuela	0			50	0
<u>Total</u>	78	78		645	35

APPENDIX (Cont'd)

	(1)	\$	other	(2)	(3)
<u>Middle East</u>					
Turkey	1	1		30	30
Iran	25	25		30	30
Iraq	8	4	4	20	50
Egypt	50	25	25	50	100
Syria	20	8	12	10	30
Lebanon	0			15	10
Jordan	0			0	0
<u>Total</u>	104	63	41	155	250
<u>South & Southeast Asia</u>					
India	0			90	110
Pakistan	60	15	95	50	150
Ceylon	0			100	0
Thailand	4	4	0	20	40
Indonesia	0			100	0
Philippines	0			25	0
Burma	0			0	25
<u>Total</u>	64	82	86	385	325
<u>Australia</u>	0			200	0
<u>Self-Governing Africa</u>					
South Africa	0			250	0
Southern Rhodesia	0			50	0
Ethiopia	0			15	15
<u>Total</u>	0			315	15
<u>GRAND TOTAL</u>	<u>336</u>			<u>2076</u>	<u>625</u>
<u>Colonies</u>					
U.K. African Colonies	30	30		150	0
French African Colonies	0			100	0
Belgian African Colonies	0			100	0
Malaya	0			0	0
Indo-China	0			0	0
Surinam	0			15	0
<u>Total D.O.T.'s</u>	30	112		365	0

Detailed Country Comments

Central America

Mexico - It is assumed that during 1951-52 Mexico will receive loans of \$60 million Eximbank against the existing line of credit of \$150 million, of which \$31 million has already been firmly committed, and will also receive firm loans of \$5 million from the IBRD consortium loan. It is assumed that the balance of Eximbank line of credit (\$59 million), and of the IBRD consortium loans (\$5 million) will be used during the five-year period, and that additional IBRD loans (\$50 million) will be made assuming that a comprehensive investment program is prepared.

Nicaragua - The five-year figure assumes a comprehensive investment program.

South America

Bolivia - Figure for five-year period is rather unlikely since it assumes that administrative reforms will follow the report of the Keenleyside Mission.

Chile - The figures for "reasonable lending" assume adoption of a satisfactory development program.

Ecuador - It is assumed that there will be a high proportion of TA grants allocated to Ecuador, with open possibility of financial grant in special cases.

Paraguay - It is assumed that there will be a high proportion of TA grants allocated to Paraguay, with open possibility of financial grant in special cases.

Venezuela - Creditwise, we could lend more, but it is doubtful whether the Government would desire to borrow more.

Middle East

Turkey - Based on assumption Turkey will be able to refund the short-term Export-Import Bank and the Allied military and defense loans which mature during this period.

Iran - Figures for Iran assume a satisfactory settlement of the current political crisis.

South and Southeast Asia

India - It may be very roughly estimated that grants over a five-year period at the rate indicated for 1951/52 would improve India's creditworthiness by roughly \$130 million, bringing the estimate of possible additional lending to around \$200 million. This is in addition to present effective loans amounting to about \$60 million. The figure of \$50 million for 1951/52 is a rough assumption of foreign currency costs of projects which might be ready for financing in the near future.

Pakistan - At present Pakistan's creditworthiness has been assessed at at least \$150 million of which perhaps a third could be in dollars. With additional grants of the order indicated this figure might be raised to \$200 million over-all with that in dollars still limited to around \$50 million.

(Comments - Cont'd)

Ceylon - External financial assistance required for the Colombo program (excluding sterling balance releases) has been estimated at \$115 million. Such an amount should be within Ceylon's creditworthiness capacity. However, the figure has been reduced to \$100 million on the assumption of a somewhat more favorable balance of payments position than that included in the Colombo estimates with the result that external aid requirements will be somewhat less than the figures in the Colombo Plan.

Thailand - The Bank has assessed Thailand's capacity to service dollar debt obligations at about \$3.5 million per year representing a dollar creditworthiness evaluation of \$35 to \$40 million. It is assumed that the non-dollar borrowing capacity is in the same order. Effective loans to Thailand now amount to about \$20 million leaving the remaining borrowing capacity at about \$60 million.

Indonesia - While Indonesia's service obligations on existing debt may be expected to reach an equivalent of about \$40 million during the present decade, balance of payments prospects indicate a capacity to assume additional annual obligations for debt service. The figure of \$100 million is based on the country's technical, physical and social capacity to absorb additional loans as well as on the creditworthiness prospects.

Philippines and Burma - The figures for these two countries are given as an indication of the possibility that both may be in a position to absorb and service small loans assuming greater internal economic and political stability than exists at present.

Colonies

Malaya - The U.K. has indicated it will meet all external financial needs of Malaya.

Indo-China - Due principally to the civil war, it is not possible to make any reasonable estimate at this time.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date _____

T0-	Name	Room No.
1	<i>Mr. Rist</i>	
2		
3		
4		

FOR-

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

REMARKS

This is an unrevised clean copy of the memo you saw last night. You wanted to look at the figures again today.

FROM-

Amle

DRAFT

March 30, 1951

Dear Mr. Bonesteel:

In accordance with the conversation between yourself and Messrs. Sommers and Demuth of the Bank, we have prepared estimates of a reasonable lending program for 1951-52 and the five-year period 1951-52 through 1955-56 for the non-European countries which are already members of the Bank or in process of becoming members. (The principal countries excluded as non-members are Japan, Korea, New Zealand, Argentina, the Portuguese and Spanish colonies, Saudi Arabia, Israel, Libya, and Liberia. We have also omitted China for obvious reasons.) The country details are shown in the Appendix.

According to these estimates, the total amount of loans for this area to be made in 1951-52 which are currently in sight on IBRD loan negotiations or which it can be reasonably anticipated may be made comes to \$250 million

The amount of reasonable loans (which are needed for economic development, which are within the borrower's capacity to absorb in a year, and which are within the borrower's capacity to repay) which could be made during 1951-52 totals \$700 million

The amount of reasonable dollar loans (using the same criteria) which could be made in the five-year period 1951-52 through 1955-56, totals \$2400 million

In addition, if loans are made by the IBRD in non-dollar currencies - the countries could also be good for an additional amount equivalent to \$500 million.

The figure of \$700 million for 1951-52 and the corresponding figure of \$2900 million (\$2400 million plus \$500 million) for 1951-52 through 1955-56 must be regarded as objectives which could be attained if all conditions were favorable. These estimates were derived on the basis of the following assumptions:

- a) There is no problem of the availability of goods.
- b) There is no problem of the supply of loan funds.
- c) As far as capacity to repay loans is concerned, it is assumed that the U.S. will maintain continued high levels of income and there will be a slowly rising demand for imports.
- d) Currencies will be neither more nor less convertible than now.
- e) The rate of foreign private capital investment in a country will be the same as the present.

- f) The "reasonable amount of loans" a country could absorb is defined as:
 - (1) within its capacity to repay;
 - (2) within its technical, social, etc. capacity to absorb;
 - (3) necessary for its economic development.
- g) The terms of any loans are similar to those recently extended by the Bank.
- h) The loans can be used to finance both the direct foreign exchange cost and the induced foreign exchange cost (local currency costs).
- i) The Bank will continue as at present to assist potential borrowers in preparing development programs and projects for presentation.
- j) The estimates are of loans which can be made and are not estimates of actual disbursements on loans.
- k) The U.S. will make available to these countries the grants currently contemplated in the presentation of the foreign assistance program for 1951-52 and at the same rate over the whole five-year period 1951-52 through 1955-56.

(It might be noted that these figures were built up on the basis of individual country estimates by the Bank's area experts. No attempt was made to force them into a pre-conceived total. The figure of \$700 million, interestingly enough, is the mid-point of the range of \$600-800 million set up as a target by the Gray Committee for the annual net flow of loans to the underdeveloped areas.)

The net result of the assumptions is that the estimates presented of "reasonable loans" are on the optimistic side. These totals can be achieved only if everything works out according to schedule. The main obstacles to achieving these objective-figures are the following:

- 1) The unwillingness of member countries to borrow for foreign or domestic political reasons.
- 2) The incapacity and, in a few cases, unwillingness of member countries, even with all the help and persuasion we can muster, to prepare economically sound development programs and properly prepared specific projects. The technical assistance given to our member countries by the U.S., U.N., and the Bank will help in this regard but it is still a slow process which will take considerable time before substantial results can be achieved.

3) The non-availability of commodities.

In the case of a few countries, for example, Paraguay and Ecuador, our estimate of their present capacity to repay loans is close to zero. Even the small amounts we now believe they would be good for is based on the assumption that they will receive a substantial portion of the total of the grant technical assistance the U.S. is planning to make available to Latin America. If grants were made available to these countries also to finance investment, the capacity of these countries to repay would be increased and it would be possible for the Bank to consider making larger loans to them.

These estimates do not include any loans which might be made for strategic purposes and which do not have much value for the general economic development of the country. Also excluded are strategic materials loans with repayment made in delivery of the mineral. It is not possible for us to make any estimates of this type of lending.

In the light of the discussion above, the total amount of loans made to our member countries in 1951-52 will most likely be closer to the \$250 million than the \$700 million figure. All other things being equal, the International Bank believes it could meet these borrowing needs of its member countries during this period with the exception of loans for strategic, and strategic materials, purposes and those few cases where the U.S. Government has special reasons to make loans through its own agencies; e.g. the Philippines.

APPENDIX

Estimates of Borrowing and Borrowing Capacity by International Bank Member Countries from Non-Private Dollar Sources

Country	<u>1951-52</u>	<u>1951-52</u>	<u>Five-Year Period 1951-52 thru 1955-56</u>		Estimated undisbursed loans of IBRD and Export- Import Bank on July 1, 1951
	Loan Amounts in sight in current loan negotiations or which can be reasonably anticipated	Estimate of reasonable amount of loans which could be made during 1951-2	Estimate of reasonable amount of dollar loans which could be made during this 5-year period	Estimate of reasonable amount of non- dollar loans IBRD could make in addi- tion to dollar loans during this period	
	(1)	(2)	(3)	(4)	(5)
<u>Central America</u>					
Mexico	0	0	50	0	
Guatemala	0	3	20	0	
Honduras	0	5	10	0	
El Salvador	0	15	20	0	
Nicaragua	5	5	15	0	
Panama	0	10	20	0	
Cuba	20	50	75	0	
Dominican Republic	0	10	25	0	
Costa Rica	0	3	12	0	
Total	25	101	247	0	
<u>South America</u>					
Bolivia	-	-	15	-	
Brazil	50	75	250	-	
Chile	12	25	100	-	
Colombia	16	50	125	-	
Ecuador	-	5	15	5	
Paraguay	-	5	15	5	
Peru	-	15	25	25	
Uruguay	-	-	50	-	
Venezuela	-	-	50	-	
	78	175	645	35	

APPENDIX (Cont'd)

	(1)	(2)	(3)	(4)	(5)
<u>Middle East</u>					
Turkey	0	15	60	60	
Iran	25	30	30	30	
Iraq	12.5	30	20	50	
Egypt	-	20	25	75	
Syria	20	20	10	20	
Lebanon	-	3	7.5	7.5	
Jordan	-	-	-	-	
Total	57.5	118	152.5	242.5	
<u>South & South-</u>					
<u>East Asia</u>					
India	-	50	170	-	
Pakistan	60	60	50	150	
Ceylon	-	25	100	-	
Thailand	4	10	20	40	
Indonesia	-	-	100	-	
Philippines	-	-	25	-	
Burma	-	-	0	25	
Total	64	145	465	215	
<u>Australia</u>	0	0	200	0	
<u>Self-Governing</u>					
<u>Africa</u>					
South Africa	0	50	250	0	
S. Rhodesia	0	10	50	0	
Ethiopia	0	5	15	15	
Total	0	65	315	15	
<u>African Colonies</u>					
U.K.	30	30	150	0	
French	0	20	100	0	
Belgian	0	60	100	0	
Total	30	110	350	0	
GRAND TOTAL	254.5	714	2374.5	507.5	

Detailed Country Comments

Central America

- Mexico - It is assumed that during 1951-52 Mexico will receive loans of \$60 million Eximbank against existing line of credit; and will have also the \$5 million IBRD consortium loan. It is assumed that the balance of Eximbank line of credit (\$59 million) IBRD consortium loans (\$5 million) will be used during the five-year period, and that additional IBRD loans (\$50 million) will be made assuming a comprehensive investment program is prepared.
- Nicaragua - The five-year figure assumes a comprehensive investment program.

South America

- Bolivia - Figure for five-year period is rather unlikely; it is assumed administrative reforms follow the report of the Keenleyside Mission.
- Chile - The figures for "reasonable lending" assume adoption of a satisfactory development program.
- Ecuador - It is assumed that there will be a high proportion of TA grants allocated to Ecuador, with open possibility of financial grant in special cases.
- Paraguay - It is assumed that there will be a high proportion of TA grants allocated to Paraguay, with open possibility of financial grant in special cases.
- Venezuela - Creditwise, we could lend more, but would have difficulty justifying loans as necessary.

Middle East

- Iran - Figures for Iran assume a satisfactory settlement of the current oil nationalization crisis.
- Turkey - Based on assumption Turkey will be able to refund the short-term Export-Import Bank and the allied military and defense loans which mature during this period.

South and Southeast Asia

- India - It may be very roughly estimated that grants over a five-year period at the rate indicated for 1951/52 would improve India's creditworthiness by roughly another \$100 million, bringing the estimate of possible additional lending to around \$170 million. The figure of \$50 million for 1951/52 is a rough assumption of foreign currency costs of projects which might be ready for financing in the near future.
- Pakistan - At present Pakistan's creditworthiness has been assessed at at least \$150 million of which perhaps a third could be in dollars. With additional grants in the order indicated this figure might be raised to \$200 million over-all with that in dollars still limited to around \$50 million.
- Ceylon - External financial assistance required for the Colombo program (excluding sterling balance releases) has been estimated at \$115 million. Such an amount should be within Ceylon's creditworthiness capacity. However, the figure has been reduced to \$100

Comments (Cont'd)

Ceylon - million on the assumption of a somewhat more favorable balance (Cont'd) of payments position than that included in the Colombo estimates with the result that external aid requirements will be somewhat less than the figures in the Colombo Plan.

Thailand - The Bank has assessed Thailand's capacity to service dollar debt obligations at about \$3.5 million per year representing a dollar creditworthiness evaluation of \$35 to \$40 million. It is assumed that the non-dollar borrowing capacity is in the same order. Effective loans to Thailand now amount to about \$20 million leaving the remaining borrowing capacity at about \$60 million.

Indonesia - While Indonesia's service obligations on existing debt may be expected to reach an equivalent of about \$40 million during the present decade, balance of payments prospects indicate a capacity to assume additional annual obligations for debt service. The figure of \$100 million is based on the country's technical, physical and social capacity to absorb additional loans as well as on the creditworthiness prospects.

Philippines and Burma - The figures for these two countries are given as an indication of the possibility that both may be in a position to absorb and service small loans assuming greater internal economic and political stability than exists at present.

February 1951

THE INTERNATIONAL BANK AS MANAGEMENT AGENT FOR
ADMINISTERING A PROGRAM OF DEVELOPMENTAL GRANTS

If grants for development purposes are to be given to underdeveloped areas, either by the U.S. unilaterally or by the U.S. and some of the other developed countries operating separately or in conjunction with each other, the question arises as to the means by which the amount of grants to be extended can be most effectively utilized for the purposes of promoting economic development.

Even in the simplest possible case, that in which only grants from the U.S. are to be extended to underdeveloped areas, there are two relatively distinct types of problems involved. The first category of problems involves the question of which countries are to receive grants and in what approximate amounts these grants should be extended. These questions are policy questions - in large part questions of political policy. Whether it is in the policy interests of the U.S. to extend grants to a particular country and if so whether these grants should be of the order of magnitude of \$5 million or \$50 million or \$250 million are matters to be resolved largely on the basis of the political interests of the U.S. An almost

3/1 completely separate problem is that of determining, on the basis of economic considerations, the program^{by} which any given amount of grants to any country can be most effectively utilized so as to result in the greatest possible contribution to the economic development of the country. There should be no conflict between these two kinds of problems since whatever the amount of aid it may be in the American policy interests to extend to a country, it is certainly in the American interest that that amount of aid be most effectively used. One means of insuring the accomplishment of maximum results from any given aid program would be the separating of responsibility for the political decision of amount of aid to be given from the economic task of programming that aid for maximum results.

If the International Bank were to be requested to undertake the economic task of programming grant assistance on a management basis for whatever body is responsible for the policy decisions on the aid program, the general operating mechanism might be along the following lines:

The policy authority would indicate the countries to which grant assistance might be extended and the possible order of magnitude of the assistance intended for these countries. In the first stage it would undoubtedly be

desirable for these indications, both as to specific countries and as to general amounts, to be kept very tentative. In some cases an investigation of the economic position of a country might indicate that the total amount of developmental activity which could effectively be undertaken for the next year or two might well be able to be financed by that country's own resources or from foreign loans which it could afford to service. In other cases the general size of the proposed grant might be either substantially smaller or substantially larger than the amount which can efficiently be utilized within the time period in question. For example, if the indicated size of the grant were to be \$15 million, an economic investigation might show that for the first year, only \$5 million could be efficiently used; similarly the investigation might show that a program might be developed using (\$30 million) which would produce very substantial results while the \$15 million figure would be too small to be effectively utilized.

With this original indication of the size of the program to be considered - tentative though it may be - the International Bank would proceed to make a field investigation of the economy of the country as a first step in preparing the program for effective utilization of developmental grants. This investigation would be very similar to the field studies presently

being made by the Bank in connection with its regular loan operations. The studies would involve examination of the resources available to the country and an assessment of its most urgent need in terms of the maximum contribution toward the permanent increase in the standard of living of the country. The problems involved, of course, are not merely economic but involve an appraisal of such diverse needs as the social, educational, health and administrative requirements of the country. On the basis of this sort of survey, utilizing experts specifically recruited from the appropriate national and international agencies for the examination of these matters it should be possible to establish a program for the most effective use of the resources available to the country both from its own production, from the program of grant assistance, and in many cases if the country's financial position is sufficiently strong, from the aid program of international loans. There would have to be a careful screening of the whole investment program of the country, not only of that contributed in the form of external assistance, in order to make sure that this program was soundly conceived, internally consistent, and most likely to lead to increased and more rapid economic development of the country and possible

alternative programs. For example, it might be found that the size of the investment program was so large as to place such a heavy burden on the economy of a country, even with considerable external grant assistance, that the investments undertaken did not yield a maximum increase in the output of a country and an alternative investment program of somewhat smaller magnitude would actually result in a ^{quite} larger increase in production. Similarly the study might determine that the most effective investment program would be one concentrating, for example, on the processing of agricultural commodities available from indigenous or nearby sources, rather than on the development of a heavy mechanical industry. In other cases, however, the very opposite conclusion might emerge.

The survey of the economic position and prospects of the country might unquestionably indicate elements of the domestic policy (economic, social, educational, etc.) which if modified would be of more fundamental importance in accelerating the economic development of a country than the provision of external assistance. In some cases, in fact, the field mission might report that without internal changes and reforms, no program of external assistance could be effective in furthering the permanent economic

development of the country and that without these reforms grants would be merely money down the drain.

On the completion of this field study and, of course, the discussion of its findings and conclusions with the appropriate officials of the country involved in order to obtain to whatever extent possible a agreed program for the Bank, the mission would prepare a proposed development program which the Bank management would submit to the policy authority just as it presently submits similar programs involving its own lending ~~operation~~ actions to its own Board of Directors. On the basis of this report the policy authority would then allocate whatever amount it considered appropriate, taking account not only of the economic considerations involved in the International Bank report but also political considerations relevant to the particular case, on condition that this amount be used for the financing of the developmental program which had been prepared by the Bank and, unless political factors made this impossible, on condition that the recipient country performed and executed the appropriate internal reforms needed to make the development program achieve its maximum effectiveness.

Unless the decision of the policy authority were to be based so exclusively on political considerations as to make the economic effectiveness of the program impossible, the International Bank would carry out the control of disbursement and the supervision of achievement of the various aspects of the developmental program in precisely the same manner that it now controls disbursement and completion of the projects which it finances from its own funds. Unquestionably in the process of supervising the carrying out of the various projects being financed by developmental grants, the Bank might wish to modify its original recommendations on a development program for the country and it would therefore make frequent reports on the actual progress of the development program being financed as well as on the changes which it felt appropriate to introduce in that program.

If the developmental authority were to receive funds for grants to underdeveloped countries from other countries than the U.S., the procedure for the policy determination of the amounts to be allocated to various underdeveloped countries would be somewhat more complex, but the importance of separating questions involved in this policy determination from questions of most effective utilization of the amounts would be even more

reinforced. If, for example, several countries make grants for development purposes and if one of them unilaterally decides to which countries and in what amounts each grant shall be made, it is essential that the economic programming of these grants coming from perhaps two or three sources should be separated from the policy decisions on the amounts of money to be supplied. Even if the contributing countries were to set up some mechanism for agreeing together on the allocation of their grants, it would still be desirable that the program of the utilization of the grants be separate in order that the utilization of the grants would be based on economic and not political considerations.

If grants are made available from other countries than the U.S., the technique of operation by the Bank as the management agent for programming utilization of grants would not be very different from the technique described when grants are provided only by the U.S. The principal difference would be that the indication of the amounts likely to be available would be given by each of the countries making grants available and that the report of the Bank proposing a program for the economic development of the country would be made to each of the governments making funds available for the country in question.

(Revised)

Estimates of a Reasonable Lending Program for the Underdeveloped
Member Countries of the Bank
(Average annual rate for the five years 1951-52 to 1955-56)

	<u>\$ Loans</u>	<u>IBRD European Currency Loans</u>
Latin America	205	7
Middle East	35	55
South & Southeast Asia	75	65
Australia & Self-Governing Africa	105	3
	—	—
<u>Grand Total</u>	<u>420</u>	<u>130</u>
Dependent Overseas Territories	75	0

Rm 313

March 30, 1951

Mr. C. H. Bonesteel
Special Assistant to the Secretary
Department of State
Washington, D. C.

Dear Mr. Bonesteel:

In connection with the preparation of a United States foreign assistance program for the forthcoming fiscal year, you have asked for our views on the following questions:

1. What would be our estimate of the magnitude of a reasonable dollar lending program during 1951-52 for development purposes in the underdeveloped countries? You have asked us to base our estimate on favorable assumptions, including those relating to the supply of funds, the availability of supplies, and the adequate and prompt preparation of projects.
2. What should be the relationship between a grant program for development purposes and development lending activities?

In relation to the first question, there are certain preliminary comments which should be made to avoid misunderstanding. In preparing estimates, we have excluded from the underdeveloped countries the dependent overseas territories of the United Kingdom, France, and Belgium, since we understand that you are excluding these areas in your own breakdown. We have also excluded non-members of the Bank, since we have insufficient information about these countries. The principal countries excluded as non-members are Japan, Korea, New Zealand, Argentina, the Portuguese and Spanish colonies, Saudi Arabia, Libya and Liberia. *we have also excluded China, we have not for the*

Our estimate refers to loan commitments not loan disbursements. By "loan commitment" we do not mean in this context a line of credit authorized for purposes to be specified in the future. We refer to a commitment for an agreed purpose.

purpose of the paper we have included as underdeveloped areas; all ~~the~~ Bank members outside of the European countries, their D.O.T.s, the U.S. and Canada.

Our estimate relates to loan commitments made for development purposes. We have not taken into account loans which might be made for strategic purposes primarily in the interest of the lending, rather than the receiving, country or strategic materials loans to be repaid by delivery of the materials. It is impossible for us to make any estimates relating to such loans.

Our estimate has been based on the following assumptions:

- c) There will be some provision in the rate of preparation of projects & proposals*
- In determining capacity to repay, it was assumed that*
- a) Neither the supply of funds, the availability of supplies or the adequacy and promptness of preparing programs and projects will be a limiting factor.
 - b) *1* The United States will maintain continued high levels of income and there will be a slowly rising demand for imports, *above the January-June 1950 levels.*
 - c) Currencies will be neither more nor less convertible than now.
 - d) The rate of foreign private capital investment in each country will be the same as the present.
 - e) The terms of any loans will be similar to those recently extended by the Bank.
 - f) The Bank will continue as at present to assist potential borrowers in preparing development programs and projects for presentation.
 - g) The United States will make available the grants currently contemplated in the presentation of the foreign assistance program for 1951-52 and at the same rate over the whole five-year period 1951-52 through 1955-56.
 - h) Adequate coordination policies and procedures will be developed so that the grant, technical assistance and loan programs will supplement each other and not work at cross purposes. This involves common understandings as to objectives and delineation of the roles of participating agencies.

In addition, although your question refers to only one year, we take it that you assume that a lending program that

could continue at comparable levels over a period of several years.

On these assumptions we believe that a program of \$400,000,000 of development loan commitments during 1951-52 in the underdeveloped countries would be within the borrowers' capacity to absorb and repay and could be effectively used in high-priority development purposes. We might add that if the dependent overseas territories were included, our figure would be raised by \$100,000,000. If non-dollar currencies were freely available for the lending program, we would make a further increase of \$100,000,000.

It must be recognized, however, that this estimate is based on optimistic assumptions. The principal obstacles to a realization of a lending program of that magnitude are the following:

- (1) The unwillingness or inability of member countries to request loans for foreign or domestic political reasons.
- (2) Delays in preparing economically sound development programs and properly prepared specific projects.
- (3) The non-availability of commodities.
- (4) Failure to achieve adequate coordination between national and international grant, lending and technical assistance programs.

In view of the probability that some or all of these obstacles will develop to a greater or lesser degree, our \$ estimate cannot be considered realistic. In our opinion the amount will in practice be closer to \$ _____ for 1951-52.

In reference to your second question, I should like to emphasize two important problems of policy which, in our opinion, must be solved if any foreign aid program is to be effective.

First, there must be a clear conception of the roles to be played by international and national agencies. If the international agencies are to contribute, the fields in which they are to operate must be defined with reasonable clearness and they must have some assurance that national programs, having greater resources at their disposal which can be made available on more favorable terms, will not be administered

in such a way as to make international programs unacceptable or ineffective.

Second, there must be a mutual understanding as to the objectives and criteria of various types of development financing, whether it takes the form of grants in aid, loans or technical assistance. With such a common understanding, the several forms of aid administered by the several agencies can effectively reinforce each other and make the combined contribution more effective. Without such an understanding, funds provided may be wasted and expectations may be disappointed.

In reality these are two aspects of a single problem, that of coordinating the activities of different kinds of agencies administering different kinds of aid. We have in the past expressed our views on this subject to representatives of the United States Government. I enclose, for your information, a copy of a letter dated August 2, 1950, which Mr. Black wrote to Mr. Gordon Gray shortly before the publication of his report. I also enclose a copy of a memorandum dated January 15, 1951, entitled "United States Development Lending and the International Bank" which Mr. Black submitted to the United States Executive Director of this Bank. These documents explain our views as to the nature of the coordination problem and of its significance for the prospects of economic development and international cooperation in the development field.

Sincerely yours,

Enclosures - 2

DS/km
3/30/51

NO. 545-13 U.S.A.

Sommers' Memorandum on
Rockefeller Report

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date March 21, 1951

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

FOR-

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

REMARKS

This is a note which I prepared as per instructions from Mr. Rosen. Mr. Sommers has seen it and made some further suggestions which I incorporated in the text. He will take it to Mr. Garner.

FROM- J. H. Adler

NOTES FOR DISCUSSION OF ROCKEFELLER REPORT

(Note: The Report has been distributed to the Executive Directors)

I. The Report makes the following recommendations:

1. Establishment of a new U.S. agency, the Overseas Economic Administration, with an appropriation of \$500 million for the next fiscal year. The Overseas Economic Administration is to absorb ECA, the present Point IV organization of the State Department, and the Institute of Inter-American Affairs. The proposed appropriations do not include, however, funds for aid to Europe or for military aid elsewhere. It is apparently contemplated that if the International Development Authority (see sub. 2) is established, the Overseas Economic Administration grant funds would be used chiefly in such broad social programs as health, education, sanitation, etc.
2. Creation of a new international agency, the International Development Authority, to operate under a management contract with the International Bank. Funds to be contributed by all participating countries in proportion to their capital subscription to the International Bank. The contribution of the United States would amount to \$200 million, which sum is to be transferred from the appropriation of the Overseas Economic Administration if the new Authority should begin its operations during the fiscal year 1951/52. The funds of the Authority are contemplated as grants in the field of public works.
3. Creation of an International Finance Corporation as an affiliate of the International Bank, to be financed through subscription by the participating governments to non-voting stock up to the equivalent of \$400 million. The Corporation would be authorized to make equity investment and loans to private borrowers without government guaranties. United States subscription

of \$150 million is proposed, with one-third actually paid in, the balance subject to call.

4. Various measures to stimulate private investment including special tax treatment of income from foreign investment and insurance against transfer risks, the latter to be underwritten by the Export-Import Bank up to an amount of \$100 million.

II. Coordination

The Report lays great emphasis on the need of the coordination of all development assistance and on the preparation of a comprehensive development program for every country. The preparation of these programs is to be the responsibility of Joint Commissions which are to consist of representatives of the United States and the foreign country receiving assistance. The Report envisages also the creation of mixed commissions and regional organizations with the participation of international agencies.

III. I am sure that the Executive Directors will wish to have the opportunity to read the full Report before we discuss it. I should like to propose that the Board have a special meeting next week for a more detailed discussion. It might want to consider whether the proposed International Development Authority and the International Finance Corporation would be desirable adjuncts to the Bank's present activities, and to what extent the Bank could engage in these added functions as contemplated by the Report under its present Articles of Agreement.

Loan Policy 3

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

MR. GARNER:

Attached is a first
draft of Development
Corporation memo.

AFL 2/21/51

CC: Messrs. Hoar,
Rist, Demuth and
Rosen

Wm. Cuthbert

Loan Pol #3

DRAFT 2/21/51
AFLuxford

ESTABLISHMENT OF AN INTERNATIONAL
BANK SUBSIDIARY TO STIMULATE PRIVATE FOREIGN INVESTMENT

In connection with various proposals for stimulating private foreign investment the question has been raised as to whether the International Bank could establish a subsidiary for this purpose and, if so, a general outline of its characteristics.

Since one of the purposes for which the Bank was established was to promote private foreign investment, the establishment of a subsidiary as a means for furthering this purpose would be consistent with the Bank's Articles of Agreement. Thus the Bank's subsidiary, with appropriate resources, might fill the same role in the field of foreign equity investment as the Bank itself occupies in the field of foreign loans.

A subsidiary of this type might be worked out along the following lines:

1. The Bank would establish as a subsidiary the International Development Corporation to promote the investment of private capital for productive purposes in the territories of its members. The Corporation would have express authority to participate in, underwrite and guarantee such private investments and where private capital was not available on

reasonable terms to invest its own resources for such purposes. Direct investments of the Corporation would be liquidated in the private market as soon as such liquidation was practicable.

2. All of the common or voting stock of the Corporation would be owned by the Bank and such stock would have only a nominal value.

3. Funds for the conduct of the Corporation's operations would be derived primarily from the sale of non-voting preferred stock to member governments of the Bank. No member government would be required to purchase any of such stock but any member government might condition its subscription to such stock by the requirement that an appropriate number of other member governments also must subscribe. The Corporation also would have the power to borrow money but it might require considerable time before the Corporation was well enough established to permit sizeable borrowing operations.

4. There could be considerable latitude in the amount of initial capital required by the Corporation before commencing operations. The amount should be conservative but still adequate for the Corporation to demonstrate its worth. Thus, before commencing

operations the Corporation might need preferred stock subscriptions aggregating about \$250,000,000 with approximately one tenth thereof paid in and the balance subject to call.

5. Since the voting stock in the Corporation would be owned by the Bank the directors and the management of the Corporation would be under the control of the Executive Directors of the Bank. The Corporation's directors might, therefore, be composed of several of the Bank's officers together with one or two of the Bank's Executive Directors -- particularly those representing countries having substantial investments in the Corporation's preferred stock.

6. It would be expected that the Corporation would need only a modest staff of its own and that it would make full use of the technical staff and services of the Bank.

7. The Bank could supplement the direct investment operations of the Corporation by making loans in appropriate cases.

8. Like the Bank the Corporation would not be established as a profit-making institution but it would be hoped that it too could conduct its operations on a basis that would be at least self-sustaining.

NO. 545-13 U.S.A.

Charles Symington -
Develop. Lending

January 24, 1952

Dear Charles:

Thank you very much for sending me the draft memorandum on the proposed NPA study with your letter of January 17. As you know, I feel that the idea of making an objective case study of the effects of foreign private investment on the developmental process of the underdeveloped countries is an excellent one. I personally believe that the results of such a study will show that foreign private investment, even in purely extractive activities, has had a terrific impact on the general economic welfare of the countries in which the investment is made.

This kind of study, if well done, should have an important influence not only here in the United States but even more important in the underdeveloped countries, in convincing them of the desirability of taking the measures to establish an appropriate climate for private foreign investment. It is most essential, therefore, that the study be done in a completely objective manner so that its results will have the full effects which we both want.

With this in mind, I have two specific suggestions to make on your memorandum on procedure. The first is a matter of form only and that is that you let the paragraph which is underlined on the first page be eliminated from the present draft. I am sure that the conclusion contained in that paragraph will emerge from the study but I feel that it would be much better to have the conclusion only after the study has been done rather than be subjected to possible attack on the grounds of having instructed the investigators on the findings they were to obtain.

My second point deals with the actual selection of the specific companies whose activities are to be investigated. Here too I think that it is most important, if the study is to affect the policies of the underdeveloped countries, that there be no possible basis for them to charge that the choice of companies was made in such a way as to influence the results. A specific proposal to meet this desired end might be to pick a half dozen countries in which the

Mr. Charles J. Symington

- 2 -

investigations are to be made. Then the NPA could go to these countries, discuss the proposed study with them, and the NPA and the country would each nominate five companies which have operated in the country for case investigations. I am convinced that even if the countries were to be selected on this basis the results of the study would be to show the beneficial overall effect of private foreign investment and the study would then be more likely to influence the country to be receptive to foreign investment.

These are merely suggestions for procedure which you may want to consider. We shall be following with closest interest the results of the case investigations as they develop.

Very sincerely yours,

Eugene R. Black

Mr. Charles J. Symington
230 Park Avenue
New York 17, N. Y.

MMRosen:dba
1/24/52

July 18, 1951

Dear Mr. Symington:

You have kindly asked for my comments on your letter of June 14, 1951 and I am all the more glad to do so as I found it most interesting and as I am in deep sympathy with your line of thought.

I feel, as you do, that private foreign investment has a great role to play in the development of underdeveloped countries and that the obstacles which it encounters are by no means due only to conditions which could be improved by national (U.S.) policies but largely to conditions prevailing in prospective recipient countries.

It may interest you to know that early in the Bank's life, we conducted a private inquiry among a number of U.S. corporate foreign investors. The conversations we had with the officials responsible for foreign subsidiaries and investments of these corporations brought to light the very same obstacles you cite. These obstacles are usually included in the expression "climate for foreign investment," e.g. discriminatory taxes, foreign exchange practices and regulations, capital transfer limitations, unreasonable requirements concerning employment of local personnel and relations to local capital, danger of expropriation, etc., not to speak of purely political factors, both local and international.

All these factors certainly do have a serious deterrent effect on the export of equity capital from the more advanced countries. As you know, this point has been made at numerous international conferences and there have been some indications, in deeds as well as in words, that several underdeveloped countries have come considerably nearer to understanding the importance of this matter. Action taken or suggested by these countries has often been in line with the real improvement in their economic position. As a sign of progress, I would mention the negotiations of a few bilateral treaties by some Latin American countries and the declarations of several statesmen obviously aimed at reassuring foreign capital.

I heartily agree with your suggestion that the Bank should endeavor to encourage this trend. We have seized on every possible opportunity, whether during our so-called "general survey missions" or during our normal relationship with our borrowers, to stress the advantage to the developing

country of import of equity capital. We have also, when the occasion arose, stressed the importance of settling outstanding indebtedness in order to restore the credit of our member countries with the investment market. These efforts, I think, have borne fruit and their purpose is appreciated by our member countries. Whether an improvement in the legislation of our borrowers affecting foreign investment directly or indirectly should be made a condition for our lending, in the strict sense of the word, is however open to question. "Fair treatment of foreign investment" is a very broad concept. Its content varies with the circumstances. It includes not only such open matters as confiscation and unfair taxation, but also hidden discrimination in administrative practice and political pressure. It may not necessarily mean the same thing, for example, when applied to industry, mining and public utilities. Moreover, it can be established only over a long period; fair treatment at any particular point of time is of little significance. For these reasons, I doubt whether much can be accomplished in this field by contract conditions.

Your letter suggests also that the official lending agencies should not act in such a way as to make foreign private investment less attractive to the recipient country. Our Articles of Agreement provide that our purpose is to supplement private investment "when private capital is not available on reasonable terms." We have been very careful to make sure in every case that private capital was not ready to step in where and when we granted our loans. I, therefore, cannot but agree with your proposal that we should avoid competing with private investment. I would perhaps suggest only a slight change of wording in your proposition. We do refuse to lend for purposes which can be served by private capital investment, but it might be slightly too generalized and inflexible a suggestion to say that we should refuse to lend for purposes which "could" be served by private investment. As you well realize, the problem is different in every country and in every case and the chances of obtaining foreign capital vary considerably from one to the other.

The judgment as to whether a purpose could be best served by private investment must take into consideration the time element. This judgment must be based on all the facts at the moment, and not only on the eventual possibility that a particular field should be developed by private capital. Indeed, the Bank works continually on improving the ground now for the eventual operation of private capital. It is interesting, I think, in relation to the point you raise that our lending in the underdeveloped countries has been concentrated largely in the basic public utility field, power, transportation, irrigation, etc., where the prospects for substantial private investments are particularly dim. This is a trend which is likely to continue.

Let me add that it is the usual practice of the Bank to help finance private enterprise, local or foreign, whenever possible. In addition to the substantial loans that we have given to the Brazilian Traction Company, to

Mr. Symington

- 3 -

the Mexican Light & Power Company, and the Dutch shipping companies, our loans to private industry through Belgian, Dutch and Finnish Government agencies are certainly known to you, as well as our recent attempts to finance private enterprise through independent medium-term banking institutions in Turkey and Mexico.

I should of course welcome any opportunity to discuss these matters further with you and, thanking you once more for your letter, I remain,

Yours very sincerely,

(Signed) Eugene R. Black

Eugene R. Black

Mr. Charles J. Symington
230 Park Avenue
New York 17, N. Y.

LBrist:dba
July 17, 1951

Loan Policy

Dear Mr. Symington:

I am exceedingly grateful to you for sending me your memorandum on United States policy with regard to underdeveloped countries, and I am sorry that my trip to Latin America unduly delayed my answering you. Your memorandum gave us the opportunity to compare your line of thinking with the formulation of ideas and practical policies in the International Bank. Needless to say, in the course of the last few years we have become more and more concerned with the political, social and technological problems of economic development. Careful reading of your memorandum convinces me that our overall conclusions are almost identical with your observations.

I am in full agreement with your remark that the best way in which the positive policy of the United States toward underdeveloped countries can be implemented is through the use of the facilities of the United Nations and its specialized agencies. In our own operations, we realize more and more that the international character of our institution is a real asset.

This brings me to two or three related points to which your memorandum also refers. One is the fact that we are at present the only public institution which can make untied loans and thus enable our borrowers to "shop around" in all parts of the world and obtain the best possible terms for their foreign purchases. The obligation imposed upon us to make only untied loans makes it also possible for third countries to earn dollars. More important, however, is the second point. As an international institution, we are in a position not only to make loans without the accusation of ulterior political motives, but also to recommend to the borrowing countries such reforms in fiscal and monetary matters and their general economic policies as we consider an essential prerequisite for their economic development, for the soundness of our loan operations, and conducive to all private investment, local and foreign.

Your memorandum emphasizes the need for the coordination of developmental activities in all fields and the role which not directly productive expenditures on health, sanitation, and education must play. I fully agree with your statement on this point and with your repeated reference to "programs"; I would go even further in stressing the need for overall programming. That does not mean that I, or anybody else in the Bank, favor state planning in any form; it does mean, however, that our experience convinces us that foreign assistance to development, whether in the form of grants or loans, attains best results if the various projects are part of an overall program.

I believe it follows directly from the concept of an overall program that economic development, in order to be effective, must take into account all the financial and real resources which can be mobilized as well as the fact that these resources are by definition limited. Private capital, from domestic and foreign sources, should be channelled into those sectors of the economy where it will do most to increase production and income. The governments should provide, either from taxes or domestic loans, or through foreign assistance, funds which are necessary to finance those parts of the overall program for which private funds are not available. Foreign assistance should normally take the form of loans, irrespective of the use to which these funds are put. If, however, the country's borrowing capacity is impaired, grants may have to be resorted to, and it is clear that these same grants - or rather the investments undertaken on a grant basis - will normally improve the capacity to borrow of the nation.

Incidentally, I believe that your point regarding the mobilization of domestic capital needs emphasizing. Our experience in various countries, and such divergent sources as the Colombo Plan and the report of the Mission to Colombia, all point to the fact that the contribution which foreign assistance makes to total investment in underdeveloped countries is much smaller than the 50:50 proportion which your memorandum suggests. In most instances a relatively small amount of foreign assistance becomes a catalytic factor permitting the expansion and acceleration of domestic capital formation through public and private channels to proportions far above the amount of foreign assistance.

As I indicated before, there is not only room in the field of economic development for both public and private financing, but the various sources of funds must supplement each other. I am not too optimistic, however, as to the role which at this stage private foreign capital will be able to play in economic development. In many instances, public investment, financed in part from foreign sources, will have to lay the economic foundations - in the form of transportation, power, irrigation, education and health - upon which private foreign investment can proceed. I do not believe that for some time to come there will be a sufficient flow of private capital on a loan basis to underdeveloped countries to allow for these investments to take place. As to private direct investment (equity capital) and from investment in oil and, perhaps, mining, we can only count on relatively small amounts unless profits here should decline severely and stability abroad improved considerably. I believe that it may take some time until equity capital will flow into other lines of production in underdeveloped countries in a volume sufficiently large to make a significant contribution to economic development. For the present, we may have to rely largely on public financing and on the economic utilization of private local capital.

In this connection, I should like to emphasize that in our opinion funds which the International Bank can raise in the market will be sufficient to

Mr. C. Symington

- 3 -

finance all development projects which lend themselves to financing on a sound loan basis, and that this will allow the International Bank to play a major role in the field of loan financing. There is, in your memorandum, an implication that this role may be minor. If the volume of grants - which the Bank does not provide - were to be so considerable as to deter potential borrowers from applying for loans, the relative significance of loans would of course be smaller; but barring this possibility I do not see why the Bank could not or should not carry most of the loans which have a reasonable prospect of repayment.

I am certain that you have read in the meantime the Report to the President of the International Development Advisory Board. We have, of course, given a great deal of thought to these problems and find ourselves in general agreement with most of the recommendations of the Report, and, in particular, agree wholeheartedly with the idea that proper coordination between the various agencies or authorities dealing with development, is essential. Within the next few weeks the administration will submit various proposals for legislative action to Congress. I am confident that the statement which the National Planning Association is preparing will be a constructive contribution to the public discussion of problems of technical and financial assistance. I hope that my comments on your memorandum and on the topics of economic development and foreign assistance in general will be of some help to you in the preparation of the statement.

Sincerely yours,

Eugene R. Black

Mr. Charles Symington
230 Park Avenue
New York 17, New York

LBrist/js
March 26/51

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 3/1/51

TO-		Name	Room No.
1		Mr. de Fleurieu <i>[Signature]</i>	
2		Miss Cathala <i>[Signature]</i>	306
3			
4			

FOR-

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

REMARKS

I don't think you saw this paper which includes your suggestions to Dr. R-Rodan. You will probably see a reference of these two pages in the forthcoming report of Mr. Nelson D. Rockefeller's Committee to the President of the United States.

FROM-

L. B. Rist

Loan Policy #3

February 8, 1951

EFFECTS OF GRANTS UPON CREDITWORTHINESS OF UNDERDEVELOPED
COUNTRIES

Among the factors which affect creditworthiness (such as programming, administrative reform) grants play a prominent part. They can increase the creditworthiness of a country and thereby widen the scope for loan activity in three main categories of cases.

1. Where grants would make possible activities like vocational education, rural extension services, etc., which would not be done on a loan basis, and where technical assistance can work out productive projects which would not be prepared without grant funds forthcoming for them. Some instances of this category prevail in all underdeveloped countries and this factor is particularly evident in the case of the Philippines, Indonesia, Burma, almost all of the Middle Eastern countries, Bolivia, Ecuador, Paraguay, and much of Central America. In some of these same countries and in India and Pakistan, it is probable that grants would be a major inducement to institutional, social and economic reforms (such as agrarian) which otherwise would not be undertaken.

2. All countries whose technical absorptive capacity is greater than their creditworthiness. There are in many cases good and feasible but "not directly productive" projects for which the countries could not service debts. All kinds of construction works, which should be necessary in the first part of a poor country's development program, would for a

long time not increase either the standard of living or foreign exchange availabilities. If, however, grants made the construction of such projects possible, other directly productive projects would be a suitable basis for debt service payments and could be undertaken on a loan basis. Wisely used grants would thus make possible financing by loans. Without grants there would be either no basis for sound lending or a much smaller scope for lending. The difference in degree in these cases is so great that it amounts to a difference in kind.

These cases again obtain in practically all the underdeveloped countries with a small income per head, notably in India, Pakistan, Ceylon and Indonesia, in Syria, Jordan, and in Bolivia, Ecuador, Haiti and Paraguay. The colonial areas, who as a rule fall within these categories, in effect already receive grants from their mother country although not always in sufficient amounts.

3. Grants for relief in countries without sufficient exchange reserves where sudden natural catastrophies (earthquakes or crop failure) would reduce not only consumption but also necessary maintenance of present investment and new investment activities. There might be cases of countries with relatively good balance of payments positions which could contract loans to meet these abnormal import requirements but which would exhaust their creditworthiness by doing so and thus make it impossible to contract other loans for productive investment which would lead to their development. In other cases the sums required for abnormal relief imports are above the limits of a country's creditworthiness and failure

to receive grants would disrupt the whole economic system of the country.

The situation in Yugoslavia and in India fit within this category.

cc: Messrs. Black, Garner, Demuth, Luxford
Crena de Iongh, Rist, ✓ Iliff & Hoar

REVISED DRAFT

March 20, 1951

Dear Mr. Symington:

*Please type
for Rutledge's
signature*

I am exceedingly grateful to you for sending me your memorandum on United States policy with regard to underdeveloped countries, and I am sorry that my trip to Latin America unduly delayed my answering you. Your memorandum gave us the opportunity to compare your line of thinking with the formulation of ideas and practical policies in the International Bank. Needless to say ~~that~~ in the course of the last few years we have become more and more concerned with the political, social and technological problems of economic development. Careful reading of your memorandum convinces me that our overall conclusions are almost identical with your observations.

I am in full agreement with your remark that the best way in which the positive policy of the United States toward underdeveloped countries can be implemented is through the use of the facilities of the United Nations and its specialized agencies. In our own operations, we realize more and more that the international character of our institution is a real asset.

This brings me to two or three related points to which your memorandum also refers. One is the fact that we are at present the only public institution which can make untied loans and thus enable our borrowers to

"shop around" in all parts of the world and obtain the best possible terms for their foreign purchases. The ^{obligation imposed upon us to make} ~~provision of making~~ only untied loans makes it also possible for ^{third} ~~other~~ countries to earn dollars. More important, however, is the second point. As an international institution, we are in a position not only to make loans without the accusation of ulterior political motives, but also to recommend to the borrowing countries such reforms in fiscal and monetary matters and their general economic policies as we consider an essential prerequisite for their economic development, for the soundness of our loan operations, and conducive to all private investment, local and foreign.

Your memorandum emphasizes the need for ^{the} ~~(coordination~~ of developmental activities in all fields and the role which not directly productive expenditures on health, sanitation, and education must play. I fully agree with your statement on this point and with your repeated reference to "programs"; I would go even further in stressing the need for overall programming. That does not mean that I, or anybody else in the Bank, favor state planning in any form; it does mean, however, that our experience convinces us that foreign assistance to development, whether in the form of grants or loans, attains best results if the various projects are part of an overall program.

9 I believe it follows directly from the concept of an overall program that

economic development, in order to be effective, must take into account all ~~and all~~ ^{as well as the ~~fact~~ *fact* that these resources are by *no means* ~~limited~~} the financial and real resources which can be mobilized.

(Private capital, from domestic and foreign sources, ^{should} ~~must~~ be channelled into those sectors of the economy where it will do most to increase production and income. The government ^{should} ~~must~~ provide, either from taxes or domestic loans, or through foreign assistance, ~~these~~ funds which are necessary to finance those parts of the overall program for which private funds are not available. Foreign assistance should normally take the form of loans, irrespective of the use to which these funds are put. ^{If}, however, the country's borrowing capacity is impaired, grants may have to be resorted to, ^{and it is clear that these ~~same~~ *grants* - or rather the investments undertaken on a part ~~lens~~ *lens* - will normally improve the capacity to borrow of the nation.}

Incidentally, I believe that your point regarding the mobilization

of domestic capital needs emphasizing. Our experience in various countries, and such divergent sources as the Colombo Plan and the report of the Mission to Colombia, all point to the fact that the contribution which foreign assistance makes to total investment in underdeveloped countries is much smaller than the 50:50 ² ~~proposition~~ ^{proportion} which your memorandum suggests. In most instances a relatively small amount of foreign assistance becomes a catalytic factor permitting the expansion and acceleration of domestic capital formation through

public and private channels to proportions far above the amount of foreign assistance.

As I indicated before, there is not only room in the field of economic development for both public and private financing, but the various sources of funds must supplement each other. I am not too optimistic, however, as to the role which ^{at this stage} initially private foreign capital will be able to play in economic development. In many instances, public investment, financed in part from foreign sources, will have to lay the economic foundations - in the form of transportation, power, irrigation, education and health - upon which private foreign investment can proceed. I do not believe ^{for some time to come} that there will be ^{sufficient} ^(on a loan basis to allow for these investments to take place) ~~for some time~~ a flow of private ~~loan~~ ^{equity capital} capital to underdeveloped countries. ^{Aside As to} ~~investment, equity capital and~~ ^{only on} from investment in oil and, perhaps, mining, we can ~~count on private direct~~ ^(unless profits here should decline severely and stability abroad improved considerably) ~~investment (equity capital) in relatively small amounts only.~~ I believe that it may take some time until equity capital will flow into other lines of production in underdeveloped countries in a volume sufficiently large to make a significant contribution to economic development. For the present, we may have to rely largely on public financing and on the economic utilization of private local capital.

In this connection, I should like to emphasize that in our opinion funds which the International Bank can raise in the market will be sufficient to finance all development projects which lend themselves to financing on a sound loan basis, and that this will allow the International Bank to play a major role in the field of loan financing. There is, in your memorandum, an implication that this role may be minor. If the volume of grants - which the Bank does not provide - ^{were} ~~is~~ to be ^{so considerable as to deter potential borrowers from applying for loans} ~~considerable~~, the relative significance of ^{carrying this responsibility} ~~loans~~ ^{would} ~~will~~ of course be smaller; but ~~if loans only are considered~~ I do not see why the Bank could not or should not carry most of them. ^{loans which have a reasonable prospect of repayment}

I am certain that you have read in the meantime the Report to the President of the International Development Advisory Board. ~~You may have noticed that the Report envisages an expansion of the activities of the International Bank and their close coordination with the development policies and institutions of the United States. We have, of course, given a great deal of thought to these problems and find ourselves in~~ ^{general} ~~agreement with most of~~ ^{hope} ~~(and in particular agree wholeheartedly with the idea that coordination~~ ^{between the various} ~~the recommendations of the Report. I expect that within the next few weeks~~ the administration will submit various proposals for legislative action to Congress. I am confident that the statement which the National Planning

agencies or authorities dealing with development, is essential

Association is preparing will be a constructive contribution to the public discussion of problems of technical and financial assistance. I hope that my comments on your memorandum and on the topics of economic development and foreign assistance in general will be of some help to you in the preparation of the statement.

Sincerely yours,

Eugene R. Black
President

Mr. Charles Symington
230 Park Avenue
New York 17, New York

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

TO: Mr. Rist

DATE: July 16, 1951

FROM: D. Sommers

SUBJECT:

X

I suggest that the last sentence of the incomplete paragraph on page 2 might be changed and expanded as follows: "'Fair treatment of foreign investment' is a very broad concept. Its content varies with the circumstances. It includes not only such open matters as confiscation and unfair taxation, but also hidden discrimination in administrative practice and political pressure. It may not necessarily mean the same thing, for example, when applied to industry, mining and public utilities. Moreover, it can be established only over a long period; fair treatment at any particular point of time is of little significance. For these reasons, I doubt whether much can be accomplished in this field by contract conditions."

At the end of the next paragraph, I would add: "It is interesting, I think, in relation to the point you raise that our lending ⁱⁿ the underdeveloped countries has been concentrated ^{largely} strongly in the basic public utility field, power, transportation, irrigation, etc., where the prospects for substantial private investments are particularly dim. This is a trend which is likely to continue."

D. S.

country of import of equity capital. We have also, when the occasion arose, stressed the importance of settling outstanding indebtedness in order to restore the credit of our member countries with the investment market. These efforts, I think, have borne fruit and their purpose is appreciated by our member countries. Whether an improvement in the legislation of our borrowers affecting foreign investment directly or indirectly should be made a condition for our lending, in the strict sense of the word, is however open to question. ~~It is our experience that recommendations of a general and confidential character are often more effective than legally binding commitments.~~

Your letter suggests also that the official lending agencies should not act in such a way as to make foreign private investment less attractive to the recipient country. Our Articles of Agreement provide that our purpose is to supplement private investment "when private capital is not available on reasonable terms." We have been very careful to make sure in every case that private capital was not ready to step in where and when we granted our loans. I, therefore, cannot but agree with your proposal that we should avoid competing with private investment. I would perhaps suggest only a slight change of wording in your proposition. We do refuse to lend for purposes which can be served by private capital investment, but it ^{must be} can be slightly too generalized and inflexible a suggestion to say that we should refuse to lend for purposes which "could" be served by private investment. As you well realize, the problem is different in every country and in every case and the chances of obtaining foreign capital vary considerably from one to the other.

~~I think that~~ the judgment as to whether a purpose could be best served by private investment must take into consideration the time element. This judgment must be based on all the facts at the moment, and not only on the eventual possibility that a particular field should be developed by private capital. Indeed, the Bank works continually on improving the ground now for the eventual operation of private capital.

Let me add that it is the usual practice of the Bank to help finance private enterprise, local or foreign, whenever possible. In addition to the substantial loans that we have given to the Brazilian Traction Company, to the Mexican Light & Power Company, and the Dutch shipping companies, our loans to private industry through Belgian, Dutch and Finnish Government agencies are certainly known to you, as well as our recent attempts to finance private enterprise through independent medium-term banking institutions in Turkey and Mexico.

I should of course welcome any opportunity to discuss these matters further with you and, thanking you once more for your letter, I remain,

Yours very sincerely,

Eugene R. Black

Mr. Charles J. Symington
230 Park Avenue
New York 17, N. Y.

W. McC. Martin -
US dev. lending & IBRD

NO. 545-13 U.S.A.

Black's f

2
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Office of the President

January 15, 1951

To: Mr. William McC. Martin

From: Mr. Black

United States Development Lending
and the International Bank

1.

One of the most serious problems that faces the International Bank is the lack of clarification in the relationship between its operations and the activities of United States development agencies. No understanding exists between the United States Government and the Bank delineating the fields of operation of United States agencies in relation to the functions of the Bank.

On March 1, 1946, the President of the United States sent to the Congress with his endorsement a statement of the foreign loan policy of the United States Government prepared by the National Advisory Council and containing the following observation on the role of the International Bank:

"The International Bank will be the principal agency to make foreign loans for reconstruction and development which private capital cannot furnish on reasonable terms."

Experience has shown, however, that in the absence of implementation, this policy statement does not provide a sufficient basis for International Bank planning or adequate policy guidance to United States agencies.

During the early period of the Bank's operations, it was understandable that no coordination policy should be formulated in more explicit terms. The Bank was an untried experiment. Its staff had not been organized, its credit had not been established and its policies had not been worked out. The problem of European reconstruction,

which had been thought to be the Bank's first task, was assuming dimensions which put it beyond the scope of the Bank's resources. The Bank had not yet turned to the field of development, in which the question of coordination is at present particularly urgent.

The situation is now quite different. The Bank's credit is established and the principal lines of its operations have become apparent. It has acquired experience in the development field and is prepared to make developmental loans in substantial amounts. However, a number of the Bank's member countries, although in urgent need of foreign capital for useful and productive purposes, have been hesitant to seek Bank assistance because of the possibility of securing aid on better terms from United States governmental agencies. Furthermore, on one occasion after the other when the Bank has been prepared to furnish substantial assistance, it has been faced with difficulties because of the absence of any clear policy regarding future United States financing in the same countries.

The same kind of difficulties might, of course, arise in connection with the development activities of other advanced nations. To date, however, because of the preponderant role of the United States in development financing, the problem has manifested itself principally in the relationships between United States agencies and the Bank. This memorandum is accordingly confined to that subject.

2.

I have given a good deal of thought to whether this problem has now become academic in view of the recent critical events in Korea and the large-scale military program which is required. I realize that until the dimensions of the military program and its effect on the economy of the country become reasonably clear it is difficult to determine the role either of the Bank or of any other development agency. I also realize that if all foreign aid is to be utilized primarily to obtain short-run political or strategic returns to the United States, international administration of the aid would probably be inappropriate. < But unless all development aid as such is to stop, I am sure that the problem of coordination will require a solution. > If the amount of aid is reduced, proper planning will be more necessary than ever to produce the maximum benefit to all concerned. This will involve more coordination among interested agencies, not less.

Personally, I feel that even under a thoroughgoing defense economy, the free world cannot afford to neglect development. Strengthening the economies and increasing the productivity of the underdeveloped areas is of particular significance to the advanced nations at the present time when the raw materials produced in those areas are vitally needed. And apart from benefits of that kind, it seems to me that offering hope to the people of the underdeveloped countries is a necessary part of any program designed to preserve peace or to prevent the advance of totalitarianism. I firmly believe that the emphasis which the United States has placed on offering this hope through international channels is even more vital in a time of crisis than in a time of relative quiet.

Accordingly, I am confident that the International Bank continues to have an important role to perform. Perhaps, under present circumstances, that role will require a number of changes in our operations, changes in emphasis and direction. But in any case I believe that the problem of our relationship to United States agencies operating in the same field will remain and, in fact, will grow in importance.

3.

On November 13, 1950, I sent you a memorandum outlining a lending program for Brazil. I hoped that my proposal might be a first step toward a clarification of United States policy as to the roles of the several agencies in the development field. Although the memorandum dealt only with Brazil (since that was the specific case under consideration at the time) it involved the broader problem of how investment by the International Bank and by United States agencies could be coordinated so as to make the most effective contribution to development. The purpose of this present memorandum is to review the Bank's thinking on this broader problem and to suggest a method by which that coordination might be achieved.

The problem of coordinating development financing activities is not one of solving a few jurisdictional disputes between competing agencies. It involves questions of real significance from the point of view of national policy.

Basically, the question is whether development aid should be made available under national or international auspices. Since the war the United States Government has consistently regarded development as a matter of interest to the entire international community and has therefore advocated international cooperation as the proper approach to development. It was pursuant to that policy that the United States took the lead in establishing the International Bank and contributed the largest share of its capital. The reasons which influenced the United States to take this action seem to me as cogent now as they were then. One of those reasons was the obvious desirability that the risks of development lending be assumed not only by the United States but also by the other nations of the world in proportion to their resources. A second reason was the desire to assure the underdeveloped countries that loans made to them were not intended as an instrument of either material or political exploitation. That this consideration is still of real importance is evidenced by the almost unanimous preference of the underdeveloped countries for international administration of development aid, as shown for example in the debates of the Economic and Social Council. A third, and even more persuasive reason, was the desirability of insulating the United States Government from the frictions and tensions that inevitably attend a foreign lending program.

Experience has amply demonstrated that government-to-government financing, continued over any substantial period of time, is not likely to be productive of political good-will. Governments receiving loans soon come to regard them as simply their due, while those failing to receive aid, or receiving less than they feel they are entitled to, are apt to regard themselves as the victims of unfair discrimination. These difficulties are not too serious in connection with limited emergency programs, such as the European Recovery Program, but they assume considerable proportions in connection with long-term programs such as are inevitably involved in the development field. I do not mean to imply that the International Bank can avoid similar tensions and resentments, which are to some degree inherent in the lending process. But I agree with the Bretton Woods concept that it is politically healthier that they should focus on an international organization rather than on a national government.

There is also another reason for international rather than national action, the importance of which I want to emphasize. The amount of foreign aid that is made available from all sources is always likely to be small in relation to the local resources which even the backward countries have it within their power to mobilize. <For this reason, any foreign aid program which has development as its aim must place major emphasis on efficient mobilization of domestic resources.> This means that the objectives of development must be defined with reasonable clarity and that the type, timing and amount of aid must be keyed to the progress made toward those objectives and conditioned on the taking of necessary domestic action to achieve them. For example, in some underdeveloped countries it will be necessary to put stabilization measures into effect to avoid undue inflation which would defeat the purposes of the development program. In other countries, land tenure systems must be reformed if the program is to have the desired economic effects and is to obtain necessary popular support. In many countries improvements must be effected in the administrative machinery. Unless foreign aid for development is part of a program which includes effective mobilization of local resources by measures such as these, the aid may in large part be wasted and may in the long run disappoint rather than satisfy the hopes of the people of the underdeveloped areas.

In those countries, such as the Philippines, where the United States proposes to make very substantial resources available over a period of years, the United States is obviously in a better position than the International Bank to assure that necessary domestic measures are adopted concurrently with the provision of foreign aid. But in the case of most of the underdeveloped countries, the International Bank, because of its representative and nonpolitical character, is, I believe, in a better position than any national government to insist on effective domestic action as a condition of granting financial assistance. In this connection, I should like to invite your attention to the following passage in the recent report of Mr. Gordon Gray to the President of the United States:

"In the case of development programs particularly, operation through international organizations may be essential to accomplishing the basic purposes of aid. It is frequently not possible for any one country unilaterally to give effective guidance on internal operations without creating fears or suspicions of interventionist motives, which would defeat major purposes of the program. Such programs, therefore, will frequently be most effective if

operated through international organizations, staffed in part by nationals of countries in which the particular underdeveloped country has confidence. Some assistance will, of course, have to be provided bilaterally, but international organizations, and especially the United Nations and its affiliated organizations, should be used wherever practicable."

4.

The lack of clarity in the relationships between national and international agencies may become a serious and highly complex problem in the future if grant and technical assistance programs are undertaken on the scale envisaged in the Gray Committee Report and the Colombo Plan. In my letter of November 2, 1950, to Mr. Gray I emphasized what seemed to me the danger of a multiplicity of agencies, national and international, operating in the development field without coordination. I pointed out that there would be not one voice but several discussing with a country its needs and development program; that the very multiplicity of voices, perhaps expressing inconsistent or even conflicting policies, may make it difficult to induce countries to take the decisions which are necessary for the mobilization of their own resources; and that such a situation might seriously limit the aggregate effect of the programs and impair the concept of international cooperation in the development field. I hope that in considering the Gray Committee's recommendations and further implementation of the Point IV Program, the United States Government will not disregard these fundamental problems.

5.

At the present time, the problems of coordination is far less complex. The United States development agency which has, up to the present, been primarily concerned in this problem is the Export-Import Bank of Washington and accordingly the problem is chiefly one of the relationships between the Export-Import Bank and the International Bank. I must emphasize, however, that the problem cannot be solved simply by liaison between the two banks. The Export-Import Bank is involved not by reason of its own lending policies or standards but because it is the institution through which the development financing activities of the United States have for

the most part been carried on. For this reason the problem requires a solution in the form of a United States Government policy decision.

The Export-Import Bank was originally organized to facilitate exports and imports between the United States and other countries primarily by granting credits of relatively short term and commercial character such as export trade and commodity export credits. Although there was some expansion of its activities during the war, particularly in the Western Hemisphere, it did not enter the field of long-term reconstruction and development loans on a large scale until the passage of the Export-Import Bank Act of 1945. At that time and thereafter loans for reconstruction and development assumed increasing importance in its operations.

During and after the war, the United States strongly advocated the administration of foreign economic aid under international auspices. As already pointed out the International Bank was organized to be the primary agency for making loans for reconstruction and development and was so regarded by the United States Government. Nevertheless there were unforeseen delays in its establishment and organization and these delays quite understandably were the occasion for an expansion of the Export-Import Bank's activities. The needs were pressing and the Export-Import Bank loans were of great benefit. They were frankly undertaken as emergency or interim measures designed to fill the gap in the facilities for providing foreign dollar credits until the time when the International Bank could begin operations on a substantial scale. With the years, however, these long-term lending activities have lost their interim character. They have become the major part of the Export-Import Bank's operations and are apparently considered a permanent function. This has been a gradual evolution, not based, so far as I am aware, on any policy decision as to the relationship between United States agencies and the International Bank.

6.

During the early stages of the International Bank's development activities, it necessarily had to lend on a project-by-project basis. Although its aim was to select projects of such basic significance to the borrowing country's economy that they would warrant a high priority in any investment program, it did not have the information about its members or the established relationships with them to enable it to lend on a program basis. During that

period the relationships between the International Bank and the Export-Import Bank gave rise primarily to one kind of problem. The fact that the Export-Import Bank had entered the development field and was apparently prepared to extend its activities in that field, usually on more favorable terms than the International Bank could offer, made countries hesitate to submit projects to the International Bank for financing. This tendency still continues and is, in fact, growing more acute. If, as I understand to be contemplated, the Export-Import Bank's lending authority is substantially increased and if this increase is not accompanied by a clear understanding as to the roles of the Export-Import Bank and the International Bank, I think it quite likely that potential borrowers will come to regard the Export-Import Bank as the first resort for development loans and will approach the International Bank only when some unusual circumstance, such as a need for non-dollar currencies, makes an International Bank loan preferable.

It may be thought that this result can be obviated through a review by the National Advisory Council of loan applications filed with the Export-Import Bank and a decision in each case as to whether the application is more appropriate for that bank or for the International Bank. But in the absence of any defined policy as to the respective roles of the Export-Import Bank and International Bank, there would be no logical basis upon which ad hoc decisions could be made. In the circumstances, such an arrangement would make the International Bank, in appearance if not in essence, a mere agency of the United States Government and would thus run counter to the considerations which impelled the United States to promote its establishment. Even apart from this, it is hard to see how the International Bank could be effective in dealing with member countries whose applications were reluctantly transferred to it as a result of ad hoc decisions by the National Advisory Council.

7.

During the last two years, the problem of coordination has grown even more important. As the International Bank has acquired more experience in development, it has come to realize that the project-by-project approach, even when projects are judged in the light of the general economic situation of the borrowing country, leaves a good deal to be desired. Although projects proposed for external financing

may, in relation to the general economic situation, appear to warrant a top priority, their real significance can be understood only in the light of the country's other proposed investments and the resources available to it. > For example, if the projects would be carried out even in the absence of a foreign loan and if the investment program includes other projects of doubtful economic merit, the real effect of the foreign loan may be to release funds for uneconomic ventures. Or if the country contemplates an investment program that is beyond the scope of its available resources, external loans may help to undermine the stability of the economy.

Because of considerations of this kind the International Bank has, for the past two years, been attempting to move in the direction of putting its lending on a development program basis. To that end we have encouraged and assisted member countries to formulate over-all development programs, that is to say, to calculate the resources available for investment, to determine the sectors of the economy which should have priority for investment and the relative magnitude of the investments to be made in each sector over a given period, and to decide on the supporting economic, financial and administrative measures which must be taken to avoid inflation or otherwise to enable the programs to achieve their objectives. We are convinced that foreign loans made in furtherance of such development programs can have an impact far exceeding the amounts involved and are more constructive in over-all effect than the same amount of aid granted on a project-by-project basis. Since the preparation of any investment program involves assumptions as to the amount of foreign capital that is available, the Bank is prepared, in cases where economic circumstances warrant, to indicate to member countries the approximate rate of lending which the Bank foresees as probable over a period of a few years. Indications of this kind would not represent commitments but estimates which the Bank and the member country could use as a basis for planning.

The International Bank firmly believes that development programming is a vital part of the development process and that its experience with this subject, its working relationships with the Fund, FAO, WHO and other international and national technical agencies, and its own international composition and nonpolitical character, specially qualify it to make a substantial contribution to this work.

In entering the field of development planning, the International Bank has had the support and encouragement of the United States authorities. Nevertheless this step has complicated the problem of coordination with the Export-Import Bank. In particular, it has become more important for the Bank to know, in regard to each country in which it is prepared to act, whether the development activities of the United States Government will be consistent with the International Bank's own program of action. The International Bank's efforts would be ineffective, for example, if while it was insisting on stabilization measures as a condition to its own loans, development financing should be granted unconditionally by the United States Government; or if financing were granted by the United States for projects that were inconsistent with the investment program that the International Bank was assisting in working out; or if loans were granted by United States agencies in such substantial amounts as to endanger the prospects of repayment of debt contemplated by the Bank's program.

I must emphasize that this is not at all a one-sided issue. Exactly the same conflicts might arise in a country like the Philippines, for example, where the United States proposes to take the leading role in development, if the International Bank should embark on a lending program in disregard of the conditions which the United States has imposed.

Even if inconsistencies of the kind mentioned above should not actually occur in practice with respect to a particular country, the problem would nevertheless exist. If the country were allowed to remain under the impression that it could shop around for financial aid, it would be tempted to play one agency off against the other and postpone difficult decisions. What is needed, therefore, is a common understanding as to the nature and purpose of development, including the broad criteria which are to be applied in regard to particular countries and the areas of responsibility of the various interested agencies, and a mechanism by which differences in the application of these criteria or in the definition of these areas may be reconciled.

8.

Looking only at the relationships between the International Bank and the Export-Import Bank, the considerations from the viewpoint of the United States are, as I see them, relatively clear. On the one hand the United States has advocated international cooperation through international organizations in the development field. It promoted the

establishment of the International Bank and is, I believe, generally in accord with the scope which the Bank's activities have assumed and the directions in which its policies are developing. It believes it appropriate that the risks of development lending should be internationally underwritten and desires that funds from private sources and, so far as feasible, from other advanced nations shall contribute to development. So far as I am aware, it is not part of the United States policy to utilize national funds for development financing which can be undertaken by the International Bank.

On the other hand the United States has a distinct interest in maintaining the existence of the Export-Import Bank as a lending arm. It does not wish the Export-Import Bank to be restricted solely to the types of lending for which it was primarily intended when it was organized. Export-Import Bank developmental loans may be desired for countries which are not members of the Bank, for extensions of projects, such as Volta Redonda in Brazil, where previous Export-Import Bank credits make it the most appropriate lending agency, and for certain projects of strategic interest to the United States which special considerations make inappropriate for International Bank financing. In addition, there may occasionally be circumstances in which particularly urgent political considerations impel the United States to make loans which would normally be more appropriate for the International Bank. I am not aware of any other cases in which the United States has any interest in making development loans itself in a country in which the International Bank is prepared to act.

9.

If the foregoing summary of the considerations bearing on this problem is reasonably correct, I believe that a solution can be found. If the United States intends to adhere to and implement its stated policy to regard the International Bank as the primary public lending agency in the development field, it should recognize what in my opinion is implicit in that policy, namely, that the International Bank should normally be the first resort of member countries seeking developmental loans and therefore that, except in special circumstances, proposals for developmental loans for projects in member countries of the International Bank should be referred in the first instance to the International Bank.

This practice has in effect been followed on a number of occasions, but it has never been recognized, either by United States agencies or by the member countries, as the normal procedure. If it were adopted, the International Bank

would, of course, be under a real responsibility to advise the United States promptly whether it saw any difficulties in dealing with any loan proposals so referred to it. Such a procedure would, I am convinced, form the basis of adequate coordination between the two banks and assure a really effective liaison between them. It would also, in my opinion, substantially enhance the impact of their combined contribution to development.

Under the heading of "special circumstances", there would fall the cases in which Export-Import Bank lending is recognized by all concerned as more appropriate than lending by the International Bank; for example, extensions of projects which the Export-Import Bank has financed in the past or projects which do not fall within the scope of the International Bank's powers. Those cases would fit easily into the pattern of operations under such a policy decision as I have suggested above. Presumably the Export-Import Bank would, as in the past, continue to inform the International Bank of such proposals at the time when they were taken up for study. Loans which the United States, because of exceptionally urgent political interests, may feel impelled to grant itself would also come within this category. But it seems clear to me that, if such a case should arise in regard to a country in which the International Bank was active or prepared to act, the United States should recognize a responsibility to inform the International Bank promptly (except perhaps in unusual cases where security is involved) and to carry out the transaction in a way which would not impair the development program which the International Bank was furthering or the financial basis on which it rested. If that principle were clearly recognized, I would not anticipate any difficulty in working out by consultation the details of its application to the particular special cases which might arise. I should add that the International Bank would be under a reciprocal responsibility, if it felt that it could not adequately meet the legitimate borrowing needs of a particular country, to inform the United States and to coordinate its activities in that country with any financing program the United States might wish to undertake or even to withdraw from all activities there if that should be appropriate.

A solution along these lines would allow the Bank to assume the development role originally contemplated for it and thus recognize the importance of international administration in the development lending field, in accordance with the views that the United States has consistently announced. At the same time it would provide a clear, understandable and substantial role for the Export-Import Bank as a national lending arm. I believe that, with the more effective liaison that would be made possible and the uncertainty that would be dissipated, the volume of development loans that would be forthcoming from the two institutions would be greater, rather than less, than under present conditions.

CONFIDENTIAL DRAFT
December 19, 1950

DECLASSIFIED

Date: 11/15/2010 STB

To: Mr. Martin

From: Mr. Black

1. There is attached a memorandum on the relationship between this Bank and the Export-Import Bank, supplementing my memorandum to you of November 13, 1950, on a lending program for Brazil. This paper was in preparation before the recent critical events in Korea and therefore does not take account of a military program on the scale which now appears necessary.

2. I have given a good deal of thought to the question whether I should send you the paper under present circumstances. I have decided to do so, with this further supplement, for the reasons summarized below.

3. Until the size of the military program has been determined and its effect on the economy of the country calculated, it will hardly be possible to determine the role of the International Bank or indeed of any other development agency. But unless all development aid is to stop, it seems to me that the problems I have raised will require an answer. The problem of international v. national administration will remain. If the amount of aid is reduced, proper planning will be more necessary than ever to produce the maximum benefit to all concerned. This will involve more coordination among interested agencies, not less.

4. Personally, I feel that even under a thoroughgoing defense economy, the free world cannot afford to neglect development.

Offering hope to the people of the backward areas seems to me a necessary part of any program designed to preserve peace or to prevent the advance of totalitarianism and I firmly believe that the emphasis which the United States has placed on offering this hope through international rather than national agencies is even more vital in a time of crisis than in a time of relative quiet.

5. Accordingly, I am confident that the International Bank will have a role to perform even during a period of active military preparation. Perhaps that role will require a number of changes in our operations, changes in emphasis and direction. But in any case I believe that the problem of our relationship to United States agencies operating in the same field will remain and I therefore feel that the attached paper warrants your consideration.

CONFIDENTIAL DRAFT

DECLASSIFIED

December 5, 1950

Date: 11/15/2010
STB

To: Mr. Martin

From: Mr. Black

United States Development Lending
and the International Bank

I

Although the International Bank has been in existence for nearly five years, no United States policy has yet been formulated delineating the fields of operations of United States development lending agencies in relationship to the operations of the International Bank. Nor have representatives of the United States in the Bank proposed any policy for the Bank to follow in relation to the activities of United States lending agencies. Statements have been made from time to time that the United States Government regards the Bank as the primary lending agency in the development field, but these statements have been too vague to form a basis for our planning or to constitute adequate policy guidance to United States agencies.

During the early period of our operations, this delay was entirely understandable. The Bank was an untried experiment. Its staff had not been organized, its credit had not been established and its policies had not been worked out. The problem of European reconstruction, which had been thought to be the Bank's first task, was assuming dimensions which put

it beyond the scope of the Bank's resources. The Bank had not yet turned to the field of development, in which the question of coordination arises particularly.

I believe that the situation is now quite different. The Bank's credit is established and the principal lines of its operations have become apparent. It has acquired experience in the development field and is prepared to make developmental loans in substantial amounts. In planning to do so, however, it has, on one occasion after the other, been brought face to face with the fact that it does not know the United States policy with respect to United States lending agencies operating in the same field.

II

The United States lending agency primarily concerned is the Export-Import Bank of Washington. The Export-Import Bank was originally organized to facilitate exports and imports between the United States and other countries primarily by granting credits of relatively short term and commercial character such as export trade and commodity export credits. Although there was some expansion of its activities during the war, particularly in the Western Hemisphere, it did not enter the field of long-term reconstruction and development loans on a large scale until the passage of the Export-Import Bank Act of 1945. At that time and thereafter loans for reconstruction and development assumed increasing importance in its operations.

During and after the war, the United States had strongly advocated the administration of foreign economic aid under international auspices. The International Bank was organized to be the primary agency for making developmental loans for reconstruction and development and was so regarded by the United States Government. Nevertheless there were unforeseen delays in its establishment and organization and these delays quite understandably were the occasion for the expansion of the Export-Import Bank's activities. The needs were pressing and the Export-Import Bank loans were of great benefit. They were frankly undertaken as emergency or interim measures designed to fill the gap in the facilities for providing foreign dollar credits until the time when the International Bank could begin operations on a substantial scale. With the years, however, the long-term lending activities have lost their interim character. They have become the major part of the Export-Import Bank's operations and are apparently considered a permanent function. This has been a gradual evolution, not based, so far as I am aware, on any policy decision as to the relationships between the two institutions. In the circumstances, it has led to uncertainty and lack of coordination in the field which in my opinion may seriously affect the ability of the International Bank to carry out its own development responsibilities.

III

The International Bank has been conscious of this issue for some time. It was recently posed in clear form in connection with the Bank's future relationship to Brazil, and in my memorandum to you of November 13, 1950, I outlined a proposal for a lending program in Brazil which I hoped would lead to a clear decision on which we could plan for the future. Although that memorandum deals only with Brazil (since that was the specific case under consideration at the time), it has, in my opinion, broader implications. Fundamentally it involves the problem of how foreign lending may most effectively contribute to development. A brief review of our thinking on this broader problem may put my specific proposal in proper perspective and assist you in your consideration of the general subject.

Aside from the technical analysis of individual projects (which need not concern us for the purposes of this memorandum), development lending, as we see it, involves two principal kinds of activity; first, determination of priorities among the several fields to which foreign loans will be devoted and, second, assessment of the amount of foreign debt which the borrowing country can bear. As you know, we have always believed that in carrying on both these types of activity it is not sufficient to look only at the particular project or group of projects under consideration; the economic priority of the project and the creditworthiness of the borrowing country

must be judged in terms of the whole economy.

As we have acquired more experience in development we have come to realize that even this approach leaves a good deal to be desired. Although projects proposed for Bank financing may, in relation to the general economic situation, appear to warrant a top priority, their real significance can be understood only in the light of the country's other proposed investments and the resources available to it. For example, if the projects would be carried out even in the absence of Bank financing and if the investment program includes other projects of doubtful economic merit, the real effect of the Bank's loans may be to release funds for uneconomic ventures. Or if the country contemplates an investment program that is beyond the scope of its available resources, the Bank's loans may help to undermine the stability of the economy.

Because of considerations of this kind the Bank has, for the past two years, been encouraging its members to formulate and carry out overall development programs. This is no light task. It involves decisions not only as to the sectors of the economy which should be given priority for investment during a given period and as to the relative magnitude of the investments to be made in each sector, but also as to the resources available for the purposes of the program and as to the supporting economic and financial measures which must be taken to avoid inflation or otherwise enable the program to

contribute to an increase in living standards. The whole economy, foreign and domestic, must be analyzed and taken into account. A balance must be struck between stating general objectives and criteria on the one hand and recommending specific action on the other. Execution of such a program is even more difficult. It is handicapped by the lack of technical and administrative skills which is usual of undeveloped countries and by the political issues that development decisions always involve. And since programs of this kind at best deal in approximations and must be frequently adjusted in the light of changing circumstances, implementation means constant reexamination and reconsideration.

Nevertheless, in spite of all the difficulties, the Bank is convinced of the importance of the program approach to development. It believes that even imperfect plans are better than none and that by making plans member countries will get more development and better development out of their available resources, including the Bank's loans. To this end, it has not only encouraged its member countries to formulate and carry out development programs, but has endeavored to assist them in so doing by advice and technical aid of various kinds. As you know, the Colombian, Guatemalan, Turkish and Cuban missions are steps in this direction.

The Bank has for some time been considering a step of another kind. It contemplates, in cases where the economic

circumstances permit, making official statements indicating to member countries the approximate rate of lending which the Bank foresees as probable over a period of, say, four or five years. Such a statement would neither be a commitment by the Bank nor a ceiling on the amount of loans the Bank would grant during the period in question. The proposed statement to Brazil outlined in my memorandum of November 13, 1950, is an example of what is contemplated.

This approach would, I believe, have many advantages, of which the following are perhaps of most importance. First, by holding out an inducement and by affording a definite basis for planning, it would encourage the formulation of sound development programs. Second, it would give the Bank a real voice in the framing and execution of the programs. Third, it would allow the Bank to condition its aid on the application of necessary administrative, economic or financial measures, such as stabilization programs. (This aspect is actually under consideration in regard to Chile, where a joint Bank-Fund approach on stabilization is contemplated). Fourth, it would help governments to obtain necessary public and political support for their development programs and for accompanying economic measures by pointing to the moral and financial support offered by the Bank. Finally, it would enable the Bank to coordinate its lending activities readily and effectively with any national programs of economic

aid that might evolve out of proposals like the Gray Committee Report or the Colombo Plan.

This would, of course, be a new field for the Bank and one not entirely without dangers. We expect, therefore, to proceed cautiously and to employ the program lending approach experimentally in selected countries where the circumstances seem most favorable. At best we do not expect that it could be applied generally within any short period of time.

The Bank recognizes, of course, that it cannot defer all financial assistance to a particular member country until that country has formulated a development program and put it into effect. That would be an unrealistic position which the Bank has never taken. It has always been ready, and is ready, to deal with loans for specific projects in the absence of an overall development or investment program, particularly when the projects, on the basis of available information, appear to be of such basic significance to the country's economy as to warrant a relatively high priority in any investment program. Even in these cases, however, the Bank hopes that its analyses of the effect of particular projects upon the economic situation will demonstrate to the member in question the desirability of an overall assessment of its development needs and resources and will lead in due time to the formulation of development plans and ultimately to Bank lending on a program basis.

The Bank is in a unique position to pursue this program approach with member countries. It has already acquired some experience in the field through its economic missions. It has been able to enlist the cooperation of the Fund, FAO and other national and international technical agencies. It has the resources to reinforce its recommendations. Its international composition and nonpolitical character make it less subject to charges of intervention than national agencies. With these advantages, I believe that the Bank should be able to make a substantial contribution to development planning.

IV

While the Bank intends in any event to proceed with caution in the development programming field, it can hardly proceed at all unless it knows that the policy of the United States Government in its own lending activities will be such as to support, rather than conflict with, the Bank's own plan of action. The Bank's efforts would be ineffective, for example, if while it was insisting on stabilization measures before making loans, loans should be granted unconditionally by the Export-Import Bank; or if loans were granted for projects that were inconsistent with the investment program that the International Bank was assisting in working out; or if loans were granted in such substantial amounts as to endanger the prospects of repayment of debt

contemplated by the International Bank's program. Even if loans of that kind should not actually be granted, the problem would still exist. If the country in question were allowed to remain under the impression that it could shop around for loans on the most favorable terms or on the least irksome conditions, it would be likely to postpone the difficult decisions which are usually necessary to development. The very existence of two public lending agencies operating in the same field without apparent coordination would make it difficult for the Bank to speak with the authority necessary to put over its program.

It was for reasons of this kind that I stated in my earlier memorandum that if the Bank was to embark on the type of lending program there contemplated, and to pursue it vigorously, it needed assurances as to the United States Government's lending policies. But Brazil is by no means the only case of the kind. We will undoubtedly encounter similar problems in Colombia, Chile, Yugoslavia and other countries where the Bank is prepared to act on a substantial scale. In Mexico, where the Export-Import Bank has already granted a \$150,000,000 credit, we feel that for the present the International Bank cannot undertake any substantial lending activities. We are reluctant to embark on a sizeable program in any country to which similar credits may be granted at any time without consultation with us or coordination with our own proposed activities.

V

I do not believe that private investment gives rise to the same kind of problem. Whether we like it or not, private investment in the underdeveloped countries is not likely to assume substantial proportions in the near future (except for projects in the extractive industries which are directly self-liquidating in foreign exchange) and private lenders in particular are unwilling in present conditions to assume the risks inherent in the field. Accordingly, private investments are not likely to endanger the creditworthiness of the International Bank's borrowers. Even if there were a real risk of this kind, it would be one which the Bank should assume in view of its clear duty to promote private investment.

In fact the danger seems to lie in quite another direction. The Bank has had substantial reason to believe that, on the one hand, the lack of coordination between its activities and those of the Export-Import Bank has tended to discourage potential private investors and, on the other hand, that a sound development program under the International Bank's auspices will tend to encourage them. Private interests have frequently told me of their confusion and doubt in the face of the uncertainty arising from apparent inconsistencies between our program and that of the Export-Import Bank.

VI

I believe that a solution to these problems is not difficult to find if the United States is prepared to recognize the International Bank as the primary lending agency in the development field. The United States has stated that such recognition is its national policy, but the implications for the relationship between the two banks have not been spelled out. What that recognition implies, in my opinion, is that in the normal course projects or proposals for development loans to the International Bank's member countries should not be considered by the Export-Import Bank until the International Bank has had an opportunity to consider them. A clear decision to this effect by the National Advisory Council would solve this problem. If such a decision were made, and consistently maintained toward the International Bank's member countries, I am convinced that a really effective liaison could be established between the two banks (which has not been possible in the absence of any declared United States policy in the field) and that the effectiveness of their combined contribution to development would be greatly enhanced.

There are, of course, as my earlier memorandum recognized, several kinds of cases in which, even under such a program as we contemplate for Brazil, lending by the Export-Import Bank might be more appropriate than lending by the

International Bank; for example, cases of projects which the Export-Import Bank has financed in the past or which do not come within the scope of the International Bank's powers. These cases would fit easily into the pattern of operations under such a policy decision as I have suggested above. Moreover, the International Bank realizes that from time to time the United States, because of special political or strategic interests, may feel that it should itself grant a loan where the International Bank is not prepared to act or even, in certain circumstances, where it is prepared. It seems obvious to me that when such a case arises, the United States must recognize the responsibility of carrying out the transaction in a way which will not impair the the development program which the International Bank is furthering or the financial basis on which it rests. If that principle were clearly recognized, I would not anticipate any difficulty in working out by consultation the details of its application to particular cases.

A solution along those lines would allow the Bank to assume the development role originally contemplated for it and thus recognize the importance of international administration in the development lending field in accordance with the views the United States has consistently announced. I must emphasize that the issue involved is not one of competition between the International Bank and the Export-Import

Bank or of the comparative merits of the loans made by the two institutions. Fundamentally the problem is one of coordination, whether the United States is prepared to allow the International Bank to assume leadership in assisting the formulation and execution of sound development programs and whether that policy will be reflected in the activities of United States lending agencies. I should appreciate your presenting the matter to the National Advisory Council in that light.

Draft (Confidential) given by Manager on Dec. 18-1950-

RESTRICTED

Coordination of Development Financing

DECLASSIFIED

Date: 11/15/2010 SB

The following principles and procedures are suggested in order to assure proper coordination in the extension of loans and grants for economic development of underdeveloped areas by U. S. agencies and international agencies in which the United States participates:

1. Within the limits permitted by the requirements of defense, all loan and grant operations for economic development should be appraised by the financing agencies and reviewed by the NAC in terms of a single general development program for the country concerned.
2. Although primary responsibility for formulating and executing such a general program must rest with the foreign government, U. S. agencies and international agencies providing technical and financial assistance should cooperate with foreign governments in discharging this responsibility.
3. In order that each of the financing agencies may perform its particular function within a single framework, the NAC should appraise any general development program prepared for a foreign country which is submitted by any of the following: the U. S. Executive Director in the International Bank, the Export-Import Bank, the Economic Cooperation Administration, the State Department. Such a program, after review by the NAC, will provide a consistent framework for development loans and grants and will also provide guidance to technical assistance activities.

4. Whether development loans or grants are or are not linked to particular projects, financial assistance should be viewed in reference to the objectives and content of the whole program which it supports, and to the general aims of the United States in the field of financial and commercial policy. Thus, where individual projects are directly financed by loans or grants, the amount of foreign financing need not be limited to the foreign exchange costs of particular projects, and when so limited should not be restricted to purchases in the United States.