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Washington, D.C.

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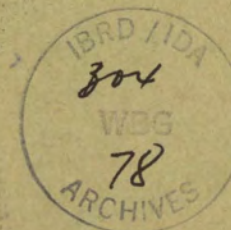

BURLAND, ELMER G. - ARTICLES and SPEECHES (1949 - 1956)



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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
Washington

Address by E. G. Burland, Financial Adviser,  
International Bank for Reconstruction and Development,  
before the 78th Annual General Meeting of the Canadian  
Manufacturers' Association at St. Andrews-by-the-Sea,  
New Brunswick, Canada, June 8, 1949

THE INTERNATIONAL BANK AND INDUSTRIAL DEVELOPMENT

It is indeed an honor and a pleasure for me to be able to attend the 78th Annual General Meeting of the Canadian Manufacturers' Association at St. Andrews-by-the-Sea - even though I am here by fortuitous circumstance.

Mr. W.A.B. Iliff, the Loan Director of the International Bank for Reconstruction and Development, had looked forward eagerly to being with you on this occasion but due to an illness of his wife, he found it necessary to return with her to England. He asked me to attend in his stead and to tell you about the World Bank's organization, activities and objectives and with your kind indulgence, I shall do my best to acquit myself of this important commission. I say important because I believe it is important that Canadian industrial circles have a clear picture of this fledgling institution and be in a position to estimate how it may affect world economic relationships in which Canadian business plays so vital a role.

As you know, the International Bank for Reconstruction and Development - or to use its more popular title, as I have done - the World Bank, was one of the twin progeny of the Bretton Woods meetings in 1944 - the other being the International Monetary Fund.

I shall not try to speak with authority on the purposes of the other un-identical twin. I suppose, however, a fair description of the Fund's aims would be the re-establishment of the stability and convertibility of world currencies, so necessary to international trade; provision of short-term credit to member countries suffering from temporary unbalance in their foreign exchange transactions; and creation of a mechanism for dealing with adjustments in foreign exchange rates.

The twin I hope to be able to describe to you - that is, the World Bank - aims to provide its members, who are also members of the Monetary Fund, with long-term credit for the reconstruction and development of their economies. So short a description, however, would be a serious oversimplification. The World Bank was certainly not meant to substitute for the traditional and historic flow of private investment capital across national borders. Very much to the contrary, it was intended to encourage and stimulate, as much as possible, these ancient processes and only to supplement them and lend a helping hand where unhappy circumstance or temporary dislocation had caused them to slow down. The World Bank's Articles of Agreement are clear on this. They provide that the Bank must be "satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain" the required financing on reasonable terms,

History is full of evidence that economic development must in the main look to private sources of finance. Where and when, however, the risks seem



too great, where past experience is discouraging, where the climate for investment seems inclement, private capital is bound to show reluctance. It is here that the World Bank may step in and carry the ball. At the same time, the Bank as one of its equally important objectives - must use its best efforts to decrease the investment risks, to correct the errors of past experience and also to see what it can do to improve the investment climate.

Let me tell you briefly about the Bank's capital structure. It has an authorized capital stock amounting to \$10,000,000,000 of which its present 48 members have subscribed to \$8,348,500,000. Subscriptions were divided into amounts, related to each member's national income, in a manner which has generally been considered fair and equitable. 2% of the subscriptions of all members are paid in in gold or United States dollars. An additional 18% is called and paid in, in the individual currencies of each member and there are complicated provisions for the maintenance of the value of such currencies which I need not describe today. The remaining 80% of the subscribed capital is not paid in but serves as a guarantee fund, subject to call only when required to meet the Bank's obligations.

The 2% can be freely used as loan funds but the 18% can be used for loans only with the express permission of the respective subscribers. To date, the United States has given such permission for the use of its entire 18% but only relatively minor amounts have been freed for use by Canada, the United Kingdom and Belgium. There is, of course, a reason for this. Most of the Bank's members, other than the United States, do not consider themselves yet in a position to export capital. In the nature of things, this is likely to be only a temporary restriction. I think we can look forward confidently to the years ahead when recovery from the ravages of war and its economic dislocations will make possible release, for lending purposes, of an increasingly greater number of member currencies.

But the Bank has another source of loan funds besides its paid-in subscriptions. It is authorized, when its individual members so permit, to sell its own obligations in the private investment markets of such members from time to time. In addition, the Bank may resell to private investors, with or without its guarantee, the obligations arising out of loans already made. As an example of the former, the Bank, in the summer of 1947, sold two issues of its own bonds amounting to \$250,000,000 on the financial markets of the United States. As examples of the second category, the Bank has sold to American investors, with its own guarantee, the bonds representing a \$12,000,000 loan made to certain Netherlands shipping companies and a \$16,000,000 loan made to the Belgian Government for the benefit of some Belgian industrial enterprises. Altogether, the total of lending funds available to the Bank so far amounts to around a billion dollars.

What have we done with this money? We have made loans totalling about \$650,000,000 in member states, in the following order:

France	\$250,000,000
The Netherlands	207,000,000
Denmark	40,000,000
Luxembourg	12,000,000
Chile	16,000,000
Brazil	75,000,000
Mexico	34,000,000
Belgium	16,000,000



The earliest loans were what we characterize as "reconstruction loans." While the money was for definite items in the recovery plans of our European member borrowers, they covered so wide a range as to be, in effect, commitments for general reconstruction. With Chile, we began what we call "project loans", that is the financing was for specific developmental projects - and this latter field is the one in which we expect our principal future activity will lie. I say this because we are in the midst of negotiations with a dozen or more loan applicants involving projects costing several hundred million dollars - all of them are in the category of vital economic development.

How do we make our loans? Well, it is not an easy process. It is sometimes said among ourselves, that it is easier for the Bank to borrow money than to lend it. The Bank, in fact, goes through all of the preparatory investigations of a project loan, all the technical and engineering tests and all of the country studies - which would be undertaken by the most sophisticated and experienced private lending institution. This is time consuming and expensive and we are consistently handicapped by the fact that in many of our lesser developed members, engineering and management skills are relatively immature and projects come to us that are not worked out in detail.

The Bank is enjoined in its articles, and its management's firm policy is, to make only sound loans for productive purposes and for which there is a reasonably clear prospect of repayment. To fill this prescription, it often requires engineering studies by the Bank's own engineering consultants or an independent engineering appraisal. It requires studies of markets and management availabilities. It requires penetrating economic studies of the borrowing country's credit worthiness, credit standing, economic organization and economic policies - the country's stability and future prospects.

At this point I might mention President Truman's Point IV, that is, the export of managerial skills and technical know-how to lesser developed countries by the economically more advanced countries of the world. Where the World Bank will fit into this program, which is being worked out by the United States Government and the United Nations, I cannot say at this time. I should mention, however, that the problem of assuring the necessary know-how required in our loans for developmental projects is constantly before us and, in our own way, we are collaborating with our borrowers to see that the necessary skills and knowledge are available for such projects.

Our loan documentation follows generally the accepted standards of prudence set by the banking world and we endeavor to protect our loans with reasonable safeguards. We send Bank missions to the field for studies on the ground and we require legislation in the borrowing countries which will make our loans legal, valid and binding obligations.

Under our Articles we can lend to governments direct or we can lend to private enterprises in member territories with the guarantee of the member government itself or of an equivalent governmental institution. Our loans are mostly limited to providing the foreign exchange costs of reconstruction and development, since the Articles stipulate that only "in exceptional circumstances" can we lend to cover local currency costs.

The Bank does not make a loan and then forget about it. Its objective in entering the territory of a member is to set up continuing consultative



relationships with such member throughout the life of a loan or series of loans, with the Bank standing ever ready to advise, consult with, and assist in the member's economic progress.

This sounds like a large order and it is. How are we organized to do this? Briefly, the World Bank's organizational structure consists of a Board of Governors which meets annually on basic questions of policy. It has a Board of full-time Executive Directors, under the chairmanship of its President, which concerns itself with operating policies. Finally, it has its operating staff. In practice, there is close co-operation between the president and his staff and the Executive Directors. Information on the Bank's operations is freely and constantly exchanged with the Executive Directors and there is frequent informal discussion and consultation. In this way the Executive Directors are fully prepared to act expeditiously on the president's loan recommendations.

The Bank's staff is composed of 23 nationalities and is divided principally into a Loan Department, which handles loan applications and conducts negotiations; an Economic Department where most studies are made; a Marketing Department to sell the Bank's own bonds from time to time; a Legal Department; a Treasurer's Department; a Public Relations Department; a Secretary's Department; and an Administrative Department. The staff itself is not large and its duties are well integrated.

At this point, I want especially to emphasize a special function adopted by the World Bank which, from my long banking experience, is new to the practices of international finance. It is what we call "supervision" of loans. It has three general aspects, two of which are responsibilities of the Treasurer's Department; the remaining aspect is the responsibility of the Loan Department, in co-operation with the Economic Department.

In the past, private bankers have generally not been in a strong position to follow through in the application of the proceeds of foreign governmental loans nor the accomplishment of the loan's objectives. There have been several reasons for this but I think the principal one has been the feeling that such supervision might constitute undue interference in the sovereign prerogatives of the borrowing country. In the World Bank, however, only its stockholder members can be borrowers or guarantors and each borrower therefore has a real interest in the success of all the Bank's loans. Because of this, the Bank is able to add something relatively new to the art of international lending and I feel sure it will be of particular interest to businessmen such as make up the Canadian Manufacturers' Association.

When we make a loan, the loan agreement describes in detail the purpose for which it is made. The proceeds of the loan are not paid over out of hand, but are credited to the borrower on the Treasurer's books. Under the agreement, withdrawals can only be made on the basis of documentary evidence that the specific purposes of the loan are being fulfilled. As the project being financed gets under way, the Bank's engineers and technicians make frequent inspections and receive periodical progress reports. The borrowers are solemnly obligated to report any unforeseen difficulties, technical, financial or otherwise, which may arise and the way, thus, is open for joint review and any timely adjustment necessary to insure successful completion of the project.



But supervision does not end there. From that time forward, the Loan Department with assistance of the Economic Department keeps close and running touch with economic developments in the borrowing country, and is in a position to recommend sound economic policies and correction of wasteful financial practices. Frankly, this new feature of the Bank's activities is, at this stage, experimental and it is possible that some of the more advanced countries in our membership may be inclined to discount our efforts and abilities. But we have as yet encountered no real difficulties and, of course, in all likelihood, as long as the Bank has funds available for future financing of sound development, there will be a premium on co-operation.

Perhaps I should say a word here about the Bank's relationship to the Marshall Plan as there has been some confusion on this point in the public mind. I think the relationship is in reality simple and logical. The Bretton Woods pioneers probably did not realize the great gap which was going to exist between the start of post-war recovery and the time when the Bank's members could properly assume the obligation of foreign loans. It became increasingly clear, however, when the rubble was being cleared away, that vast sums, in the form of grants-in-aid, would be necessary before the Bank's members would either desire to borrow, or could qualify for loans which would not be so burdensome as to endanger the possibility of repayment. It was the purpose of the Marshall Plan, I think, to fill this gap and it was not intended to usurp the World Bank's field of lending activity. It is true that a portion of the advances made by the Economic Co-operation Administration is in the form of long-term loans on generous terms. While such aid continues it will, no doubt, in fact, it has tended to restrict World Bank lending in Marshall Plan countries. But the E.C.A. aid received will surely solve the recipients first problems and set the stage for subsequent loans, soundly and willingly entered into, and entirely justified by banking considerations. I believe the World Bank will come fully into its own, as Marshall Plan assistance achieves its objectives - and I believe, also, that we may well be grateful for the beneficial interlude.

I have only two more points, that I'd like to touch on briefly before I close.

I think this group will be particularly interested in noting that the Bank has recently concluded loans for the benefit of two privately-owned Canadian companies. One is the \$75,000,000 loan to the Brazilian Traction, Light and Power Co. Ltd., guaranteed by the United States of Brazil, and the other is a \$10,000,000 loan through the Federal Electricity Commission of Mexico, for the Mexican Light and Power Company, Ltd. guaranteed by the Mexican Government. These loans to my mind are important examples of mutual and beneficial co-operation between private business, member governments and the Bank.

This brings me to my final point, namely, co-operation. The World Bank is essentially a mutually owned, co-operative institution. As such, I believe it worthy of the support and co-operation of financial and business circles throughout the world. The policy pronouncements of the Governors, of the Executive Directors and especially of the President make it clear that among the Bank's objectives is the desire to enlist and nurture that support and to maintain and further that co-operation. We must raise the bulk of our



future loan monies in the private financial markets. The success of the enterprises we finance can best be assured by seeking the advice and interest of business circles. The great industrial countries of the world at the top of our membership list must be the models for the lesser developed among the membership. The technical and management skills, the "know-how" that is the secret of economic betterment must come largely from these sources. The Bank will surely desire to conduct its operations in such a way as to make friends and win support in these circles, just as surely as its borrowers must look in that direction for inspiration and for example.

In closing, I feel I could not do better in this group than to quote from a brochure I recently received from an industrial company, which has substantial interests in Canada. The company was celebrating its 50th anniversary and the Directors took occasion to reaffirm the three attributes which had inspired its founders in 1899 and to which business and financial circles, both public and private, can readily subscribe. These attributes are: "FORESIGHT, in pioneering the new ... FAITH, to weather temporary adversities ... and ENGINEERING SKILL, for meeting the challenge of the world's industrial development."



# INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

## Progress in International Finance

Address before the Wisconsin Association of  
Real Estate Brokers by E.G. Burland, Financial  
Adviser of the International Bank for Recon-  
struction and Development, September 23, 1949

Milwaukee, Wisconsin

It is indeed an honor and a pleasure for me to be able to attend the annual convention of the Wisconsin Association of Real Estate Brokers in the great city of Milwaukee. Harking back to the advertising slogans of my youth, it may not have been real estate that originally made Milwaukee famous, but I have no doubt that the real estate business has been an important factor in achieving Wisconsin's equally famous prosperity and its enviable record of financial soundness. I have been asked to tell you about the organization, activities and objectives of the International Bank for Reconstruction and Development and in such a community so well known for its sound financial concepts, it should be a comparatively easy job. The World Bank - to use its shorter and more popular title, is a fledgling institution, of course, but I hope to demonstrate to you that from the beginning it has striven to follow policies and practices which will find favor and support in business and financial circles.

As you know, the World Bank was one of the two international institutions resulting from the Bretton Woods meetings in 1944 - the other being the International Monetary Fund. I shall not try to speak with authority on the purposes of the Monetary Fund but I suppose a fair description of its aims would be the re-establishment of the stability and convertibility of world currencies, so necessary to international trade, provision of short-term credit to member countries suffering from temporary unbalance in their foreign exchange transactions and creation of a mechanism for dealing with adjustments in foreign exchange rates.



The institution which I shall describe to you - that is, the World Bank - aims to provide its members, who are also members of the Monetary Fund, with credits for the reconstruction and development of their economies. So short a description, however, would be a serious oversimplification. The World Bank was certainly not meant to substitute for the traditional and historic flow of private investment capital across national borders. Very much to the contrary, it was intended to encourage and stimulate, as much as possible, these ancient processes and only to supplement them and lend a helping hand where unhappy circumstance or temporary dislocation had caused them to slow down. The World Bank's Articles of Agreement are clear on this. They provide that the Bank must be "satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain" the required financing on reasonable terms. History is full of evidence that economic development must in the main look to private sources of finance. Where and when, however, the risks seem too great, where past experience is discouraging, where the climate for investment seems inclement, private capital is bound to show reluctance. And it is here that the World Bank may step in and carry the ball. At the same time, the Bank as one of its equally important objectives - must use its best efforts to decrease private investment risks, to correct the errors of the past and also to see what it can do to improve the investment climate.

Let me tell you briefly about the Bank's capital structure. It has an authorized Capital Stock amounting to \$10,000,000,000 of which its present 48 members have subscribed to \$8,348,500,000. Subscriptions were divided into amounts, related to each member's national income, in a manner which has been generally considered to be fair and equitable. 2% of the subscriptions of all members are paid in in gold or U.S. dollars. An additional 18% is called and



paid in in the individual currencies of each member and there are complicated provisions for the maintenance of the value of such currencies. The remaining 80% of the subscribed capital is not paid in but serves as a sort of guarantee fund, subject to call only when required to meet the Bank's obligations arising from its own borrowings or from its guarantees of the borrowings of others.

The 2% can be freely used as loan funds but the 18% can be used for loans only with the express permission of the respective subscribers. To date, the United States has given such permission for the use of its entire 18% but only relatively minor amounts have been freed for use by Canada, the United Kingdom, Belgium and Denmark. There is, of course, a reason for this. Most of the Bank's members, other than the United States, do not consider themselves yet in a position to export capital. But we hope that this will be only a temporary restriction. I think we can look forward confidently to the years ahead when recovery from the ravages of war and from the economic dislocation which always follows war, will make possible release for lending purposes of an increasingly greater number of member currencies.

But the Bank has another source of loan funds besides its paid-in subscriptions. It is authorized, when its individual members so permit, to sell its own obligations in the private investment markets of such members from time to time, or to re-sell to private investors, with or without its guarantees, the obligations arising out of loans already made. As an example of the former, the Bank, in the summer of 1947, sold two issues of its own bonds amounting to \$250,000,000 on the financial markets of the United States. As examples of the second category, the Bank has sold to American investors, with its own guarantee, the bonds representing \$12,000,000 of loans made to certain Netherlands shipping companies, and a \$16,000,000 loan made to the Belgian



Government for the benefit of some Belgian industrial enterprises. The total of loan funds available to the Bank, so far, have amounted to around one billion dollars. What have we done with this money?

We have made loans totalling \$716,600,000 to or in the following member states in the following order:

France	\$ 250,000,000
The Netherlands	222,000,000
Denmark	40,000,000
Luxembourg	12,000,000
Chile	16,000,000
Brazil	75,000,000
Mexico	34,100,000
Belgium	16,000,000
Colombia	5,000,000
Finland	12,500,000
India	34,000,000

The earliest loans were what we characterize as "reconstruction loans". While the money was for definite items in the recovery plans of our European member borrowers, they covered so wide a range as to be, in effect, commitments for general reconstruction. With Chile, we began what we call "development project loans", that is the financing was for specific developmental projects - and this latter field is the one in which I expect our principal future activity will lie. I say this because we are in the midst of negotiations with a dozen or more loan applicants involving projects costing several hundred million dollars - all of them in the category of vital economic development.

How do we make our loans? Well, it is not an easy process. It is sometimes said among ourselves, that it is easier for the Bank to borrow money



than to lend it. The Bank, in fact, goes through all of the preparatory investigations of a project loan, all the technical and engineering tests and all of the country studies - which would be undertaken by the most sophisticated and experienced private lending institution. This is time-consuming and expensive and we are consistently handicapped by the fact that in many of our lesser developed members, engineering and management skills are relatively immature and projects come to us that are not worked out in detail. The Bank is enjoined in its Articles, and it is the management's firm policy, to make only sound loans for productive purposes of which there is a reasonably clear prospect of repayment. To fill this prescription, it often requires engineering studies by the Bank's own engineering consultants or an independent engineering appraisal. It requires studies of markets and management availabilities. It requires penetrating economic studies of the borrowing country's credit worthiness, credit standing, economic organization and economic policies, as well as the country's stability and future prospects.

At this point I might mention President Truman's Point IV, that is, the export of managerial skills and technical know-how to lesser developed countries by the economically more advanced countries of the world. Just where the World Bank will fit into this program I could not say at this time. I should mention, however, that the problem of assuring the necessary know-how required in our loans for developmental projects is constantly before us and in our own way we are collaborating with our borrowers to see that the necessary skills and knowledge are available for such projects. Point IV should facilitate the Bank's activities; an effective program of technical aid would assist in creating sound loan projects for the Bank. At the same time it should promote foreign investment by private capital on which the chief responsibility for economic development must rest.



Our loan documentation follows generally the accepted standards of prudence set by the banking world and we endeavor to protect our loans with reasonable safeguards. We send Bank missions to the field for studies on the ground and we require legislation in the borrowing countries which will make our loans legal, valid and binding obligations. Under our Articles we can lend to governments direct or we can lend to private enterprises in member territories with the guarantee of the member government itself or of an equivalent governmental institution. Our loans are mostly limited to providing the foreign exchange costs of reconstruction and development, since the Articles stipulate that only "in exceptional circumstances" can we lend to cover local currency costs.

The Bank does not make a loan and then forget about it. Its objective in entering the territory of a member is to set up continuing consultative relationships with such member throughout the life of a loan or series of loans - the Bank standing ever ready to advise, consult and assist in the member's economic progress.

This sounds like a large order and it is. How are we organized to do this? Briefly, the World Bank's organizational structure consists of a Board of Governors which, normally, meets annually on basic questions of policy. It has a Board of full-time Executive Directors, under the Chairmanship of the Bank President, which concerns itself with operating policies. Finally, it has its operating staff. In practice, there is close cooperation between the President and his staff and the Executive Directors. Information on the Bank's operations is freely and constantly exchanged with the Executive Directors and there is frequent informal discussion and consultation. In this way the Executive Directors are fully prepared to act expeditiously on the President's loan recommendations.



The Bank's staff is composed of 21 nationalities and is divided principally into a Loan Department, which handles loan applications and conducts negotiations; an Economic Department where most studies are made; a Marketing Department to sell the Bank's own bonds from time to time; a Legal Department; a Treasurer's Department; a Public Relations Department; a Secretary's Department; and an Administrative Department. The Staff itself is not large and its duties are well integrated.

At this point, I want especially to emphasize a special function adopted by the World Bank which from my own long banking experience is new to the practices of international finance. It is what we call "supervision" of loans. It has three general aspects, two of which are responsibilities of the Treasurer's Department; the remaining aspect is the responsibility of the Loan Department, in cooperation with the Economic Department. In the past private bankers were generally not in a position to follow through on the use of loan proceeds by a foreign government, nor could they be certain that the loan accomplished the objectives for which it was made. There have been several reasons for this but I think the principal one has been the feeling that such supervision might constitute undue interference in the sovereign prerogatives of the borrowing country. In the World Bank, however, all stockholder members are responsible for the Bank's obligations to the extent of their uncalled subscribed capital, and therefore have a real interest in the success of all the Bank's loans. Because of this, the Bank is able to add something relatively new to the art of international lending and I feel sure it will be of particular interest to businessmen everywhere.

When we make a loan, the loan agreement describes in detail the purpose for which it is made. The proceeds of the loan are not paid over out of hand, but are credited to the borrower on the Treasurer's books. Under the



agreement, withdrawals can only be made when the Bank is satisfied that the specific purposes of the loan are being fulfilled. As the project being financed gets under way, the Bank's engineers and technicians make frequent inspections and receive periodical progress reports. The borrowers are solemnly obligated to report any unforeseen difficulties, technical, financial or otherwise, which may arise and the way thus is open for joint review and any timely adjustment necessary to ensure successful completion of the project.

But supervision does not end there. The Loan Department with assistance of the Economic Department keeps in close and running touch with economic developments in the borrower's country, and is in a position to recommend sound economic policies and correction of wasteful financial practices. Frankly, this new feature of the Bank's activities is, at this stage, experimental and it is possible that some of the more advanced countries in our membership may be inclined to discount our efforts and abilities. But we have as yet encountered no real difficulties.

Perhaps I should say a word here about the Bank's relationship to the Marshall Plan as there has been some confusion on this point in the public mind. I think the relationship is in reality simple and logical. The <sup>the</sup> Bretton Woods pioneers probably did not realize at the time the great gap which was going to exist between the start of post-war recovery and the time when the Bank's members could properly assume the obligation of foreign loans. It became increasingly clear, however, when the rubble was being cleared away, that vast sums, in the form of grants-in-aid, would be necessary before the Bank's members would either desire to borrow or could qualify for loans which would not be so burdensome as to endanger the possibility of repayment. It was the purpose of the Marshall Plan, I think, to fill this gap and it was not intended to usurp the World Bank's



field of lending activity. It is true that a portion of the advances made by the Economic Co-operation Administration is in the form of long-term loans on generous terms. While such aid continues, it will no doubt tend - and, in fact, it has tended, to restrict World Bank lending in Marshall Plan countries. But the E.C.A. aid received is designed to solve the recipients' first problems and set the stage for subsequent loans, soundly and willingly entered into and entirely justified by banking considerations. I believe the World Bank will come fully into its own, as Marshall Plan assistance achieves its objectives - and I believe also we may well be grateful for the beneficial interlude.

I have only two more points, that I'd like to touch on briefly before I close. I think this group will be particularly interested in noting that the Bank has recently concluded loans for the benefit of two privately-owned companies. One is the \$75,000,000 loan to the Brazilian Traction, Light and Power Company, Ltd., guaranteed by the United States of Brazil. The other is a \$10,000,000 loan to two Mexican government corporations for the benefit of the Mexican Light and Power Company, Ltd., and guaranteed by the Mexican Government. These loans to my mind are important examples of mutual and beneficial cooperation between private business, member governments and the Bank.

This brings me to my final point, namely, cooperation. The World Bank is essentially a mutually owned, cooperative institution. As such, I believe it worthy of the support and cooperation of financial and business circles throughout the world. The policy pronouncements of the Governors, of the Executive Directors and especially of the President and his principal assistants make it clear that among the Bank's objectives is the desire to enlist and nurture that support and to maintain and further that cooperation. We must raise the bulk of our future loan monies in the private financial markets. The success of the enterprises we finance can best be assured by seeking the advice and



interest of business circles. The great industrial countries of the world on our membership list must be the models for the lesser developed among the membership. The technical and management skills, the "know-how" that is the secret of economic betterment must come largely from these sources. The Bank will surely desire to conduct its operations in such a way as to make friends and win support in these circles, just as surely as its borrowers must look in that direction for inspiration and for example.

It would perhaps be unavailing for me to attempt to trace the effect of the World Bank's lending operations on the daily business of the members of your Association. Any direct effect would admittedly be slight or even unrecognizable. But I think there is an indirect influence which everyone will appreciate. As a part of the general effort to build more productive economies throughout the world, the Bank will play an important role in stimulating and financing economic development in its member states. This should be an impetus to gradually expanding business and broader international trade. The United States - as well as all the Bank's member states - can prosper most in a generally prosperous world, and this country will in an over-all way feel the benefits of the Bank's activities. I am certain that Wisconsin will not fail to retain its proper share of the economic benefits which come to the United States.



## INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

### The International Bank and World Economic Development

Summary of an address before the Town Hall of Los Angeles on December 11, 1950, by E. G. Burland, Financial Adviser of the International Bank for Reconstruction and Development.

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The International Bank for Reconstruction and Development, or the World Bank, to use its more popular title, was one of two international institutions resulting from the Bretton Woods Meetings in 1944. I shall not attempt to describe the other institution - the International Monetary Fund - except to state that its general field of activity is the stability and convertibility of world currencies.

The World Bank's field is to provide its members with loans for the reconstruction and development of their economies. It was not meant as a substitute for private investment capital. On the contrary, it was intended to encourage and stimulate private lending. In fact, the Bank cannot make a loan if the borrower can obtain it elsewhere on reasonable terms.

The Bank's present 49 member nations have subscribed the equivalent of over \$8 billion of capital, divided into amounts related to each member's economic strength. 2% of subscriptions are paid in in gold or U.S. dollars. An additional 18% is paid in in the individual currencies of each member. The remaining 80% is not paid in but serves as a guarantee fund subject to call to meet the Bank's own obligations. The 2% can be freely used as loan funds but use of the 18% requires permission of the subscribers. The United States has given such permission for its entire 18% and relatively minor amounts have been freed for use by 26 other member nations. But the Bank has



another source of loan funds, namely through the sale of its own obligations in the private investment markets. To date the World Bank has sold \$250 million worth of its own bonds in the United States and a small amount in Switzerland. The proceeds of these loans, together with the funds available from paid in stock subscriptions have amounted to something over a billion dollars.

To date the Bank has made loans totalling about a billion dollars. But there is a lag between the making of a loan and its actual disbursement, so the Bank has ample cash for new loans to tide it over until it can raise additional funds by selling additional bonds.

The loans which the Bank has made are assisting member countries in widely separated areas, in Europe, in Latin America, in Africa, in the Middle-East, and in the Far East. The Bank's earlier loans were "reconstruction loans" to assist in recovery from World War II. The founders of the Bank probably did not realize the volume of capital which would be required for post-war recovery or that many of the suffering nations could scarcely assume debt obligations for that purpose. It became increasingly clear that vast sums in the forms of grants-in-aid would be necessary before the Bank's members would either desire to borrow or could qualify for loans. While such aid continues it has tended to restrict World Bank lending in Marshall Plan countries but I believe the World Bank will come fully into its own in such countries when Marshall Plan assistance has achieved its objectives. Most of the Bank's loans since the first three to France, the Netherlands and Denmark, have been for specific developmental projects and we expect that this will be our principal activity from now on. "Economic Development" means such things as developing natural resources, creating industries and transportation networks, modernizing agriculture. Economic development, realistically carried through, could also be at least one effective bulwark against aggression of the sort we find about us today.



The World Bank is just one of the bodies interested in this, the others are the United Nations itself, the I.L.O., the W.H.O., the F.A.O., and others. The World Bank's part is to make loans for economic development. In doing this, the Bank goes through all of the preparatory investigations, the technical and engineering studies and the country studies necessary to make its loans sound loans for productive purposes, of which there is a reasonably clear prospect of repayment.

In making technical assistance available, the Bank, in its own way, is taking part in President Truman's Point IV Program, but the work is complementary and not overlapping.

The Bank makes loans in accordance with the ordinary standards of prudence set by the banking world and endeavors to protect them with reasonable safeguards.

The Bank does not make a loan and then forget about it. I want to emphasize this special function which we call "supervision" of loans. The proceeds of a loan are not paid over out of hand, but are credited to the borrower on the Bank's books; withdrawals can only be made when the Bank is satisfied that the specific purposes of the loan are being fulfilled. As the project gets under way engineers and technicians make frequent inspections and reports. If unforeseen difficulties arise the way is open for joint review and any timely measures necessary to ensure successful completion of the project.

In addition, the Bank keeps in close and running touch with economic developments in the borrower's country and is in a position to recommend the adoption of sound economic policies and the correction of wasteful financial practices.



The World Bank is essentially a mutually-owned cooperative institution. It aims to establish continuing consultative relations with its members on economic and financial questions. It desires to enlist the support and approval of the business and financial communities everywhere. It desires to encourage international private financing and it raises the bulk of its loan monies in the established financial markets. Thus, it has a role in promoting and financing international economic development which eventually must mean increased international trade, and higher standards of living for the peoples of its members.



PROGRESS IN INTERNATIONAL FINANCE

Address before the Town Hall of Los Angeles  
by E. G. Burland, Financial Adviser of the  
International Bank for Reconstruction and  
Development, December 11, 1950, Los Angeles,  
California.

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IT IS INDEED AN HONOR AND A PLEASURE FOR ME TO BE ABLE TO ADDRESS THIS LUNCHEON OF THE TOWN HALL OF LOS ANGELES. CALIFORNIA IS MY HOME STATE - I AM IN FACT A NATIVE SON. WHILE FATE - AND A COUPLE OF WARS - SEEMS TO HAVE KEPT ME ABROAD MUCH OF THE TIME, I ALWAYS HAVE THAT RICH FEELING OF HOMECOMING WHEN I RETURN. I HAVE BEEN ASKED TO TELL YOU TODAY ABOUT THE ORGANIZATION, ACTIVITIES AND OBJECTIVES OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT WITH PARTICULAR REFERENCE TO WORLD ECONOMIC DEVELOPMENT, AND IN SUCH A COMMUNITY SO WELL KNOWN FOR ITS SOUND FINANCIAL CONCEPTS, IT SHOULD BE A COMPARATIVELY EASY JOB.

THE WORLD BANK - TO USE ITS SHORTER AND MORE POPULAR TITLE - IS A FLEDGLING INSTITUTION, OF COURSE, BUT I HOPE TO DEMONSTRATE TO YOU THAT FROM THE BEGINNING IT HAS STRIVEN TO FOLLOW POLICIES AND PRACTICES WHICH WILL FIND FAVOR AND SUPPORT IN BUSINESS AND FINANCIAL AND INVESTMENT CIRCLES.

AS YOU KNOW, THE WORLD BANK WAS ONE OF THE TWO INTERNATIONAL INSTITUTIONS RESULTING FROM THE BREITON WOODS MEETINGS IN 1944 - THE OTHER BEING THE INTERNATIONAL MONETARY FUND. I SHALL NOT TRY TO SPEAK WITH AUTHORITY ON THE PURPOSES OF THE MONETARY FUND BUT I SUPPOSE A FAIR DESCRIPTION OF ITS AIMS WOULD BE THE RE-ESTABLISHMENT OF THE STABILITY AND CONVERTIBILITY OF WORLD CURRENCIES, SO NECESSARY TO INTERNATIONAL TRADE, PROVISION OF SHORT-TERM CREDIT TO MEMBER COUNTRIES SUFFERING FROM TEMPORARY UNBALANCE IN THEIR FOREIGN EXCHANGE TRANSACTIONS AND CREATION OF A MECHANISM FOR DEALING WITH ADJUSTMENTS IN FOREIGN EXCHANGE RATES.



THE INSTITUTION WHICH I SHALL DESCRIBE TO YOU - THAT IS, THE WORLD BANK - AIMS TO PROVIDE ITS MEMBERS, WHO ARE ALSO MEMBERS OF THE MONETARY FUND, WITH CREDIT FOR THE RECONSTRUCTION AND LONG-RANGE DEVELOPMENT OF THEIR ECONOMIES. SO SHORT A DESCRIPTION, HOWEVER, WOULD BE A SERIOUS OVERSIMPLIFICATION. THE WORLD BANK WAS CERTAINLY NOT MEANT TO SUBSTITUTE FOR THE TRADITIONAL AND HISTORIC FLOW OF PRIVATE INVESTMENT CAPITAL ACROSS NATIONAL BORDERS. VERY MUCH TO THE CONTRARY, IT WAS INTENDED TO ENCOURAGE AND STIMULATE, AS MUCH AS POSSIBLE, THESE ANCIENT PROCESSES AND ONLY TO SUPPLEMENT THEM AND LEND A HELPING HAND WHERE UNHAPPY CIRCUMSTANCE OR TEMPORARY DISLOCATION HAD CAUSED THEM TO SLOW DOWN. THE WORLD BANK'S ARTICLES OF AGREEMENT ARE CLEAR ON THIS. THEY PROVIDE THAT THE BANK MUST BE "SATISFIED THAT IN THE PREVAILING MARKET CONDITIONS THE BORROWER WOULD BE UNABLE OTHERWISE TO OBTAIN" THE REQUIRED FINANCING ON REASONABLE TERMS. HISTORY IS FULL OF EVIDENCE THAT ECONOMIC DEVELOPMENT MUST IN THE MAIN LOOK TO PRIVATE SOURCES OF FINANCE. WHERE AND WHEN, HOWEVER, THE RISKS SEEM TOO GREAT, WHERE PAST EXPERIENCE IS DISCOURAGING, WHERE THE CLIMATE FOR INVESTMENT SEEMS INCLEMENT, PRIVATE CAPITAL IS BOUND TO SHOW RELUCTANCE. AND IT IS HERE THAT THE WORLD BANK MAY STEP IN AND CARRY THE BALL. AT THE SAME TIME, THE BANK AS ONE OF ITS EQUALLY IMPORTANT OBJECTIVES - MUST USE ITS BEST EFFORTS TO DECREASE PRIVATE INVESTMENT RISKS, TO CORRECT THE ERRORS OF THE PAST AND ALSO TO SEE WHAT IT CAN DO TO IMPROVE THE INVESTMENT CLIMATE.

LET ME TELL YOU BRIEFLY ABOUT THE BANK'S CAPITAL STRUCTURE. IT HAS AN AUTHORIZED CAPITAL STOCK AMOUNTING TO \$10,000,000,000 OF WHICH ITS PRESENT 49 MEMBERS HAVE SUBSCRIBED TO \$8,338,500,000. SUBSCRIPTIONS WERE DIVIDED INTO AMOUNTS, RELATED TO EACH MEMBER'S NATIONAL INCOME, IN A MANNER WHICH HAS BEEN GENERALLY CONSIDERED TO BE FAIR AND EQUITABLE. 2% OF THE SUBSCRIPTIONS OF ALL MEMBERS ARE PAID IN IN GOLD OR U.S. DOLLARS. AN



ADDITIONAL 18% IS CALLED AND PAID IN IN THE INDIVIDUAL CURRENCIES OF EACH MEMBER AND THERE ARE COMPLICATED PROVISIONS FOR THE MAINTENANCE OF THE VALUE OF SUCH CURRENCIES. THE REMAINING 80% OF THE SUBSCRIBED CAPITAL IS NOT PAID IN BUT SERVES AS A SORT OF GUARANTEE FUND, SUBJECT TO CALL ONLY WHEN REQUIRED TO MEET THE BANK'S OBLIGATIONS ARISING FROM ITS OWN BORROWINGS OR FROM ITS GUARANTEES OF THE BORROWINGS OF OTHERS.

THE 2% CAN BE FREELY USED AS LOAN FUNDS BUT THE 18% CAN BE USED FOR LOANS ONLY WITH THE EXPRESS PERMISSION OF THE RESPECTIVE SUBSCRIBERS. TO DATE, THE UNITED STATES HAS GIVEN SUCH PERMISSION FOR THE USE OF ITS ENTIRE 18% BUT ONLY RELATIVELY MINOR AMOUNTS HAVE BEEN FREED FOR USE BY 26 OTHER MEMBER NATIONS. THERE IS, OF COURSE, A REASON FOR THIS. MOST OF THE BANK'S MEMBERS, OTHER THAN THE UNITED STATES, DO NOT CONSIDER THEMSELVES YET IN A POSITION TO EXPORT CAPITAL. BUT, IN THE NATURE OF THINGS, THIS IS LIKELY TO BE ONLY A TEMPORARY RESTRICTION. I THINK WE CAN LOOK FORWARD CONFIDENTLY TO THE TIME WHEN IT WILL BE POSSIBLE FOR MANY NATIONS TO RELEASE FOR LENDING PURPOSES OF AN INCREASINGLY GREATER NUMBER OF THEIR CURRENCIES.

BUT THE BANK HAS ANOTHER SOURCE OF LOAN FUNDS BESIDES ITS PAID-IN SUBSCRIPTIONS. IT IS AUTHORIZED, WHEN ITS INDIVIDUAL MEMBERS SO PERMIT, TO SELL ITS OWN OBLIGATIONS IN THE PRIVATE INVESTMENT MARKETS OF SUCH MEMBERS FROM TIME TO TIME OR TO RE-SELL TO PRIVATE INVESTORS, WITH OR WITHOUT ITS GUARANTEE, THE OBLIGATIONS ARISING OUT OF LOANS ALREADY MADE. AS AN EXAMPLE OF THE FORMER, THE BANK, IN THE SUMMER OF 1947, SOLD TWO ISSUES OF ITS OWN BONDS AMOUNTING TO \$250,000,000 ON THE FINANCIAL MARKETS OF THE UNITED STATES. AS EXAMPLES OF THE SECOND CATEGORY, THE BANK HAS SOLD TO AMERICAN INVESTORS, WITH ITS OWN GUARANTEE, THE BONDS REPRESENTING A \$12,000,000 LOAN MADE TO



CERTAIN NETHERLANDS SHIPPING COMPANIES AND A \$16,000,000 LOAN MADE TO THE BELGIAN GOVERNMENT FOR THE BENEFIT OF SOME BELGIAN INDUSTRIAL ENTERPRISES. ALTOGETHER, THE TOTAL OF LOAN FUNDS AVAILABLE TO THE BANK SO FAR AMOUNTS TO AROUND ONE BILLION DOLLARS. WHAT HAVE WE DONE WITH THIS MONEY?

WE HAVE MADE LOANS TOTALLING ABOUT \$1,000,000,000 IN SOME 19 MEMBER STATES. THERE IS A TIME LAG BETWEEN THE MAKING OF A LOAN AND ITS ACTUAL DISBURSEMENT SO THE BANK HAS AMPLE CASH FOR NEW LOANS TO TIDE IT OVER UNTIL IT CAN RAISE ADDITIONAL FUNDS BY SELLING ADDITIONAL BONDS. THE LOANS WHICH THE BANK HAS MADE ARE ASSISTING MEMBER COUNTRIES IN WIDELY SEPARATED AREAS, IN EUROPE, IN LATIN AMERICA, IN AFRICA, IN THE MIDDLE EAST AND IN THE FAR EAST. THE EARLIEST LOANS WERE WHAT WE CHARACTERIZE AS "RECONSTRUCTION LOANS". WHILE THE MONEY WAS FOR DEFINITE ITEMS IN THE RECOVERY PLANS OF OUR EUROPEAN MEMBER BORROWERS, THEY COVERED SO WIDE A RANGE AS TO BE, IN EFFECT, COMMITMENTS FOR GENERAL RECONSTRUCTION. WITH CHILE, WE BEGAN WHAT WE CALL "DEVELOPMENT LOANS", THAT IS THE FINANCING WAS FOR SPECIFIC DEVELOPMENTAL PROJECTS - AND THIS LATTER FIELD IS THE ONE IN WHICH WE EXPECT OUR PRINCIPAL FUTURE ACTIVITY WILL LIE. I SAY THIS BECAUSE WE ARE IN THE MIDST OF NEGOTIATIONS WITH A DOZEN OR MORE LOAN APPLICANTS INVOLVING PROJECTS COSTING SEVERAL HUNDRED MILLION DOLLARS - ALL OF THEM IN THE CATEGORY OF VITAL ECONOMIC DEVELOPMENT. "ECONOMIC DEVELOPMENT" MEANS SUCH THINGS AS DEVELOPING NATURAL RESOURCES, CREATING INDUSTRIES AND TRANSPORTATION NETWORKS, MODERNIZING AGRICULTURE. ECONOMIC DEVELOPMENT REALISTICALLY CARRIED THROUGH, COULD ALSO BE AT LEAST ONE EFFECTIVE BULWARK AGAINST AGGRESSION OF THE SORT WE FIND ABOUT US TODAY. THE WORLD BANK IS JUST ONE OF THE BODIES INTERESTED IN THIS, THE OTHERS ARE THE UNITED NATIONS ITSELF, THE I.L.O., THE W.H.O., THE F.A.O., AND OTHERS. THE WORLD BANK'S PART IS TO MAKE LOANS FOR ECONOMIC DEVELOPMENT.



HOW DO WE MAKE OUR LOANS? WELL, IT IS NOT AN EASY PROCESS. IT IS SOMETIMES SAID AMONG OURSELVES, THAT IT IS EASIER FOR THE BANK TO BORROW MONEY THAN TO LEND IT. THE BANK, IN FACT, GOES THROUGH ALL OF THE PREPARATORY INVESTIGATIONS OF A PROJECT LOAN, ALL THE TECHNICAL AND ENGINEERING TESTS AND ALL OF THE COUNTRY STUDIES - WHICH WOULD BE UNDERTAKEN BY THE MOST SOPHISTICATED AND EXPERIENCED PRIVATE LENDING INSTITUTION. THIS IS TIME-CONSUMING AND EXPENSIVE AND WE ARE CONSISTENTLY HANDICAPPED BY THE FACT THAT IN MANY OF OUR LESSER DEVELOPED MEMBERS, ENGINEERING AND MANAGEMENT SKILLS ARE RELATIVELY IMMATURE AND PROJECTS COME TO US THAT ARE NOT WORKED OUT IN DETAIL. THE BANK IS ENJOINED IN ITS ARTICLES AND ITS MANAGEMENT'S FIRM POLICY IS TO MAKE ONLY SOUND LOANS FOR PRODUCTIVE PURPOSES OF WHICH THERE IS A REASONABLY CLEAR PROSPECT OF REPAYMENT. TO FILL THIS PRESCRIPTION, IT OFTEN REQUIRES ENGINEERING STUDIES BY THE BANK'S OWN ENGINEERING CONSULTANTS OR AN INDEPENDENT ENGINEERING APPRAISAL. IT REQUIRES STUDIES OF MARKETS AND MANAGEMENT AVAILABILITIES. IT REQUIRES PENETRATING ECONOMIC STUDIES OF THE BORROWING COUNTRY'S CREDITWORTHINESS, CREDIT STANDING, ECONOMIC ORGANIZATION AND ECONOMIC POLICIES - THE COUNTRY'S STABILITY AND FUTURE PROSPECTS.

AT THIS POINT I MIGHT MENTION PRESIDENT TRUMAN'S POINT IV, THAT IS, THE EXPORT OF MANAGERIAL SKILLS AND TECHNICAL KNOW-HOW TO LESSER DEVELOPED COUNTRIES BY THE ECONOMICALLY MORE ADVANCED COUNTRIES OF THE WORLD. I SHOULD MENTION THAT THE PROBLEM OF ASSURING THE NECESSARY KNOW-HOW REQUIRED IN OUR LOANS FOR DEVELOPMENTAL PROJECTS IS CONSTANTLY BEFORE THE WORLD BANK AND IN OUR OWN WAY WE ARE COLLABORATING WITH OUR BORROWERS TO SEE THAT THE NECESSARY SKILLS AND KNOWLEDGE ARE AVAILABLE FOR SUCH PROJECTS. POINT IV SHOULD FACILITATE THE BANK'S ACTIVITIES; AN EFFECTIVE PROGRAM OF TECHNICAL AID ON A WORLD WIDE BASIS WOULD ASSIST IN CREATING SOUND LOAN PROJECTS FOR THE BANK. AT THE SAME TIME IT SHOULD PROMOTE FOREIGN INVESTMENT BY PRIVATE CAPITAL ON WHICH THE CHIEF RESPONSIBILITY FOR ECONOMIC DEVELOPMENT MUST REST.



OUR LOAN DOCUMENTATION FOLLOWS GENERALLY THE ACCEPTED STANDARDS OF PRUDENCE SET BY THE BANKING WORLD AND WE ENDEAVOR TO PROTECT OUR LOANS WITH REASONABLE SAFEGUARDS. WE SEND BANK MISSIONS TO THE FIELD FOR STUDIES ON THE GROUND AND WE REQUIRE LEGISLATION IN THE BORROWING COUNTRIES WHICH WILL MAKE OUR LOANS LEGAL, VALID AND BINDING OBLIGATIONS. UNDER OUR ARTICLES WE CAN LEND TO GOVERNMENTS DIRECT OR WE CAN LEND TO PRIVATE ENTERPRISES IN MEMBER TERRITORIES WITH THE GUARANTEE OF THE MEMBER GOVERNMENT ITSELF OR OF AN EQUIVALENT GOVERNMENTAL INSTITUTION. OUR LOANS ARE MOSTLY LIMITED TO PROVIDING THE FOREIGN EXCHANGE COSTS OF RECONSTRUCTION AND DEVELOPMENT, SINCE THE ARTICLES STIPULATE THAT ONLY "IN EXCEPTIONAL CIRCUMSTANCES" CAN WE LEND TO COVER LOCAL CURRENCY COSTS.

THE BANK DOES NOT MAKE A LOAN AND THEN FORGET ABOUT IT. ITS OBJECTIVE IN ENTERING THE TERRITORY OF A MEMBER IS TO SET UP CONTINUING CONSULTATIVE RELATIONSHIPS WITH SUCH MEMBER THROUGHOUT THE LIFE OF A LOAN OR SERIES OF LOANS - THE BANK STANDING EVER READY TO ADVISE, CONSULT AND ASSIST IN THE MEMBER'S ECONOMIC PROGRESS.

THIS SOUNDS LIKE A LARGE ORDER AND IT IS. HOW ARE WE ORGANIZED TO DO THIS? BRIEFLY, THE WORLD BANK'S ORGANIZATIONAL STRUCTURE CONSISTS OF A BOARD OF GOVERNORS WHICH NORMALLY MEETS ANNUALLY ON BASIC QUESTIONS OF POLICY. IT HAS A BOARD OF FULL-TIME EXECUTIVE DIRECTORS, UNDER THE CHAIRMANSHIP OF THE BANK PRESIDENT, WHICH CONCERNS ITSELF WITH OPERATING POLICIES. FINALLY, IT HAS ITS OPERATING STAFF. IN PRACTICE, THERE IS CLOSE COOPERATION BETWEEN THE PRESIDENT AND HIS STAFF AND THE EXECUTIVE DIRECTORS. INFORMATION ON THE BANK'S OPERATIONS IS FREELY AND CONSTANTLY EXCHANGED WITH THE EXECUTIVE DIRECTORS AND THERE IS FREQUENT INFORMAL DISCUSSION AND CONSULTATION. IN THIS WAY THE EXECUTIVE DIRECTORS ARE FULLY PREPARED TO ACT EXPEDITIOUSLY ON THE PRESIDENT'S LOAN RECOMMENDATIONS.



THE BANK'S STAFF IS COMPOSED OF 23 NATIONALITIES AND IS DIVIDED PRINCIPALLY INTO A LOAN DEPARTMENT, WHICH HANDLES LOAN APPLICATIONS AND CONDUCTS NEGOTIATIONS; AN ECONOMIC DEPARTMENT WHERE MOST STUDIES ARE MADE; A MARKETING DEPARTMENT TO SELL THE BANK'S OWN BONDS FROM TIME TO TIME; A LEGAL DEPARTMENT; A TREASURER'S DEPARTMENT; A PUBLIC RELATIONS DEPARTMENT; A SECRETARY'S DEPARTMENT; AND AN ADMINISTRATIVE DEPARTMENT. THE STAFF ITSELF IS NOT LARGE AND ITS DUTIES ARE WELL INTEGRATED.

AT THIS POINT, I WANT ESPECIALLY TO EMPHASIZE A SPECIAL FUNCTION ADOPTED BY THE WORLD BANK WHICH FROM MY OWN LONG BANKING EXPERIENCE IS NEW TO THE PRACTICES OF INTERNATIONAL FINANCE. IT IS WHAT WE CALL "SUPERVISION" OF LOANS. IT HAS THREE GENERAL ASPECTS, TWO OF WHICH ARE RESPONSIBILITIES OF THE TREASURER'S DEPARTMENT: THE REMAINING ASPECT IS THE RESPONSIBILITY OF THE LOAN DEPARTMENT, IN COOPERATION WITH THE ECONOMIC DEPARTMENT. IN THE PAST, PRIVATE BANKERS WERE GENERALLY NOT IN A POSITION TO FOLLOW THROUGH ON THE USE OF LOAN PROCEEDS BY A FOREIGN GOVERNMENT, NOR COULD THEY BE CERTAIN THAT THE LOAN ACCOMPLISHED THE OBJECTIVES FOR WHICH IT WAS MADE. THERE HAVE BEEN SEVERAL REASONS FOR THIS BUT I THINK THE PRINCIPAL ONE HAS BEEN THE FEELING THAT SUCH SUPERVISION MIGHT CONSTITUTE UNDUE INTERFERENCE IN THE SOVEREIGN PREROGATIVES OF THE BORROWING COUNTRY. IN THE WORLD BANK, HOWEVER, ALL STOCKHOLDER MEMBERS ARE RESPONSIBLE FOR THE BANK'S OBLIGATIONS, TO THE EXTENT OF THEIR UNCALLED SUBSCRIBED CAPITAL, AND THEREFORE HAVE A REAL INTEREST IN THE SUCCESS OF ALL THE BANK'S LOANS. BECAUSE OF THIS, THE BANK IS ABLE TO ADD SOMETHING RELATIVELY NEW TO THE ART OF INTERNATIONAL LENDING AND I FEEL SURE IT WILL BE OF PARTICULAR INTEREST TO BUSINESSMEN EVERYWHERE.

WHEN WE MAKE A LOAN, THE LOAN AGREEMENT DESCRIBES IN DETAIL THE PURPOSE FOR WHICH IT IS MADE. THE PROCEEDS OF THE LOAN ARE NOT PAID OVER OUT OF HAND, BUT ARE CREDITED TO THE BORROWER ON THE TREASURER'S BOOKS. UNDER



THE AGREEMENT, WITHDRAWALS CAN ONLY BE MADE WHEN THE BANK IS SATISFIED THAT THE SPECIFIC PURPOSES OF THE LOAN ARE BEING FULFILLED. AS THE PROJECT BEING FINANCED GETS UNDER WAY, THE BANK'S ENGINEERS AND TECHNICIANS MAKE FREQUENT INSPECTIONS AND RECEIVE PERIODICAL PROGRESS REPORTS. THE BORROWERS ARE SOLEMNLY OBLIGATED TO REPORT ANY UNFORESEEN DIFFICULTIES, TECHNICAL, FINANCIAL OR OTHERWISE, WHICH MAY ARISE AND THE WAY THUS IS OPEN FOR JOINT REVIEW AND ANY TIMELY ADJUSTMENT NECESSARY TO ENSURE SUCCESSFUL COMPLETION OF THE PROJECT.

BUT SUPERVISION DOES NOT END THERE. THE LOAN DEPARTMENT, WITH ASSISTANCE OF THE ECONOMIC DEPARTMENT, KEEPS CLOSE AND RUNNING TOUCH WITH ECONOMIC DEVELOPMENTS IN THE BORROWER'S COUNTRY, AND IS IN A POSITION TO RECOMMEND SOUND ECONOMIC POLICIES AND CORRECTION OF WASTEFUL FINANCIAL PRACTICES. FRANKLY, THIS NEW FEATURE OF THE BANK'S ACTIVITIES IS, AT THIS STAGE, EXPERIMENTAL AND IT IS POSSIBLE THAT SOME OF THE MORE ADVANCED COUNTRIES IN OUR MEMBERSHIP MAY BE INCLINED TO DISCOUNT OUR EFFORTS AND ABILITIES. BUT WE HAVE AS YET ENCOUNTERED NO REAL DIFFICULTIES.

PERHAPS I SHOULD SAY A WORD HERE ABOUT THE BANK'S RELATIONSHIP TO THE MARSHALL PLAN AS THE LATTER AFFECTS SOME OF THE BANK'S MEMBERS. I THINK THE RELATIONSHIP IS IN REALITY SIMPLE AND LOGICAL. THE BRETTON WOODS PIONEERS PROBABLY DID NOT REALIZE AT THE TIME, THE GREAT GAP WHICH WAS GOING TO EXIST BETWEEN THE START OF POST-WAR RECOVERY AND THE TIME WHEN THE BANK'S MEMBERS COULD PROPERLY ASSUME THE OBLIGATION OF FOREIGN LOANS. IT BECAME INCREASINGLY CLEAR, HOWEVER, WHEN THE RUBBLE WAS BEING CLEARED AWAY, THAT VAST SUMS, IN THE FORM OF GRANTS-IN-AID, WOULD BE NECESSARY BEFORE THE BANK'S MEMBERS WOULD EITHER DESIRE TO BORROW OR COULD QUALIFY FOR LOANS WHICH WOULD NOT BE SO BURDENSOME AS TO ENDANGER THE POSSIBILITY OF REPAYMENT. IT WAS THE PURPOSE OF THE MARSHALL PLAN, I THINK, TO FILL THIS GAP AND IT WAS NOT INTENDED TO USURP THE WORLD BANK'S FIELD OF



LENDING ACTIVITY. IT IS TRUE THAT A PORTION OF THE ADVANCES MADE BY THE ECONOMIC COOPERATION ADMINISTRATION IS IN THE FORM OF LONG-TERM LOANS ON GENEROUS TERMS. WHILE SUCH AID CONTINUES, IT WILL NO DOUBT TEND - AND IN FACT, IT HAS TENDED - TO RESTRICT WORLD BANK LENDING IN THOSE PARTICULAR MARSHALL PLAN COUNTRIES. BUT THE E.C.A. AID RECEIVED IS DESIGNED TO SOLVE THE RECIPIENTS' FIRST PROBLEMS AND SET THE STAGE FOR SUBSEQUENT LOANS, SOUNDLY AND WILLINGLY ENTERED INTO AND ENTIRELY JUSTIFIED BY BANKING CONSIDERATIONS. I BELIEVE THE WORLD BANK WILL COME MORE FULLY INTO OPERATION IN MARSHALL PLAN COUNTRIES AS PRESENT ASSISTANCE FROM THE UNITED STATES GOVERNMENT ACHIEVES ITS OBJECTIVES - AND I BELIEVE ALSO WE MAY WELL BE GRATEFUL FOR THE BENEFICIAL INTERLUDE.

I HAVE ONLY TWO MORE POINTS THAT I'D LIKE TO TOUCH ON BRIEFLY BEFORE I CLOSE. I THINK THIS GROUP WILL BE PARTICULARLY INTERESTED IN NOTING THAT THE BANK HAS RECENTLY CONCLUDED LOANS FOR THE BENEFIT OF TWO PRIVATELY-OWNED COMPANIES. ONE IS THE \$75,000,000 LOAN TO THE BRAZILIAN TRACTION, LIGHT AND POWER CO., LTD., GUARANTEED BY THE UNITED STATES OF BRAZIL, AND THE OTHER IS A \$26,000,000 LOAN TO THE MEXICAN LIGHT AND POWER COMPANY, LTD. AND GUARANTEED BY THE MEXICAN GOVERNMENT. THESE LOANS TO MY MIND ARE IMPORTANT EXAMPLES OF MUTUAL AND BENEFICIAL COOPERATION BETWEEN PRIVATE BUSINESS, MEMBER GOVERNMENTS AND THE BANK.

THIS BRINGS ME TO MY FINAL POINT, NAMELY, COOPERATION. THE WORLD BANK IS ESSENTIALLY A MUTUALLY OWNED, COOPERATIVE INSTITUTION. AS SUCH, I BELIEVE IT WORTHY OF THE SUPPORT AND COOPERATION OF FINANCIAL AND BUSINESS CIRCLES THROUGHOUT THE WORLD. THE POLICY PRONOUNCEMENTS OF THE GOVERNORS, OF THE EXECUTIVE DIRECTORS AND ESPECIALLY OF THE PRESIDENT MAKE IT CLEAR THAT AMONG THE BANK'S OBJECTIVES IS THE DESIRE TO ENLIST AND NURTURE THAT SUPPORT AND TO MAINTAIN AND FURTHER THAT COOPERATION. WE MUST RAISE THE



BULK OF OUR FUTURE LOAN MONIES IN THE PRIVATE FINANCIAL MARKETS. THE SUCCESS OF THE ENTERPRISES WE FINANCE CAN BEST BE ASSURED BY SEEKING THE ADVICE AND INTEREST OF BUSINESS CIRCLES. THE GREAT INDUSTRIAL COUNTRIES OF THE WORLD ON OUR MEMBERSHIP LIST MUST BE THE MODELS FOR THE LESSER DEVELOPED AMONG THE MEMBERSHIP. THE TECHNICAL AND MANAGEMENT SKILLS, THE "KNOW-HOW" THAT IS THE SECRET OF ECONOMIC DEVELOPMENT, MUST COME LARGELY FROM THESE SOURCES. THE BANK WILL SURELY DESIRE TO CONDUCT ITS OPERATIONS IN SUCH A WAY AS TO MAKE FRIENDS AND WIN SUPPORT IN THESE CIRCLES, JUST AS SURELY AS ITS BORROWERS MUST LOOK IN THAT DIRECTION FOR INSPIRATION AND FOR EXAMPLE.

IT WOULD PERHAPS BE UNAVAILING FOR ME TO ATTEMPT TO TRACE THE EFFECT OF THE WORLD BANK'S LENDING OPERATIONS ON THE DAILY LIFE OF THE MEMBERS OF THE TOWN HALL OF LOS ANGELES. ANY DIRECT EFFECT WOULD ADMITTEDLY BE SLIGHT OR EVEN UNRECOGNIZABLE. BUT I THINK THERE IS AN INDIRECT INFLUENCE WHICH EVERYONE WILL APPRECIATE. AS A PART OF THE GENERAL EFFORT TO BUILD MORE PRODUCTIVE ECONOMIES THROUGHOUT THE WORLD, THE BANK WILL PLAY AN IMPORTANT ROLE IN STIMULATING AND FINANCING ECONOMIC DEVELOPMENT AND RAISING THE STANDARD OF LIVING IN ITS MEMBER STATES. THIS SHOULD BE AN IMPETUS TO GRADUALLY EXPANDING BUSINESS AND BROADER INTERNATIONAL TRADE. THE UNITED STATES - AS WELL AS ALL THE BANK'S MEMBER STATES - CAN PROSPER MOST IN A GENERALLY PROSPEROUS WORLD, AND THIS COUNTRY WILL, IN AN OVER-ALL WAY, SURELY AND CLEARLY FEEL THE BENEFITS OF THE BANK'S ACTIVITIES



## SUMMARY

ADDRESS BY E.G. BURLAND, FINANCIAL ADVISOR OF THE INTERNATIONAL BANK  
(Before the Institute of World Affairs, Riverside, Cal., Dec. 13, 1950)

### THE INTERNATIONAL BANK LENDS A HAND

The operations of the International Bank for Reconstruction and Development, or the World Bank as it is popularly known, are concerned with very concrete things. Most of all, with what is generally called "world economic development." There is a great deal of talk these days about "economic development", but as far as I am aware this phrase means something only when it is translated into tangible terms. It means such things as development of natural resources, of industries, of agriculture, of transportation networks, and thereby raising of living standards, in many areas of the world.

Economic development means the plowing of the vast fields of India so that people have more food to eat; it means hammering out port facilities in Turkey so that the life-blood of trade can flow more freely; it means damming of rivers in South America to supply electric power to turn the wheels of new industries, produce goods that people need, put people to work.

Looking beyond the current emergencies, what are the important long-term issues today? What are the positive and practical programs for free nations? I think one of these is economic development -- one which we can do and are doing something about.

Realization of some of the vast opportunities which exist at this moment for beneficial economic development would constitute pillars in the foundations of peace itself, and also a sort of highroad to a fuller life for millions of people. Realistically carried through, economic development could be at least one effective bulwark against future aggression.

The role of the International Bank is very precise. The Bank is an



international organization composed at the moment of 49 member governments. Its main purpose, like that of any Bank, is to make loans. Its loans are always made with this end in view: to assist in the reconstruction of economies disrupted by war, or in the economic development of its member nations.

There are certain broad purposes which govern all the Bank's operations:

1) To promote the long-range growth of world trade; 2) to raise standards of living; 3) to deal with those projects which are most urgent and useful, whether they be large projects or small ones; 4) to encourage private investment. The Bank, therefore, is a joint undertaking, on a world-wide scale, to guide the potent force of international investment into the most economically beneficial channels.

In carrying out this objective, the Bank does two principal and very practical things: It gives financial assistance by making loans; and it also furnishes member countries technical assistance in a good many different fields. If the latter makes you think of the so-called "Point Four" program, the answer is simply that the Bank has since it began operations in 1946 been operating along the lines of Point Four, in the sense of furnishing necessary technical advice and assistance to its member countries.

The Bank's job is a long-range one. It is in no sense an emergency or relief organization. It was meant to operate along sound banking and business lines as a permanent institution which should not be dependent on continuing appropriations from any government. And that is exactly what it is doing.

Then how does the Bank get the money with which to make its loans? Its lending funds are obtained partly from its capital structure. The Bank's capital is made up of shares of stock subscribed by all its 49 member nations, roughly in proportion to their relative economic resources. Lending funds available from this source to date have amounted to about \$750 million. But the Bank's capital was not intended to be the only source of its lending funds.



Additional funds come through the sale of the Bank's own bonds to private investors. The Bank is not only a lender. It is a borrower, too. The Bank has to date sold \$250 million of bonds on the U. S. market, and a small amount of Swiss franc bonds in Switzerland.

In operation about four years now, the Bank has made a substantial amount of loans -- just recently the total went over the \$1 billion mark. These loans are assisting member countries in widely-separated areas of the earth -- in Europe, Latin America, Africa, the Middle and Far East. With the reconstruction phase largely over, emphasis in Bank lending is now on loans for development purposes, loans for key projects which often have a "multiplier" effect on many sectors of a country's economy. Although large projects are important, the Bank believes that aid to small business enterprises is often equally important. Recently it has undertaken a relatively new type of financing tailored specifically to help the small business man, as in the case of the loan made last October to a consortium of banks in Mexico; these funds will be re-lent by the Mexican banks to private enterprises in that country.

Aside from the Bank's lending operations, the other main current of its activity concerns technical assistance. This kind of aid is a normal part of our lending procedure. The Bank makes careful investigations of all loan applications, and these investigations often lead the borrowers themselves to request advice in many technical fields. But apart from specific loan investigations, The Bank is sending to member countries at their request an increasing number of comprehensive survey missions to help member nations draw up over-all development programs suited to their particular needs.

The Bank is so organized that it can act specifically and rapidly by the vote of its fourteen Executive Directors who are elected in such a manner as to represent all the member countries. The Bank is not an academic



debating society; it is an international body which can and does take action when needed.

The Bank does not take purely political considerations into account. Its methods are those of constant objectivity. It may not be an overstatement to say that more can and actually has been accomplished in the Bank's particular field of international cooperation than in some others because it has been fortunate enough to keep political rivalries on the sidelines.

Staff members of the Bank meet as objective economists and financiers. Their mother tongues are different, but they speak the same professional language -- the realistic language of how economic resources can most effectively be developed, how standards of living can actually be raised. These are very specific questions and very practical questions. At the same time they present a great challenge to the imagination and to our wits and intelligence, for they are woven closely into the larger fabric of world leadership.



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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE INTERNATIONAL BANK LENDS A HAND

ADDRESS BY E. G. BURLAND, FINANCIAL ADVISER OF  
THE INTERNATIONAL BANK, BEFORE THE INSTITUTE OF  
WORLD AFFAIRS, RIVERSIDE, CALIFORNIA, DECEMBER 13, 1950.

I am glad to have the opportunity of participating with you in this stimulating discussion. In these decisive times, there could be no more important single question than the general one with which you are concerned: Are there true bases for International Cooperation? I am particularly glad to talk to this audience about one phase of this question - and perhaps one specific answer to it. My subject is the work of the International Bank for Reconstruction and Development, or the World Bank, as it is popularly known.

This is not going to be an academic talk. The operations of the World Bank are concerned with very concrete things. Most of all, with what is generally called "world economic development". There is a great deal of talk these days about "economic development", but as far as I am aware, this phrase means something only when it is translated into tangible terms. It means such things as development of natural resources, of industries, of agriculture, of transportation networks in many areas of the world.

Economic development means the plowing of the vast fields of India so that people have more food to eat: It means hammering out port facilities in Turkey so that the life-blood of trade can flow more freely: It means damming of rivers in South America to supply electric power to turn the wheels of new industries, produce goods that people need, put people to work. Economic development is not



an end in itself. It is significant only as a realistic means to the end of helping to raise standards of living of people - to make life possible for some, to bring about a more productive life for others.

So the subject is not an academic one. Certainly there are more urgent matters in the headlines these days than the work of the International Bank. Nothing could be a more urgent necessity than putting an end to aggression in Korea and elsewhere. At the same time, looking beyond the current emergencies, what are the important long-term issues? What are the positive and practical programs for free nations? I think one of these is economic development: one which we can do and are doing something about. Realization of some of the vast opportunities which exist at this moment for beneficial economic development would constitute pillars in the foundations of peace itself - and also a sort of highroad to a fuller life for millions of people. Economic development - realistically carried through - could be at least one effective bulwark against future aggression. Building the economic foundations of a just peace is a life-long task and a permanent opportunity.

Now the International Bank is just one of many bodies whose job it is to assist in world economic development. Never before in history have there been so many organizations working on different phases of this important question. You are familiar with them - the United Nations itself, about which Mr. Eichelberger has spoken, and particularly its economic and social council; the I.L.O., the



W.H.O., the F.A.O., UNESCO, etc. as I shall point out a little later, several of these organizations often pool their resources for some particular job - the Bank has headed up, for example, several joint missions to underdeveloped countries which included representatives drawn from several of these bodies.

Tonight I am speaking about the Bank's part in this work. Its job is very clear, and very precise. And I shall talk, first, about just what the Bank is, what its main purposes are, and how it carries these out: second, about the specific things it has done and is now doing.

The Bank's official name is a rather long one - International Bank for Reconstruction and Development. But the Bank is not in the least mysterious or complicated. It is an international organization composed at the moment of 49 member governments, and it has several pending applications for membership.

Of course, its main purpose, like that of any bank, is to make loans. In the case of the International Bank these loans are made always with this end in view: to assist in the reconstruction of economies disrupted by war, or in the economic development of member nations. There are certain broad purposes which govern all the Bank's operations. One of these broad purposes is to promote the long-range growth of world trade: another is to raise standards of living. The Bank deals with those projects which are most urgent and useful - whether they are large undertakings, such as the building of dams and power plants, or small projects of small businesses. And - finally - one of the Bank's broad purposes is to encourage private investment. As a matter of fact, the Bank cannot make a loan itself unless such a loan cannot be obtained from other sources on reasonable terms.



Today, of course, private investment has not resumed its full role in the development of the world economy. The Bank can help it to do so - specifically by guaranteeing loans made by private investors, or taking part in such loans - and, by its own loans, strengthening the credit standing of borrowing countries. The Bank's permanent function will always be to help set proper standards of investment generally - on terms fair to borrower and lender alike.

I might sum up the Bank's purposes in this way: It is a joint undertaking, on a world-wide scale, to guide the potent force of International investment into the most economically beneficial channels.

Now in carrying out this objective, the Bank does two principal, and I believe very practical things: It gives financial assistance by making loans; and it also furnishes member countries technical assistance in a good many different fields. If that makes you think of the so-called "point four" program, the answer is simply that the Bank has since its inception been operating along the lines of point four, that is, in the sense of furnishing necessary technical advice and assistance to its members.

I might run over the Bank's history very briefly. You know, of course, that it was one of the first of the post-war international bodies created. Actually it was created during World War II - at Bretton Woods - at the United Nations Economic and Financial Conference in the summer of 1944. It did not officially begin operations until two years later - the summer of 1946.

The idea of an international lending institution to assist in world reconstruction and development was, of course, a pretty necessary and a far-sighted one. What was not realized at the time of Bretton Woods was the enormity of Europe's post-war needs - needs



that had to be filled promptly, if Europe, as we know it, was to survive at all. So you had the Marshall Plan - the E.C.A. and the O.E.E.C. which did, and is doing, this emergency job extremely well.

The Bank's job is a long-range one. The Bank is in no sense an emergency or relief organization. It was meant to operate along sound banking and business lines as a permanent institution which should not be dependent on continuing appropriations from any government. And that is exactly what it is doing.

Well then, how does the Bank get the money with which to make these loans which are designed to strengthen the economic health of its member countries? The answer to that question means going into the Bank's capital structure - and using a few figures which is always a very dull thing to do. So I shall be brief. Some of the Bank's lending funds comes from its capital structure. The Bank's capital is made up of shares of stock subscribed by all its 49 member nations - roughly in proportion to their relative economic resources. Today, total subscribed capital amounts to more than \$8 billion. This does not mean that the Bank has anything like \$8 billion to lend. Because 80% of all subscribed capital is not paid into the Bank, but constitutes a sort of guarantee fund for meeting the Bank's own obligations. This 80%, then, cannot be used for loans but can be called only, if it is ever needed, to honor the Bank's own bonds. And even of the 20% paid in capital, only 2% is paid in in the form of gold or U.S. dollars and is automatically available for lending. The other 18% is paid in in the currencies of the various member nations - pounds sterling, francs, guilders, kroner, etc. - and can be used for loans only with the consent of the particular member nation whose currency is to be used for a particular



loan. The paid in 2% of all members' subscriptions plus the United States 18%, all of which has been released for lending, plus relatively small portions of other members' 18% similarly released - all this adds up to a value of about \$750 million. That represents the lending funds which have been available from capital subscriptions. But the Bank has already made loans substantially surpassing this figure. The explanation is this: the Bank's subscribed capital was not intended to be the only source of its lending funds. As the operations of the Bank expand - and they are expanding - additional lending funds must come through the sale of the Bank's own bonds to private investors. In other words, the Bank is not only a lender. It is a borrower, too. It is a borrower in order that it may be a lender. The Bank has sold \$250 million of bonds on the U. S. Market - and a small amount of Swiss franc bonds in Switzerland. So its total lending funds so far have been the equivalent of over a billion dollars.

That is a thumb-nail sketch of where the Bank gets the money it lends. Now, what has the Bank done with these lending funds?

It has been in active operation about four years, now. And it has made a pretty substantial amount of loans in this time - just recently, with a loan to Thailand, the total went over the one billion dollar mark. There is, of course, a lag between the making of a loan and the actual disbursement to the borrower. So the Bank has ample cash for new loans to tide it over until it has raised additional funds by selling additional bonds.

The loans which the Bank has made are at present assisting member countries in widely-separated areas of the earth - in Europe, in Latin America, in Africa, the Middle East and the Far East.

The Bank's first loans were made to help certain European



countries whose territories had been ravaged and whose economies had been disrupted by the War. These were "reconstruction" loans: they were made to France, the Netherlands, and Denmark to help these countries carry out urgent reconstruction programs, without which economic collapse was a serious threat. Later loans made in Europe were for development of certain vital sections of the European economy - for specific projects, mostly the modernization and expansion of heavy and light industry, and agriculture.

Now that the reconstruction phase is over, emphasis in the Bank's lending is on loans for development purposes; loans for key projects which often have a "multiplier" effect on many sectors of a country's economy. Such a project as an electric power plant, can supply the power needed to expand many forms of industry and transportation, and can also assist agriculture by providing pumping systems. Expansion of port, railway and highway facilities are projects which carry the life blood of internal and external trade.

A good way to get a picture of what Bank loans are doing is to take some examples, at random, from the major geographic areas where loans have been made. In Europe: these loans are helping the steel industries of France, Belgium, and Luxemburg; agriculture in Denmark; they have bought ships for the Dutch Merchant Marine, and have helped many small industries in Holland. Bank loans are at work in Eastern Europe, too. They are assisting in the cutting of timber in Finland and in Yugoslavia. And in the renovation of ports on the coasts of Turkey.



In Latin America Bank loans are helping build dams and power plants to expand electric power in two great areas of Brazil, in several parts of Mexico, in Chile and El Salvador. They are making possible the importation of modern agricultural machinery in Chile and Colombia - helping to supplant oxen with tractors.

In Africa and the Middle East - Bank loans are helping to lay a modern road system in ancient Ethiopia; and in Iraq, to construct a flood control system on the Tigris River to prevent the wasteful flooding of Baghdad and of Iraq's farm lands.

In the Far East - Bank loans are helping Thailand to cut a channel for ocean liners at the capital city of Bangkok, and to expand Thailand's railway and irrigation systems. Another loan is helping Australia to import essential goods for a broad development program.

But although large projects such as these are important, the Bank believes that aid to small business enterprises is often equally important. Recently the Bank has undertaken a relatively new type of financing tailored specifically to help the small business man. One illustration of this is the loan - made just last October - to a consortium of Banks in Mexico. This loan will be used to pay for imports which small businesses in Mexico need to carry out their expansion programs. The funds will be re-lent by the Mexican banks to the private enterprises. A roughly similar type of loan was recently made to the New Industrial Development Bank of Turkey, which, in turn, will re-lend funds to private enterprises in Turkey. These are illustrations of how the International Bank, through intermediate local institutions can effectively assist small businesses in member countries.



But I suppose the best way to get a picture of what a Bank loan means in terms of tangible results is to take some concrete examples. So I shall take one of the loans to a relatively small country, and other loans to a very large country - and briefly trace some of their effects.

The small country is El Salvador. And the loan, as bank loans go, is relatively small, too, small in amount, but not in effect. At the end of last year the Bank made a loan of about \$12½ million to the Lempa River Hydroelectric Commission, which is a governmental agency in El Salvador, for the development of electric power. This loan is financing imports of equipment required to meet El Salvador's most acute economic need - an adequate supply of hydroelectric power. The project aims at transforming the waters of the great Lempa River, which flows through the country, into one of its most important economic assets. The project calls for construction of a dam, an underground power house built into solid rock, and the necessary transmission lines. It will double the country's power capacity.

Now let's look at some of the effects of this. Even the established industries in El Salvador have piled up a backlog of demand for power. The new power plant will mean that these industries can fill their orders. It will also mean that new light goods industries can be established and thus help diversify the country's economy. It will benefit agriculture by making possible the irrigation of crop lands through the use of pumping systems. Here's another effect - important though indirect: at present the lack of power results in stripping the forests for firewood. So the project



will help conserve the country's forest resources. And it will also allow the substitution of hydroelectric power for more expensive diesel units which use oil, and thereby result in a saving of foreign exchange by reducing the need for importing petroleum. Those are some of the extensive economic effects of this relatively small loan.

But these are not the only effects. At the present time such a common necessity as water - something we are apt to take for granted - is not available in adequate quantities to El Salvador's cities. Installation of pumps, which the new power will make possible, can bring water to the country's towns and cities for its many uses of daily life. More power also means adequate lighting - for schools, for public buildings, for homes. It is clear that this dam on the Rio Lempa is going to have a broad and cumulative effect on the lives of people in El Salvador.

And there's another significant aspect to this particular financing operation by the Bank. Under the Bank's existing policies local capital needed for a project must be provided by the borrower from its own resources. The reason is this: when projects are brought to the International Bank, their costs are usually broken down into two parts - foreign exchange costs, or the costs of imports from overseas; and local costs, meaning the labor, salaries of workers, of managerial staff, and materials which go into building the project which can be produced locally, within the country. The Bank normally finances only the foreign exchange costs. The borrower supplies the local currency requirements. In other words, a Bank-financed project is a joint undertaking between the Bank and the borrower.



But the government of El Salvador did not have sufficient amounts of local capital in hand for such a project. It had to borrow the local money or colones from the savings of its people. Here in the United States a bond issue publicly floated and sold to private investors is a run-of-the-mill business. Not so in El Salvador. The country, up to that time, actually had no local capital market to speak of. So it was decided to see if one could be created. If this colones bond issue for the Rio Lempa Dam could be floated, that might be a first step toward creating a capital market - where the government, or perhaps private businesses, too, could issue their securities, tap the local savings of the people and channel these into productive, rather than speculative uses.

So the World Bank sent its director of marketing to El Salvador to help the local authorities work out the techniques of local financing. He spent several months down there. The colones bonds were issued - in an amount equivalent to more than five million dollars, not a small sum for a country's first venture at setting up this type of financial operation. And they were over-subscribed within a week. Not by a few big banks or wealthy investors only, but mostly by small investors - people in El Salvador who had only a little money to invest but who realized that this was a safe investment and that in this way they were investing in the future economic progress of their country. This kind of thing is a sort of by-product of the Bank's main lending job - but it is a very important by-product indeed.



Now I am going to turn to the other side of the globe - and to a far larger country - India. The Bank has already made three loans to this important member country in South Asia. In this case, the loans were made direct to the Government of India. They were for three specific projects - affecting three key segments of the Indian economy.

The first was \$34 million for a broad program of railway improvement. We are apt to take efficient railway lines as pretty much for granted too, here in this country. India has a very large railway mileage as it is a very large country. But most of the rolling stock dated back to the Gay Nineties. And during the war it was impossible to maintain even the obsolete equipment which India had. So of all the economic problems in India, railway improvement appeared to be as important as any. Industrial and agricultural goods would rust or rot in the places where they were produced for the sole reason that there are not enough locomotives and freight cars to carry them to the consuming market.

This loan by the Bank is financing most of the cost of importing hundreds of locomotives into India - some from Canada, others from the United States. These are helping India to move the goods which she produces - to get them to her internal markets, and to her seaports so that they may move farther in international trade.

The second loan to India has to do with an elemental necessity - food. In India food is perhaps more elemental than in many other countries, because India has a growing population and an actual food deficit. She doesn't produce enough food for her own people. Yet she has stretches of potentially good food-producing land now going to waste. This is because during the war parts of the land became infested with an especially virulent growth called Kans Grass. It acts more like sugar cane than the crab grass you may think so virulent in



your own gardens. Kans grass roots strike down about six feet into the earth. It spreads over whole areas in very little time and becomes a sort of miniature forest. It is manifestly impossible to grow wheat under such conditions.

India has been studying this Kans Grass problem for several years. Results of experimentation show that the most effective way to get rid of it is by deep plowing. Cut the roots off low, expose them to the hot rays of the sun and they soon die. Fields can then be plowed and grain planted again. The Bank's loan of \$10,000,000 was for the purchase of very heavy tractors and deep plows. It is expected that when the affected areas are reclaimed several million tons of grain each year will be added to the food supply of the people of India.

Now as to the third loan to India - this is for \$18½ million and will help expand India's electric power production. Multiply the experience I have described in El Salvador several times, and you will get an idea of the catalytic effect which electric power production can have on life in India. This particular project which the Bank is helping to finance is for development of the resources of the great Damodar River Valley - a most important industrial area just north of Calcutta. It involves construction of India's largest steam power plant and a dam which will furnish cooling water for the steam plant and also help with irrigation, flood control and some hydroelectric power as well.

These few illustrations may give you a picture of the practical nature of the work of the International Bank.



Now I am going to discuss briefly some of the main factors which shape the Bank's lending policies. What are the criteria which the Bank applies to requests for loans? How does it determine what action to take in any particular case? There is, as we have seen by now, a very great need for investment capital in many parts of the world. Yet the lending funds of the World Bank are limited. The Bank, therefore, has to choose carefully among the projects presented to it, so that the money it lends is put to work where it is needed most and where it can bring the most effective results.

There are certain basic conditions which must be fulfilled before any loan can be made by the Bank. First, the project proposed for financing must be a productive project - that is, it must be demonstrable that completion of the project will result in an increase of production or availability of needed goods, either directly, as in the case of production in a specific industry, or indirectly as in the case of improved transport or communications facilities. Second, the borrowing country must show that it is not able to obtain the loan elsewhere on reasonable terms. Perhaps this point should be explained: the Bank does not compete with private investment; one of its major purposes, in fact, is to encourage sound private investment. If a loan can be obtained from private sources, for example and on fair terms, the Bank will not consider it.

Third, in any loan made by the Bank there must be reasonable prospects of repayment. As a permanent institution, the Bank obviously must receive regular interest and principal payments on its loans. As loans are repaid, it may re-lend the funds for other productive projects.



Fourth, if a member government is not itself the borrower, then the member government in whose territory the project is located must guarantee repayment of the loan. You see, the Bank lends not only to member governments. It can lend also to subdivisions or agencies of governments or to purely private businesses and agricultural enterprises. But in these cases, the Bank must have the guarantee of the member government; if the private borrower should ever be in default, the government of that particular country, which has guaranteed the loan, assumes the repayments.

Well, with those general criteria in mind, just how does a borrower get a loan from the World Bank? What are the steps? Actually, applications for loans do not have to be in any particular form. One thing they must do, however, is to describe clearly the type of loan required and the project for which it is to be used. The Bank prefers to hold informal exploratory talks with the borrower in the first instance, in order to screen out applications for loans which do not meet the normal tests.

Next comes the Bank's detailed investigations. This usually falls into two stages. Stage one is an examination of the prospective borrowing country's general economic position. You may ask, what concern is this of the International Bank? It is very much the Bank's concern to determine certain important things about the economy of a borrowing country: first, that the country's economic position is such that it can bear the foreign exchange costs of servicing the loan, that its trade prospects are favorable for this purpose; second, that the country can raise the local capital needed for the local costs of a project - as we have seen before - and that the labor, and technical and managerial skills are available to carry the project through to successful completion. Then, too, the Bank is interested in seeing if the country's economic and fiscal policies are conducive to sound economic development.



After this examination of the country generally, the Bank looks carefully at the specific project proposed. It examines such matters as the soundness of the engineering plans, the prospective markets to be served by the project; sources of local capital; knowledge of necessary techniques, labor supply, etc.

It is only after this type of thorough examination that loans are made. The procedures by which they are made brings us to the question of how the Bank is organized.

The Bank's president is responsible for the Bank's general operations. The Bank's staff consists of some 400 persons drawn from about 25 nationalities. The investigations and reports I have been describing are made by members of the Bank's staff. After being approved by the president, they are put before the Bank's Executive Directors, who must approve all loans. There are at present 14 executive directors who are permanently available at headquarters. They represent all of the Bank's 49 member nations in the following manner: 5 are appointed by the five member nations subscribing the greatest amounts of capital - the U.S., United Kingdom, China, France, and India. The other nine executive directors are elected by the remaining member nations. Ultimate authority especially in broad policy matters in the Bank rests with its Board of Governors, which consists of one high ranking representative from each member nation - often its finance minister - and which meets once a year.

Aside from the Bank's lending operations, the other main current of its activity concerns technical assistance - helping its borrowers, or even countries which are not borrowers, mostly in the less developed regions of the world, to acquire modern techniques of industry, agriculture, management procedures, and, to adopt sound financial and economic policies.



This is not a new departure for the Bank. The Bank has been doing it from the start. In fact, this kind of aid is a normal part of the Bank's lending procedure. The investigations of loan proposals which I have just described often lead borrowers themselves to request advice in many technical fields. Bank missions have gone to member countries in all major areas of the world to render this kind of help.

In addition, quite apart from specific loan investigations, the Bank is sending to member countries an increasing number of missions which have a much broader function. These are called comprehensive survey missions. They are only sent at the special request of a member country and their functions are to help a member nation draw up an over-all development program, to make broad surveys of the developmental potentialities which exist in a particular region, and to determine the kind of program which would be most fitted to the country's own peculiar needs.

Let's take a concrete case again. Last year one of these comprehensive missions spent four months surveying development possibilities in Colombia. It made what is undoubtedly the most thorough study ever undertaken of just what resources Colombia has, and how these could be more fully utilized to raise the general standard of living in that country. This mission was headed by Dr. Laughlin Currie, an economic expert whose services were retained especially for the purpose. It included members of the Bank's staff, of course, and staff members from the International Monetary Fund, the Food and Agriculture Organization of the United Nations, and the World Health Organization. It also included outside technicians especially recruited from the fields of transportation, industry, and power.

The Currie Mission found that there are many causes for underdevelopment in Colombia, and recommends that a broad development program



be adopted by Colombia, designed to proceed simultaneously along varied fronts. The mission finds that Colombia is rich in the basic sources of power - in oil, coal, gas, hydroelectric potential and forest and agricultural resources. But the standard of living of the masses of the people is far below the level that could be obtained through a sound development program.

There is not time to discuss even the major recommendations of this mission to Colombia. Some of these get into fundamental pre-requisites of any economic activity - such things as strengthening the public health system generally. Another is a project to add to, or to connect existing rail, highway and pipe lines, in order to create an adequate transportation artery for trade within the country. All of its recommendations, the mission states, are well within Colombia's capacity to perform over a period of years.

General survey missions with roughly similar objectives are preparing broad studies of the economies of Cuba, Guatemala and Turkey.

I now come to one very important thing to remember about the work the International Bank is doing. Its value depends on the end result of its labors. No loan will be worth much unless it is in fact expended for the productive purposes for which it was granted, and unless the projects are carried through successfully. For this reason I want to tell you briefly how the Bank follows the end use of its loan proceeds with particular care.

The Bank has worked out a thoroughgoing system of supervising the end use of its loan monies. In the first place, before actually disbursing any part of a loan the Bank obtains evidence - such things as invoices and shipping documents - showing that the funds are to be spent for the specific purposes listed in the loan agreements. Then, Bank representatives check on the use these goods are put to when they arrive in the borrowing country. Bank technicians make periodic visits to the site of a project to see how it is getting along and how the materials bought through the Bank's loan are



being used. The loan agreements provide for another type of close cooperation between the Bank and its borrowers which is known as the "Consultation Clause". It provides for frequent consultation on all matters concerning the purposes of the loan and their realization. But the subject matter of consultation often extends to economic policies, plans and problems of the member country concerned. The Bank, in other words, is interested not only in the efficient completion of the project, but also in the effect of the project on the economy of the area, and the borrowing countries furnish the Bank periodically with current information about their general economic and financial conditions. This type of cooperation does not end when the project is built - it continues throughout the life of each loan. In this way the Bank can follow the long-term effects of its loans, and the economic conditions which affect their repayment.

In the other aspect of the Bank's work - field missions which help draw up blueprints for development - it is also the end result which counts. No amount of technical assistance, no matter how expert, will be worth very much unless the recipient of such assistance acts on the advice requested and given. As a general rule, with most technical missions, there will be a number of recommendations which it makes which are non-controversial in character and can be carried out pretty quickly. But when a mission comes to grips with troublesome problems in any area, there may also be recommendations which are unpopular in certain groups within the country. Such measures as land reform, tighter systems of taxation are never popular anywhere. It is likewise sometimes troublesome to determine the relative priorities of projects of a regional nature; there may be recommendations which call for postponing certain projects which are less urgent, but which would benefit some particular district of the country.



It is very important that a country should take steps to override sectional political interests and to see that the blueprint becomes a reality. One good method is for the government to appoint a non-partisan board to see that the recommendations are carried out.

The Bank is so organized that it can get on rather effectively with its main job of making loans. The Bank itself can act - specifically and rapidly - by the vote of its fourteen executive directors. These directors are elected, as we have seen, in such a manner as to represent all of the Bank's member countries. They must approve the loans negotiated by the management before such loans become final. The executive directors are kept informed in a general way of pending negotiations and are prepared to act quickly when called upon. You can see that the Bank is not an academic debating society - it is an international body which can and does take action when needed.

May I leave one final thought with you? The two principal functions of the Bank are, as we have seen, making loans and furnishing technical assistance. These are functions in which simple facts are of paramount importance and in which judgements are relatively logical. The Bank does not take purely political considerations into account. Its methods are those of constant objectivity. It may not be an overstatement to say that more can and actually has been accomplished in the Bank's particular field of international cooperation than in some others because it has been fortunate enough to keep political rivalries on the sidelines.

Staff members of the Bank meet as objective economists and financiers. Their mother tongues are different, but they speak the same professional language - the realistic language of how economic resources can be most effectively developed, how standards of living can actually be raised. These are very specific questions and very practical questions. At the same time they present a great challenge to the imagination and to our wits and intelligence for they are woven closely into the larger fabric of world leadership.



INFORMATION CONFERENCE  
March 29, 1951

Mr. E. G. Burland, Financial Advisor to the Loan Director, 10:30 A.M.

Colombia is a good example not only of how the Bank makes a loan, but also of the type of relationship we seek to establish with our borrowers. From the particular case of Colombia, I believe, it is easy to move to general conclusions concerning the type of procedures and methods employed by the Bank in its overall lending operations. This is true because our dealings with that country are fairly illustrative of our relations with all of our borrowers.

In discussing Colombia it is necessary to turn back almost three years to July, 1948. At that time the Colombian Government sent a financial mission to Washington, not primarily to call on the Bank: probably as an afterthought, the mission did come to the Bank and brought along a list of projects which it was hoped the Bank might be interested in financing. The total dollar cost of the projects submitted on the list amounted to about \$80 million. With the exception of an agricultural machinery project and several power projects added later, the list in general covered projects for industrial enterprises in which the Government had a principal interest. But they constituted such a mixed mass of plans and types of projects that the Bank did not feel free to act prior to sending a group down to make a study of the country's economy.

A month later, in August 1948, a mission left the Bank and spent several weeks in Colombia making a preliminary study of the economy and in reviewing in a general way the projects on the list. In its report to the Bank, the mission pointed out that there were certain fiscal and financial conditions in the country which were adversely affecting its economy and credit. The mission recommended that if the Colombian Government would take the proper corrective measures to cure these conditions, the Bank should consider the list on a technical basis and possibly select those projects for financing which were essential and could readily be brought to the lending stage.

Four months later, in December 1948, Colombia had taken certain initial steps as outlined by the mission. A law was passed - Law 90 - in which measures leading toward fiscal



and financial stability were taken. In addition "Law 90" outlined a general program of investment for the country as a whole and in all sectors, private and government. Incidentally, at this time the International Monetary Fund was working with Colombia on the matter of foreign exchange and balance of payments and on other items coming within the particular scope of the Fund.

With this action on the part of the Colombian Government, the Bank decided to examine more thoroughly the list of projects submitted. After careful study we decided that there were four projects which, in the absence of an overall survey of development possibilities of the country, could be safely financed. These were three small hydroelectric proposals and a proposal for a loan to finance the purchase and importation of modern agricultural machinery into Colombia. Machinery purchased for the agricultural project - on which a \$5 million loan was made on August 19, 1949 - was put to use either through sale to owners of larger farms or through the medium of agricultural stations or service groups where small farmers, for a fee, could have the use and benefit of modern agricultural equipment.

On sending our experts to examine the hydroelectric projects they found that sufficient previous technical study had not been given to these undertakings by the Government or those responsible for carrying them out. In one or two of the cases the water supply necessary to make the project feasible had not been surveyed. It could not then be demonstrated that in the minimum water periods the necessary volume and flow would be available. Before this question of water supply was resolved further studies over a period of two or three months had to be made.

Another problem affecting the hydroelectric project loans, and which acted to delay them, was the fact that private companies held limited franchises on certain areas in the territories to be served and no satisfactory arrangements for the sale of power to the surrounding areas had been made. As the months went by, however, and the technical reports came in, some of these questions were resolved. Thus, in November 1950 the Bank was able to make its first hydroelectric power loan in Colombia - Chidral \$3,530,000 - and on December 28, 1950 a second power loan was made - Caldas Hidro Electrica Co. \$2,600,000.



The third power project has yet to reach a point where a loan can be made. This is due largely to a franchise question. A small private company has a franchise for the center of the area to be served by the project and will not sell its plants to the larger company except at a very high price. What the outcome of the third project will be I do not know, but until both parties get together I don't believe that the Bank is going to be in a position to make a loan.

On my recent visit to Colombia, I brought to the attention of the authorities that there was a need for power in the area that would be served by this third project. The authorities indicated that the private companies in the area still wanted twice what the property was worth and that they were considering some form of eminent domain proceeding. They asked me what the Bank thought of such action. I replied that an eminent domain action was one which would be taken under the laws of the land and naturally the Bank did not have a view on the subject. Generally the Bank would think that the laws of the land would work equitably on both sides.

The Bank's agricultural loan in Colombia was relatively easy to make. It was obvious, almost from the start of our examination, that certain parts of Colombia were urgently in need of modern agricultural machinery. Consequently, we were able to move quickly in making that loan and it was signed in August 1949, more than a year before the first power commitment. At the present time all or practically all of the agricultural machinery loan has been disbursed, and our Treasurer's Department has sent representatives to Colombia to check up on the use of the machinery and what is actually being done with it. I should like to add that we have found that the loan has proven beneficial and that its objectives are being attained.

At the start of our relationship with Colombia we found that the total of the four projects, one of which has yet to meet our lending requirements, were all that we were ready to go ahead on. The total amount involved as far as the Bank was concerned was only \$15 million and this proved to be a good deal less than Colombia wanted. Thus, at the time "Law 90" was passed discussion arose as to the future relationships between the Bank



and Colombia. At that point the Bank suggested that perhaps an overall study of the development needs of Colombia over the years ahead would be a sound approach to the problem.

The Colombian Government approved of the suggestion, which approval cleared the way for the first of the Bank's general survey missions. This mission was headed by Dr. Lauchlin Currie who was assisted by some 15 experts drawn principally from private occupations, but including two or three staff people from the Bank. The group spent about six months in Colombia and on its return prepared and issued a report titled "The Basis of a Development Program for Colombia". It is a basic and very thorough study of the entire economy of Colombia and fills a whole volume. It is a very valuable document for Colombia to have. Copies of the report were delivered by the mission to both the Bank and the Colombian Government, which jointly financed the undertaking. I should like to point out that the mission comprised an independent group and that its report and conclusions did not particularly involve or commit the Bank to anything.

On receipt of the mission's report the next step, on Colombia's part, was to devise an actual development program based on it. As a move in this direction, the President of Colombia established what he called a "Committee for Economic Development." Politically Colombia is having its difficulties - the Liberal Party and the Conservative Party do not get on very well and the former boycotts the elections, and a state of siege has been declared by the President, who is a conservative. Despite these political differences, the President, who rules by decree in the absence of Parliament, has appointed six men to the Committee who are not connected with the Government and are non-partisan in their viewpoint. All of these appointees are successful businessmen, bankers and economists, they work well together and are men of affairs and of high character. They are not paid for the work they are doing as Committee members.

The Committee has now been working for some months in preparing a large, overall program for the economic development of Colombia. To arrive at sound conclusions, its members are taking the country's development needs subject by subject and making a study of them and their relationship and importance to the program as a whole. Along with a staff of experts



Dr. Currie, who headed the original joint mission has been retained to supervise the preparation of the data needed in approaching and studying the individual subjects which the Committee is considering. The Committee's plan is to attack the various segments of a program and to work out what should be done in each particular field of development activity. At the conclusion of its work the Committee will write a report which will serve as an overall investment program for development of the country for several years ahead. The report will also make recommendations as to how much of Colombia's resources could be committed to such a program and where such resources could be found. This latter subject is most important in view of the fact that most of the resources for the program will have to come from Colombia itself.

The work that the committee is doing has attracted a wide following among the Colombian people and has won the public's confidence and interest. Its meetings receive wide publicity, and its sessions get top headlines in the newspapers. Believe me, the Committee has no easy row to hoe. It is almost certain to touch on and recommend steps that, however salutary, are not likely to be popular. Among other things for example it is calling for a "tightening of the economic belt at home", having a look at the taxation system of the country, studying the country's policy in regard to foreign exchange and the idea of stabilizing the exchange system, and is thoroughly examining the country's banking policies. Remember there are "belt tightening" steps to be taken at home that by themselves do not lead to foreign loans, but which if not taken can seriously impair the creditworthiness of Colombia and limit the amount of foreign loans it can justifiably undertake.

The Committee expects to finish its work by about May 15, 1951. At that time Colombia should have available a careful study concerning its future development and which should serve as a basis for discussions with us as to how the Bank fits into the picture. If Colombia is willing to do the necessary things at home to improve its economy, I believe the Bank will be in a position to determine fairly quickly what steps it should take to support the country's development program over the years ahead.



One of the specific things I went to see in Colombia was this Committee at Work, and to tell its members and the Government how important this work is and that it should receive the highest consideration. I also had an opportunity on my trip to consider one of the papers issued by the Committee. This first paper was concerned with certain changes in the structure of Colombia's Central Bank and various changes in economic matters, none of which are concerned with domestic or foreign financing or loans. The purpose of this paper was merely to build the foundation or background for a development program.

Early in the current year this Committee reported on the condition of highway transport in Colombia, where highways, railway and air transport are of the utmost importance. Colombia is divided by three parallel mountain ranges. To get coffee and other products to market the area between these ranges must be penetrated. However, because of the nature of the terrain and its mountainous aspect, rail transport is necessarily limited in scope and gauge and highways consequently are a particularly vital form of transport arteries, both for freight and passengers. Existing highways in Colombia go back about a century, and while the grade levels are all right, generally those in charge of the system do not know how to ditch or drain them, nor do they know how to build culverts.

Never in the past has the country had a highway program that would give the roads a stable base which would be relatively simple to maintain in the future. Thus, driving over the roads is a harrowing experience for trucks and busses as well as cars. To overcome this difficulty the Committee recommended that the Government should, without delay, undertake a 90 million peso (\$45 million dollars) emergency highway rehabilitation program. The program calls for improvement of main trunk roads, construction of two small connecting link highways to make a continuous traffic flow possible, and for proper grading, ditching, drainage and culverts. Bridges also are to be built, widened or strengthened so that ordinary truck traffic can move along.

I believe that the original Currie report indicated that a program of this nature would promote the use of the proper type of trucks in Colombia and that its completion might cut trucking costs by more than 50%.



In all, this rehabilitation program will cover about 3,000 kilometers of north-south and east-west highway. Currently, there are several large American contracting firms working on other projects in Colombia and it is expected that these firms will be willing to act as prime contractors on the highway project. Foreign exchange costs of the project will aggregate about \$16.5 million to meet the cost of purchase and importation of American machinery and the fees of the American contractors and personnel.

Under the agreement for the highways, the American contractors will engage, as part of the program, to build shops to maintain the road building and maintenance equipment; to train Colombian personnel in the task of running these shops and in servicing equipment; and, to train additional Colombian personnel in the overall task of road maintenance. It is the intention of the Colombian Government to carry on a permanent road maintenance program on completion of the current project. The Bank viewed this road project in such an important light that it indicated it would negotiate a loan for that purpose as quickly as possible, and these discussions have now reached the final stages prior to an actual loan.

(i.e. Loan for \$16.5 million made on April 10)

In general it has been the policy of the Bank to wait until the Committee for Economic Development finished its work and submitted an overall Colombian development program before it would enter into actual loan discussions. This policy was guided by the view that separate loans should not be discussed until Colombia knew what the total program would cost and had an opportunity to mobilize its total resources available for development and to take the necessary internal economic reforms to strengthen its creditworthiness. However, the vital necessity for road rehabilitation, as a move toward implementing any development program, was so evident, that the Bank decided to negotiate this \$16.5 million loan with Colombia without prejudice to what might be done when the final program is drawn up.

In this brief talk I have taken you from the point where Colombia first approached the Bank to the time when the Colombian Committee on Economic Development is about ready to submit its overall plan. Certainly, we do not know now what the future relations between the Bank and Colombia will be but I believe that a pattern is discernible. I should like to point out that



the record so far has been impressive, and the relationship to date has resulted in solid benefits to that country. We may have a lot yet to learn concerning the problems of dealing with member countries desiring a continuing technical and financial relationship with the Bank. I am sure, however, that the experience gained in Colombia should serve as a valuable guide.



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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

ADDRESS BY E. G. BURLAND,  
FINANCIAL ADVISER OF THE INTERNATIONAL BANK,  
BEFORE THE COMMONWEALTH CLUB,  
SAN FRANCISCO, CALIFORNIA, APRIL 27, 1951.

Mr. Chairman, Members and Guests of the Commonwealth Club:

In these decisive times, there could be no more important question than international cooperation. Today I want to discuss briefly one phase of this question--and give perhaps one specific answer to it. My subject is the work of the International Bank for Reconstruction and Development, or the World Bank, as it is popularly known.

This is not going to be an academic talk. The World Bank is an international cooperative institution and it is a going concern. Its operations are concerned with very concrete things; most of all, with what is generally called "world economic development". There is a great deal of talk these days about "economic development," but I think the phrase means something only when it is translated into tangible terms.

To the World Bank, economic development means the plowing of the vast fields of India so that people have more food to eat; it means hammering out port facilities in Turkey so that the life-blood of trade can flow more freely: it means damming of rivers in South America to supply electric power to turn the wheels of new industries, produce goods that people need, put people to work.

So the subject is not an academic one. Certainly there are more urgent matters in the headlines these days than the work of the International Bank; for example, nothing could be more urgent than to put an end to aggression in Korea and to prevent it elsewhere. At the same time, looking beyond the current emergencies, what are the world's important long-term issues? What are the positive



and practical programs for free nations? One of these is surely economic development. Economic development--realistically carried through--could be a pillar in the foundations of peace itself, a major bulwark against future aggression.

Now the International Bank is just one of many bodies whose job it is to assist in world economic development. You are familiar with them--the United Nations itself, particularly its Economic and Social Council; the I.L.O., the W.H.O., the F.A.O., UNESCO, etc. As I shall point out a little later, several of these organizations often pool their resources for some particular job--the Bank has headed up, for example, several joint missions to underdeveloped countries which included representatives drawn from one or more of these bodies.

Today I am speaking about the part in this work of the Bank and its 49 member nations. Its job is very clear, and very precise. And I shall talk, first, about just what the Bank is, what its main purposes are, and how it carries these out: Second, about the specific things it has done and is now doing. Of course its main purpose, like that of any bank, is to make loans; loans to assist in the reconstruction of member nations disrupted by war, and in the development of their economies, to raise standards of living, to promote the long-range growth of world trade, and, finally, to encourage private investment.

Today, of course, private investment has not resumed its full role in the development of the world economy. The Bank can help it to do so--specifically by guaranteeing loans made by private investors, or taking part in such loans--and, by its own loans, strengthening the credit standing of borrowing countries. A permanent function of the Bank will always be to help set proper standards of investment generally--on terms fair to borrower and investor alike--to help create a climate in underdeveloped countries favorable to private investment.



I might sum up the Bank's purposes in this way: it is a joint undertaking, on a world-wide scale, to guide the potent force of international investment into the most economically beneficial channels.

Now in carrying out this objective, the Bank does two principal, and I believe very practical things: it gives financial assistance by making loans; and it also furnishes member countries technical assistance in a good many different fields. If that makes you think of the so-called "Point IV" program, the answer is simply that the Bank has since its inception been operating along the lines of Point IV, that is, in the sense of furnishing necessary technical advice and assistance to its members. The idea of an international lending institution to assist in world reconstruction and development, as conceived at Bretton Woods, was, of course, a pretty far-sighted one. What was not realized at Bretton Woods was the enormity of Europe's post-war needs--needs that had to be filled promptly, if Europe, as we know it, was to survive at all. So you had the Marshall Plan--the E.C.A.--which did this emergency job extremely well.

The Bank's job is a long-range one. It was meant to operate along sound banking and business lines as a permanent institution which should not be dependent on continuing appropriations from any government. And that is exactly what it is doing.

Well then, how does the Bank get the money with which to make these loans? Some of the Bank's lending funds come from its capital structure. The Bank's capital is made up of shares of stock subscribed by all its 49 member nations--roughly in proportion to their relative economic resources. Today, total subscribed capital amounts to more than \$8 billion. This does not mean that the Bank has anything like \$8 billion to lend. Because 80% of all subscribed capital is not paid into the Bank, but constitutes a sort of guarantee fund for meeting



the Bank's own obligations. This 80%, then, cannot be used for loans but can be called only, if it is ever needed, to honor the Bank's own bonds. And even of the 20% paid in capital, only 2% is paid in in the form of gold or U.S. dollars and is automatically available for lending. The other 18% is paid in in the currencies of the various member nations--pounds sterling, francs, guilders, kroner, etc.--and can be used for loans only with the consent of the particular member nation whose currency is to be used for a particular loan. The paid in 2% of all members' subscriptions plus the United States' 18%, all of which has been released for lending, plus relatively small portions of other members' 18% similarly released--all this adds up to a value of about \$750 million. That represents the lending funds which have been available from capital subscriptions. But the Bank has already made loans substantially surpassing this figure. The explanation is this: the Bank's subscribed capital was not intended to be the only source of its lending funds. As the operations of the Bank continue to expand additional lending funds must come through the sale of the Bank's own bonds to private investors. In other words, the Bank is not only a lender. It is a borrower in order that it may be a lender. The Bank has sold \$300 million of bonds on the United States market--and a small amount of Swiss franc bonds in Switzerland. So its total lending funds so far have been the equivalent of over a billion dollars. That is a thumb-nail sketch of where the Bank gets the money it lends.

Now, what has the Bank done with these lending funds? It has been in active operation for four years and just recently, with a loan to Colombia, the total of its loans went over the one billion one hundred million dollar mark. There is, of course, a lag between the making of a loan and the actual disbursement to the borrower. So the Bank has ample cash for new loans to tide it over until it has raised additional funds by selling additional bonds.



The Bank's first loans were made to help certain European countries whose territories had been ravaged and whose economies had been disrupted by the war. These were "reconstruction" loans: they were made to France, The Netherlands, and Denmark to help these countries carry out urgent reconstruction programs, without which economic collapse was a serious threat. Later loans made in Europe were for development of certain vital sections of the European economy--for specific projects, mostly the modernization and expansion of heavy and light industry, and agriculture.

Now that the reconstruction phase is over, emphasis in the Bank's lending is on loans for development purposes. We try to select loans for key projects which will have a "multiplier" effect on many sectors of a country's economy.

Let us take some examples, at random, from the major geographic areas where loans have been made. In Europe: these loans are helping the steel industries of France, Belgium, and Luxembourg; agriculture in Denmark; they have brought ships for the Dutch Merchant Marine, and have helped many small industries in Holland. Bank loans are at work in eastern Europe, too. They are assisting in the cutting of timber in Finland and in Yugoslavia. And in the renovation of ports on the coasts of Turkey.

In Latin America Bank loans are helping build dams and power plants to expand electric power in two great areas of Brazil, in several parts of Mexico, in Chile and El Salvador. They are making possible the importation of modern agricultural machinery in Chile and Colombia--helping to supplant oxen with tractors. They are helping Colombia to build a sound system of all-weather trunk roads.

In Africa and the Middle East--Bank loans are expanding the railway and power systems of the Union of South Africa, are helping to lay a modern road system in ancient Ethiopia; and in Iraq, to construct a flood control system on the Tigris River to prevent the wasteful flooding of Baghdad and of Iraq's farm lands.



In the Far East--Bank loans are helping Thailand to cut a Channel for ocean liners at the capital city of Bangkok, and to expand Thailand's railway and irrigation systems. Another loan is helping Australia to import essential goods for a broad development program.

But although large projects such as these are important, the Bank believes that aid to small business enterprises is often equally important. Recently the Bank has undertaken a relatively new type of financing tailored specifically to help the small business man. One illustration of this is the loan--made just last October--to a consortium of banks in Mexico. The funds will be re-lent by the Mexican banks to the private enterprises. Roughly similar types of loans were recently made to new industrial development banks in Turkey and Ethiopia.

But I suppose the best way to get a picture of what a Bank loan means in terms of tangible results is to take some concrete examples. So I shall take one of the loans to a relatively small country, and other loans to a very large country--and briefly trace some of their effects.

The small country is El Salvador. More than a year ago the Bank made a loan of about \$12 $\frac{1}{2}$  million to the Lempa River Hydroelectric Commission, which is a governmental agency in El Salvador, for the development of electric power. The project aims at transforming the waters of the great Lempa River, which flows through the country, into one of its most important economic assets. The project calls for construction of a dam, an underground power house built into solid rock, and the necessary transmission lines. It will double the country's power capacity.

Now let's look at some of the effects of this. The new power plant will mean that local industries can fill their orders. It will also mean that new light goods industries can be established. It will benefit agriculture by making



possible the irrigation of crop lands. At present the lack of power results in stripping the forests for firewood. So the project will help conserve the country's forest resources.

But those are not the only effects. At the present time such a common necessity as water--something we are apt to take for granted--is not available in adequate quantities to El Salvador's cities. The new power will bring water to the country's towns and cities for its many daily uses. More power also means adequate lighting--for schools, for public buildings, for homes. It is clear that this dam on the Rio Lempa is going to have a broad and cumulative effect on the lives of the people in El Salvador.

And there's another significant aspect to this particular financing operation by the Bank. Under the Bank's existing policies local capital needed for a project must be provided by the borrower from its own resources. The Bank normally finances only the foreign exchange costs.

But the Government of El Salvador did not have sufficient amounts of local capital in hand for such a project. It had to borrow the local money from the savings of its people. The country, up to that time, actually had no local capital market to speak of. If this local bond issue for the Rio Lempa dam could be floated, that might be a first step toward creating a capital market--where the government, or perhaps private businesses, too, could issue their securities, tap the local savings of the people.

So the World Bank sent its Director of Marketing to El Salvador to help the local authorities work out the techniques of local financing. The local bonds were issued--in an amount equivalent to more than five million dollars, and they were over-subscribed within a week, by people in El Salvador who desired to invest in the future economic progress of their country. This kind of thing is a sort of by-product of the Bank's main lending job--but it is a very important by-product indeed.



Now I am going to turn to the other side of the globe--and to a far larger country--India. The Bank has already made three loans to this important member country in South Asia.

The first was \$34 million for a broad program of railway improvement. India has a very large railway mileage as it is a very large country. But most of the rolling stock dated back to the gay nineties. And during the war it was impossible to maintain even the obsolete equipment which India had. Industrial and agricultural goods would rust or rot in the places where they were produced for the sole reason that there are not enough locomotives and freight cars to carry them to the consuming market.

This loan by the Bank is financing most of the cost of importing hundreds of locomotives into India to move the goods which she produces--to get them to her internal markets, and to her seaports so that they may move farther in international trade.

The second loan to India has to do with an elemental necessity--food. In India food is perhaps more elemental than in many other countries, because India has a growing population and an actual food deficit. Yet she has stretches of potentially good food--producing land now going to waste. This is because during the war parts of the land became infested with an especially virulent growth called Kans grass--roots which strike down six feet into the earth. It spreads over whole areas in very little time and becomes a sort of miniature forest.

India has been studying this Kans grass problem for several years. Results of experimentation show that the most effective way to get rid of it is by deep plowing. Cut the roots off low, expose them to the hot rays of the sun and they soon die. Fields can then be plowed and grain planted again. The Bank's loan of \$10,000,000 was for the purchase of very heavy tractors and deep plows. It is expected that several million tons of grain each year will be added to the food supply of the people of India.



Now as to the third loan to India--this is for \$18 $\frac{1}{2}$  million and will help expand India's electric power production. Multiply the experience I have described in El Salvador several times, and you will get an idea of the catalytic effect which electric power production can have on life in India. This particular project which the Bank is helping to finance is for development of the resources of the great Damodar River Valley--a most important industrial area just north of Calcutta. It involves construction of India's largest steam power plant and a dam which will furnish cooling water for the steam plant and also help with irrigation, flood control and furnish some hydroelectric power as well.

These few illustrations may give you a picture of the practical nature of the work of the International Bank.

Now I am going to discuss briefly some of the main factors which shape the World Bank's lending policies. What are the criteria which the Bank applies to requests for loans? The Bank chooses carefully among the projects presented to it, so that the money is put to work where it is needed most and where it can bring the most effective results.

There are certain basic conditions which must be fulfilled. First, the project proposed for financing must be a productive project--that is, it must result in an increase of production of needed goods, either directly, as in the case of production in a specific industry, or indirectly as in the case of improved transport or communications facilities. Second, the borrowing country must show that it is not able to obtain the loan elsewhere on reasonable terms. The Bank does not compete with private investment; one of its major purposes, in fact, is to encourage sound private investment.

Third, in any loan made by the Bank there must be reasonable prospects of repayment. As a permanent institution, the Bank obviously must receive regular interest and principal payments on its loans. As loans are repaid, it may re-lend the funds for other productive projects.



Fourth, if a member government is not itself the borrower, then the member government in whose territory the project is located must guarantee repayment of the loan. You see, the Bank lends not only to member governments. It can lend also to subdivisions or agencies of governments or to purely private businesses and agricultural enterprises. But in these cases, the Bank must have the guarantee of the member government.

Well, with those general criteria in mind, just how does a borrower get a loan from the World Bank? Actually, applications for loans do not have to be in any particular form. One thing they must do, however, is to describe clearly the type of loan required and the project for which it is to be used.

Next comes the Bank's detailed investigations. This usually falls into two stages. Stage one is an examination of the prospective borrowing country's general economic position. It is very much the Bank's concern to determine that the country's economic position is such that it can bear the foreign exchange costs of servicing the loan, that its trade prospects are favorable for this purpose, that the country can raise the local capital needed for the local costs of a project, and that the labor, and technical and managerial skills are available. Then, too, the Bank is interested in seeing if the country's economic and fiscal policies are conducive to sound economic development.

After this examination of the country generally, the Bank looks carefully at the specific project proposed. It examines such matters as the soundness of the engineering plans, the prospective markets to be served by the projects; sources of local capital; knowledge of necessary techniques, labor supply, etc.

It is only after this type of thorough examination that loans are made.

Aside from the Bank's lending operations, the other main current of its activity concerns technical assistance--helping its members, mostly in the less developed regions of the world, to acquire modern techniques of industry, agriculture, management procedures, and, to adopt sound financial and economic policies.



Quite apart from specific loan investigations, the Bank is sending to some member countries, missions which have a much broader function. These are called general survey missions. They are only sent at the special request of a member country and their functions are to help a member nation draw up an over-all development program, to make broad surveys of the developmental potentialities which exist in a particular region, and to determine the kind of program which would be most fitted to the country's own peculiar needs.

Let's take a concrete case again. Last year one of these comprehensive missions spent four months surveying development possibilities in Colombia. It made what is undoubtedly the most thorough study ever undertaken of just what resources Colombia has, and how these could be more fully utilized to raise the general standard of living in that country. This mission was headed by an economic expert whose services were retained especially for the purpose. It included members of the Bank's staff, of course, and staff members from the International Monetary Fund, The Food and Agriculture Organization of the United Nations, and the World Health Organization. It also included outside technicians especially recruited from the fields of transportation, industry, power, public health, education, taxation, money and banking, public finance and public administration.

The survey mission recommended that a broad development program be adopted by Colombia, designed to proceed simultaneously along many fronts. Colombia is rich in oil, coal, gas, hydroelectric potential and forest and agricultural resources. But the standard of living of the masses of the people is far below the level that could be obtained through a sound development program.

General survey missions with roughly similar objectives are preparing broad studies of the economies of Cuba, Guatemala, Turkey, Uruguay and Iraq.

I now come to one very important thing to remember about the work the International Bank is doing. No loan will be worth much unless it is in fact



expended for the productive purposes for which it was granted, and unless the projects are carried through successfully. For this reason the Bank has worked out a thoroughgoing system of supervising the end use of its loan monies. In the first place, before actually disbursing any part of a loan the Bank obtains evidence--such things as invoices and shipping documents--showing that the funds are to be spent for the specific purposes listed in the loan agreements. Then, Bank representatives check on the use these goods are put to when they arrive in the borrowing country. Bank technicians make periodic visits to the site of a project to see how it is getting along and how the materials bought through the Bank's loan are being used. The loan agreements provide for another type of close cooperation between the Bank and its borrowers which is known as the "consultation clause". It provides for frequent consultation on all matters concerning the purposes of the loan and their realization. But the subject matter of consultation often extends to economic policies, plans and problems of the member country concerned. The Bank, in other words, is interested not only in the efficient completion of the project, but also in the effect of the project on the economy of the area, and the borrowing countries furnish the Bank periodically with current information about their general economic and financial conditions. This type of cooperation does not end when the project is built--it continues throughout the life of each loan. In this way the Bank can follow the long-term effects of its loans, and the economic conditions which affect their repayment.

The Bank is so organized that it can get on rather effectively with its main job of making loans. The Bank itself can act--specifically and rapidly--by the vote of its fourteen Executive Directors. These Directors are elected in such a manner as to represent all of the Bank's member countries. They must approve the loans negotiated by the management before such loans become final. The Executive Directors are kept informed in a general way of pending negotiations and are prepared to act quickly when called upon. You can see that the Bank is not an academic



debating society--it is an international body which can and does take action when needed.

The two principal functions of the Bank are, as we have seen, making loans and furnishing technical assistance. These are functions in which simple facts are of paramount importance and in which judgments are relatively logical. The Bank does not take purely political considerations into account. Its methods are those of constant objectivity. It has been fortunate enough to keep political rivalries on the sidelines.

Staff members of the Bank meet as objective economists and financiers. Their mother tongues are different, but they speak the same professional language--the realistic language of how economic resources can be most effectively developed, how standards of living can actually be raised.

In closing, may I quote from a talk Mr. Eugene R. Black, President of the Bank, recently gave before a prominent State Bankers' Association. Mr. Black may seem to some to have stepped out of his banker's role in this instance, but to others he will seem to have stated a most important objective of present day international banking when he said "We all know that the contest in which we are engaged today is not simply a military one. In great part, this is a contest to see who can win the loyalty of men.

"Our adversaries have chosen, among other things, to adopt the well-known device of the big lie--the falsehood so monstrous and so difficult to combat that over the short run, its successes have been spectacular.

"I suggest that we have another and more powerful weapon in our own armory. It is the idea that men are born to be their own masters and to shape their own destinies. It is the idea that every man should be able to earn a decent living and that men, working intelligently together, can create a world of more opportunities for themselves and for their children.



"This is the great credo that brought our forefathers to this continent. It provided the faith that tamed the wilderness and created our country. This belief of ours, in what men can do to enlarge their own usefulness and shape their own lives, provides the motive power that keeps us in the forefront of the countries of the world.

"This is also a belief, I can assure you, which literally millions of men, in only lately awakened portions of the earth, are eager to embrace and eager to put into action for themselves. Now, we cannot transform the lives of these millions in a few months or years, nor should we attempt to. But what we can do is to share wisely and reasonably with them some of the knowledge and some of the goods which can unlock their own energies in the enlargement and enrichment of their own lives.

"Fundamentally, this is what the process of economic development itself is all about. Now is the time to proclaim our faith in the potentialities of men, and to put that faith into practice."



Elmer G. Burland, Advisor on Capital Markets, International Bank for Reconstruction and Development (World Bank), Washington, D.C., was guest speaker at a meeting of the Forum and Seminar of the Providence Chapter of the American Institute of Banking on February 24. His topic was "The International Bank and Financing Economic Development."

Mr. Burland gave a brief history of the World Bank, as it is popularly known. The Bank's Charter was written at the United Nations Monetary and Financial Conference meeting at Bretton Woods, N.H., in 1944; the Bank started operations in 1946. The Bank's purposes are to provide and encourage international investment for increasing production, raising living standards and helping bring about a better balance in world trade. The Bank has 56 member countries with a subscribed capital of \$9.3 billion. The U.S. subscription to the Bank is \$3,175,000,000, about 34% of the Bank's total capital.

In eight and a half years of operation, Mr. Burland said the Bank has made 112 loans totaling over 2 billion in 36 countries for 430 projects. These include loans for development of electric power, transportation, communications, agriculture, industry and general development. The Bank's earliest loans totaling about a half billion went to finance postwar reconstruction in Western Europe.

Apart from the funds the Bank has available from capital subscription, Mr. Burland said the Bank raises additional funds for lending by selling its own bonds to investors. The Bank has outstanding 20 bond issues totaling the equivalent of \$850 million. These include 9 issues of U.S. dollar bonds totaling \$715 million, and the equivalent of \$135 million in 11 issues of Canadian dollars, pounds sterling, Swiss francs, and Dutch guilders.



Mr. Burland pointed out that although the Bank was designed primarily as a lending institution, the giving of technical advice and assistance has become an integral and important part of the Bank's work. The Bank has given technical assistance requested by its members on problems ranging from technical ones to planning development programs for an entire economy. Over 30 countries have been aided on problems relating to prospective loans or to projects financed by the Bank; 12 countries have requested general survey missions to assess their resources and make recommendations for long-term development programs.

The Bank is a profitable undertaking, unique among international agencies. In eight and a half years of operation, it has accumulated profits of \$160 million.

\* \* \* \*



*Final Speech  
from Mr. Holmes*  
*22*

EXPERIENCES AND FUTURE OF INTERNATIONAL  
BANK FOR RECONSTRUCTION AND DEVELOPMENT

Before the Tuesday Evening Series of the  
Committee on Public Exercises of Stanford  
University on November 22, 1955, at  
Stanford, California, by E. G. Burland,  
Adviser on Capital Markets

ONE OF MY FAVORITE OCCUPATIONS IS TO TELL INTERESTED  
PEOPLE ABOUT THE WORLD BANK - THE INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT. AND THE REASON IS SIMPLE.  
IN THESE TIMES OF VERY HIGH TENSION IN ALMOST ALL PARTS OF THE  
WORLD - CERTAINLY IN THE KEY PLACES - EVERYONE IN THE UNITED  
STATES, MORE PARTICULARLY IN GOVERNMENT, GROPE FOR WAYS TO  
PROMOTE INTERNATIONAL HARMONY AND TO ADVANCE INTERNATIONAL  
COOPERATION: HOW CAN THIS BE DONE - HOW MADE TO WORK?  
IN WHAT PRACTICAL FIELDS? HOW CAN THE LEADERS OF THE FREEDOM  
LOVING PEOPLES CONVINCE THE WORLD THAT IN ORDER TO OBTAIN  
A REALISTIC DURABLE LASTING PEACE WE WILL GO ALL OUT TO  
WORK WITH OTHER NATIONS TOWARD BETTER LIVING, BETTER HEALTH AND  
GREATER PROSPERITY FOR ALL MANKIND? THERE MUST BE MANY ANSWERS  
TO THIS QUESTION - BUT ONE BRIGHT AND GOING-CONCERN EXAMPLE IS



SURELY THE WORLD BANK ABOUT WHICH I AM PLEASED TO TALK TO YOU  
TONIGHT.

THE WORLD BANK IS ONE OF A NUMBER OF POSTWAR JOINT  
EFFORTS WHICH MEETS FAIRLY WELL, I THINK, THE REQUIREMENTS OF  
EFFECTIVE INTERNATIONAL COOPERATION. IT IS A GROUP UNDERTAKING,  
WITH RESPONSIBILITIES REACHING OUT TO ALL THE MEMBERS, WITH BURDENS  
AND BENEFITS AS BETWEEN MEMBERS BALANCED WELL WITH NEED AND  
CAPACITY; ITS AIMS ARE THE DEVELOPMENT OF ECONOMIC RESOURCES AND  
HIGHER STANDARDS OF LIVING AND A MORE PRODUCTIVE LIFE FOR THE  
PEOPLES OF ITS MEMBER NATIONS. EVEN WITH SUCH FORMIDABLE  
OBJECTIVES, IT SEEMS TO WORK IN ACTUAL PRACTICE, TO THE SATIS-  
FACTION AND BENEFIT OF EVERYONE CONCERNED.

I MAY SEEM TO HAVE EXPRESSED APPROVAL OF THE WORLD BANK  
IN ADVANCE BUT THIS IS ONLY BECAUSE, AS I CONFINE MYSELF FROM HERE  
ON TO CONCRETE FACTS IN BRIEFLY TELLING YOU OF ITS STRUCTURE,  
METHODS AND ACTIVITIES, YOU MAY WELL ARRIVE AT A SIMILAR JUDGEMENT  
AND CONCLUSION.



THE WORLD BANK IS A WORLD WIDE COOPERATIVE FINANCIAL INSTITUTION, A SORT OF GLORIFIED CREDIT UNION, IF YOU WILL, COMPOSED OF 58 NATIONS OF THE WORLD. ITS TOTAL SUBSCRIBED CAPITAL IS \$9,050,500,000. THE AMOUNTS SUBSCRIBED BY EACH COUNTRY ARE VARIED IN SIZE ACCORDING TO ESTIMATED ECONOMIC STRENGTH - FOR EXAMPLE, THE UNITED STATES HAS SUBSCRIBED TO ABOUT 35%, AND THE NEXT IN SIZE, THE UNITED KINGDOM, TO 14%. THEN THE SUBSCRIPTIONS DECREASE IN GRADUATED STEPS DOWN TO THE SMALLEST, PANAMA, WITH A SMALL FRACTION OF 1%. ONLY A 20% PART OF THE SUBSCRIPTION IS PAID IN, 2% IN GOLD OR DOLLARS AND 18% IN THE VARIOUS NATIONAL CURRENCIES WHICH, UNDER THE CHARTER, MAY BE USED BY THE BANK ONLY WITH THE EXPLICIT PERMISSION OF THE MEMBER CONCERNED. THE REMAINING 80% IS SUBJECT TO CALL BY THE BANK TO MEET ITS OBLIGATIONS.

THE BANK HAS MADE LOANS TOTALING \$2.4 BILLION. WHERE DID THIS MONEY COME FROM? TO START WITH, THE BANK HAD AVAILABLE AS LENDING FUNDS, THE 2% SUBSCRIPTIONS OF ITS MEMBERS AND THE 18% PORTION OF THE UNITED STATES SUBSCRIPTION WHICH WAS IMMEDIATELY RELEASED BY THE U. S. GOVERNMENT FOR THE BANK'S USE IN LENDING.



SO AT THE START OF OPERATIONS THE BANK HAD ABOUT \$750 MILLION FOR LENDING. APART FROM THESE MONIES USED FOR ITS EARLIEST LOANS, THE BANK HAS DEPENDED PRIMARILY ON THE SALE OF ITS OWN BONDS IN THE PRIVATE INVESTMENT MARKETS FOR ITS LOAN FUNDS. THESE BONDS ARE SOLD MAINLY IN THE UNITED STATES AND TO A LESSER EXTENT ABROAD. THEY ACTUALLY HAVE A BROADER MARKET TODAY THAN ANY OTHER SECURITY EXCEPT U. S. GOVERNMENT BONDS. THROUGH THE SALE OF TWENTY FOUR ISSUES OF ITS BONDS, THE BANK HAS RAISED THE EQUIVALENT OF \$1 BILLION. \$835 MILLION OF THIS HAS BEEN IN 10 DIRECT U.S. DOLLAR ISSUES. THE REMAINDER HAS BEEN IN ISSUES OF CANADIAN DOLLARS, POUNDS STERLING, NETHERLANDS GUILDERS, AND SWISS FRANCS.

I MIGHT ADD AT THIS POINT THAT THE BANK'S CREDIT ENJOYS HIGH RATINGS AND IT CAN SELL ITS BONDS AT FAVORABLE RATES. IT IS THESE BORROWING RATES WHICH IN TURN DETERMINE THE RATE THE BANK CHARGES ON LOANS TO ITS MEMBERS IN SHORT, THE COST OF MONEY PLUS A SMALL ADDITION AS A CONTRIBUTION TOWARD OVERHEAD EXPENSES.

THE BANK HAS ALSO INCREASED ITS LENDING FUNDS IN ANOTHER WAY. IN MAKING LOANS THE BANK RECEIVES BONDS FROM ITS BORROWERS AS EVIDENCE OF THE BORROWER'S OBLIGATION. THESE BONDS ARE EQUAL



TO THE TOTAL OF THE LOAN BUT ARE IN SMALLER DENOMINATIONS FOR  
CONVENIENCE SAKE. THEY ARE HELD IN PORTFOLIO BY THE BANK AND  
FROM TIME TO TIME PORTIONS ARE SOLD TO PRIVATE INVESTORS SUCH  
AS COMMERCIAL BANKS, SAVINGS BANKS, AND INSURANCE COMPANIES.  
THIS HAS BEEN AN IMPORTANT AND SIGNIFICANT DEVELOPMENT WHICH  
I WANT TO TELL YOU SOMETHING ABOUT. THE BANK STARTED BUSINESS  
LATE IN 1946 AND MADE ITS FIRST LOAN EARLY IN 1947. AT THAT TIME  
INVESTMENT FUNDS IN PRIVATE HANDS WERE NOT AS ABUNDANT AS NOW IS  
THE CASE, AND CONFIDENCE IN INTERNATIONAL CREDIT WAS AT A LOW EBB.  
BUT AS THE WORLD BANK HAS BEEN PROVING ITSELF IN INTERNATIONAL  
FINANCIAL CIRCLES AS A SOUND CREDIT INSTITUTION OPERATING ON  
THE CONVENTIONAL PRINCIPLES OF BANK LENDING - THERE HAS BEEN A  
GRADUAL GROWTH OF INVESTOR INTEREST IN THE BOND OBLIGATIONS OF  
FOREIGN NATIONS GENERALLY. ALREADY PRIVATE INVESTORS, MOSTLY BANKS  
AND INVESTMENT COMPANIES, HAVE PURCHASED FROM THE WORLD BANK OVER  
\$215 MILLION OF THESE BORROWERS' OBLIGATIONS OF WHICH \$156 MILLION  
WERE WITHOUT THE BANK'S GUARANTEE BUT SOLELY ON THE CREDIT OF THE  
BORROWER.



ANOTHER MEASURE OF THE BANK'S SUCCESS IS INDICATED IN ITS BALANCE SHEET. THE BANK OPERATES AT A PROFIT. FOR AN INTERNATIONAL GOVERNMENTAL ORGANIZATION, THIS, I BELIEVE, IS UNPRECEDENTED. IN ADDITION TO MEETING ALL EXPENSES INVOLVED IN LENDING, MARKETING AND TECHNICAL ASSISTANCE ACTIVITIES, PROFITS ARE AT A RATE OF MORE THAN \$20 MILLION A YEAR. THESE EARNINGS ARE ADDED TO RESERVES WHICH NOW TOTAL \$193 MILLION. THAT'S THE FINANCIAL PICTURE IN A BRIEF SKETCH.

I WOULD LIKE NOW TO TELL YOU BRIEFLY ABOUT THE SORT OF LOANS THE BANK HAS MADE, SOME OF THE DIRECT AND INDIRECT RESULTS OF SUCH LOANS AS FAR AS WE HAVE BEEN ABLE TO MEASURE THEM IN THE SHORT TIME ELAPSED AND THE CONTINUOUS RELATIONS WITH BORROWERS WHICH ARE GROWING UP OUT OF THE LENDING OPERATIONS.

THE BANK HAS MADE 137 LOANS IN 40 COUNTRIES. THESE LOANS WENT EITHER TO GOVERNMENTS AS ~~DIRECT~~ BORROWERS OR TO OTHER BORROWERS WITH THE GUARANTEE OF A MEMBER GOVERNMENT. IN SOME CASES, THE ACTUAL BORROWER WAS AN AGENCY OF A GOVERNMENT WORKING IN THE FIELD OF AGRICULTURE, OR OF TRANSPORTATION, OR OF PUBLIC ELECTRIC POWER. IN OTHER CASES, THE BORROWERS HAVE BEEN PRIVATELY-OWNED ELECTRIC



POWER COMPANIES, STEEL PLANTS, PAPER MILLS, AND MANUFACTURING CONCERNS. GEOGRAPHICALLY, BANK LOANS ARE DISTRIBUTED LIKE THIS: \$940 MILLION IN EUROPE; \$600 MILLION IN WESTERN HEMISPHERE; \$300 MILLION IN ASIA AND THE MIDDLE EAST; \$260 MILLION IN AUSTRALASIA; AND \$225 MILLION IN AFRICA.

THE FIRST LOANS MADE BY THE BANK WERE RECONSTRUCTION LOANS, MADE IN WESTERN EUROPE AND TOTALING ABOUT \$500 MILLION; THEY WERE RELATED IN GREAT PART TO WAR DAMAGE AND ECONOMIC DISLOCATION CAUSED BY THE WAR. WITH THE ADVENT OF THE U. S. MARSHALL PLAN FOR EUROPE IN 1948, THE BANK TURNED ITS ATTENTION TO ITS NEXT BASIC PURPOSE - ECONOMIC DEVELOPMENT. THE BANK QUICKLY FOUND THAT THE STAGE OF DEVELOPMENT REACHED AND THE NEED TO STIMULATE IT DIFFER WIDELY FROM COUNTRY TO COUNTRY. THEREFORE, IN ITS DEVELOPMENT LENDING THE BANK HAS CONSISTENTLY TRIED TO RELATE ITS LENDING TO THE SPECIFIC NEEDS OF A COUNTRY. ALL OF ITS DEVELOPMENT LOANS, WHICH MIGHT BE CALLED "LONG-TERM FOREIGN INVESTMENTS" ARE FOR THE PURPOSE OF FINANCING THE COST OF EQUIPMENT AND SERVICES WHICH MUST BE IMPORTED BY BORROWERS FOR THE CONSTRUCTION, INSTALLATION AND OPERATION OF FACILITIES FUNDAMENTAL TO ECONOMIC PROGRESS. BY AND LARGE, THESE



LOANS WILL HAVE WHAT HAS BEEN CALLED A MULTIPLIER EFFECT WHEN COMPLETED, THAT IS, BY THEIR VERY EXISTENCE, POWER AND TRANSPORT FACILITIES INDUCE THE CREATION OF DEPENDENT ECONOMIC ENTERPRISES.

BY PURPOSES THE BANK'S DEVELOPMENT LENDING HAS GONE AS FOLLOWS: \$670 MILLION FOR ELECTRIC POWER; \$615 MILLION FOR TRANSPORTATION AND COMMUNICATIONS; \$225 MILLION FOR AGRICULTURE AND FORESTRY; \$240 MILLION FOR INDUSTRY; AND \$140 MILLION FOR GENERAL DEVELOPMENT. THESE LOANS FOR DEVELOPMENT LOOK INTERESTING ENOUGH ON PAPER; IN ACTION THEY BECOME A PART OF THE TREMENDOUS AND SPECTACULAR PROCESS OF ECONOMIC DEVELOPMENT. ECONOMIC DEVELOPMENT MEANS THE ACTIVE PRODUCTION AND UTILIZATION OF NATURAL RESOURCES OF ALL KINDS, THE FOUNDING AND GROWTH OF INDUSTRIES, THE EXPANSION AND BETTERMENT OF AGRICULTURE, THE EXTENSION AND MODERNIZATION OF TRANSPORTATION AND COMMUNICATIONS. SPECIFICALLY WITH THE WORLD BANK ECONOMIC DEVELOPMENT MEANS THE DAMMING OF RIVERS FOR FLOOD CONTROL, FOR IRRIGATION AND FOR ELECTRIC POWER IN TWENTY MEMBER COUNTRIES - POWER FOR TURNING WHEELS, PRODUCING GOODS, PUTTING PEOPLE TO WORK; IT MEANS THE WHOLESALF FLOWING OF FIELDS IN MANY LANDS



SO THAT PEOPLE GET MORE FOOD AND OTHER PRODUCTS FROM THE SOIL; IT MEANS CONSTRUCTION OF PORT FACILITIES AND STORAGE BINS. IT MEANS THE CREATION OF NET WORKS OF HIGHWAYS AND RAILWAYS ON LAND, AND TRANSPORT LINES FOR SEA AND AIR TRAFFIC. THESE ARE SOME OF THE MORE IMPORTANT ACTIVITIES. THEY ALL LEAD INEVITABLY TO HIGHER STANDARDS OF LIVING AND BETTER LIVES FOR THE PEOPLE LIVING WITHIN THE BANK'S ORBIT OF LENDING. AND THESE IMPORTANT OBJECTIVES ARE VERY HIGH, INDEED, IN THE AIMS AND EFFORTS OF ALL THE GOVERNMENTS OF ALL THE NATIONS OF THE FREE WORLD.

LET ME TELL YOU ABOUT TWO OF OUR LOANS AND THEIR EFFECTS:

IN EL SALVADOR, THE SMALLEST AND MOST DENSELY POPULATED COUNTRY IN CENTRAL AMERICA, A NEW HYDROELECTRIC POWER PLANT STARTED OPERATION IN JULY OF THIS YEAR; ITS OUTPUT DOUBLES THE SUPPLY OF ELECTRICITY IN THE COUNTRY. THE TOTAL COST OF THIS PLANT WAS EQUIVALENT TO ABOUT \$22 MILLION OF WHICH \$12.5 MILLION CAME FROM THE BANK TO COVER THE FOREIGN EXCHANGE COSTS. THE PRESIDENT OF EL SALVADOR CALLED THIS PROJECT "THE FIRST STEP TOWARD THE ECONOMIC LIBERATION OF THE COUNTRY." HIS COUNTRY UP TO NOW HAS



DEPENDENT ALMOST ENTIRELY ON THE EXPORT OF COFFEE FOR ITS EARNINGS IN INTERNATIONAL TRADE. THIS NEW POWER SUPPLY WILL HELP TO DIVERSIFY EL SALVADOR'S ECONOMY: THERE IS MORE ELECTRICITY FOR EXISTING INDUSTRIES AND FOR NEW ONES; IT WILL FEED NEWLY BUILT PUMPING STATIONS TO IRRIGATE NEW FARM LAND AND TO GROW NEW CROPS; AND FOR THE FIRST TIME IT WILL BRING DRINKING WATER AND ELECTRIC LIGHTS TO SCHOOLS, HOSPITALS AND HOMES IN SCORES OF CITIES, TOWNS AND VILLAGES.

TWO BANK LOANS TOTALING \$38 MILLION ARE HELPING FINANCE THE CONSTRUCTION OF THREE NEW POWER PLANTS IN THE RICHEST MINERAL AND MOST HIGHLY DEVELOPED INDUSTRIAL REGION IN INDIA - THE DAMODAR RIVER VALLEY NEAR CALCUTTA. THESE POWER PROJECTS WILL HAVE IMPORTANT AND VARIED RESULTS. GENERATING CAPACITY IN THE AREA WILL BE INCREASED BY 250,000 KILOWATTS - NEARLY ENOUGH POWER TO FILL THE DEMANDS OF THE TWIN CITIES, MINNEAPOLIS-ST. PAUL. THIS WILL FEED NEW POWER TO MANY INDUSTRIES CONCENTRATED IN THE VALLEY - IRON AND STEEL, ALUMINUM, AND FERTILIZER - WHICH ARE ENGAGED IN THE PRODUCTION OF ITEMS RANGING FROM LOCOMOTIVES TO PLOWS AND OTHER FARM TOOLS, ALL CRUCIALLY IMPORTANT TO THE GROWTH OF INDIA'S ECONOMY.



TWO OF THE RETAINING DAMS HOUSING NEW POWER INSTALLATIONS WILL ALSO PROVIDE FLOOD CONTROL AND THE BASIS FOR AN IRRIGATION SYSTEM OF 1500 MILES OF CANALS AND DITCHES TO SERVE A MILLION ACRES OF FARM LAND. APART FROM THE SAVINGS FROM THE PREVENTION OF FLOOD DAMAGE, THE NEW IRRIGATION SHOULD MAKE POSSIBLE THE PRODUCTION OF AN ADDITIONAL 400,000 TONS OF FOOD GRAINS EACH YEAR.

I FEEL SURE I HAVE MADE THE WORLD BANK'S ACTIVITIES SOUND CONSTRUCTIVE AND WORTHWHILE BUT I WONDER IF I HAVE ALSO MADE THEM SOUND SIMPLE? IF I HAVE I MUST CORRECT MYSELF; THEY DECIDEDLY ARE NOT. THE MAKING OF GOOD SOUND LOANS IS A METHODOICAL, TIME-CONSUMING AND WORKADAY BUSINESS. THE ANNOUNCEMENT OF A LOAN BY THE BANK MARKS THE CLIMAX OF MONTHS OF WORK ON MANY LEVELS, AND IT ALSO MARKS THE BEGINNING OF MORE WORK. LET ME EXPLAIN.

BEFORE MAKING A LOAN, THE BANK EXAMINES THE CAPACITY OF THE PROSPECTIVE BORROWER TO USE FOREIGN RESOURCES AND HIS ABILITY TO REPAY THE DEBT; THE RELATION OF THE PROJECT UNDER CONSIDERATION TO THE OVERALL DEVELOPMENT OF THE COUNTRY; AND THE BLUEPRINT OF THE PROJECT ITSELF. THE EXAMINATION OF THESE ELEMENTS REQUIRES



A STAFF OF SKILLED ECONOMISTS, INDUSTRIAL ANALYSTS, FINANCIAL EXPERTS, AND ENGINEERS. A RELATIONSHIP IS ESTABLISHED DURING THESE PERIODS OF STUDY AND NEGOTIATION BETWEEN THE BANK AND ITS BORROWER THAT WILL CONTINUE UNTIL THE PROJECT IS COMPLETELY BUILT AND IN OPERATION. THERE IS SCARCELY A DAY THAT SOME STAFF MEMBER IS NOT IN CONTACT WITH MEMBER REPRESENTATIVES.

BUT MONEY ALONE CANNOT BRING ECONOMIC DEVELOPMENT. THE BANK FOUND EARLY IN ITS OPERATIONS THAT THE NEED FOR CARE IN PLANNING DEVELOPMENT AND FOR TECHNICAL ASSISTANCE EXISTED AT ALL TIMES. ALTHOUGH NOT SPECIFICALLY OUTLINED IN ITS CHARTER, TECHNICAL ASSISTANCE HAS BECOME AN IMPORTANT PART OF THE BANK'S WORK. THE BANK HAS GIVEN TECHNICAL AID AND ADVICE REQUESTED BY MEMBERS, ON PROBLEMS RANGING FROM SPECIFIC TECHNICAL ONES TO THE PLANNING OF DEVELOPMENT PROGRAMS ENCOMPASSING THE ENTIRE ECONOMY OF A COUNTRY. IT HAS SENT GROUPS OF TECHNICAL EXPERTS TO MORE THAN 35 OF ITS MEMBERS TO ADVISE ON ENGINEERING, FINANCIAL, OR MANAGEMENT PROBLEMS RELATING TO PROSPECTIVE LOANS OR TO PROJECTS BEING CARRIED OUT WITH BANK FUNDS.



MUCH OF THE TECHNICAL ASSISTANCE GIVEN BY THE BANK RELATES TO WHAT WE CALL "DEVELOPMENT PROGRAMMING" RATHER THAN TO SPECIFIC LOAN PROJECTS. THE PRINCIPAL WAY THE BANK WORKS IN THIS FIELD IS THROUGH THE GENERAL SURVEY MISSION. THESE MISSIONS, ORGANIZED BY THE BANK AT THE REQUEST OF A MEMBER COUNTRY, SURVEY AND ANALYZE THE DEVELOPMENT RESOURCES OF A COUNTRY AND MAKE RECOMMENDATIONS WHICH CAN BE USED BY THE GOVERNMENT CONCERNED TO FORMULATE A LONG-TERM DEVELOPMENT PROGRAM. THESE MISSIONS ESTIMATE THE AMOUNT OF INVESTMENT A COUNTRY CAN UNDERTAKE WITH THE RESOURCES AT HAND, RECOMMEND PRIORITIES FOR PUBLIC INVESTMENT AMONG THE BASIC SECTORS OF THE ECONOMY, AND SUGGEST ECONOMIC AND FINANCIAL POLICIES AND ADMINISTRATIVE MEASURES NECESSARY TO ASSURE SUCCESS OF THE DEVELOPMENT PROGRAM. THE BANK HAS ORGANIZED FOURTEEN SUCH MISSIONS.

ANOTHER OFF-SHOOT OF THE BANK'S CLOSE RELATIONSHIPS WITH ITS MEMBERS, ONE DESIGNED TO HELP SOLVE A PROBLEM WHICH CROPS UP CONSTANTLY, IS THE CREATION OF AN ECONOMIC DEVELOPMENT INSTITUTE, A SORT OF STAFF COLLEGE FOR SELECTED SENIOR OFFICIALS OF GOVERNMENTS WHEREIN THEY MAY LEARN HOW TO INCREASE THE SKILL AND EFFICIENCY WITH WHICH AVAILABLE RESOURCES ARE APPLIED TO ECONOMIC DEVELOPMENT.



THE FIRST COURSE OF STUDY WILL BE OFFERED TO SIXTEEN ACCEPTED CANDIDATES IN JANUARY.

ON THE RIGOROUS SIDE, THE BANK, IN MAKING LOANS TO MEMBER COUNTRIES, MUST ADHERE STRICTLY TO THE ESTABLISHED TENETS OF SOUND FINANCE AND THIS OFTEN REQUIRES, AS A CONDITION TO SUCH LOANS, THE STIPULATION THAT THE BORROWER KEEP HIS OWN ECONOMIC HOUSE IN ORDER AND RUN IT IN KEEPING WITH ACCEPTED FINANCIAL AND ADMINISTRATIVE NORMS. SOME MEMBERS MAY FROM TIME TO TIME LOOK UPON THIS AS UNWARRANTED INTERFERENCE IN THEIR INTERNAL AFFAIRS. BUT THE MANAGEMENT OF THE BANK - WITH THE STRONG APPROVAL OF THOSE PRIVATE INVESTMENT MARKETS IN WHICH ITS OWN BONDS ARE SOLD, HAS STUCK FIRMLY TO ITS MORAL AND FINANCIAL POSITION. A HOPEFUL ASPECT IN THESE INTIMATE BANKER-CLIENT RELATIONSHIPS IS THAT THE WORLD BANK IS A MUTUAL ORGANIZATION OF WHICH ALL OF ITS BORROWERS ARE ALSO MEMBERS. ITS EXPERT STAFF IS INTERNATIONAL - OVER 30 COUNTRIES HAVE PEOPLE ON THE STAFF. ITS ECONOMIC TENETS ARE OF INTERNATIONAL ORIGIN AND MUST BE OF SUCH UNIVERSAL QUALITY AS TO BE ACCEPTABLE GENERALLY



THROUGHOUT THE MEMBERSHIP. THUS, THE ECONOMIC DISCIPLINES WHICH THE BANK SEEKS TO GET ITS INDIVIDUAL MEMBERS TO FOLLOW ARE IN A PRACTICAL SENSE SELF-IMPOSED; THEY HAVE THE APPROVAL OF ALL THE CLUB MEMBERS - SO TO SPEAK. WHILE THIS MEANS THAT THE BANK'S POLICIES MUST BE EVERLASTINGLY SOUND - IT ALSO GUARANTEES THE SUPPORT OF A STRONG AND WIDESPREAD PUBLIC OPINION. MEMBERS TEND MORE AND MORE TO FALL IN LINE WITH WHAT IN REALITY ARE THEIR OWN ECONOMIC PRINCIPLES.

I MENTIONED ABOVE THE 18% PERCENT OF SUBSCRIPTIONS WHICH IS AVAILABLE ONLY IN EACH MEMBER'S OWN NATIONAL CURRENCY AND WHICH IS USABLE FOR LENDING ONLY WITH EACH MEMBER'S EXPRESS PERMISSION. AS I TOLD YOU THE UNITED STATES RELEASED ITS ENTIRE 18%, ABOUT \$600,000,000 IMMEDIATELY THE BANK STARTED OPERATIONS. THE OTHER MEMBERS HAVE IN THE NINE YEARS OF OPERATIONS RELEASED ONLY THE EQUIVALENT OF \$200,000,000 WHICH THE BANK HAS BEEN ABLE TO USE, OUT OF A TOTAL EQUIVALENT TO ROUGHLY \$1,000,000,000. THE REASON FOR THIS IS THAT THE UNITED STATES HAS BEEN ECONOMICALLY AND FINANCIALLY STRONG ENOUGH TO DO THIS AND THE OTHER COUNTRIES HAVE NOT, ALTHOUGH RECENTLY MUCH PROGRESS HAS BEEN MADE IN THE RIGHT DIRECTION. IF A



COUNTRY RELEASES ITS CURRENCY FOR LENDING BY THE BANK IT IS, TO THAT EXTENT, FINANCING ITS OWN EXPORTS WHICH IS SPOKEN OF BY ECONOMISTS AS "UNREQUITED EXPORTS." SINCE THE WAR MOST NATIONS HAVE NEEDED THE MONEY EARNED BY THEIR EXPORTS TO BUY REQUIRED IMPORTS. BUT AS ECONOMIC RECOVERY CONTINUES SUCH COUNTRIES CAN MORE AND MORE AFFORD TO EXPORT CAPITAL AND AS THEY ARE ABLE TO DO SO, THEY CAN RELEASE CORRESPONDING PORTIONS OF THEIR 18% SUBSCRIPTIONS FOR BANK LENDING. AS THIS PROCESS CONTINUES THE BANK TAKES ON A MORE AND MORE DISTINCTIVE INTERNATIONAL FLAVOR AS WAS ORIGINALLY CONCEIVED.

IN THIS CONNECTION YOU MAY BE WONDERING HOW THE BANK HANDLES ALL THESE DIFFERENT NATIONAL CURRENCIES. IT IS COMPLICATED, AT LEAST TO EXPLAIN, BUT IT DOES LEAD TO A COMMENDABLE FLEXIBILITY IN LENDING OPERATIONS. A BORROWER MUST EVENTUALLY ADVISE THE BANK OF THE SPECIFIC CURRENCIES HE REQUIRES IN ORDER TO BUY THE GOODS HE NEEDS, IN THE EXPORTING COUNTRY OF HIS SELECTION. IF, FOR LACK OF DETAILED TECHNICAL SPECIFICATIONS OR BECAUSE HE INTENDS TO CALL FOR INTERNATIONAL BIDS, HE DOESN'T KNOW THIS EXACTLY AT THE MOMENT HE SIGNS THE LOAN CONTRACT A GLOBAL AMOUNT IS SET UP IN A DOLLAR



EQUIVALENT. BUT WHEN THE BORROWER DECIDES WHICH CURRENCIES HE REQUIRES HE ADVISES THE BANK. IF IT OWNS THAT PARTICULAR CURRENCY AS THE PROCEEDS OF ONE OF ITS OWN BOND ISSUES OR CAN GET IT THROUGH AN 18% RELEASE, THE BANK WILL LEND SUCH CURRENCY AND BE REPAID IN IT; IF NOT, THE BANK BUYS THE NEEDED CURRENCY AND THE BORROWER MUST THEN REPAY IN THE CURRENCY USED FOR THE PURCHASE. AS I SAY, THE SYSTEM MAY SOUND COMPLICATED BUT IT IS ADVANTAGEOUS TO THE BORROWER AS IT ALLOWS HIM TO BUY IN ANY COUNTRY WHERE THE GOODS ARE BEST AND CHEAPEST - WHICH THE BANK IS STRICTLY ENJOINED IN ITS ARTICLES OF AGREEMENT TO ENABLE ITS MEMBERS TO DO.

THOSE OF YOU WHO REMEMBER THE FLOOD OF FOREIGN BONDS SOLD IN THE LENDING COUNTRIES, ESPECIALLY THE UNITED STATES, DURING THE TWENTIES WILL ALSO PROBABLY REMEMBER THE SUBSEQUENT DEFAULTS DURING THE THIRTIES. INTERNATIONAL LENDING IS NOT NEW BUT THE SAD TRUTH IS - IT HASN'T ALWAYS WORKED OUT WELL IN THE PAST; IT HAS LACKED SOME INGREDIENT NECESSARY TO MAKE IT SUCCESSFUL. THERE IS A FEATURE OF THE WORLD BANK'S METHOD OF LENDING WHICH SEEMS TO PROVIDE AT LEAST ONE MISSING ELEMENT. THE BANK CALLS IT "END-USE SUPERVISION." WHEN A LOAN HAS GONE THROUGH THE FINE-TOOTH-COMB APPRAISAL OF THE



EXPERT STAFF AND HAS BEEN APPROVED BY THE SIXTEEN-MAN BOARD OF DIRECTORS, A LOAN CONTRACT AND SOMETIMES A GUARANTY AGREEMENT ARE SIGNED. IN THESE DOCUMENTS ANY CONDITIONS PRECEDENT OR SPECIAL THINGS TO BE DONE BY THE BORROWER OR THE GUARANTOR ARE SPELLED OUT AND ONLY WHEN SUCH THINGS ARE DONE DOES THE LOAN BECOME EFFECTIVE. YOU MIGHT THINK THAT THE BORROWER WOULD AT THIS POINT GET HIS MONEY AS HE HAS IN THE PAST FROM TIME IMMEMORIAL IN INTERNATIONAL LOANS. BUT, IN FACT, HE DOESN'T. THE MONEY IS MERELY CREDITED TO HIS ACCOUNT IN THE BANK'S BOOKS. AS THE LOAN PROJECT IS BUILT, THE BORROWER SHOWS BY INVOICE, OR CERTIFICATION OR OTHER CONCLUSIVE EVIDENCE, THAT THE GOODS NEEDED ARE BEING PURCHASED. THE BANK THUS DISBURSES THE LOAN GRADUALLY. USUALLY IT TAKES 2, 3, 4 EVEN 5 YEARS TO DISBURSE A LOAN COMPLETELY.

BUT THE BANK DOES NOT STOP THERE. IT FOLLOWS THE CONSTRUCTION OF THE PROJECT EVERY STEP OF THE WAY TO FINAL REALIZATION OF THE END PURPOSES AND OBJECTIVES ESTABLISHED IN THE LOAN DOCUMENTATION. OF COURSE, IF ANYTHING GOES WRONG AT ANY OF THE STAGES OF PROGRESS OF THE LOAN PROJECT, BANKER AND CLIENT COLLABORATE AT ONCE ON THE PROBLEM AND ON APPROPRIATE CORRECTIVE



MEASURES. EVEN WHEN THE IMMEDIATE PURPOSE OF THE LOAN HAS BEEN ACHIEVED IN THE FIRST INSTANCE, THE BANK STILL STANDS BY TO WATCH EVENTS CLOSELY TO SEE HOW MATTERS PROGRESS OVER THE LONGER FULL AND TO OFFER ASSISTANCE IF NEEDED. THE PERIODIC VISITS OF BANK ENGINEERS AND TECHNICIANS CONTINUES THROUGHOUT THE CONSTRUCTION PERIOD. BANK ECONOMISTS TOO FOLLOW GENERAL ECONOMIC DEVELOPMENTS IN EACH MEMBER COUNTRY AS LONG AS LOANS ARE OUTSTANDING.

ALL OF THIS IS DONE UNDER THE NAME OF "END-USE SUPERVISION" WHICH I MENTIONED EARLIER. IT'S REALLY A NEW LOOK IN INTERNATIONAL LENDING AND IT WOULD BE LESS THAN FRANK TO STATE THAT IT ALWAYS WORKS OR THAT IT WORKS PERFECTLY. SOME GOVERNMENTS MAY FEEL THAT THEIR SOVEREIGNTY IS BEING INVADED; OTHERS MAY FEEL THAT THEY ARE AS COMPETENT AS ANYONE TO MANAGE THEIR AFFAIRS OR ADMINISTER A LOAN PROJECT. IT IS A FACT, HOWEVER, THAT SUPERVISION IS REALLY BENEFICIAL IN MANY OF THE BANK'S MEMBER COUNTRIES, ESPECIALLY THE UNDER-DEVELOPED COUNTRIES WHICH ARE NOT SO FAR ADVANCED IN ADMINISTRATIVE COMPETENCE AND TECHNICAL SKILLS. SO WHILE SOME RATHER DELICATE SITUATIONS HAVE ARISEN, AS A WHOLE BANK MEMBERS HAVE COME TO RECOGNIZE THE PRACTICAL VALUE OF END-USE SUPERVISION IN SOME OF THE



LESS DEVELOPED MEMBER COUNTRIES AND TO AGREE THAT CLUB RULES MUST BE ACCEPTED BY ALL MEMBERS, GREAT AND SMALL. SO FAR THE BANK'S SYSTEM OF LOAN SUPERVISION HAS PREVENTED OCCURRENCE OF ANY MAJOR PROJECT FAILURE. I THINK IT WOULD BE OF GOOD AUGURY FOR THE REVIVAL OF PRIVATE LENDING ALL OVER THE WORLD IF THE SAME SYSTEM SHOULD BECOME GENERALLY ESTABLISHED AND ACCEPTED AS A LENDER'S DUTY AND PREROGATIVE IN INTERNATIONAL FINANCE JUST AS IT HAS BEEN PRACTICED FOR CENTURIES IN COMMERCIAL BANKING AND IN INTERNAL LENDING GENERALLY.

YOU MAY GET THE IMPRESSION - AS I INTEND THAT YOU SHALL - THAT THE WORLD BANK IS FULFILLING THE HOPES OF THE FOUNDING NATIONS WHEN THEY DREW UP THE ARTICLES OF AGREEMENT AT THE UNITED NATION'S MONETARY AND FINANCIAL CONFERENCE AT BRETON WOODS, NEW HAMPSHIRE, IN JULY 1944. OF COURSE, AS I HAVE MENTIONED, PROBLEMS HAVE EXISTED AND WILL CONTINUE, NO DOUBT. I WOULD LIKE TO CALL ATTENTION TO ONE SPECIAL PROBLEM BESETTING THE BANK. IT IS: HOW TO PERSUADE BORROWERS TO KEEP THEIR TOTAL OBLIGATIONS FROM ALL OF THE MANY FOREIGN SOURCES AVAILABLE TO THEM, WITHIN THEIR ABILITY TO REPAY.



A PARTICULAR ASPECT OF THIS PROBLEM WHICH HAS CAUSED CONCERN TO EUGENE R. BLACK, THE BANK'S PRESIDENT, IS THAT OF SO-CALLED "SUPPLIERS' CREDITS." GOVERNMENTS OF NATIONS SEEKING TO ENCOURAGE GREATER EXPORTS OFTEN GUARANTEE THE CREDITS EXTENDED BY THEIR OWN EXPORTING INDUSTRIES TO IMPORTERS IN OTHER LANDS. AS THIS IS A HIGHLY COMPETITIVE FIELD THE TOTAL OF SUPPLIERS' CREDITS FOR A GIVEN COUNTRY CAN EASILY RISE TO BURDENSOME HEIGHTS. IF THE FOREIGN EXCHANGE AVAILABLE TO SUCH A COUNTRY AT ANY GIVEN TIME IS INSUFFICIENT FOR BOTH REGULAR FUNDED DEBT AND SUPPLIERS' CREDITS - WHICH ARE USUALLY OF SHORT TERM - A DEFAULT MAY WELL BE THREATENED. THE PROBLEM IS IN PART ONE OF REPORTING AND MR. BLACK HAS PERSUADED THE BANK'S MEMBER GOVERNMENTS TO ADVISE HIM PERIODICALLY OF THE GROWTH OF SUPPLIERS' CREDITS WITHIN THEIR BOUNDARIES IN ORDER THAT EXCESSIVE INDEBTEDNESS IN ANY ONE NATION MAY BE AVOIDED OR AT LEAST TAGGED.

I HAVE TRIED TO GIVE YOU A GENERAL DESCRIPTION OF THE WORLD BANK, ITS OBJECTIVES AND MECHANISMS AND A BRIEF ACCOUNT OF ITS NINE YEARS OF OPERATIONS. THERE ARE JUST A FEW REMAINING POINTS TO COMPLETE THE PICTURE. THE BANK IS ONE OF THE AFFILIATED AGENCIES



OF THE UNITED NATIONS; AMONG OTHER SUCH AGENCIES ARE, AS YOU KNOW, THE WORLD HEALTH ORGANIZATION, THE FOOD AND AGRICULTURE ORGANIZATION, AND THE INTERNATIONAL LABOR OFFICE. THE BANK, AS IS CONSTITUTIONAL WITH BANKERS GENERALLY, MUST HAVE THE UNQUESTIONED POWER OF INDEPENDENT JUDGEMENT; IN OTHER WORDS, MUST IN ITS SOLE DISCRETION BE ABLE TO SAY WHETHER A LOAN IS OR IS NOT TO BE MADE. IT THEREFORE HAS A WRITTEN AGREEMENT WITH THE UNITED NATIONS PRESERVING ITS INDEPENDENCE.

YOU MAY HAVE WONDERED HOW THE WORLD BANK FITS IN WITH THE EXPORT-IMPORT BANK WHICH IS AN ORGAN OF THE UNITED STATES GOVERNMENT. IT IS TRUE THAT THE TWO FIELDS OF ACTIVITY MAY IN SOME INSTANCES OVERLAP, BUT IN GENERAL, AS A MATTER OF EMPHASIS, THE EXPORT-IMPORT BANK, AS THE NAME IMPLIES, BASICALLY IS CONCERNED WITH AMERICAN FOREIGN TRADE WHEREAS THE WORLD BANK IS ORIENTED TOWARD LONGER RANGE ECONOMIC DEVELOPMENT. ANOTHER DIFFERENCE IS THAT EXPORT-IMPORT BANK LOANS CAN BE SPENT ONLY IN THE UNITED STATES, WHEREAS THE WORLD BANK AS I HAVE SHOWN MAKES NO SUCH RESTRICTION.



THE FINAL POINT TO WHICH I WOULD CALL YOUR ATTENTION IS THE FORTHCOMING CREATION OF THE INTERNATIONAL FINANCE CORPORATION, AS AN AFFILIATE OF THE WORLD BANK. THE WORLD BANK ITSELF WAS NEVER MEANT TO REPLACE PRIVATE INVESTMENT OR PRODUCTIVE PRIVATE ENTERPRISE; IT WAS DESTINED, ON THE CONTRARY, TO SUPPLEMENT THESE POWERFUL FORCES WHERE NECESSARY AND TO ENCOURAGE THE FLOW OF PRIVATE CAPITAL EVERYWHERE IN THE INTERNATIONAL FIELD. EXPERIENCE HAS SHOWN AND THERE IS COMMON AGREEMENT, I THINK, EXCEPT IN THOSE FEW COUNTRIES WHICH HAVE PROHIBITED PRIVATE OWNERSHIP OF PRODUCTIVE FACILITIES AS A MATTER OF NATIONAL POLICY - THAT THERE ARE BROAD SECTORS IN ANY ECONOMY IN WHICH PRIVATE ENTERPRISE IS THE MOST EFFECTIVE AGENT IN FURTHERING ECONOMIC DEVELOPMENT.

THE WORLD BANK IS REQUIRED BY ITS ARTICLES TO HAVE A GOVERNMENT GUARANTEE ON ALL ITS LOANS AND IT CANNOT ITSELF PROVIDE VENTURE CAPITAL. IT IS THUS LIMITED IN ITS ABILITY TO AID PRIVATE INDUSTRY AND OTHER PRIVATE ENDEAVORS. TO FILL THIS GAP IN THE GREAT ARRAY OF RESOURCES WHICH CAN BE HARNESSSED FOR ECONOMIC DEVELOPMENT, MOST OF THE MEMBERS OF THE WORLD BANK HAVE JOINED TOGETHER TO SET UP THE INTERNATIONAL FINANCE CORPORATION WITH AN AUTHORIZED CAPITAL OF



\$100,000,000. EACH MEMBER'S SHARE WILL BE IN ABOUT THE SAME PROPORTION AS IN THE BANK'S CAPITAL, AND VOTING AND THE FIXING OF BROAD POLICY WILL BE CARRIED ON BY APPROXIMATELY THE SAME DIRECTORATES. WHILE OVERHEAD WILL BE KEPT DOWN BY SHARING MANY OF THE BANK'S ADMINISTRATIVE SOURCES, THE OPERATING MANAGEMENT OF THE IFC AND ITS CAPITAL FUNDS WILL BE KEPT SEPARATE FROM THE WORLD BANK.

THE BASIC PURPOSE OF THE IFC WILL BE TO PARTICIPATE WITH AND TO ENCOURAGE THE FLOW OF PRIVATE CAPITAL INTO PRODUCTIVE INVESTMENT IN UNDERDEVELOPED AREAS WITHIN THE MEMBERSHIP ORBIT. ITS FIELD OF OPERATIONS WILL BE RESTRICTED TO PREDOMINANTLY PRIVATE ENTERPRISES; IT CAN ONLY USE ITS RESOURCES IN ASSOCIATION WITH PRIVATE INVESTORS; IT CANNOT UNDERTAKE FINANCING WHICH COULD BE OBTAINED FROM PRIVATE CAPITAL SOURCES ON REASONABLE TERMS; IT IS NOT TO ASSUME RESPONSIBILITY FOR MANAGEMENT OF ANY ENTERPRISE IN WHICH IT HAS INVESTED AND FINALLY IT IS PROHIBITED FROM OWNING CAPITAL STOCKS. THE IFC WILL COME INTO BEING FORMALLY WHEN 30 MEMBERS WHOSE SUBSCRIPTIONS AGGREGATE AT LEAST \$75,000,000 HAVE JOINED. AS THESE REQUIREMENTS HAVE ALREADY BEEN EXCEEDED, THE IFC'S FORMATION IS IMMINENT.



THE INTERNATIONAL FINANCE CORPORATION IS A FORWARD-LOOKING

BY-PRODUCT OF THE WORLD BANK'S SHORT OPERATING EXPERIENCE. AND

IT IS ON THIS NOTE THAT I WOULD LIKE TO CLOSE THIS SHORT EXPOSITION.

THE MANAGEMENT OF THE WORLD BANK HAS "LOOKED FORWARD" STEADILY FROM

THE DAY OF ITS INAUGURATION. PROGRESS HAS BEEN RAPID - BUT AS

MR. BLACK SAID AT THE ANNUAL MEETING OF THE BANK AT ISTANBUL THIS

AUTUMN: PROGRESS IS NEVER FAST ENOUGH. THE PEOPLES OF THE UNDER-

DEVELOPED COUNTRIES WILL CONTINUE TO PRESS MORE AND MORE STRONGLY

FOR BETTER WAYS OF LIFE. ON THE GOVERNMENTS OF THESE COUNTRIES

THE TIMES EXERT PRESSURES FOR ECONOMIC DEVELOPMENT THAT ARE

PARTICULARLY GREAT. THE ELEVATION OF LIVING STANDARDS HAS PROPERLY

BECOME A TASK OF FIRST IMPORTANCE TO WHICH PEOPLES AND THEIR

GOVERNMENTS AND PRIVATE ENTERPRISE ARE APPLYING THEIR ENERGIES AT

AN ACCELERATING PACE. THE WORLD BANK ITSELF RESULTS FROM THE

JOINT ENERGIES OF THESE PEOPLES, THESE GOVERNMENTS AND THESE

PRIVATE INVESTORS AND IT IS THUS DEDICATED TO THESE OBJECTIVES.



Lois  
(See Summary for outline)

FOR THE PRESS (Same release for Minot on April 16 and Grand Forks on April 19)

1956

Elmer G. Burland, Advisor on Capital Markets, of the International Bank for Reconstruction and Development (World Bank), Washington, D.C., was guest speaker at a meeting of the Bismarck Chapter of the American Institute of Banking on April 18. His topic was "The International Bank and Financing Economic Development."

Mr. Burland gave a brief history of the World Bank, as it is popularly known. In the first nine years of operations, the Bank has made 141 loans totaling \$2.4 billion in 41 countries for over 500 projects. These loans have helped finance development of electric power, transportation, communications, agriculture, industry and general development. The Bank's earliest loans totaling about \$500 million went to finance postwar reconstruction in Western Europe.

The Bank's Charter was written at the United Nations Monetary and Financial Conference meeting at Bretton Woods, N.H., in 1944; the Bank started operations in 1946. Its purposes are to provide and encourage international investment for increasing production, raising living standards and helping bring about a better balance in world trade. The Bank has 58 member countries comprising almost every nation of the Free World. The subscribed capital by these countries totals \$9.3 billion; 35% of which is the United States portion. The Bank is authorized to use up to 20% of this capital in its lending operations.

Apart from the funds the Bank has available from capital subscription, Mr. Burland said the Bank raises additional funds for lending by selling its own bonds to investors. The Bank has outstanding 21 bond issues totaling the equivalent of \$850 million. These include 9 issues of U.S. dollar bonds totaling \$705 million, and the equivalent of \$145 million in 12 issues of Canadian dollars, pounds sterling, Swiss francs, and Dutch guilders.



Mr. Burland explained that disbursement of a loan may take years, depending on the size of the project, the availability of equipment, and many other factors. Proceeds of Bank loans are spent for equipment, services or goods with suppliers in many countries. During the first nine months of this year Bank borrowers made purchases in the United States totaling about \$135 million; of this amount about 25% - \$35 million - was spent with over 100 suppliers in eight Midwestern States.

Mr. Burland pointed out that although the Bank was designed primarily as a lending institution, the giving of technical advice and assistance to undeveloped countries is an important part of the Bank's work. The Bank has given technical assistance on a variety of problems ranging from particular issues to development programs for entire economies. Over 30 countries have been aided on problems relating to prospective loans or to projects financed by the Bank; 14 countries have requested general survey missions to assess their resources and make recommendations for long-term development programs.

The Bank, in addition to being a successful development agency, is also a profitable undertaking, unique among international agencies. In nine years of operation, it has accumulated profits of \$216 million.



EXPERIENCES AND FUTURE OF INTERNATIONAL  
BANK FOR RECONSTRUCTION AND DEVELOPMENT

Given at regional meetings of the  
American Institute of Banking,  
by E. G. Burland, Adviser on Capital Markets,  
April 1956.

Minnat, N.D. 4/16/56  
Bismarck, N.D. 4/18/56  
Grand Forks, N.D. 4/19/56

(St. JOSEPH, Mo)

IN TALKING TO BANKERS, ONE SHOULD STICK CLOSE TO BANKERS'  
LANGUAGE AND I SHALL TRY TO DO THIS IN TELLING YOU OF THE  
PROGRESS OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND  
DEVELOPMENT. BUT BEFORE GETTING TO THE DESCRIPTIVE PART I WOULD  
LIKE TO SKETCH TO YOU HOW THE BANK ITSELF FITS INTO THE WORLD  
WE LIVE IN.

IN THESE TIMES OF VERY HIGH TENSION IN MANY KEY PARTS OF  
THE WORLD, THE FREE GOVERNMENTS GROPE FOR WAYS TO PROMOTE INTER-  
NATIONAL HARMONY AND TO ADVANCE INTERNATIONAL COOPERATION:  
HOW CAN THIS BE DONE - HOW MADE TO WORK? IN WHAT PRACTICAL  
FIELDS? HOW CAN THE FREEDOM LOVING PEOPLES CONVINCE THE WORLD  
THAT IN ORDER TO OBTAIN A REALISTIC LASTING PEACE, THEY WILL GO  
ALL OUT TO ASSIST IN PROMOTING BETTER LIVING, BETTER HEALTH AND  
GREATER PROSPERITY FOR ALL MANKIND? THERE MUST BE MANY ANSWERS  
TO THESE QUESTIONS, BUT ONE BRIGHT AND GOING-CONCERN EXAMPLE,



I BELIEVE, IS THE WORLD BANK ABOUT WHICH I AM PLEASED TO TALK TO YOU TONIGHT.

THE WORLD BANK MEETS FAIRLY WELL, I THINK, THE BASIC REQUIREMENTS OF EFFECTIVE INTERNATIONAL COOPERATION. IT IS A GROUP UNDERTAKING, WITH RESPONSIBILITIES REACHING OUT TO ALL THE MEMBERS, WITH BURDENS AND BENEFITS AS BETWEEN MEMBERS BALANCED WELL WITH NEED AND CAPACITY. ITS AIMS ARE THE DEVELOPMENT OF ECONOMIC RESOURCES AND HIGHER STANDARDS OF LIVING AND A MORE PRODUCTIVE LIFE FOR THE PEOPLES OF ITS MEMBER NATIONS. THESE ARE FORMIDABLE OBJECTIVES, AND I SHALL TRY TO SHOW YOU HOW THEY WORK OUT IN ACTUAL PRACTICE.

THE WORLD BANK IS A WORLD WIDE COOPERATIVE FINANCIAL INSTITUTION, A SORT OF GLORIFIED CREDIT UNION, IF YOU WILL, COMPOSED OF 58 NATIONS OF THE WORLD. ITS TOTAL SUBSCRIBED CAPITAL IS \$9,050,500,000. THE AMOUNTS SUBSCRIBED BY EACH COUNTRY ARE VARIED IN SIZE ACCORDING TO ESTIMATED ECONOMIC STRENGTH - FOR EXAMPLE, THE UNITED STATES HAS SUBSCRIBED TO ABOUT 35%, AND THE NEXT IN SIZE, THE UNITED KINGDOM, TO 14%. THEN THE SUBSCRIPTIONS DECREASE IN GRADUATED STEPS DOWN TO THE SMALLEST, PANAMA, WITH A SMALL FRACTION OF 1%. ONLY A 20% PART OF THE SUBSCRIPTION IS PAID IN,



2% IN GOLD OR DOLLARS AND 18% IN THE VARIOUS NATIONAL CURRENCIES WHICH, UNDER THE CHARTER, MAY BE USED BY THE BANK ONLY WITH THE EXPLICIT PERMISSION OF THE MEMBER CONCERNED. THE REMAINING 80% IS SUBJECT TO CALL BY THE BANK TO MEET ITS OBLIGATIONS.

THE BANK HAS MADE LOANS TOTALING \$2.4 BILLION. WHERE DID THIS MONEY COME FROM? TO START WITH, THE BANK HAD AVAILABLE AS LENDING FUNDS, THE 2% SUBSCRIPTIONS OF ITS MEMBERS AND THE 18% PORTION OF THE UNITED STATES SUBSCRIPTION WHICH WAS IMMEDIATELY RELEASED BY THE U. S. GOVERNMENT FOR THE BANK'S USE IN LENDING. SO AT THE START OF OPERATIONS THE BANK HAD ABOUT \$750 MILLION FOR LENDING. APART FROM THESE MONIES USED FOR ITS EARLIEST LOANS, THE BANK HAS DEPENDED PRIMARILY ON THE SALE OF ITS OWN BONDS IN THE PRIVATE INVESTMENT MARKETS FOR ITS LOAN FUNDS. THESE BONDS ARE SOLD MAINLY IN THE UNITED STATES AND TO SOME EXTENT ABROAD. THEY ACTUALLY HAVE A BROADER MARKET TODAY THAN ANY OTHER SECURITY EXCEPT U. S. GOVERNMENT BONDS. THROUGH THE SALE OF TWENTY FOUR ISSUES OF ITS BONDS, THE BANK HAS RAISED THE EQUIVALENT OF \$1 BILLION. \$849 MILLION OF THIS HAS BEEN IN 10 DIRECT U. S. DOLLAR ISSUES. THE REMAINDER HAS BEEN IN ISSUES OF CANADIAN DOLLARS, POUNDS STERLING, NETHERLANDS GUILDERS, AND SWISS FRANCS.



I MIGHT ADD AT THIS POINT THAT THE BANK'S CREDIT ENJOYS HIGH RATINGS AND IT CAN SELL ITS BONDS AT FAVORABLE RATES. IT IS THESE BORROWING RATES WHICH IN TURN DETERMINE THE RATE THE BANK CHARGES ON LOANS TO ITS MEMBERS IN SHORT, THE COST OF MONEY, PLUS A STATUTORY CONTRIBUTION TO RESERVES, PLUS A SMALL ADDITION TOWARD OVERHEAD EXPENSES.

THE BANK HAS ALSO INCREASED ITS LENDING FUNDS IN ANOTHER WAY. IN MAKING LOANS THE BANK RECEIVES BONDS FROM ITS BORROWERS AS EVIDENCE OF THE BORROWER'S OBLIGATION. THESE BONDS ARE EQUAL TO THE TOTAL OF THE LOAN BUT ARE IN SMALLER DENOMINATIONS FOR CONVENIENCE SAKE. THEY ARE HELD IN PORTFOLIO BY THE BANK AND FROM TIME TO TIME PORTIONS ARE SOLD TO PRIVATE INVESTORS SUCH AS COMMERCIAL BANKS, SAVINGS BANKS AND OTHER INVESTMENT INSTITUTIONS. THIS HAS BEEN AN IMPORTANT AND SIGNIFICANT DEVELOPMENT WHICH I WANT TO TELL YOU A LITTLE MORE ABOUT. THE BANK STARTED BUSINESS LATE IN 1946 AND MADE ITS FIRST LOAN EARLY IN 1947. AT THAT TIME INVESTMENT FUNDS IN PRIVATE HANDS WERE NOT AS ABUNDANT AS NOW IS THE CASE, AND CONFIDENCE IN INTERNATIONAL CREDIT WAS AT A LOW EBB. BUT AS THE WORLD BANK GRADUALLY ESTABLISHED ITSELF IN INTERNATIONAL



FINANCIAL CIRCLES AS A SOUND CREDIT INSTITUTION OPERATING ON THE CONVENTIONAL PRINCIPLES OF BANK LENDING - THERE HAS BEEN A SIMULTANEOUS GROWTH OF INVESTOR INTEREST IN THE BONDS OF FOREIGN NATIONS GENERALLY. ALREADY PRIVATE INVESTORS, MOSTLY BANKS AND INVESTMENT COMPANIES, HAVE PURCHASED FROM THE WORLD BANK PORTFOLIO OVER \$211 MILLION OF THESE BORROWERS' OBLIGATIONS OF WHICH \$156 MILLION WERE WITHOUT THE BANK'S GUARANTEE BUT SOLELY ON THE CREDIT OF THE BORROWER.

ANOTHER MEASURE OF THE BANK'S PROGRESS IS INDICATED IN ITS EARNINGS STATEMENTS. THE BANK OPERATES AT A PROFIT. FOR AN INTERNATIONAL GOVERNMENTAL ORGANIZATION, THIS, I BELIEVE, IS UNPRECEDENTED. IN ADDITION TO MEETING ALL EXPENSES INVOLVED IN MAKING LOANS, MARKETING ITS BONDS AND TECHNICAL ASSISTANCE ACTIVITIES, PROFITS ARE AT A RATE OF MORE THAN \$20 MILLION A YEAR. THESE EARNINGS ARE ADDED TO RESERVES WHICH NOW TOTAL \$200 MILLION. THAT'S THE FINANCIAL PICTURE IN A BRIEF SKETCH.

I WOULD LIKE NOW TO TELL YOU BRIEFLY ABOUT THE SORT OF LOANS THE BANK HAS MADE, SOME OF THE DIRECT AND INDIRECT RESULTS OF



SUCH LOANS AS FAR AS WE HAVE BEEN ABLE TO MEASURE THEM IN THE SHORT TIME ELAPSED AND THE CONTINUOUS RELATIONS WITH BORROWERS WHICH ARE GROWING UP OUT OF THE LENDING OPERATIONS.

THE BANK HAS MADE 141 LOANS IN 41 COUNTRIES. THESE LOANS WENT EITHER TO GOVERNMENTS AS DIRECT BORROWERS OR TO OTHER BORROWERS WITH THE GUARANTEE OF A MEMBER GOVERNMENT. IN SOME CASES, THE ACTUAL BORROWER WAS AN AGENCY OF A GOVERNMENT WORKING IN THE FIELD OF AGRICULTURE, OR OF TRANSPORTATION, OR OF PUBLIC ELECTRIC POWER. IN OTHER CASES, THE BORROWERS HAVE BEEN PRIVATELY-OWNED ELECTRIC POWER COMPANIES, STEEL PLANTS, PAPER MILLS, AND MANUFACTURING CONCERNS. GEOGRAPHICALLY, BANK LOANS ARE DISTRIBUTED LIKE THIS: \$940 MILLION IN EUROPE; \$645 MILLION IN WESTERN HEMISPHERE; \$360 MILLION IN ASIA AND THE MIDDLE EAST; \$260 MILLION IN AUSTRALASIA; AND \$267 MILLION IN AFRICA.

THE FIRST LOANS MADE BY THE BANK WERE RECONSTRUCTION LOANS, MADE IN WESTERN EUROPE AND TOTALING JUST UNDER \$500 MILLION; THEY WERE RELATED IN GREAT PART TO WAR DAMAGE AND ECONOMIC DISLOCATION CAUSED BY THE WAR. WITH THE ADVENT OF THE U. S. MARSHALL PLAN FOR EUROPE IN 1948, THE BANK TURNED ITS ATTENTION TO ITS NEXT BASIC



PURPOSE - ECONOMIC DEVELOPMENT. THE BANK QUICKLY FOUND THAT THE STAGE OF DEVELOPMENT REACHED AND THE NEED TO STIMULATE IT DIFFER WIDELY FROM COUNTRY TO COUNTRY. THEREFORE, IN ITS DEVELOPMENT LENDING THE BANK HAS CONSISTENTLY TRIED TO RELATE ITS LENDING TO THE SPECIFIC NEEDS OF A COUNTRY. ALL OF ITS DEVELOPMENT LOANS, WHICH MIGHT BE CALLED LONG-TERM FOREIGN INVESTMENTS ARE FOR THE PURPOSE OF FINANCING THE COST OF EQUIPMENT AND SERVICES WHICH MUST BE IMPORTED BY BORROWERS FOR THE CONSTRUCTION, INSTALLATION AND OPERATION OF FACILITIES FUNDAMENTAL TO ECONOMIC PROGRESS. BY AND LARGE, THESE LOANS ARE EXPECTED TO HAVE WHAT HAS BEEN CALLED A MULTIPLIER EFFECT WHEN COMPLETED, THAT IS, BY THEIR VERY EXISTENCE, POWER AND TRANSPORT FACILITIES INDUCE THE CREATION OF RELATED ECONOMIC ENTERPRISES.

BY PURPOSES THE BANK'S DEVELOPMENT LENDING HAS GONE AS FOLLOWS:

POST WAR RECONSTRUCTION \$497 MILLION; \$671 MILLION FOR ELECTRIC POWER; \$615 MILLION FOR TRANSPORTATION AND COMMUNICATIONS; \$250 MILLION FOR AGRICULTURE AND FORESTRY; \$245 MILLION FOR INDUSTRY; AND \$140 MILLION FOR GENERAL DEVELOPMENT. THESE LOANS FOR DEVELOPMENT LOOK INTERESTING ENOUGH ON PAPER; IN ACTION THEY BECOME A PART OF THE TREMENDOUS AND



SPECTACULAR PROCESS OF ECONOMIC DEVELOPMENT. ECONOMIC DEVELOPMENT MEANS THE ACTIVE PRODUCTION AND UTILIZATION OF NATURAL RESOURCES OF ALL KINDS, THE FOUNDING AND GROWTH OF INDUSTRIES, THE EXPANSION AND BETTERMENT OF AGRICULTURE, THE EXTENSION AND MODERNIZATION OF TRANSPORTATION AND COMMUNICATIONS. SPECIFICALLY WITH THE WORLD BANK ECONOMIC DEVELOPMENT MEANS THE DAMMING OF RIVERS FOR FLOOD CONTROL, FOR IRRIGATION AND FOR ELECTRIC POWER IN TWENTY MEMBER COUNTRIES - POWER FOR TURNING WHEELS, PRODUCING GOODS, PUTTING PEOPLE TO WORK; IT MEANS THE WHOLESAL PLOWING OF FIELDS IN MANY LANDS SO THAT PEOPLE GET MORE FOOD AND OTHER PRODUCTS FROM THE SOIL; IT MEANS CONSTRUCTION OF PORT FACILITIES AND STORAGE BINS. IT MEANS THE CREATION OF NETWORKS OF HIGHWAYS AND RAILWAYS ON LAND, AND LINES FOR SEA AND AIR TRAFFIC. THESE ARE SOME OF THE MORE IMPORTANT ACTIVITIES. THEY ARE DESIGNED TO LEAD TO HIGHER STANDARDS OF LIVING AND BETTER LIVES FOR THE PEOPLE LIVING WITHIN THE BANK'S ORBIT OF LENDING.

LET ME TELL YOU ABOUT TWO OF OUR LOANS AND THEIR EFFECTS:

IN EL SALVADOR, THE SMALLEST AND MOST DENSELY POPULATED COUNTRY IN CENTRAL AMERICA, A NEW HYDROELECTRIC POWER PLANT



STARTED OPERATION IN JULY OF LAST YEAR; ITS OUTPUT DOUBLES THE SUPPLY OF ELECTRICITY IN THE COUNTRY. THE TOTAL COST OF THIS PLANT WAS EQUIVALENT TO ABOUT \$22 MILLION OF WHICH \$12.5 MILLION CAME FROM THE BANK TO COVER THE FOREIGN EXCHANGE COSTS. THE PRESIDENT OF EL SALVADOR CALLED THIS PROJECT "THE FIRST STEP TOWARD THE ECONOMIC LIBERATION OF THE COUNTRY." HIS COUNTRY UP TO NOW HAS DEPENDED ALMOST ENTIRELY ON THE EXPORT OF COFFEE FOR ITS EARNINGS IN INTERNATIONAL TRADE. THIS NEW POWER SUPPLY WILL HELP TO DIVERSIFY EL SALVADOR'S ECONOMY: THERE IS MORE ELECTRICITY FOR EXISTING INDUSTRIES AND FOR NEW ONES; IT WILL FEED NEWLY BUILT PUMPING STATIONS TO IRRIGATE NEW FARM LAND AND TO GROW NEW CROPS; AND FOR THE FIRST TIME IT WILL BRING DRINKING WATER AND ELECTRIC LIGHTS TO SCHOOLS, HOSPITALS AND HOMES IN SCORES OF CITIES, TOWNS AND VILLAGES.

TWO BANK LOANS TOTALING \$38 MILLION ARE HELPING FINANCE THE CONSTRUCTION OF THREE NEW POWER PLANTS IN THE RICHEST MINERAL AND MOST HIGHLY DEVELOPED INDUSTRIAL REGION IN INDIA - THE DAMODAR RIVER VALLEY NEAR CALCUTTA. THESE POWER PROJECTS WILL HAVE IMPORTANT AND VARIED RESULTS. GENERATING CAPACITY IN THE AREA WILL BE INCREASED BY 250,000 KILOWATTS - NEARLY ENOUGH POWER TO FILL THE DEMANDS OF THE



TWIN CITIES, MINNEAPOLIS-ST. PAUL. THIS WILL FEED NEW POWER TO MANY INDUSTRIES CONCENTRATED IN THE VALLEY - IRON AND STEEL, ALUMINUM, AND FERTILIZER - WHICH ARE ENGAGED IN THE PRODUCTION OF ITEMS RANGING FROM LOCOMOTIVES TO PLOWS AND OTHER FARM TOOLS, ALL CRUCIALLY IMPORTANT TO THE GROWTH OF INDIA'S ECONOMY.

TWO OF THE RETAINING DAMS HOUSING NEW POWER INSTALLATIONS WILL ALSO PROVIDE FLOOD CONTROL AND THE BASIS FOR AN IRRIGATION SYSTEM OF 1500 MILES OF CANALS AND DITCHES TO SERVE A MILLION ACRES OF FARM LAND. APART FROM THE SAVINGS FROM THE PREVENTION OF FLOOD DAMAGE, THE NEW IRRIGATION SHOULD MAKE POSSIBLE THE PRODUCTION OF AN ADDITIONAL 400,000 TONS OF FOOD GRAINS EACH YEAR.

I FEEL SURE I HAVE MADE THE WORLD BANK'S ACTIVITIES SOUND CONSTRUCTIVE AND WORTHWHILE BUT I WONDER IF I HAVE ALSO MADE THEM SOUND SIMPLE? IF I HAVE I MUST CORRECT MYSELF; THEY DECIDEDLY ARE NOT. THE MAKING OF GOOD SOUND LOANS, AS A BANKER WELL KNOWS, IS A METHODICAL, TIME-CONSUMING AND WORKADAY BUSINESS. THE ANNOUNCEMENT OF A LOAN BY THE BANK MARKS THE CLIMAX OF MONTHS OF WORK AT MANY LEVELS. IT ALSO MARKS THE BEGINNING OF MORE WORK. LET ME EXPLAIN.



BEFORE MAKING A LOAN, THE BANK EXAMINES THE CAPACITY OF THE PROSPECTIVE BORROWER TO UTILIZE FOREIGN RESOURCES AND HIS ABILITY TO REPAY FOREIGN DEBT; THE RELATION OF THE PROJECT TO THE OVERALL DEVELOPMENT OF THE COUNTRY; AND THE BLUEPRINT OF THE PROJECT ITSELF. THE EXAMINATION OF THESE ELEMENTS REQUIRES A STAFF OF SKILLED ECONOMISTS, INDUSTRIAL ANALYSTS, FINANCIAL EXPERTS, AND ENGINEERS. A RELATIONSHIP IS ESTABLISHED DURING THESE PERIODS OF STUDY AND NEGOTIATION BETWEEN THE BANK AND ITS BORROWER THAT WILL CONTINUE UNTIL THE PROJECT IS COMPLETELY BUILT AND IN OPERATION. THERE IS SCARCELY A DAY THAT SOME STAFF MEMBER IS NOT IN CONTACT WITH MEMBER REPRESENTATIVES.

BUT MONEY ALONE CANNOT BRING ECONOMIC DEVELOPMENT. THE BANK FOUND EARLY IN ITS OPERATIONS THAT THERE WAS ALWAYS THE NEED FOR CARE IN PLANNING DEVELOPMENT AND FOR TECHNICAL ASSISTANCE. ALTHOUGH NOT SPECIFICALLY OUTLINED IN ITS CHARTER, THIS TECHNICAL ASSISTANCE HAS BECOME AN IMPORTANT PART OF THE BANK'S WORK. THE BANK HAS GIVEN TECHNICAL AID AND ADVICE, WHEN REQUESTED BY MEMBERS, ON PROBLEMS RANGING FROM SPECIFIC PROJECTS TO THE PLANNING OF DEVELOPMENT PROGRAMS ENCOMPASSING THE ENTIRE ECONOMY OF A COUNTRY. IT HAS SENT GROUPS OF



TECHNICAL EXPERTS TO MORE THAN 35 OF ITS MEMBERS TO ADVISE ON ENGINEERING, FINANCIAL, OR MANAGEMENT PROBLEMS RELATING TO PROSPECTIVE LOANS OR TO PROJECTS BEING CARRIED OUT WITH BANK FUNDS.

PART OF THE TECHNICAL ASSISTANCE GIVEN BY THE BANK RELATES TO DEVELOPMENT PROGRAMMING RATHER THAN TO SPECIFIC LOAN PROJECTS. THE PRINCIPAL WAY THE BANK WORKS IN THIS FIELD IS THROUGH THE GENERAL SURVEY MISSION. THESE MISSIONS, ORGANIZED BY THE BANK AT THE REQUEST OF A MEMBER COUNTRY, SURVEY AND ANALYZE THE DEVELOPMENT RESOURCES OF A COUNTRY AND MAKE RECOMMENDATIONS WHICH CAN BE USED BY THE GOVERNMENT CONCERNED TO FORMULATE A LONG-TERM DEVELOPMENT PROGRAM. THESE MISSIONS ESTIMATE THE AMOUNT OF INVESTMENT A COUNTRY CAN UNDERTAKE WITH THE RESOURCES AT HAND, RECOMMEND PRIORITIES FOR PUBLIC INVESTMENT AMONG THE BASIC SECTORS OF THE ECONOMY, AND SUGGEST ECONOMIC AND FINANCIAL POLICIES AND ADMINISTRATIVE MEASURES NECESSARY TO ASSURE SUCCESS OF THE DEVELOPMENT PROGRAM. THE BANK HAS ORGANIZED FOURTEEN SUCH MISSIONS.

ANOTHER OFF-SHOOT OF THE BANK'S OPERATIONS, ONE DESIGNED TO HELP SOLVE A PROBLEM WHICH CROPS UP CONSTANTLY, IS THE CREATION OF AN ECONOMIC DEVELOPMENT INSTITUTE. IT IS A SORT OF STAFF COLLEGE FOR SELECTED SENIOR OFFICIALS OF GOVERNMENTS WHEREIN THEY MAY LEARN HOW



TO INCREASE THE SKILL AND EFFICIENCY WITH WHICH AVAILABLE RESOURCES ARE APPLIED TO ECONOMIC DEVELOPMENT. THE FIRST COURSE OF STUDY WAS OFFERED TO SIXTEEN ACCEPTED CANDIDATES IN JANUARY.

ON THE MORE RIGOROUS SIDE, THE BANK, IN MAKING LOANS TO MEMBER COUNTRIES, MUST ADHERE STRICTLY TO THE ESTABLISHED TENETS OF SOUND FINANCE. THIS OFTEN REQUIRES, AS A CONDITION TO SUCH LOANS, THE STIPULATION THAT THE BORROWER KEEP HIS OWN ECONOMIC HOUSE IN ORDER AND RUN IT IN KEEPING WITH ACCEPTED FINANCIAL AND ADMINISTRATIVE NORMS. SOME MEMBERS MAY FROM TIME TO TIME LOOK UPON THIS AS UNWARRANTED INTERFERENCE IN THEIR INTERNAL AFFAIRS. BUT THE MANAGEMENT OF THE BANK, WITH THE STRONG APPROVAL OF THOSE PRIVATE INVESTMENT MARKETS IN WHICH ITS OWN BONDS ARE SOLD, HAS STUCK FIRMLY TO ITS MORAL POSITION. A HOPEFUL ASPECT IN THESE INTIMATE BANKER-CLIENT RELATIONSHIPS IS THAT THE WORLD BANK IS A MUTUAL ORGANIZATION OF WHICH ALL OF ITS BORROWERS ARE ALSO MEMBERS. ITS EXPERT STAFF IS INTERNATIONAL - OVER 30 COUNTRIES HAVE PEOPLE ON THE STAFF. ITS ECONOMIC TENETS ARE OF WORLD WIDE ORIGIN AND MUST BE OF SUCH UNIVERSAL QUALITY AS TO BE ACCEPTABLE GENERALLY THROUGHOUT THE MEMBERSHIP. THUS, THE ECONOMIC DISCIPLINES



WHICH THE BANK SEEKS TO GET ITS INDIVIDUAL MEMBERS TO FOLLOW ARE IN A PRACTICAL SENSE SELF-IMPOSED; THEY HAVE THE APPROVAL OF ALL THE CLUB MEMBERS - SO TO SPEAK. WHILE THIS MEANS THAT THE BANK'S POLICIES MUST BE EVERLASTINGLY SOUND - IT ALSO GUARANTEES THE SUPPORT OF A STRONG AND WIDESPREAD INTERNATIONAL PUBLIC OPINION. MEMBERS TEND MORE AND MORE TO FALL IN LINE WITH WHAT IN REALITY ARE THEIR OWN ECONOMIC PRINCIPLES.

I MENTIONED ABOVE THE 18% PERCENT OF SUBSCRIPTIONS WHICH IS AVAILABLE ONLY IN EACH MEMBER'S OWN NATIONAL CURRENCY AND WHICH IS USABLE FOR LENDING ONLY WITH EACH MEMBER'S EXPRESS PERMISSION. AS I TOLD YOU THE UNITED STATES RELEASED ITS ENTIRE 18%, ABOUT \$600,000,000 IMMEDIATELY THE BANK STARTED OPERATIONS. THE OTHER MEMBERS HAVE IN THE NINE YEARS OF OPERATIONS RELEASED ONLY THE EQUIVALENT OF \$200,000,000 WHICH THE BANK HAS BEEN ABLE TO USE, OUT OF A TOTAL EQUIVALENT TO ROUGHLY \$1,000,000,000. THE REASON FOR THIS IS THAT THE UNITED STATES HAS BEEN ECONOMICALLY AND FINANCIALLY STRONG ENOUGH TO DO THIS AND THE OTHER COUNTRIES HAVE NOT, ALTHOUGH RECENTLY MUCH PROGRESS HAS BEEN MADE IN THE RIGHT DIRECTION. IF A COUNTRY RELEASES ITS CURRENCY FOR LENDING BY THE BANK IT IS,



TO THAT EXTENT, FINANCING ITS OWN EXPORTS WHICH IS SPOKEN OF BY ECONOMISTS AS "UNREQUITED EXPORTS." SINCE THE WAR MOST NATIONS HAVE NEEDED THE MONEY EARNED BY THEIR EXPORTS TO BUY REQUIRED IMPORTS. BUT AS ECONOMIC RECOVERY CONTINUES SUCH COUNTRIES CAN MORE AND MORE AFFORD TO EXPORT CAPITAL AND AS THEY ARE ABLE TO DO SO, THEY CAN RELEASE CORRESPONDING PORTIONS OF THEIR 18% SUBSCRIPTIONS FOR BANK LENDING. AS THIS PROCESS CONTINUES THE BANK TAKES ON A MORE AND MORE DISTINCTIVE INTERNATIONAL FLAVOR AS WAS ORIGINALLY CONCEIVED.

IN THIS CONNECTION YOU MAY BE WONDERING HOW THE BANK HANDLES ALL THESE DIFFERENT NATIONAL CURRENCIES. IT IS COMPLICATED, AT LEAST TO EXPLAIN, BUT IT DOES LEAD TO A COMMENDABLE FLEXIBILITY IN LENDING OPERATIONS. A BORROWER MUST EVENTUALLY ADVISE THE BANK OF THE SPECIFIC CURRENCIES HE REQUIRES IN ORDER TO BUY THE GOODS HE NEEDS, IN THE EXPORTING COUNTRY OF HIS SELECTION. IF, FOR LACK OF DETAILED TECHNICAL SPECIFICATIONS OR BECAUSE HE INTENDS TO CALL FOR INTERNATIONAL BIDS, HE DOESN'T KNOW THIS EXACTLY AT THE MOMENT HE SIGNS THE LOAN CONTRACT A GLOBAL AMOUNT IS SET UP IN DOLLARS.



BUT WHEN THE BORROWER DECIDES WHICH CURRENCIES HE REQUIRES HE ADVISES THE BANK. IF IT OWNS THAT PARTICULAR CURRENCY AS THE PROCEEDS OF ONE OF ITS OWN BOND ISSUES OR CAN GET IT THROUGH AN 18% RELEASE, THE BANK WILL LEND SUCH CURRENCY AND WILL BE REPAID IN IT; IF NOT, THE BANK BUYS THE NEEDED CURRENCY AND THE BORROWER MUST THEN REPAY IN THE CURRENCY USED FOR THE PURCHASE. AS I SAY, THE SYSTEM MAY SOUND COMPLICATED BUT IT IS ADVANTAGEOUS TO THE BORROWER AS IT ALLOWS HIM TO BUY IN ANY COUNTRY WHERE THE GOODS ARE BEST AND CHEAPEST - WHICH THE BANK IS STRICTLY ENJOINED IN ITS ARTICLES OF AGREEMENT TO ENABLE ITS MEMBERS TO DO.

THOSE OF YOU WHO REMEMBER THE FLOOD OF FOREIGN BONDS SOLD IN THE LENDING COUNTRIES, ESPECIALLY THE UNITED STATES, DURING THE TWENTIES WILL ALSO PROBABLY REMEMBER THE SUBSEQUENT DEFAULTS DURING THE THIRTIES. INTERNATIONAL LENDING IS NOT NEW BUT THE SAD TRUTH IS - IT HASN'T ALWAYS WORKED OUT WELL IN THE PAST; IT HAS LACKED SOME INGREDIENTS NECESSARY TO MAKE IT SUCCESSFUL. THERE IS A FEATURE OF THE WORLD BANK'S METHOD OF LENDING WHICH SEEMS TO PROVIDE AT LEAST ONE MISSING ELEMENT. THE BANK CALLS IT "END-USE SUPERVISION."



WHEN A LOAN HAS GONE THROUGH THE FINE-TOOTH-COMB APPRAISAL OF THE EXPERT STAFF AND HAS BEEN APPROVED BY THE SIXTEEN-MAN BOARD OF DIRECTORS, A LOAN CONTRACT AND SOMETIMES A GUARANTY AGREEMENT ARE SIGNED. IN THESE DOCUMENTS ANY CONDITIONS PRECEDENT OR SPECIAL THINGS TO BE DONE BY THE BORROWER OR THE GUARANTOR ARE SPELLED OUT AND ONLY WHEN SUCH THINGS ARE DONE DOES THE LOAN BECOME EFFECTIVE. YOU MIGHT THINK THAT THE BORROWER WOULD AT THIS POINT GET HIS MONEY AS HE HAS IN THE PAST FROM TIME IMMEMORIAL IN INTERNATIONAL LOANS. BUT, IN FACT, HE DOESN'T. THE MONEY IS MERELY CREDITED TO HIS ACCOUNT IN THE BANK'S BOOKS. AS THE LOAN PROJECT IS BUILT, THE BORROWER SHOWS BY INVOICE, OR CERTIFICATION OR OTHER CONCLUSIVE EVIDENCE, THAT THE GOODS SPECIFIED ARE BEING PURCHASED. THE BANK THUS DISBURSES THE LOAN GRADUALLY. USUALLY IT TAKES 2, 3, 4 EVEN 5 YEARS TO DISBURSE A LOAN COMPLETELY.

BUT THE BANK DOES NOT STOP THERE. IT FOLLOWS THE CONSTRUCTION OF THE PROJECT EVERY STEP OF THE WAY TO FINAL REALIZATION OF THE END PURPOSES AND OBJECTIVES ESTABLISHED IN THE LOAN DOCUMENTATION. OF COURSE, IF ANYTHING GOES WRONG AT ANY OF THE STAGES OF PROGRESS OF THE LOAN PROJECT, BANKER AND CLIENT



COLLABORATE AT ONCE ON THE PROBLEM AND ON APPROPRIATE CORRECTIVE MEASURES. EVEN WHEN THE IMMEDIATE PURPOSE OF THE LOAN HAS BEEN ACHIEVED IN THE FIRST INSTANCE, THE BANK STILL STANDS BY TO WATCH EVENTS CLOSELY TO SEE HOW MATTERS PROGRESS OVER THE LONGER FULL AND TO OFFER ASSISTANCE IF NEEDED. THE PERIODIC VISITS OF BANK ENGINEERS AND TECHNICIANS CONTINUES THROUGHOUT THE CONSTRUCTION PERIOD. BANK ECONOMISTS TOO FOLLOW GENERAL ECONOMIC DEVELOPMENTS IN EACH MEMBER COUNTRY AS LONG AS LOANS ARE OUTSTANDING.

ALL OF THIS IS DONE UNDER THE NAME OF 'END-USE SUPERVISION' WHICH I MENTIONED EARLIER. IT'S REALLY A NEW DEPARTURE IN INTERNATIONAL LENDING AND IT WOULD BE LESS THAN FRANK TO STATE THAT IT ALWAYS WORKS OR THAT IT WORKS PERFECTLY. SOME GOVERNMENTS MAY FEEL THAT THEIR SOVEREIGNTY IS BEING INVADED; OTHERS MAY FEEL THAT THEY ARE AS COMPETENT AS ANYONE TO MANAGE THEIR AFFAIRS OR ADMINISTER A LOAN PROJECT. IT IS A FACT, HOWEVER, THAT SUPERVISION IS REALLY BENEFICIAL IN MANY OF THE BANK'S MEMBER COUNTRIES, ESPECIALLY THE UNDER-DEVELOPED COUNTRIES WHICH ARE NOT SO FAR ADVANCED IN ADMINISTRATIVE COMPETENCE AND TECHNICAL SKILLS. SO WHILE SOME RATHER DELICATE SITUATIONS HAVE ARISEN, AS A WHOLE BANK MEMBERS HAVE COME TO



RECOGNIZE THE PRACTICAL VALUE OF END-USE SUPERVISION IN SOME OF THE LESS DEVELOPED MEMBER COUNTRIES AND TO AGREE THAT CLUB RULES MUST BE ACCEPTED BY ALL MEMBERS, GREAT AND SMALL. SO FAR THE BANK'S SYSTEM OF LOAN SUPERVISION HAS PREVENTED OCCURRENCE OF ANY MAJOR PROJECT FAILURE. I THINK IT WOULD BE OF GOOD AUGURY FOR THE REVIVAL OF PRIVATE INTERNATIONAL LENDING ALL OVER THE WORLD IF THE SAME SYSTEM SHOULD BECOME GENERALLY ESTABLISHED AND ACCEPTED AS A LENDER'S DUTY AND PREROGATIVE IN INTERNATIONAL FINANCE JUST AS IT HAS BEEN PRACTICED FOR CENTURIES IN COMMERCIAL BANKING AND IN INTERNAL LENDING.

IT IS A FAIR QUESTION TO ASK IF THE WORLD BANK IS FULFILLING THE HOPES OF THE FOUNDING NATIONS WHEN THEY DREW UP THE ARTICLES OF AGREEMENT AT THE UNITED NATION'S MONETARY AND FINANCIAL CONFERENCE AT BRETTON WOODS, NEW HAMPSHIRE, IN JULY 1944. IN GENERAL THE ANSWER IS IN THE AFFIRMATIVE BUT, OF COURSE, AS I HAVE MENTIONED, PROBLEMS HAVE EXISTED AND WILL CONTINUE, NO DOUBT. I WOULD LIKE TO CALL ATTENTION TO ONE SUCH SPECIAL PROBLEM. IT IS: HOW TO PERSUADE BORROWERS TO KEEP THEIR TOTAL OBLIGATIONS FROM ALL OF THE MANY FOREIGN



SOURCES AVAILABLE TO THEM, WITHIN THEIR ABILITY TO REPAY. A PARTICULAR ASPECT OF THIS PROBLEM WHICH HAS CAUSED CONCERN TO EUGENE R. BLACK, THE BANK'S PRESIDENT, IS THAT OF SO-CALLED "SUPPLIERS' CREDITS." GOVERNMENTS OF NATIONS SEEKING TO ENCOURAGE GREATER EXPORTS OFTEN GUARANTEE THE CREDITS EXTENDED BY THEIR OWN EXPORTING INDUSTRIES TO IMPORTERS IN OTHER LANDS. AS THIS IS A HIGHLY COMPETITIVE FIELD THE TOTAL OF SUPPLIERS' CREDITS FOR A GIVEN COUNTRY CAN EASILY RISE TO BURDENSOME HEIGHTS. IF THE FOREIGN EXCHANGE AVAILABLE TO SUCH A COUNTRY AT ANY GIVEN TIME IS INSUFFICIENT FOR BOTH REGULAR FUNDED DEBT AND SUPPLIERS' CREDITS - WHICH ARE USUALLY OF SHORT TERM - A DEFAULT MAY WELL BE THREATENED. THE PROBLEM IS IN PART ONE OF REPORTING AND MR. BLACK HAS PERSUADED THE BANK'S MEMBER GOVERNMENTS TO ADVISE HIM PERIODICALLY OF THE GROWTH OF SUPPLIERS' CREDITS WITHIN THEIR BOUNDARIES IN ORDER THAT EXCESSIVE INDEBTEDNESS IN ANY ONE NATION MAY BE AVOIDED OR AT LEAST TAGGED.

I HAVE TRIED TO GIVE YOU A GENERAL DESCRIPTION OF THE WORLD BANK, ITS OBJECTIVES AND MECHANISMS AND A BRIEF ACCOUNT OF ITS NINE YEARS OF OPERATIONS. THERE ARE JUST A FEW REMAINING POINTS



TO COMPLETE THE PICTURE. THE BANK IS ONE OF THE AFFILIATED AGENCIES OF THE UNITED NATIONS; AMONG OTHER SUCH AGENCIES ARE, AS YOU KNOW, THE WORLD HEALTH ORGANIZATION, THE FOOD AND AGRICULTURE ORGANIZATION, AND THE INTERNATIONAL LABOR OFFICE. THE BANK, AS IS CONSTITUTIONAL WITH BANKERS GENERALLY, MUST HAVE THE UNQUESTIONED POWER OF INDEPENDENT JUDGEMENT; IN OTHER WORDS, MUST IN ITS SOLE DISCRETION BE ABLE TO SAY WHETHER A LOAN IS OR IS NOT TO BE MADE. IT THEREFORE HAS A WRITTEN AGREEMENT WITH THE UNITED NATIONS PRESERVING ITS INDEPENDENCE.

YOU MAY HAVE WONDERED HOW THE WORLD BANK FITS IN WITH THE EXPORT-IMPORT BANK WHICH IS AN ORGAN OF THE UNITED STATES GOVERNMENT. IT IS TRUE THAT THE TWO FIELDS OF ACTIVITY MAY IN SOME INSTANCES OVERLAP, BUT IN GENERAL, AS A MATTER OF EMPHASIS, THE EXPORT-IMPORT BANK, AS THE NAME IMPLIES, BASICALLY IS CONCERNED WITH AMERICAN FOREIGN TRADE WHEREAS THE WORLD BANK IS ORIENTED TOWARD LONGER RANGE ECONOMIC DEVELOPMENT. ANOTHER DIFFERENCE IS THAT EXPORT-IMPORT BANK LOANS CAN BE SPENT ONLY IN THE UNITED STATES, WHEREAS THE WORLD BANK MAKES NO SUCH RESTRICTION, IN ACTUAL FACT DISBURSEMENTS IN THE UNITED STATES IN 1955 TOTALLED \$135,000,000.



THE FINAL POINT TO WHICH I WOULD CALL YOUR ATTENTION IS THE FORTHCOMING CREATION OF THE INTERNATIONAL FINANCE CORPORATION, AS AN AFFILIATE OF THE WORLD BANK. THE WORLD BANK ITSELF WAS NEVER MEANT TO REPLACE PRIVATE INVESTMENT OR PRODUCTIVE PRIVATE ENTERPRISE; IT WAS DESTINED, ON THE CONTRARY, TO SUPPLEMENT THESE POWERFUL FORCES WHERE NECESSARY AND TO ENCOURAGE THE FLOW OF PRIVATE CAPITAL EVERYWHERE IN THE INTERNATIONAL FIELD. EXPERIENCE HAS SHOWN AND THERE IS COMMON AGREEMENT, I THINK, EXCEPT IN THOSE FEW COUNTRIES WHICH HAVE PROHIBITED PRIVATE OWNERSHIP OF PRODUCTIVE FACILITIES AS A MATTER OF NATIONAL POLICY - THAT THERE ARE BROAD SECTORS IN ANY ECONOMY IN WHICH PRIVATE ENTERPRISE IS THE MOST EFFECTIVE AGENT IN FURTHERING ECONOMIC DEVELOPMENT.

THE WORLD BANK IS REQUIRED BY ITS ARTICLES TO HAVE A GOVERNMENT GUARANTEE ON ALL ITS LOANS AND IT CANNOT ITSELF PROVIDE VENTURE CAPITAL. IT IS THUS LIMITED IN ITS ABILITY TO AID PRIVATE INDUSTRY AND OTHER PRIVATE ENDEAVORS. TO FILL THIS GAP IN THE GREAT ARRAY OF RESOURCES WHICH CAN BE HARNESSSED FOR ECONOMIC DEVELOPMENT, MOST OF THE MEMBERS OF THE WORLD BANK HAVE JOINED TOGETHER TO SET UP THE INTERNATIONAL FINANCE CORPORATION WITH AN AUTHORIZED CAPITAL OF



\$100,000,000. EACH MEMBER'S SHARE WILL BE IN ABOUT THE SAME PROPORTION AS IN THE BANK'S CAPITAL, AND VOTING AND THE FIXING OF BROAD POLICY WILL BE CARRIED ON BY APPROXIMATELY THE SAME DIRECTORATES. WHILE OVERHEAD WILL BE KEPT DOWN BY SHARING MANY OF THE BANK'S ADMINISTRATIVE SOURCES, THE OPERATING MANAGEMENT OF THE IFC AND ITS CAPITAL FUNDS WILL BE KEPT SEPARATE FROM THE WORLD BANK.

THE BASIC PURPOSE OF THE IFC WILL BE TO PARTICIPATE WITH AND TO ENCOURAGE THE FLOW OF PRIVATE CAPITAL INTO PRODUCTIVE INVESTMENT IN UNDERDEVELOPED AREAS WITHIN THE MEMBERSHIP ORBIT. ITS FIELD OF OPERATIONS WILL BE RESTRICTED TO PREDOMINANTLY PRIVATE ENTERPRISES; IT CAN ONLY USE ITS RESOURCES IN ASSOCIATION WITH PRIVATE INVESTORS; IT CANNOT UNDERTAKE FINANCING WHICH COULD BE OBTAINED FROM PRIVATE CAPITAL SOURCES ON REASONABLE TERMS; IT IS NOT TO ASSUME RESPONSIBILITY FOR MANAGEMENT OF ANY ENTERPRISE IN WHICH IT HAS INVESTED AND FINALLY IT IS PROHIBITED FROM OWNING CAPITAL STOCKS. THE IFC WILL COME INTO BEING FORMALLY WHEN 20 MEMBERS WHOSE SUBSCRIPTIONS AGGREGATE AT LEAST \$75,000,000 HAVE JOINED. AS INTENTIONS, IN EXCESS OF THESE REQUIREMENTS HAVE ALREADY BEEN EXPRESSED, THE IFC'S FORMATION IS IMMINENT.



I THINK IT CAN FAIRLY BE SAID THAT THE WORLD BANK'S PROGRESS HAS BEEN RAPID SINCE ITS BEGINNING IN 1946 - BUT AS MR. BLACK SAID AT THE ANNUAL MEETING OF THE BANK AT ISTANBUL LAST AUTUMN: PROGRESS IS NEVER FAST ENOUGH. THE PEOPLES OF THE UNDERDEVELOPED COUNTRIES WILL CONTINUE TO PRESS MORE AND MORE STRONGLY FOR BETTER WAYS OF LIFE. ON THE GOVERNMENTS OF THESE COUNTRIES THE TIMES EXERT STEADY PRESSURES FOR ECONOMIC DEVELOPMENT. THE RAISING OF LIVING STANDARDS HAS BECOME A TASK OF FIRST IMPORTANCE TO WHICH PEOPLES AND THEIR GOVERNMENTS AND PRIVATE ENTERPRISE - ALL ARE APPLYING THEIR ENERGIES AT AN ACCELERATING PACE. THE WORLD BANK ITSELF RESULTS FROM THE JOINT ENERGIES OF THESE PEOPLES, THESE GOVERNMENTS AND THESE PRIVATE INVESTORS AND IT IS THUS DEDICATED TO THESE OBJECTIVES.