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HOAR, A. S. G. - ARTICLES and Speeches (1947-1955)



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*Sh. S. Hoar  
Yonkers Rotary Club  
December 4, 1947.*

THE LOAN PORTFOLIO OF THE INTERNATIONAL BANK

I have chosen as my subject tonight, "The Loan Portfolio of the International Bank", a title which may serve to underline the fact that, in common with other banks, the International Bank for Reconstruction and Development borrows money from one set of persons and lends to another. Just like other banks, it must conduct its operations so as to attract and retain the confidence of the people from whom it derives funds, and this means that, whatever other factors it takes into account, it must apply strict standards of credit-worthiness to its borrowers. It is worthwhile to begin with this important proposition, because many people have concentrated so exclusively on the unusual features of the Bank that they have been apt to forget that it is by no means exempt from these general banking obligations.

Having thus pointed out that our loan portfolio has this basic feature in common with that of other banks, I will try to give a brief outline of the origin and constitution of the Bank which will enable you to appreciate the unusual features of the portfolio.

ORIGIN AND PURPOSE OF THE BANK

The Bank was established as a result of the Bretton Woods Conference of 1944. It was realized that after the war there would be a great demand for capital, both to reconstruct the means of production damaged and destroyed by the war, and also to continue the development of the relatively underdeveloped parts of the world. One may assume that, in a less disillusioned and demoralized world, private capital would have been readily available through the ordinary investment channels to meet this demand, but it was clear by 1944 that, after such an upheaval as the Second World War, following, moreover, the unhappy experiences of foreign investors in the 1930's, private investors would have no stomach for such tasks.

It was therefore decided that a special institution was necessary to perform the functions of

- (a) Mobilizing private investors' resources and using them for the reconstruction of industry and agriculture, in countries devastated by the war, and for speeding up the development of other countries.
- (b) Giving private investors very substantial assurance as to the safety of their capital.
- (c) Gradually restoring the confidence which would enable the activities of the Bank eventually to be supplemented by those of private foreign investment;

and thus the International Bank came to be established.

CAPITAL STRUCTURE OF THE BANK

The shareholders of the Bank are 45 nations who have subscribed the total capital of just over 8 billion dollars in proportions based on their

wealth and population. There are three important points I want to make on the subject of these capital subscriptions:

- (a) The purpose of these subscriptions is to provide a modest amount of cash in hand, and, most important, to furnish guarantees to protect the bondholders.
- (b) To provide the cash in hand, members have paid up 20% of their subscriptions. 2% was payable in gold or U.S. dollars. The remaining 18% was payable in the currencies of the respective member countries, and those currencies can only be used to make loans if the member concerned gives specific consent. As everyone knows, dollars occupy a special position in the world today, for only the U.S. is in a position to supply goods on credit on a large scale to the rest of the world. Other countries must at present demand immediate return in imports, and therefore, the U.S. has been the only member so far that has been able to afford to give the required consent for the Bank to use its 18% subscription without restriction for making actual loans. Belgium has given such consent in respect of the equivalent of \$2 millions in Belgian currency. Thus, while the 20% paid up was equivalent to roughly \$1,600 millions, only about \$727 millions of this was available in dollars and gold at the start of our lending operations.
- (c) The remaining 80% of the capital subscriptions is not paid up, and constitutes a guarantee fund available, not for lending, but to meet the Bank's obligations as and if required. If it should ever be necessary to make a call on this 80%, members will be required to make payment, at their option, in gold, in United States dollars, or in the currencies required to discharge the obligations which have occasioned the call.

#### THE BANK'S BOND ISSUE

Quite clearly, then, the Bank cannot make extensive loans without further resources. These it plans to obtain from the investing public by the offer of bond issues. Again because of the special position of the U.S. as a lender in the world today, these issues must for the time being be made in the American market. As time goes on it is hoped that we shall be able to draw also on the capital markets of other countries.

The Bank made its first appeal to the American investing public last July, and this appeal was most satisfactorily received. The offering consisted of \$100 millions in Ten-Year 2½% Bonds and \$150 millions in Twenty-Five Year 3% Bonds, and the effect of its successful marketing was to add \$250 millions to the resources available for lending.

The total which has been available (if we neglect working expenses) for loans to date is \$979 millions, i.e., \$727 millions from subscriptions paid in gold and dollars, \$2 millions in Belgian currency, and \$250 millions from the public. Of this amount, \$497 millions is covered by loan agreements already

entered into with France, the Netherlands, Denmark and Luxembourg. The remainder of roughly \$480 millions is the maximum amount the Bank can now lend without further borrowings in the market. For the time being, at least, borrowing operations on a large scale can be carried on only in the United States market and the extent to which they can be undertaken depends on the future course of world conditions, as well as on the absorptive capacity of the United States market.

#### IMPORTANCE OF A SOUND LOAN PORTFOLIO

It is therefore clearly of the highest importance for the success of the Bank's future lending programme that it shall be able to attract investments because its loans are sound in themselves and made to countries which inspire confidence in their handling of their economic and financial affairs. In other words, the contents of the Bank's portfolio are of great importance.

#### COOPERATIVE NATURE OF THE BANK

The Bank is a cooperative institution of 45 member countries. Its cooperative nature implies, in the first place, that, as long as it can pay its way, it has no motive to seek to maximise its profits. Thus it is not under the temptation, which has sometimes in the past led to unsound foreign investment, of paying more attention to the rate of return the borrower is prepared to offer on the invested capital than to a searching investigation of his credit-worthiness.

#### ELIGIBILITY FOR LOANS

In the second place, the cooperative principle means that it makes loans in aid of projects in member countries only. The borrower need not be the governments of these countries: their political sub-divisions, or any business, industrial or agricultural enterprises in their territories are eligible to receive loans provided that -- and this is an important proviso -- when the member is not itself the borrower, the loan must be guaranteed by the member, or by the central bank of the member, or some comparable agency acceptable to the Bank. Thus without assurance of an official guarantee of this kind, there is no point in a business firm making an approach to the Bank. Since, in the present day world, allocations of foreign exchange are in most countries under government control, it will normally be the case that either borrower or guarantor will be the member government itself.

#### THE PRINCIPLES CONTROLLING THE BANK'S LOANS

The rules I have stated about capitalization and eligibility for loans are laid down in the Articles of Agreement drafted at Bretton Woods, to which any country must subscribe before becoming a member. These Articles also lay down the principles which must control the Bank's lending. These principles may be summarised as follows:

First, the Bank is to assist in the reconstruction of economies destroyed or disrupted by war and the development of the less developed countries.

Second, it is to promote private investment whenever possible and supplement it when necessary.

Third, it must seek to promote international trade and the raising of levels of productivity, standards of living and conditions of labor throughout the world.

It is also laid down that the Bank must deal with the most useful and urgent projects first and that it must be satisfied that the borrower would be unable to obtain the loan elsewhere on reasonable terms and that he will be in a position to meet his obligations under the loan.

#### THE PRESENTATION OF A LOAN APPLICATION

With these general principles in mind, let us consider how they are applied to any particular loan application. The Bank cannot decide whether or not to grant a loan unless it has before it not only full details of the reconstruction or development plans of the applicant, but also sufficient data as to the economic and financial condition of the member country concerned. However sound a particular project is in itself, its benefits may be lost if they are accompanied by unsound general administration. Before a formal application is presented, therefore, there are usually informal exchanges in the course of which the Bank explains what information it requires and the nature of the standards it applies. Such exchanges serve to avoid the presentation of applications in a form or for purposes unsuitable to the Bank.

#### FACT-FINDING MISSION

Before the Bank has sufficient information to enable it to judge the merits of an application, it is normally necessary for it to send a fact-finding mission to the country concerned. Such missions usually include technical experts to advise on engineering and similar projects as well as financial and economic experts.

#### THE TESTS A LOAN APPLICATION MUST SATISFY

When we have their report, we should be in a position to make up our minds on the answers to the basis tests to which we must submit each application. We must ask ourselves:

- (a) Is the plan one of genuine reconstruction or development within the terms of our Articles of Agreement? This test obliges us to exclude any purposes of the nature of relief. It was for this reason that Mr. McGloy recently declared that the Bank could not grant "stop-gap" aid pending the implementation of the Marshall Plan.
- (b) Is the plan sound, both technically and economically? It is not sufficient to know, for example, that plans for a new steel plant are expertly drawn up and that coal and ore are available. We must also enquire what are the prospects

for the sale of the new output at home and abroad. If several applicants are all planning to develop steel production, for instance, a complicated and far-reaching problem arises. The Bank has a staff of experts on world commodity markets constantly engaged in studying such problems.

- (c) In a world of desperate needs, is the plan of top priority in the interests, not only of the country concerned, but other members? The Articles of Agreement require the Bank to bear in mind the interests of its members as a whole, and not only those of particular loan applicants. It is also required to deal with the most urgent projects first. This implies a need constantly to view the world picture as a whole and to try to ensure that loans are applied at the most strategic points.
- (d) Are we sure that the applicants are not simply asking us to do for them things that, with extra effort and self-discipline, they could do for themselves? Do they really need the loan to pay for imports essential to the plan which they could not pay for otherwise? How far could they provide the proposed imports from home production, or at least pay for them out of their own foreign exchange resources? Could a loan be obtained on reasonable terms from some other source?
- (e) Even if the plan is sound, and the applicants really need help, is there any danger that the benefits of the plan may be lost through poor financial administration? Where such a danger exists, we draw the attention of the applicants to it, and indicate the nature of the reforms we consider necessary before a loan would be justified.
- (f) In the light of our views on the foregoing points, are we satisfied with the prospects for the repayment of the loan?

#### THE BANK'S POLICY TO COVER NEEDS OF SHORT PERIOD

Even when we are satisfied on all these counts, we prefer not to commit ourselves at once for the whole sum needed to complete a program covering several years. It is the Bank's policy to grant loans in such cases to cover the needs of a relatively short period only and to invite a further application at the end of that period, which will be considered in the light of the progress made with the assistance of the first loan and of the position as it then appears.

#### NEW CONCEPTS OF INTERNATIONAL LENDING

A fundamental principle of our lending is that active collaboration between borrower and lender should not cease when a loan is granted. We are concerned, not only that the loan should be applied to the purposes for which it was granted, but to see whether it is producing the anticipated benefits, and whether the general policy of the borrower is consistent with the production of these benefits and with the payment of service charges on the loan. Provisions

are therefore made in loan contracts to ensure that:

- (a) Not only are withdrawals of loan monies carefully checked but the end use of the goods purchased with those monies is confirmed to be in accordance with the purposes for which the loan was sanctioned;
- (b) The borrowing member agrees to supply the Bank with full information to enable the Bank really to understand developments in the country concerned.
- (c) The borrowing member undertakes to inform the Bank confidentially of certain proposed lines of action (e.g. contraction of new external loans) in time for the Bank to be able to exchange views with the government upon them.
- (d) Both the borrowing member and the Bank agree to the mutual exchange of views on subjects of common interest, including the general economic and financial policies of the borrowing country.

The principles outlined above have not normally characterized international lending. They indicate new conceptions which the International Bank is bringing to bear in this regard, arising from the Bank's unique status as a cooperative organization of governments.

#### RATES CHARGED

The Bank is not primarily concerned with the making of profits. It therefore lends money at a rate sufficient to meet the cost of borrowing, while still leaving an adequate margin to cover operating expenses and the building up of appropriate reserves. This rate has so far been determined to be 3-1/4% per annum. The Articles of Agreement require that the Bank shall also charge, at least during the first ten years of its operations, a commission of not less than 1% and not more than 1-1/2% on all loans made out of borrowed funds. This commission is set aside in a special reserve available only to meet the obligations of the Bank in the event of a default on any of its loans. Current policy is to charge a commission of 1% on all outstanding loans.

#### FIRST LOAN APPLICATIONS LARGELY FOR EUROPEAN RECONSTRUCTION

The first applications for loans were mostly from European countries, and since the Bank is bound to deal with the most useful and urgent projects first, it is natural that particular attention has so far been given to problems of European recovery. Before the war, more than half the world's trade was done by European countries. These countries still have the potential productive capacity and the skills; to put them to work by furnishing the necessary machinery, materials and fuel presents a great opportunity to raise the level of world production with a minimum of outlay.

Disappointment with the progress already made in the solution of these European recovery problems is natural, but it must be remembered that the principal reason why recovery is taking longer than was expected is that ~~the principal reason why recovery is taking longer than was expected is that~~



the effects of the war were deeper than had been realised. There is in fact no cause for despondency that, only two years after the conclusion of the most destructive war of all time, economic stability has not yet been achieved. Reconstruction and development take time; they require sound and detailed economic planning, the restoration of financial and monetary stability and the sustained efforts of millions of human beings. Much has already been achieved, and the picture is apt to appear less favorable than it actually is owing to the fact that the most acute shortages are in consumer goods: material and labour are necessarily being diverted to the reconstruction of the basic stocks of wealth - housing, transport, plants, tools, machinery and raw materials. The detailed investigation which the Bank makes of every loan application has generally revealed greater progress than would appear from a superficial review of the state of the country, in which attention is naturally attracted to deficiencies which still exist rather than to deficiencies which have been removed.

### THE BANK'S PORTFOLIO

It may be of interest here to review briefly the four loans which the Bank has granted for European reconstruction, and which at present constitute the Bank's portfolio.

#### FRANCE

The Bank's first loan was one of \$250 million to France. The importance of France in the economic position of Europe made it particularly fitting that she should be the first country in whose reconstruction the Bank should play an active part.

In spite of the gravity of the French situation as it is today, we must not overlook the tremendous progress which France has made in overcoming the effects of the war. By the end of 1946 her production had been restored to approximately 90% of the 1938 level and the volume of exports to 75%. In spite of the difficulties and uncertainties facing France, therefore, the Bank believes that its loan to that country will hasten the progress of reconstruction both in France and in Europe as a whole, and that the risks involved are of the type which the Bank was designed to accept.

#### NETHERLANDS

The Bank's second loan was one of \$195 million to the Netherlands. The Dutch people have displayed remarkable determination and energy and have achieved great progress in restoring output and combating inflation. But the abnormally heavy imports necessary to make good war damage and losses, the loss of Germany as the principal source of imports and as an important market, and the decline of supplies and revenue from the Dutch East Indies have placed a heavy strain on Dutch foreign exchange resources. This may be judged from the United States, as against only 11% in 1938. The excellent debt record of the Netherlands and its long tradition as an important creditor nation make it a good credit risk.

### DENMARK

The Bank's third loan was one of \$40 million to Denmark. It was granted for the purpose of hastening economic recovery by the purchase of agricultural and textile machinery, machine tools, trucks, steel products, textiles and chemicals. Denmark has already taken effective steps to create the healthy internal conditions - a balanced budget and stable price and wage levels - which should result in the Bank's loan having the most rapid effects.

### LUXEMBOURG

The Bank's fourth loan was one of \$12 million to Luxembourg. It was granted for the purpose of financing the purchase of equipment for the steel industry and of rolling stock for the railways. Iron and steel production is the major industry of Luxembourg and exports of metallurgical products in the years preceding the war comprised about 80% of all exports. Owing to under-maintenance during the war the industry now needs to be modernized and adapted to postwar market requirements. The railways also are of vital importance, particularly as international carriers linking the Ruhr, the Saar, Lorraine, Switzerland and the Low Country ports. The Bank's loan, by providing the means for raising the volume of traffic of Luxembourg's railways and for expanding the country's capacity to produce the type of steel products for which there is a heavy demand, will contribute not only to the recovery of Luxembourg but also to that of her neighbors.

### APPLICATIONS UNDER CONSIDERATION

In addition to the four loans already granted for European reconstruction, the Bank has received and is examining applications for loans from Czechoslovakia for the reconstruction of war damage and losses and for the restocking of raw materials; from Poland for the purchase of equipment and materials for coal mining, the iron and steel and textile industries, electricity and transport; and from Italy for purchases of equipment necessary to restore the damage suffered by that country's industry and transport system during the war.

As regards applications from non-European countries, we have so far received one from Chile for hydro-electric, forestry, harbor, transport and railway projects; one from Mexico for irrigation, hydro-electric, pipe-line, highway, railroad and harbor projects; and one from Iran for the development of agriculture and transport. All these applications are receiving the most careful and thorough study. Fact-finding missions have visited Denmark, Poland, the Ruhr, Brazil and Italy; and invitations have been accepted to send a similar mission to Mexico. Discussions are also proceeding with other countries regarding their development plans.

### DEVELOPMENT PROJECTS EVENTUALLY TO SUPERSEDE RECONSTRUCTION AS BANK'S PRIMARY CONCERN

The urgency of the recovery of Europe does not detract from the importance of assisting countries of other areas of the world, such as Latin America, Asia,

Africa and the Middle East. Indeed, the Bank recognizes that the need for reconstruction loans will pass within a few years, and the financing of the fact, however, that the Bank cannot possibly do the whole job of financing such development; this can only be done by the free flow of private capital. But the Bank can make a beginning and can give its attention to such basic things as the improvement of the credit position of the countries concerned. The removal of obstacles to the free flow of private capital is a matter of prime concern to the Bank.

#### POLICY WITH REGARD TO COUNTRIES IN DEFAULT

Existing defaults are one of the most obvious obstacles to the restoration of credit. No one would suggest that every country with outstanding foreign bonds in default could or should resume payment immediately on all its bonds in accordance with their original terms. But it is reasonable to suggest that every such country should make a genuine effort to establish good relations with its creditors. In some cases the basic causes of default were and remain beyond the control of the borrowers and it is to be hoped that creditor interests will meet such situations with understanding and patience. In other cases, however, the default has its origin in unsound financial and economic policies and in these cases agreement with the creditors will inspire more confidence and go further towards re-establishing credit if it is undertaken as part of a program of financial reform. In the case of applications for loans by such countries, the Bank takes the view that a program to deal with existing financial and economic problems must precede the consideration of a program for long-range development. The financial and economic stability of its borrowing Members is of the greatest importance to the Bank in raising funds for its operations; if this stability does not exist the funds will not be forthcoming. It is therefore essential that Members borrowing from the Bank should have a sound fiscal policy, a healthy balance of payments, and good relations with their creditors. The Bank cannot assist a country which has neither financial and monetary stability and credit nor the willingness to take action to achieve them. Such lending would be neither prudent nor productive. But given the willingness to take action to establish a sound fiscal situation, the Bank can assist both in obtaining the necessary technical assistance for this purpose and in the financing of a long-range development plan which can succeed only against a background of fiscal stability.

#### BANK'S OPPORTUNITY TO COOPERATE IN FORMULATION OF BACKWARD COUNTRIES' PLANS

The help which the less well developed nations need for a full realization of their potentialities should not be limited to financial advice and loans. Because these countries lack the advanced technologies and skills which characterize more developed nations, the Bank may be asked to cooperate more closely in the consideration and formulation of their plans, including the obtaining of the necessary technical assistance. Here again the Bank is in a position of exceptional advantage as a cooperative institution, with no object but the good of its Members.

#### BANK ESTABLISHING NEW STANDARD OF RESPONSIBILITY IN INTERNATIONAL LENDING

There was once a disposition to question whether the Bank would be sufficiently careful and prudent in the use of the funds at its disposal;

whether, in fact, it would exercise as much prudence as would be exercised by private interests in such matters. I think it is now known that the thoroughness with which applications for loans are investigated and the responsibilities which the Bank accepts both for the use of the proceeds of a loan and for the loan itself during the whole time that it is outstanding are establishing a new standard of responsibility in international lending.

It is indeed important that there should be in the future a greater sense of responsibility both in borrowing and in lending than has frequently been the case in the past, which, as we all know, contains the record of much bad borrowing and bad lending, particularly in the inter-war years. The investor should be interested in the welfare of the borrower and must be indeed in a sense his partner; a recognition of this principle both by borrowers and lenders would create a sense of cooperation and of mutual responsibility, in place of the unfortunate mutual antagonism which has often developed in the past, when the borrower has felt exploited and the lender has felt cheated. It is the hope of the Bank that, by virtue of its unique position as a cooperative institution, lending only to its Member countries or under their guarantee, it may be able to promote relations between debtors and creditors in the international field which will be greatly to the benefit of both. The restoration of confidence in international lending is essential to the revival of world trade and of world prosperity; to help in rebuilding that confidence is the fundamental purpose of the Bank.

BANK NOT EXEMPT FROM OBSERVANCE OF BANKING FUNDAMENTALS BECAUSE OF NOVEL FEATURES OF LOAN PORTFOLIO

The loan portfolio I have described no doubt exhibits some striking contracts with the more familiar kind. Our loans are fewer in number and larger in amount; they are in general made in respect of programs of reconstruction and development on a national scale, and our customers are commonly, though not necessarily, governments. I hope, however, that I have made clear to you that we do not and dare not regard these novel features as exempting us from observance of the fundamentals of good banking practice. We are strongly conscious of our responsibility towards those from whom we have borrowed funds and from whom we hope to borrow in the future, and also of the need for patient and thorough investigation of the credit worthiness of loan applicants. The new conceptions which I have described the Bank as bringing to bear on international lending represent not so much the rejection of traditional standards as an attempt to avoid short-sighted and superficial applications of them of a kind that sometimes occurred in the past. Nor does the Bank represent an attempt to supersede private enterprise either on the borrowing or lending side of foreign investment; on the contrary, its object is to revive such enterprise. I hope, therefore, that if any of you had any tendency to regard the International Bank for Reconstruction and Development as an eccentric interloper in the world of banking, I have done something to dispel it; and I trust that you will not reject my claim -- a claim I am particularly proud to make in the presence of such an attentive gathering -- to be a fellow banker.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

Washington

Notes for Speech by A.S.G. Hoar, Assistant Loan Director,  
Before the Indian Council for World Affairs at New Delhi,  
India, March 1, 1949



FINANCING THE DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

Before considering the significance of the World Bank in relation to financing the development of under-developed countries, I think it will be advisable to refer briefly to the origin and purposes of the Bank and its methods of operation.

Origin and Purposes of the Bank

The International Bank was established as a result of the Bretton Woods Conference of 1944. It was realized that after the war there would be a great demand for capital, both to reconstruct the means of production damaged and destroyed by the war and also to continue the development of the relatively under-developed parts of the world. We may assume that in a less disillusioned and demoralized world, private capital would have been readily available through ordinary investment channels to meet this demand, but it was clear by 1944 that, after such an upheaval as the second world war, following moreover the unhappy experiences of foreign investors in the 1930s, private investors would have no stomach for such tasks.

It was therefore decided that a special institution was necessary to perform the following functions:

- (a) Mobilising private investors' resources and using them for the reconstruction of industry and agriculture in war-devastated countries and for speeding up the development of other countries.
- (b) Giving private investors very substantial assurance as to the safety of their capital.
- (c) Gradually restoring the confidence which would enable the activities of the Bank eventually to be supplemented by those of private foreign investment;

and thus the International Bank came to be established.

The Principles Controlling the Bank's Loans

The Articles of Agreement drafted at Bretton Woods laid down in detail the principles which control the Bank's lending. These principles may be summarized as follows:

1. The Bank is to assist in the reconstruction of economies destroyed or disrupted by war and in the development of the less developed countries.
2. It has to promote private investment whenever possible and supplement it when necessary.

3. It must seek to promote international trade and the raising of levels of productivity, standards of living and conditions of labour throughout the world.

It is also laid down that the Bank must deal with the most useful and urgent projects first, that it must be satisfied that the borrower would be unable to obtain the loans elsewhere on reasonable terms, and that he will be in a position to meet his obligations under the loan.

#### Capital Structure of the Bank

The shareholders of the Bank are the fifty nations who have subscribed the total capital of about ten billion dollars, in proportions based on their wealth and population. There are three important points I wish to make on the subject of these capital subscriptions:

- (a) The purpose of these subscriptions is to provide a modest amount of cash and to furnish guarantees for the Bank's own obligations.
- (b) To provide the cash the member Governments have paid up 20% of their subscriptions, 2% in gold or U.S. dollars and the remaining 18% payable in the currencies of the respective member countries. The 18% monies can only be used to make loans if the member concerned gives specific consent.
- (c) The remaining 80% of the capital subscriptions is not paid up and constitutes a guarantee fund available, not for lending but to meet the Bank's obligations if and as required.

#### The Bank's Bond Issues

Quite clearly the Bank cannot make extensive loans without further resources beyond the cash subscriptions of its members. These it plans to obtain from the investing public by the offer of bond issues. Because of the special position of the United States as a lender in the world today, it must be expected that these issues will for the time being be made almost entirely on the American market. As time goes on, however, it is hoped that the Bank will be able to draw also on the capital markets of other countries.

The Bank made its first appeal to the American investing public in July 1947 and this appeal was most satisfactorily received. The offering consisted of 100 million dollars in ten-year 2-1/4% Bonds and of 150 million dollars in twenty-five-year 3% Bonds. These bonds are widely held by the American investing public and enjoy good standing. The 3% Bonds are currently quoted slightly over par.

The only other issue so far made by the Bank was one of 2 1/2% six-year Bonds, to the amount of 17 million Swiss Francs, which were taken up by the Bank for International Settlements in May 1948.

#### Importance of a Sound Loan Portfolio

From what I have said, it will be evident that it is not only a question of adherence to the principles which were laid down for it in 1944, but the very practical matter of creating the conditions which will enable its lending programme to continue, which make it of the highest importance, that the Bank shall be able to attract investments because its loans —

- (a) are sound in themselves, and
- (b) are made to borrowers which inspire confidence in their handling of their economic and financial affairs.

#### The Bank's Practice in Examining Loan Applications

Before making any loan the Bank conducts extremely thorough investigations, not only of the individual project concerned, but of the economic and financial condition of the country within which it is located. It is not content with documentary evidence but, as you will be aware, sends missions to examine both technical and general problems at first hand. The Bank is not prepared to lend unless it is satisfied

- (a) that the overall economy of the borrowing country is soundly operated or, if certain difficulties exist, that both policy and practice give grounds for confidence that satisfactory conditions will be created at an early date;
- (b) that the overall plans for reconstructing or developing the economy are conceived and are being worked out on lines which will reinforce and not upset the basic soundness of the economy;
- (c) that the project or projects within the larger programme which the Bank is asked to finance have been meticulously prepared technically and are financially and economically justified.

#### Consequences of the Bank's Practice

It will be evident, from what I have said, that it is not easy to get a loan from the World Bank. Moreover, it can generally be expected that the process of establishing whether a proposed loan meets the Bank's requirements may take some considerable time. Quite apart from these points, it has been a source of criticism of the Bank from time to time that its rigid requirements do not permit it to finance schemes which are attractive on social or political grounds. Do these requirements of the World Bank therefore conflict with the interests of an under-developed country which wishes to borrow from it? I would submit that the answer is "No"

#### BECAUSE

##### A. With Regard to the Requirement of a Soundly-Operated Economy:

Financial stability, and suppleness in the productive and distributory machine, are essential prerequisites of development on any scale. So far as private development is concerned, the entrepreneur will not launch out unless he can feel confidence that conditions exist which will permit his enterprise to operate effectively and profitably: this applies equally whether one considers the provision of capital from within or without the country concerned. So far as public development goes, costs must be covered from budgetary reserves or revenues or from the savings of the people. If conditions are such that neither the resources of the public authority, nor its credit, can provide the necessary funds — or if lack of confidence in the financial management of the country has dried up the source of investment funds — then limits

are imposed beyond which development cannot proceed without dangerous strains being imposed upon the whole economy.

It is of primary importance, therefore, that a developing country keeps a constantly critical eye on the soundness of its budget structure; on the existence of a healthy and stable relationship between wages and prices; on the effective utilisation of its available resources of materials, transport and power; on the flow of goods within its borders, and the volume and character of exports and imports passing across them; on the development of its balance of payments — and on all the diverse aspects of its national life which reflect the health of its economy.

Now this is an imperfect world and few development countries can be satisfied with all that they see within their borders. The International Bank is not so unrealistic as to expect to find perfection but what it does expect to find is a realistic appraisal of facts and a determined and intelligent policy to move steadily forward to set right those features which are hindering the healthy evolution of the economy.

#### B. With Regard to the Requirement of Coordination of Development:

All capital development, under any kind of economic system, means a sacrifice of the present to the future. This is abundantly evident in the U.K. at the present time, where the need to reequip industry on a large scale presses directly on the standard of living of the people. It is equally applicable in a development country. Obviously, particularly where the standard of living is low, this sacrifice can be called for only for those projects which are firmly proved to be of primary economic value for the community as a whole, and able to produce relatively quick results. Equally clearly, the successful development and operation of the chosen projects must not be jeopardised by the competition for foreign exchange, local capital, raw materials or skills, of less valuable or more slowly developing schemes. First things must be put first and kept there.

A country setting out to develop its economy will normally commence with thorough surveys of its actual capacity in terms of natural and human resources, and then, based on the results of those surveys, to determine the direction of its development. In general, economic development must be conceived as a continuous and cumulative process in which each increase of capitalization will lead to a further increase. Moreover, it must be synchronized so that the various aspects of the economy — agriculture, industry and public utilities — will develop in the right relation one to another.

The pace of development should be recognised as being determined by the availability of raw materials, equipment and skills, and by the capacity of the country to raise capital, internally and externally, without inflation and strain on the balance of payments.

#### C. With Regard to the Requirement of Careful Selection of Projects:

It follows from the general arguments I have just given, as well as from that of technical common sense, that no commitment should be entered into for any project until:



- (i) it has been proved to fit into the general pattern of sound development;
- (ii) it has been proved to be necessary;
- (iii) it has been proved feasible;
- (iv) it has been proved capable of doing the job within the time limit within which results are essential and more satisfactory than any alternative;
- (v) it has been related to other competing and complementary projects;
- (vi) a balance has been struck and evaluated as to the benefits of employing competing consultants, contractors, engineers etc.

Soundness of the International Bank's Approach

In view of the considerations I have laid before you, I would submit that the International Bank's careful approach to loans for development purposes is appropriate not only to its own function, which is to serve all its members, but also to the needs of each particular one of those members. It is not easy for a developing country to be "correct" in its approach to these matters because sentiment and politics always pull towards seductive short cuts which are not always wise. It is particularly valuable, therefore, for the Bank's objective eye to pass proposed developmental projects under review. Soundness in the long run is the important thing. The Bank is in a special position to cooperate with its members in finding the right path to follow and it looks forward to increasing collaboration with its members in the achievement of the purposes for which it was founded.

Address by A.S.G. Hoar before the  
Pacific Northwest Conference on Banking  
at  
Pullman, Washington, April 6-8, 1950

THE WORLD BANK



Mr. Hoar, Pullman,  
Wash., 4/6-8/50

I feel it a great privilege to have been invited to join you in this banking conference and to address you today. It is my first visit to the Pacific Northwest. As I travelled across the continent, by train, I could not help but be impressed with all the varied phases of development which have taken place, on so vast a scale, over the great expanses which lie between the Atlantic and Pacific Coasts. As I weighed the truly staggering proportions of the development which has taken place in the western part of this country in the past few decades, I felt renewed hope that what has been accomplished here can eventually be brought about - albeit perhaps with painful slowness - in other parts of the world. It is in the long term development of its member countries that the World Bank is principally interested.

What is the World Bank and what are its objectives?

"World Bank" is, of course, a compression of its full name, which is "The International Bank for Reconstruction and Development". This full title is ponderous and mouthfilling but it is a good thing, once in a while, to roll it out in full because it tells a good deal about what the Bank is and what it is trying to do.

In the first place the Bank is an international institution: it is not the agency of any one nation but is owned by, at the moment, 47 nations. Our Board of Directors is composed of 14 representatives of those nations, and our operating staff includes nationals of some 26 different countries. It is

primarily because of its international character, I think, that the Bank has not only been able to maintain a high degree of objectivity in relations to the problems and needs of its various member countries but often to exert a powerful constructive influence on their economic programmes and policies.

In the second place this institution is a bank and not an agency for relief or emergency aid. We borrow funds in the private capital market for relending abroad, and we expect our loans to be repaid. Equally important, we lend only for projects which we are satisfied will genuinely increase the productivity and economic strength of the borrowing country. And, like any good bank, we are concerned to see that the funds we make available are properly expended for the purposes agreed upon.

In the third place, the close linking of the words "reconstruction and development" in the title of the Bank is neither accidental nor arbitrary. There is a close practical relationship between the reconstruction of the war-damaged countries and the development of the under-developed areas. The European countries have long played a pivotal role in the functioning of the world economy, and unless their foreign trade can be revived and expanded, the economic position of almost every other country will remain insecure. But, by the same token, one of the necessary conditions for achieving a balance in the trade of Europe - and, in fact, of the world - is that the productivity and purchasing power in the underdeveloped areas be greatly increased. For, in the efficient development of the resources of these areas, and in the expansion of their ability both to produce more at home and to import more from abroad, lie the most promising possibilities for expanding and stabilizing the world's commerce.

Let me, however, hasten to assert that the World Bank was never set up to be, and has never aspired to be, the answer to the whole range of economic

and financial disequilibrium from which the world suffers today. I quote from the introduction to the Bank's last Annual Report.

"The Bank cannot and should not be expected to provide the answer to all or even a major part of the world's financial ills. It is beyond both the purpose and the power of the Bank, for example, to cure the dollar shortage, or to assure the maintenance of full employment throughout the world, or to satisfy short-term budgetary and balance of payments requirements. While the operations of the Bank do contribute in some measure to the solution of these general problems, its essential objective is narrower and more precise; its basic mission is to assist its member countries to raise production levels and living standards by helping to finance long-term productive projects, by providing technical advice and by stimulating international investment from other sources. That is a broad enough field of activity for all the resources, vigor and imagination which the Bank can possibly bring to bear."

Of What does the Bank's Capital Structure consist?

Before I go forward into some practical details of the Bank's operations, perhaps I should remind you of its capital structure and general financial set-up.

The total subscribed capital stock of the Bank amounts to just under \$8½ billion. The amount of each member government's subscription is determined by a somewhat complicated formula which is designed to reflect the economic resources of the country concerned. The individual subscriptions range in size from \$3,175,000,000 of the United States to the \$200,000 of Panama.

However, of the total of the Bank's subscribed capital stock, only 20 per cent has been paid in. Of this 20 per cent, 2 per cent has been paid in gold or U. S. dollars and made freely available to the Bank for use in its operations. The remaining 18 per cent has been paid in the currency of each subscribing member

and can only be used by the Bank in its lending operations with the consent of the member concerned. To date, only the United States has made the whole of its 18 per cent subscription freely available to the Bank. Belgium, Canada, Denmark, and the United Kingdom have consented to partial use of their subscriptions and it is hoped that they and other member countries will increasingly feel able to allow the Bank to draw upon their subscriptions as the need to use their respective currencies arises.

The balance of 80 per cent of the subscribed capital is not paid up, and can be called by the Bank only if required to meet the Bank's own obligations. It is therefore in the nature of a guarantee fund, designed to permit the Bank to acquire the main part of its lending funds by borrowing in the capital markets of the world.

What have been the Bank's other Sources of Funds?

Up to now the Bank has engaged in four borrowing operations:

(a) In July 1947, the Bank issued \$150 million of 25-year 3% Bonds and \$100 million of 10-year 2½% bonds in the United States.

(b) In April 1948, we placed in Switzerland an issue of Sw.fcs. 17 million of 2½% serial bonds due in 1953 and 1954;

(c) In February 1950 the Bank again had recourse to the United States market and sold \$100 million of serial bonds, due 1953-62, at an average interest cost of just under 1.93%. The purpose of this issue was to redeem the 10 year bonds of 1947. The operation will yield some saving in interest cost and will provide the Bank with a rather more accurate yardstick by which to gauge what it should currently charge on loans of 10 or 12 years' maturity.

(d) In March 1950, we negotiated the sale to some Swiss banks of serial bonds in the amount of Sw.fcs. 28.5 million, due 1953-1956, and bearing interest at 2½%; and, in addition:

(e) The Bank has sold out of its portfolio, with its guarantee, bonds

in the amount of \$28 million received under its Loan Agreements with the Kingdom of Belgium and certain Dutch shipping companies.

What are the main principles governing the Bank's lending?

First of all, I should remind you that the Bank may lend only to its member governments or their agencies, or to corporations operating within the territories of those member governments. In the latter case, the loan must be guaranteed by the government in whose territory the project to be financed is located.

As I have already indicated, the Bank's loans are intended broadly to serve the purpose of reconstruction or development; we are, moreover, enjoined, in our Articles of Agreement, to deal with the most urgent projects first. Actually the Bank's first loans were to war-damaged Europe, but this was less from any judgment that the urgency of reconstruction was greater than that of development than from the fact the European countries were the first to present the Bank with loan proposals which were sufficiently advanced in detailed preparation to provide a practical basis for a loan operation.

The Bank is instructed to lend for productive purposes. The fact that a proposed project would earn good profits would not be decisive in recommending it to the Bank's consideration. We look for a solid contribution to the borrowing country's economic welfare. Best of all is a project which directly improves the balance of payments position, particularly in hard currencies: sometimes the beneficial effects may be diffused but there must be no doubt that they exist. The Bank would, in general, regard such worthy objectives as the provision of university equipment as too diffuse and indirect in their benefits to fall within the scope of its legitimate operations.

The Bank is specifically required, in its Articles of Agreement, to "act prudently" in conducting its operations. This is accepted as meaning

that the Bank is not entitled to make a loan unless it can be as certain as it is humanly possible to be that the loan will be repaid. Of course the Bank is intended to, and sometimes does, venture into situations which would not appeal to a commercial investor: that is part of its function in paving the way for new private investment in due course. But the Bank would not be justified in lending under conditions where real doubt existed that the loan could be repaid, and it does not do so.

The Bank is also required to satisfy itself, before making a loan, that the required funds cannot be obtained from any other source on reasonable terms. The Bank was never intended to replace normal commercial lenders but, on the contrary, to encourage the flow of private foreign investment as much as possible.

The Bank does not make "tied" loans. Its borrowers are free to buy their required equipment from whatever source of supply is most suited to them. The Bank then makes available the currency required to make payment in the selected country of supply.

The Bank may lend the local currency of the borrower "in exceptional circumstances" but has not so far encountered any circumstances, in connection with loan applications, which have appeared sufficiently "exceptional" to justify a local currency loan.

The Bank does not regard its responsibility for a loan as finished when the Loan Agreement is signed. On the contrary it takes great care, first of all, to see that the borrower is allowed to draw upon the loan monies only to make payment for the items which are specified as required for the agreed purposes of the loan; then, that the goods in question are really imported into the borrowing country and adequately installed and operated on the project. Moreover, the Bank retains powers under the Loan Agreements to call for reports and to make inspections of the projects. Further than that, the Bank is concentrating on developing close

and cooperative relationships with its borrowing member countries, visiting them frequently and exchanging views on matters of mutual interest, so that the Bank will always be in a position to watch the evolution in the economy of the borrowing countries of the projects which have been financed by the Bank's loans. In the past foreign creditors have frequently been confronted with sudden and unexpected crises leading to defaults: it is the Bank's hope to be in such a position with its borrowers that difficulties can be detected in their early stages and, we hope, corrective measures applied before crises and defaults arise.

To Whom has the Bank loaned?

So far the Bank has made 22 loans, to a total of \$744 million.

Of these loans, Europe has had 13:	\$558 million
Latin America 7:	142 million
Asia has had 2:	44 million
	<hr/>
22:	\$744 million.

The earliest of these loans, to France (\$250 million), the Netherlands (\$195 million) and Denmark (\$40 million) were of what might be called a general purpose type. They were related to the importation of specific quantities and types of equipment and raw materials, but they were essentially designed to permit the fulfillment of a plan or programme of imports for general reconstruction. Later loans have been related to specific projects, such as installations for supplying electric power. (Chile, Brazil, Mexico, El Salvador), locomotives (India), agricultural machinery for agreed schemes (Chile, Colombia, India), steel mills (Belgium) and so on.

Most loans hitherto have been to governments, but the Bank has been glad to make loans also to private corporations (with appropriate government



guarantees) such as four Dutch shipping companies and the Brazilian Traction Light and Power Co., Ltd.

A particularly interesting type of loan was that to the Dutch "Herstelbank". The Herstelbank acts toward Dutch industrial reconstruction and rehabilitation in somewhat the same way as the World Bank is designed to act over wider fields. The Bank's loan to the Herstelbank will be channeled by the latter for the benefit of individual Dutch enterprises, which will be subjected by the Herstelbank to all the normal checking and supervision which the World Bank itself would apply.

A new and most interesting development, not yet in operation, is under consideration for Turkey. As a result of discussions between Bank representatives and Turkish businessmen and Government officials, a plan has been worked out for an industrial and credit institute, privately owned and directed but with the active support and financial assistance of the Government, which will sponsor and finance private industries in Turkey. If plans work out satisfactorily, the World Bank will probably be prepared to make a loan to the new institute to finance part of the foreign exchange cost of projects sponsored by it.

What Tests does the Bank apply before making a Loan?

Both because of the need to keep within the limitations prescribed in the Articles of Agreement and because of the need for the Bank always to have regard for the judgment of the private investor on the soundness of its policies and practices, the Bank must clearly operate with the utmost care and efficiency.

The following are among the tests applied before a loan is made:

(a) A thorough appraisal is made of all factors affecting the borrower's credit worthiness and general competence to carry out an undertaking of the type under consideration.

(b) At the same time a study is made of the economic and financial condition of the country in which the project is to be located in order to obtain answers to

the following kinds of questions:

Is it proper for a country to assume additional debt for a project of the type under consideration? Are the financial and economic policies of the government conducive to the sound economic development of the country and to the effective carrying-out of the project? If not, what steps should be taken to remedy any shortcomings? Is the project one which will contribute effectively to the development of the country at this time or are there other projects with a far higher priority? What effect will a project have upon the ability of the country to earn the foreign exchange needed to service and repay loans? In short, the Bank recognizes that the prospects of success of a project and the borrower's ability to service a loan will be substantially influenced by economic and financial conditions of the country in which it is located, and that these must be taken into account.

(c) Of course the technical feasibility of the project is thoroughly investigated, and experts examine engineering plans, market surveys and financial arrangements.

How does the Bank make these Tests?

An investigation conducted from an office in Washington cannot be sure of getting the facts needed to make so complex a decision as that involved in making a foreign loan. In recognition of this fact, we have adopted the practice of sending highly skilled observers to make on-the-spot investigations of both the project under consideration and the country in which it would be located. The personnel of these "field missions" is drawn mainly from the Bank's own staff, but outside experts are often used, particularly for the more technical types of investigations.

Mission to India

As an example of such an on-the-spot investigation, I may mention the Bank's mission to India last year. The mission travelled throughout the length and breadth of India, seeking a cross-cut of opinion and looking at the working of the economy. It made an appraisal of the over-all problems and possibilities of the country, of the economic machine, of the competence of the administration, of the degree of confidence existing between Government and business, of the relations between the Provinces and the Centre, of the current political trends, of the effects of mass poverty, of the reasons for food shortages and the results flowing from them, of the prospects of foreign trade --- and so on. The mission arrived at a favorable conclusion with regard to India's general credit worthiness and agreed with the Government of India that major problems of first priority existed in the fields of food production, transportation and power.

In many parts of India land that had previously been good agricultural land had to all intents and purposes gone out of cultivation owing to the inroads of a weed known as kans grass. Kans grass is a stubborn weed with deep roots that does not submit easily to attempts to dislodge it. The Indian government had made experiments to eradicate it by deep ploughing, with tractors left by the United States army. The experiments were satisfactory and they now proposed to tackle it in many parts of Central India over a total area about the size of the State of Connecticut. This seemed to the Mission the cheapest project for increasing food production presented to it -- cheaper in fact than had originally been estimated since it was found that by using equipment more effectively less would be needed than had been thought. They therefore supported a proposal for a loan to permit the import of tractors and equipment to clear this land, and such a loan was in fact made last September. It will take seven years to clear the whole area of 3 million acres, but even during the period of reclamation

4 million tons of cereals should become available to the market, which alone would save India many times the dollar cost of the project. At the end of the seven years, the reclaimed land will supply about 1 million tons a year.

The whole country, and particularly the development of industry, was affected by the poor condition of the railway system. The railways had suffered from insufficient maintenance not only during the war but even before that during the depression. Their stock of locomotives, already old and barely adequate, was depleted in order to provide motive power for the Middle East theatre of war. A quarter of their locomotives were over 40 years old. They were too often and too long in the repair shops and some of them had developed personal idiosyncrasies that were understood by only one crew. New burdens were thrust on the railways by the heavy food imports and the rerouting of traffic to India instead of Pakistani ports after partition. The result was frequent breakdowns, delays, deterioration of goods in transit and all the irritations of a system of priorities. There was scarcely an aspect of industrial life in which the natural flow of goods and materials was not constricted by this bottleneck, but I might mention one example: exports of manganese, an important dollar earning commodity, were held up by the inability of the railways to carry them. The railway consultant to the Mission strongly recommended that the Bank should make a loan to help finance the import of some 650 locomotives from the U. S. A. and Canada. This was the purpose of the Bank's first loan to India, in August 1949.

A third loan is now in an advanced stage of negotiation. It is mainly to assist the construction of a large thermal electric station located in the coal fields of Bokaro, in the principal industrial and mining region of India. It will also help to provide transmission lines and substations to carry the

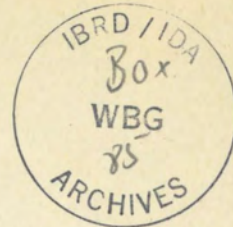
current widely throughout that area.

What other Aid does the Bank provide?

The sending of Missions to our member countries has become a major activity of the Bank. They have developed from the stage of merely checking the bases for a loan application to stages of rendering important services to the member countries. At one end of the scale is such simple service as recommending an appropriate adviser or technical consultant - as, for instance, when the Bank helped Chile to obtain the services of a timber expert to work up a scheme for forest exploitation. At the other end of the scale is the assistance given to countries to make an overall survey of their available resources and of development possibilities, and to advise on priorities for different projects - as, for instance, the Bank's recent comprehensive Mission to Colombia. One of the most interesting of the Bank's activities in this direction is one of the latest. Last month, the Bank made available the services of its Marketing Director to assist El Salvador to prepare for an internal issue of colones bonds. This issue was required to provide local finance to support the foreign exchange made available under a Bank loan for hydro-electric development. Thus the Bank has already developed and put into practical operation its own programme of technical assistance.

I have spoken at great length and I dare not hope I have not wearied you. If I have achieved one thing, however, I shall be content: if I have persuaded any of you who may have had doubts about it, that the Bank is not an eccentric interloper in the world of banking but an institution trying to move on sound lines and to adopt proven banking methods to meet the problems, the difficulties, the challenges and the possibilities of this post-war world.

# # #



THE PROCEEDINGS  
of the  
Eleventh Annual  
PACIFIC NORTHWEST  
CONFERENCE  
ON BANKING

*Sponsored by*

The School of Economics and Business  
of  
The State College of Washington  
and held on the State College Campus

April 6, 7, 8, 1950

*(With the Cooperation of Bankers and Colleges and  
Universities of the Pacific Northwest)*

## Foreword

*The Eleventh Annual Pacific Northwest Conference on Banking was one of the largest in the history of this event. The principal speakers and discussion participants at the 1950 Conference provided Conference members with a wide cross section of opinion on a variety of significant issues.*

*The preceding Conference, held in April 1949 brought a tone of mild pessimism to the fore. By contrast, the current sessions provided a moderate though conservative note of optimism.*

*The Conference this year covered a wide range of affairs, significant to the national and western economies. Bank credit policies were up for discussion in a thought-provoking round-table discussion during the first session. This discussion provided, in turn, an introduction to the question of investment policies and money market problems during the second session.*

*At other sessions of the conference such diverse matters as The World Bank, The Federal Deposit Insurance Corporation, Soil Conservation, and Agricultural Price Supports were up for discussion.*

*Few who heard T. S. Petersen, President of Standard Oil of California, at his banquet talk will forget the message he left with the more than 300 members of that audience.*

MAURICE W. LEE, *Dean*  
School of Economics and Business  
The State College of Washington

*Pullman, April, 1950*

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## THE WORLD BANK

BY A. S. G. HOAR\*

I FEEL it a great privilege to have been invited to join you in this banking conference and to address you today. It is my first visit to the Pacific Northwest. As I travelled across the continent, by train, I could not help but be impressed with all the varied phases of development which have taken place, on so vast a scale, over the great expanses which lie between the Atlantic and Pacific Coasts. As I weighed the truly staggering proportions of the development which has taken place in the western part of this country in the past few decades, I felt renewed hope that what has been accomplished here can eventually be brought about—albeit perhaps with painful slowness—in other parts of the world. It is in the long term development of its member countries that the World Bank is principally interested.

### What is the World Bank and What are Its Objectives?

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\*Assistant Loan Director, International Bank for Reconstruction and Development, Washington, D. C.

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#### **Of What Does the Bank's Capital Structure Consist?**

Before I go forward into some practical details of the Bank's operation, perhaps I should remind you of its capital structure and general financial set-up.

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#### **What Are the Main Principles Governing the Bank's Lending?**

First of all, I should remind you that the Bank may lend only to its member governments or their agencies, or to corporations operating within the territories of those member governments. In the latter case, the loan must be guaranteed by the government in whose territory the project to be financed is located.

As I have already indicated, the Bank's loans are intended broadly to serve the purpose of reconstruction or development; we are, moreover, enjoined, in our Articles of Agreement, to deal with the most urgent projects first. Actually the Bank's first loans were to war-damaged Europe, but this was less from any judgment that the urgency of reconstruction was greater than that of development than from the fact the European countries were the first to present the Bank with loan proposals which were sufficiently advanced in detailed preparation to provide a practical basis for a loan operation.

The Bank is instructed to lend for productive purposes. The fact that a proposed project would earn good profits would not be decisive in recommending it to the Bank's consideration. We look for a solid contribution to the borrowing country's economic welfare. Best of all is a project which directly improves the balance of payments position, particularly in hard currencies: sometimes the beneficial effects may be diffused but there must be no doubt that they exist. The Bank would, in general, regard such worthy objectives as the provision of university equipment as too diffuse and indirect in their benefits to fall within the scope of its legitimate operations.

The Bank is specifically required, in its Articles of Agreement, to "act prudently" in conducting its operations. This is accepted as meaning that the Bank is not entitled to make a loan unless it can be as certain as it is humanly possible to be that the loan will be repaid. Of course the Bank is intended to, and sometimes does, venture into situations which would not appeal to a commercial investor: that is part of its function in paving the way for new private investment in due course. But the Bank would not be justified in lending under conditions where real doubt existed that the loan could be repaid, and it does not do so.

The Bank is also required to satisfy itself, before making a loan, that the required funds cannot be obtained from any other source on reasonable terms. The Bank was never intended to replace normal

commercial lenders but, on the contrary, to encourage the flow of private foreign investment as much as possible.

The Bank does not make "tied" loans. Its borrowers are free to buy their required equipment from whatever source of supply is most suited to them. The Bank then makes available the currency required to make payment in the selected country of supply.

The Bank may lend the local currency of the borrower "in exceptional circumstances" but has not so far encountered any circumstances, in connection with loan applications, which have appeared sufficiently "exceptional" to justify a local currency loan.

The Bank does not regard its responsibility for a loan as finished when the Loan Agreement is signed. On the contrary it takes great care, first of all, to see that the borrower is allowed to draw upon the loan monies only to make payment for the items which are specified as required for the agreed purposes of the loan; then, that the goods in question are really imported into the borrowing country and adequately installed and operated on the project. Moreover, the Bank retains powers under the Loan Agreements to call for reports and to make inspections of the projects. Further than that, the Bank is concentrating on developing close and cooperative relationships with its borrowing member countries, visiting them frequently and exchanging views on matters of mutual interest, so that the Bank will always be in a position to watch the evolution in the economy of the borrowing countries of the projects which have been financed by the Bank's loans. In the past foreign creditors have frequently been confronted with sudden and unexpected crises leading to defaults: it is the Bank's hope to be in such a position with its borrowers that difficulties can be detected in their early stages and, we hope, corrective measures applied before crises and defaults arise.

#### **To Whom Has the Bank Loaned?**

*So far, the Bank has made 22 loans, to a total of \$744 million.*

Of these loans, Europe has had	13:	\$558 million
Latin America	7:	142 million
Asia has had	2:	44 million

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22: \$744 million.

The earliest of these loans, to France (\$250 million), the Netherlands (\$195 million) and Denmark (\$40 million) were of what might be called a general purpose type. They were related to the importation of specific quantities and types of equipment and raw mater-

ials, but they were essentially designed to permit the fulfillment of a plan or programme of imports for general reconstruction. Later loans have been related to specific projects, such as installations for supplying electric power, (Chile, Brazil, Mexico, El Salvador), locomotives (India), agricultural machinery for agreed schemes (Chile, Colombia, India), steel mills (Belgium) and so on.

Most loans hitherto have been to governments, but the Bank has been glad to make loans also to private corporations (with appropriate government guarantees) such as four Dutch shipping companies and the Brazilian Traction Light and Power Co., Ltd.

A particularly interesting type of loan was that to the Dutch "Herstelbank." The Herstelbank acts towards Dutch industrial reconstruction and rehabilitation in somewhat the same way as the World Bank is designed to act over wider fields. The Bank's loan to the Herstelbank will be channeled by the latter for the benefit of individual Dutch enterprises, which will be subjected by the Herstelbank to all the normal checking and supervision which the World Bank itself would apply.

A new and most interesting development, not yet in operation, is under consideration for Turkey. As a result of discussions between Bank representatives and Turkish businessmen and Government officials, a plan has been worked out for an industrial and credit institute, privately owned and directed but with the active support and financial assistance of the Government, which will sponsor and finance private industries in Turkey. If plans work out satisfactorily, the World Bank will probably be prepared to make a loan to the new institute to finance part of the foreign exchange cost of projects sponsored by it.

#### **What Tests Does the Bank Apply Before Making a Loan?**

Both because of the need to keep within the limitations prescribed in the Articles of Agreement and because of the need for the Bank always to have regard for the judgment of the private investor on the soundness of its policies and practices, the Bank must clearly operate with the utmost care and efficiency.

The following are among the tests applied before a loan is made:

(a) A thorough appraisal is made of all factors affecting the borrower's credit worthiness and general competence to carry out an undertaking of the type under consideration.

(b) At the same time a study is made of the economic and financial condition of the country in which the project is to be located in order to obtain answers to the following kinds of questions:

Is it proper for a country to assume additional debt for a project of the type under consideration? Are the financial and economic policies of the government conducive to the sound economic development of the country and to the effective carrying-out of the project? If not, what steps should be taken to remedy any shortcomings? Is the project one which will contribute effectively to the development of the country at this time or are there other projects with a far higher priority? What effect will a project have upon the ability of the country to earn the foreign exchange needed to service and repay loans? In short, the Bank recognizes that the prospects of success of a project and the borrower's ability to service a loan will be substantially influenced by economic and financial conditions of the country in which it is located, and that these must be taken into account.

(c) Of course the technical feasibility of the project is thoroughly investigated, and experts examine engineering plans, market surveys and financial arrangements.

#### **How Does the Bank Make These Tests?**

An investigation conducted from an office in Washington cannot be sure of getting the facts needed to make so complex a decision as that involved in making a foreign loan. In recognition of this fact, we have adopted the practice of sending highly skilled observers to make on-the-spot investigations of both the project under consideration and the country in which it would be located. The personnel of these "field missions" is drawn mainly from the Bank's own staff, but outside experts are often used, particularly for the more technical types of investigations.

#### **Mission to India**

As an example of such an on-the-spot investigation, I may mention the Bank's mission to India last year. The mission travelled throughout the length and breadth of India, seeking a cross-cut of opinion and looking at the working of the economy. It made an appraisal of the over-all problems and possibilities of the country, of the economic machine, of the competence of the administration, of the degree of confidence existing between Government and business, of the relations between the Provinces and the Centre, of the current political trends, of the effects of mass poverty, of the reasons for food shortages and the results flowing from them, of the prospects of foreign trade—and so on. The mission arrived at a favorable conclusion with regard to India's general credit worthiness and agreed with the Government of India that major problems of first priority existed in the fields of food production, transportation and power.

In many parts of India land that had previously been good agricultural land had to all intents and purposes gone out of cultivation owing to the inroads of a weed known as kans grass. Kans grass is a stubborn weed with deep roots that does not submit easily to attempts to dislodge it. The Indian government had made experiments to eradicate it by deep ploughing, with tractors left by the United States army. The experiments were satisfactory and they now propose to tackle it in many parts of Central India over a total area about the size of the State of Connecticut. This seemed to the Mission the cheapest project for increasing food production presented to it—cheaper in fact than had originally been estimated since it was found that by using equipment more effectively less would be needed than had been thought. They therefore supported a proposal for a loan to permit the import of tractors and equipment to clear this land, and such a loan was in fact made last September. It will take seven years to clear the whole area of 3 million acres, but even during this period of reclamation 4 million tons of cereals should become available to the market, which alone would save India many times the dollar cost of the project. At the end of the seven years, the reclaimed land will supply about 1 million tons a year.

The whole country, and particularly the development of industry, was affected by the poor condition of the railway system. The railways had suffered from insufficient maintenance not only during the war but even before that during the depression. Their stock of locomotives, already old and barely adequate, was depleted in order to provide motive power for the Middle East theatre of war. A quarter of their locomotives were over 40 years old. They were too often and too long in the repair shops and some of them had developed personal idiosyncrasies that were understood by only one crew. New burdens were thrust on the railways by the heavy food imports and the rerouting of traffic to Indian instead of Pakistani ports after partition. The result was frequent breakdowns, delays, deterioration of goods in transit and all the irritations of a system of priorities. There was scarcely an aspect of industrial life in which the natural flow of goods and materials was not constricted by this bottleneck, but I might mention one example: exports of manganese, an important dollar earning commodity, were held up by the inability of the railways to carry them. The railway consultant to the Mission strongly recommended that the Bank should make a loan to help finance the import of some 650 locomotives from the U. S. A. and Canada. This was the purpose of the Bank's first loan to India, in August 1949.



A third loan is now in an advanced stage of negotiation. It is mainly to assist the construction of a large thermal electric station located on the coal fields of Bokara, in the principal industrial and mining region of India. It will also help to provide transmission lines and substations to carry the current widely throughout that area.

#### **What Other Aid Does the Bank Provide?**

In fact the sending of Missions to our member countries has become a major activity of the Bank. They have developed from the stage of merely checking the bases for a loan application to stages of rendering important services to the member countries. At one end of the scale is such simple service as recommending an appropriate adviser or technical consultant—as, for instance, when the Bank helped Chile to obtain the services of a timber expert to work up a scheme for forest exploitation. At the other end of the scale is the assistance given to countries to make an overall survey of their available resources and of development possibilities, and to advise on priorities for different projects—as, for instance, the Bank's recent comprehensive Mission to Colombia. One of the most interesting of the Bank's activities in this direction is one of the latest. Last month, the Bank made available the services of its Marketing Director to assist El Salvador to prepare for an internal issue of colones bonds. This issue was required to provide local finance to support the foreign exchange made available under a Bank loan for hydro-electric development. Thus the Bank has already developed and put into practical operation its own programme of technical assistance.

I have spoken at great length and I dare not hope I have not wearied you. If I have achieved one thing, however, I shall be content: if I have persuaded any of you who may have had doubts about it, that the Bank is not an eccentric interloper in the world of banking but an institution trying to move on sound lines and to adapt proven banking methods to meet the problems, the difficulties, the challenges and the possibilities of this post-war world.

## THE WORLD BANK

DISCUSSION OF THE PAPER OF A. S. G. HOAR

BY KENNETH L. TREFFTZ\*

**I**N SOUTHERN CALIFORNIA, we have a group of people who practice astrology. They seldom agree among themselves as to what is going to happen, but it was announced by one of them recently—just before she was arrested for practicing fortune-telling—that this, 1950, is the Year of the Tiger, the year of daring changes, a year of courage, a year of successful climbs to new heights. We all have seen one indication of that so far this year in Oklahoma City—a leopard, though, and not a tiger.

In international lending, however, we might describe the quarter of a century just past in the terms of the astrologer who predicted for 1950. For, in the past twenty-five years, fundamental changes have taken place in the type of international lending. Before the First World War, international debts were owned primarily to non-governmental leaders; in the period following World War I, huge international debts were held by governments; in the period of the 1920's, the sale of foreign bonds to personal investors was an important source of external assistance. In recent years, international lending institutions have been established; the Export-Import Bank to make loans to encourage exports and imports, the International Monetary Fund to provide short-term loans to countries experiencing temporary gaps in their balance of payments; the World Bank to provide long-term loans. In addition to loans made by these institutions, the United States has made large grants and some loans under the Marshall Plan—and the amount of direct investment has been substantial.

Our speaker this morning, Mr. Hoar, has outlined the principles of lending which are followed by the World Bank in carrying out its function. I do not believe that any of us envy Mr. Hoar, in his position of supervising loans which are subject to public scrutiny; every loan officer realizes fully the difficulty of trying to make loans satisfactory both to himself and to his board of directors. In the case of the World Bank, every loan which it makes is known to every borrower who has

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\*Department of Banking and Finance, University of Washington, Seattle, Washington.

been turned down, to every senator and to every congressman, to all the diplomatic staff members, to you and to me and to the many self-appointed experts who may question the wisdom of every action.

Today we seek to learn something of the organization of the bank and of how its lending operations are carried on. I propose to limit my discussion to those aspects of the banks. There are four questions that I would like to raise:

The first of these hinges on the lending operations that have been outlined, namely this—with the economic surveys, the technical appraisals, and the economic missions, does the bank tend to establish a line of credit, or a credit limit on the amount of loans which may be made in a given country, such as India?

2. It is my understanding that one of the functions of the National Advisory Council on International Monetary and Financial Problems is to coordinate the policies and operations of the International Monetary Fund, the World Bank, and the Export-Import Bank. I wonder if you can tell us just what the difference may be between the lending policies of the Export-Import Bank and the World Bank. For example, you have said that it is a policy of the World Bank to lend only if funds are not obtainable elsewhere on reasonable terms—is that to be interpreted to mean that the World Bank makes loans of a higher risk than the Export-Import Bank?

3. To what extent are the bank's lending policies dictated by the stated objectives of the bank, and to what extent are they limited by the necessity of protecting its reputation with the bankers in this country who supply it with funds by the purchase of its bonds?

4. Do you believe that the bond buyers in this country are greatly concerned about the lending policies of the bank? So long as the Comptroller of the Currency says that the national banks may buy the bonds, and so long as they are legal investments in most states, are investors greatly concerned about their quality?

## THE WORK OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

BY EDSON H. CRAMER\*

PROFESSOR JOSEPH DORFMAN of Columbia University is the author of a monumental 3-volume study entitled, "The Economic Mind in American Civilization." I would like to open my remarks today with a quotation from one of the early chapters in his first volume. After summarizing the views of William Penn and several of his contemporaries on methods of providing the colonies with an adequate supply of money, Dorfman remarks: "So the seventeenth century bequeathed to the eighteenth an enduring controversy on problems of money and trade, and around these would center, as before, all other economic issues."<sup>1</sup> This controversy was not settled in the eighteenth century, but was bequeathed in turn to the nineteenth, and then to the twentieth. Today, we are passing it on from the first half of the twentieth century to the second. Joseph French Johnson appears to have been right when he said, in a book published in 1905: "Men do not and probably never will thoroughly understand the relation between money and goods."<sup>2</sup>

For at least a century this problem of money has been primarily concerned with the operations of banks of deposit. The obligation of banks in the form of deposits now constitute the great bulk of the circulating medium which moves through society as the agent or carrier of trade, in much the same way that the blood stream courses through the body when the cells take in nutriments and discard their wastes. Banks, as the manufacturers and purveyors of circulating medium, occupy as strategic a position in the economic structure of the nation as does the marrow of the bones in providing the human body with the corpuscles for its blood.

Banks, because of this unique function in society, necessarily stand somewhat apart from other types of business enterprise, and re-

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\*Research Director, Federal Deposit Insurance Corporation, Washington, D. C.

<sup>1</sup> Joseph Dorfman, *The Economic Mind in American Civilization*, Vol. One (New York; The Viking Press, 1946), p. 111.

<sup>2</sup> Joseph French Johnson, *Money and Currency*, (Boston; Ginn and Co., 1905) p. 165.

Panel Discussion - U.S. Council  
of International Chamber of Commerce  
in New York, Sept. 19, 1950

*m. Hoar*

INVESTMENT FOR STRATEGY AND PROFIT:  
THE ROLE OF THE INTERNATIONAL BANK



A.G.S. Hoar - Sept. 19, '50  
Ch. of Commerce in N.Y.

I was once told that the oldest piece of writing in the world was an ancient clay tablet found in the ruins of Ur of the Chaldees. It was part of a letter from a father to his son, lamenting that the world had gone to the dogs since the days when he was young!

The story may or may not be true but it is certainly true that it is a human tendency to contrast the difficulties of the present with what we seem to remember as an easier, more reasonable, world we have left behind. The human being is, however, tough and resilient and <sup>*Courageous*</sup> ~~has a lot of courage~~. As the course of history has unrolled, he has suffered and endured and survived many crises. I am sure he will survive this one which is presently upon us.

This, however, is not to minimize the dangers which confront us. They are perhaps the greatest which have yet challenged a free society, challenged not merely its progressive development but its very existence. To overcome them, we shall have need of political and economic statesmanship of the highest order, and of the purposeful single-hearted effort of the millions who have taken democracy for granted and now are beginning to see it as something to fight for.

The causes of the present crises are extremely complex.

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For our present purposes, they may perhaps be grouped under three main headings:

- (a) There are spiritual (or non-material) causes arising from the breakdown of long established social structures, from the spread of education, from the rising aspirations of formerly subject peoples and from a widespread weakening of the discipline and moral challenge of religious ideas;
- (b) There are political causes, associated with the decline in power of Western Europe and the rise in power of Soviet Russia;
- (c) There are economic causes springing from the stresses and strains of old wars and of new discoveries, and from the relatively new conviction that poverty is not the inevitable lot of man.

As individual citizens, we all have responsibilities which at one point or another touch a great many facets of the problems I have indicated. <sup>For</sup> ~~As~~ businessmen, <sup>the</sup> ~~our~~ direct and obvious contribution is on the economic side.

If we are to make a successful attack upon the poverty and misery which have nurtured the virus which is now threatening the peace of the world, we must press constantly towards closing the wide gap which exists between the standards of living in various parts of the world. The founders of the International Bank wisely wrote into its charter

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the long-range function of promoting development in the less developed countries as coordinate with its shorter range function of helping the world's war-ravaged nations to reconstruct their productive facilities.

In the process of developing the underdeveloped areas, the activities of businessmen from the United States and other more advanced countries are of the utmost importance. The businessman has to be realistic, adaptable and capable of quick, decisive action. These are the qualities which developed the United States. But, in order that the constructive abilities of the businessman can be effectively deployed, he needs certain basic qualities in his environment, such as the absence of discrimination against him in legislation or administrative practice, freedom to bring in such technicians as he requires, and the existence of essential facilities to provide an adequate supply of raw materials and of power.

The pioneer had, of course, the problem of providing for himself the environment in which he could work, but his problems were simpler in that their solution lay in large measure within his own grasp. If necessary, he worked gun in hand to provide security for himself and his homestead; if need be, he could cut his own timber, harness the local stream for power and build with primitive tools a wagon trail to link him with civilization. But the penalty of technological advance is to place the basic facilities required for modern productive methods far

/beyond

beyond the reach of the individual merchant, trader or manufacturer. He can not lay a railroad, or build an electric power system, he can not himself provide an area of law and order within which he can operate. He can not <sup>, in short,</sup> control his environment, he can at best influence it. It is in the building up of such an environment that the International Bank is vitally interested. Only with such an environment will businessmen invest capital to increase the productive resources and raise the standard of living of the less developed parts of the world.

Broadly speaking, the Bank tries to do this in three ways:

(a)  
~~Firstly,~~ the Bank encourages its member governments to create the climate in which the businessman feels he can invest safely. We try to build up a relationship of confidence between the government and the business community, to foster generally recognized standards of business, conduct and international investment, and to encourage the elimination of discriminatory legislation or practice. <sup>It is a slow job.</sup> We have to build gradually, but I am persuaded that if we build well, this could be one of the most valuable features of the Bank's work.

(b)  
~~Secondly,~~ the Bank provides technical advice and assistance. This may take the form, in appropriate cases, of sending a mission to the member country which reviews either the economy as a whole, or a particular industry or enterprise. Such missions have recently gone to Colombia, Cuba, Guatemala and Turkey. It may also take the form of <sup>assisting the countries to obtain</sup> recommending economists, /engineers,



engineers, or other technicians to advise the member governments on specific problems.

(c)

~~Thirdly~~, the Bank finances those activities in the underdeveloped countries which are basic to future and more diversified development, such as electric power, agriculture and transportation.

What I have had to say so far has been in the context of the development of the underdeveloped countries of the world. Much of it, however, is also true of the countries which have reached a higher stage of development. These, too, need further capital, both for rehabilitation and for modernization -- capital which in present circumstances they can not wholly provide themselves -- at least in the currencies required.

I need not remind you that the International Bank operates on a business basis. In its lending operations the Bank is resting solidly on the two pillars upon which must be built a strong and lasting revival of international investment, especially of private investment. First, we have taken every opportunity to stress the need for re-establishing the integrity of international loan contracts. And, second, in our own loans we have taken all reasonable precautions to satisfy ourselves that the loans will be used for sound and constructive purposes, and of the ability and willingness of the borrowers to repay them. The standards we have established have, I think, done much towards reviving and proving the idea that international investment can be carried on with adequate rewards both to the borrower and the lender.

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The Bank has so far made 32 loans, for a total of just short of one billion dollars. They include loans to assist general programs of reconstruction of war damaged economies, such as in Denmark, France and the Netherlands; and loans for specific fields of development, such as electric power in Brazil, Mexico, Salvador, Finland and India; flood control in Iraq; agricultural improvements in Chile, Colombia and India; woodworking industries in Finland; and transportation, mining and general industry in Australia.

We are, of course, not the only institution operating in these fields. The urgency and magnitude of the task of restoring and expanding world production and trade in the post-war years called for assistance on a scale and of a character which only the United States Government was in a position to give. We are all aware of the generous response of the United States Government and of the effective work of the government agencies concerned.

The International Bank, however, which has been in operation since the latter part of 1946, can, as an international organization, operate in certain fields and in certain ways which are not open to the agencies of any one government. It can play a significant part in encouraging investment in currencies other than the dollar and it must not be forgotten that in spite of their difficulties, European countries are even today lending substantial

/amounts

amounts to further the development of less developed areas. Secondly, it is in a good position to call upon the reserve of technical knowledge and industrial skills of the older industrialized countries, which still have a significant contribution to make. Thirdly, it can and does act in partnership with private capital in a way which government agencies frequently can not do. Fourthly, there are fields, which for political reasons are open to the International Bank but not to government agencies.

In the few minutes at my disposal, I have been able to sketch the picture only in its broadest outlines, <sup>but</sup> ~~and~~ I hope that I have been able to say enough to indicate to you the main objectives the International Bank has held before it. As time goes on, the problems will change in texture and intensity and we shall constantly be alert to new possibilities of furthering our basic aims of promoting the growth of international trade and investment and ~~of~~ raising the standard of living all over the world.

Speech file

Hoar's Broadcast-Mutual  
Newsreel-November 6, 1950

The International Bank made two loans during the past week - One of these went to the South American country of Colombia, to help to build a new hydro-electric plant. The other went to a member nation on the other side of the globe - to Thailand, in South Asia - this loan will help to improve the ocean port of Bangkok (which is the capital city of Thailand) and assist the country's railway and irrigation systems.

These two loans mark a sort of milestone in the Bank's operation over the past four years - because they bring the total amount of loans made by the World Bank to over the one billion dollar mark. Actually the figure now stands at about one billion, twenty million dollars.

Each of the loans making up this total has been made on a business-like basis. The Bank has been very careful to satisfy itself that the conditions surrounding them justify confidence that they will be repaid.

One billion dollars is a very substantial amount of money. But the most important thing about the loans the World Bank is making is not their size. It is rather the fact that they assist the member nations of the International Bank to develop their economies along beneficial lines.

We have made loans to governments - and to private enterprises, too - in all the major areas of the earth - in Latin America, Europe, Africa, the Middle East and the Far East. These loans are at work in such practical ways as these - to pick a few illustrations at random: helping to operate the steel industries of France and Belgium, to build power plants in many underdeveloped countries, to produce more food in India, to build ports in Turkey. In other words, to help these countries help themselves in this important business called "economic development". This means the development of untapped natural resources, of small and large industry, and of agriculture - and thereby helping to raise the standard of living of people in many areas of the world. And may I add that such development may prove to be one of the most solid foundations of peace itself.

BROADCAST BY A.S.G. HOAR OVER MUTUAL NEWSREEL - November 6, 1950

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*French file*

RADIO ADDRESS BY MR. A.S.G. HOAR

I am glad to have this opportunity of saying something about the two loans which the International Bank has just made for electricity and transport development in the Union of South Africa. We have lent before to other members of the Commonwealth -- to India and to Australia, but these two loans are our first in South Africa.

The loans mark a new departure in another way. (For the first time the International Bank is lending in association with private investment capital.) Simultaneously with the two International Bank loans, a credit of ten million dollars, roughly equivalent to three and a half million pounds, has been granted by commercial banks in the United States on a short term basis, thus complementing the longer term finance obtained from the International Bank. I hope that this sort of operation will become increasingly practicable, for it represents a very good way in which the International Bank can aid and supplement the flow of private capital for investment.

(South Africa undoubtedly needs capital from abroad if she is to develop her rich and varied natural resources. Traditionally, her main source of overseas capital has been the United Kingdom, but for the time being, at least, United Kingdom investors are not able to provide sufficient capital for the Union's needs. South Africa must therefore go elsewhere.)

The two loans we have made will be spent on electric power and transport development. Electric power is a basic requirement for the continued expansion of the South African economy. Although generating capacity has been extended and the distribution system has been expanded since the war, they are inadequate to meet current and future needs. The expansion program now

under way will increase generating capacity by 60% and cover not merely the growing power requirements in the established industrial area of the Rand, but will assist the growth of industries in other areas.

In a country such as South Africa, with vast open spaces and long distances separating the places of production from markets and ports, good transport is vital. Since the war, transport facilities of all kinds have been inadequate to handle the increase in traffic brought about by the expansion of the Union's industries and the general development of the country. The Railway Administration's six-year expansion and improvement program should overcome present transport difficulties and provide for future developments.

As I said a few moments ago, these two loans are the first we have made to South Africa, but we hope they will not be the last. We hope that the relationship now established is merely the beginning of a partnership which will play a vital part in South Africa's future development.

December 21, 1950



one-to-four-family dwelling financing field, in which most savings banks do business, voluntary credit restraint applies only to conventional or savings bank loans on standing housing—sometimes designated as old houses—but more precisely all housing not new construction.

One feature of the program with regard to real estate that Mr. Booth discussed was that of loans on dwelling property with more than four families, also on commercial property. He said such loans must be judged not only on a loan value ratio but for purpose as well. "We are asked to limit total mortgage financing on such properties," he said, "to 66 $\frac{2}{3}$  per cent of the appraised value. In addition we need to examine the circumstances to see if the proceeds of the loan, or sale, if any, will be in harmony with the program."

## WORLD BANK LOANS ARE DESCRIBED

The second speaker of the session, Mr. Hoar, loan director of the International Bank for Reconstruction and Development, told how the World Bank helped to bridge the gap between the reluctant investor and those parts of the world which capital could help to transform into healthy economic countries.

"Our aim," he said, "is not primarily to make a profit; the rates at which we lend are calculated to do no more than cover the cost of our borrowing and our operational expenses and provide a prudent margin of reserve. Nevertheless, over the past five years, the Bank has not only accumulated a special reserve of \$20 million, but has additionally transferred to reserve a net income of \$42 million." Mr. Hoar pointed out that the Bank's success has been due more to the strict adherence to banking traditions than to the development of any new departures. One of the advantages given the Bank over private investors in the past is the fact that the governments to which loans are made are stockholders in the bank. "They have an interest in our success," he said, "and are represented on our Board."

The speaker then pointed out how the International Bank, working with the fullest cooperation of the government to which it was planning to lend funds would investigate thoroughly how far the economic and financial condition and policy of the country would justify the loan. Next it would study the purpose to which the loan would be put to the end that the Bank could be sure, not only that the project is technically and economically sound, but also that it will be executed and operated by competent management. Finally the methods of disbursement and supervision would be studied to insure that the loan is used effectively and economically for the purposes for which it was granted.

## 50 LOANS, 24 COUNTRIES

To show the extent of the loan record that could be exhibited, Mr. Hoar stated that the Bank has made over 50 loans in 24 countries for a total of more than \$1.2 billion. These loans he said have been divided roughly as follows: Europe 53 per cent; Latin America 23 per cent; Asia, Africa, Australasia—about 8 per cent each. "Beneficiaries from our loans," he said, "have ranged from big corporations in highly industrialized countries to government agencies in highly underdeveloped countries."

To illustrate just how the Bank operates in working out a loan project he took as an example a loan to Ethiopia.

The Bank sent a small mission early in 1950, he explained, to survey the economy and assess its needs. It reported the country potentially rich in coffee, hides, and oilseeds, but relatively untouched by modern economic influences. In



A. S. G. Hoar  
Discusses International Bank

30

# Lincoln Savings Bank

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particular its communications, the arteries for a healthy economic system were almost entirely lacking.

Its roads, which were practically non-existent before the coming of the Italians, had been built up in the '30s but were not maintained and were in a sad condition.

A loan of \$5 million was made in September 1950 for equipment and materials. This was conditioned on the setting up of a Highway Authority satisfactory to the Bank and provided with adequate financial resources. This is now set up and is being administered as a technical operation under the U.S. Bureau of Public Roads.

The next step, according to Mr. Hoar, was to work out a communications system. The country, which is one and a half times the size of Texas, with a population of about 12 million, had only 1750 telephones, 1200 of which were in Addis Ababa. The Government wanted to use radio,

but it was discovered that the Italians had left some 50,000 steel poles and enough copper wire to develop a first class telephone system. To develop this communications system, a loan of \$1 to \$5 million was made in 1951. Again it was insisted upon that proper authority be set up, and Brigadier General Moran, U.S. Army retired, was put in charge of the development.

The Mission observed that there were numerous operators of small but successful businesses which were unable to expand or improve production because of lack of capital. Accordingly, it recommended the establishment of a Development Bank to make loans on reasonable terms to farmers and manufacturers. The bank was established under proper organization and management with a loan of \$2 million.

#### TAX EXEMPTS FOR MUTUALS

Following Mr. Hoar to the dais, Mr. McGee, manager of the municipal research department of R. W. Pressprich & Co., New York, in his talk on "Tax Exempt Bonds for Institutional Investors," said that, since most savings banks were out of the tax exempt market, he would try to bring them up to date on the trend of prices since World War II.

In order to explain the value of the tax exempts for the savings bank investor more clearly, Mr. McGee said he has classified them in six different groups according to the offerings over the last forty years.

Taking up the first classification, that of state obligations, Mr. McGee pointed out that savings banks in Connecticut can buy any of their own state obligations without limit, but in other states are limited to 2 per cent of their assets. This latter limitation he said holds for any state in the United States until a total of 20 per cent of assets are absorbed. That is to say, a limit of 20 per cent of assets could be spread over the obligations of ten states.

The second class of obligations, Mr. McGee described as general obligations of political subdivisions and school districts. In Connecticut, he said that savings banks can hold up to 25 per cent of their assets in obligations of cities, towns, boroughs, or counties but not more than 5 per cent in any one case.

As regards the purchase of this classification in outside states, the speaker pointed out that Connecticut law limited holdings of savings banks to those of cities. This is distinctly restrictive, he explained, and at times puts the savings banks of Connecticut at a disadvantage, particularly in the case of the obligations of a school district, etc. That is, they can buy the bonds of a city, but not the bonds of a school district in that city, though the latter might be the better security.



For more than 100 years this Bank has helped people enjoy the advantages of freedom and enterprise. By encouraging thrift and promoting saving, we have contributed to the industrial progress of the nation and made it possible for many to have a better standard of living.



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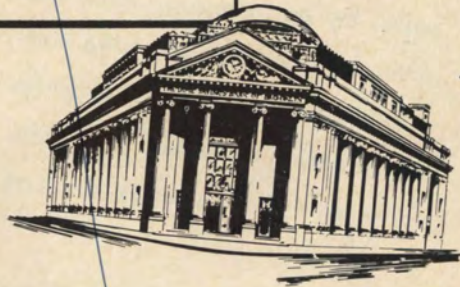
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Mr. Hoar - Conn. Mutual 11  
Nov. # SAVINGS BANK JOUR -  
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Speech by Mr Hoar -  
Savings Bank Assn. of Conn.  
Oct 17, 1951

TECHNIQUES OF INTERNATIONAL INVESTMENT

(see also  
description in  
Savings Bank Journal  
Nov 1951)

1. It is almost exactly five years since I entered the service of the International Bank for Reconstruction and Development, at a time when it was just beginning active operations. One way, I find, of measuring the progress the Bank has made during these five years is to glance back at my notes for speeches I have made over that period. In the early days I had to concentrate on explaining what the Bank was, what it was intended to do, and how it obtained its resources: sometimes, indeed, my speech was for many of my listeners their first intimation that such an institution existed.
  
2. Nowadays, I am glad to say, there is no need, when I address an audience of bankers, to dwell on such matters, and I shall take it for granted that you are sufficiently familiar with the general purposes, constitution and capitalization of the Bank. This will leave me free to give you some idea of our operational methods.
  
3. Nor need I urge on an audience of American bankers the importance of international investment. The rapid progress of North America in the nineteenth century would not have been possible without a large influx of capital from Europe. In a generation or two a dramatic transition has taken place, and the United States has taken over from the United Kingdom the role of chief supplier of capital for development to the less developed parts of the world.
  
4. The investor, however, is always conscious that investment outside his own country is attended by special risks that do not apply to

domestic investment. It involves the use of his money by people and in activities unfamiliar to him, in a political and legal setting very different from and, for that reason and for others, often less reassuring than his own. Moreover, it exposes him to the fluctuations of exchange rates and, in recent years, to the shackles of exchange control.

5. These are solid facts that cannot be ignored.

6. It was in a period when these "solid facts" were particularly in investors' minds that the International Bank was founded, a time when, after the shattering experiences of the great depression and the war, disillusionment had dried up most of the sources of international lending. Paradoxically, however, this moment of disillusionment was one in which the need for such lending was greater than ever before. Many underdeveloped countries had attained a new national consciousness with which had emerged an acute consciousness of their underdevelopment. They felt that there was no inherent reason why they should not emulate the material successes of the more advanced countries, and they were eager to begin to do so.

7. The Bank was set up, therefore, to be a bridge which would span the gulf between the reluctant investor and those parts of the world which his capital could help to transform In view of the serious consequences of a failure to bridge this gulf, a heavy responsibility has rested on the Bank to show that international lending can be conducted so as to benefit both investors and borrowers.

8. When it was established, there were not a few cynics who were inclined to look on the Bank as the creation of unworldly idealists, and to expect that it would turn out to be a means of providing easy money for borrowers whose creditworthiness and purposes could not stand up to the more rigorous tests of the private market. Five years ago I could only have said that such views revealed a gross misconception of our intentions. Today I can go further and point to the record to support my statements.

9. I think that most of you are aware that the Bank's operations have been profitable. Our aim is not primarily to make a profit; the rates at which we lend are calculated to do no more than cover the cost of our borrowing and our operational expenses, and provide a prudent margin of reserve. Nevertheless, over the past five years, the Bank has not only accumulated a special reserve of \$20 million, but has additionally transferred to reserve a net income of \$42 million.

10. The point I want to stress is that, if we have been reasonably successful, it is not because of any novel departures from the orthodox traditions of banking and investment, but rather the reverse: we have kept more strictly to those traditions than many international investors have done in the past.

11. I would not wish, however, to appear to attribute any success the International Bank may have had entirely to the superior wisdom of those who guide its destinies. The constitution of the Bank has given it opportunities denied to private investors in the past. The governments



whose unpredictability worried them are our stockholders. They have an interest in our success, and are represented on our Board. The management of the Bank can talk to them in a frank and equal way which would not be possible for private banks and investors. They are prepared to take us into their confidence and to listen to our advice. Our loans, if not made directly to these governments, must have their guarantee. We do not hesitate, before making a loan, to press them for assurances as to their financial and economic policies and, in the atmosphere of collaboration which has been developed, we believe that our member governments will not lightly and arbitrarily depart from these policies.

12. We can thus influence factors in the investment situation which investors in the past had to accept as they came. But, I should be doing much less than justice to Mr. Eugene Black and his associates and predecessors in the Management of the Bank, if I gave the impression that it has been easy to take advantage of the Bank's special position. To perceive the opportunities which it confers, and to use them in a way which will be accepted by so many different member governments, has called for personalities and abilities of a very exceptional kind, and the Bank has been fortunate to be able to command them.

13. Profiting, then, both from its special position and from the errors of the past, the International Bank believes that it has carried certain policies and techniques much further than was attempted, or was possible in the past. In particular, I would mention these:

First of all - (a) Investigation into how far the financial and economic position and policy of the borrowing country justifies the assumption of external debt.

Then - (b) Thorough study of the purposes to which a loan will be put in order that, before lending, the Bank can feel confident not only that the project is technically and economically sound, but also that it will be executed and operated by competent management.

Finally - (c) Methods of disbursement and supervision which ensure that the loan is used effectively and economically for the purposes for which it was granted.

14. In order to show you how these policies and techniques are applied in practice, I propose to open some of our loan files for you: to show you, by reference to actual case histories, how the Bank approaches particular problems of investment.

15. The full extent of material on which I could draw is, of course, considerable. The Bank has made over 50 loans in 24 countries. The total is over \$1,200 million and, apart from broadly-based reconstruction loans to some European countries, the projects financed have ranged widely over the fields of:

electric power

transportation

communications

agriculture and forestry

manufacturing and mining industry

and development banks

The continental spread has so far been, roughly,

Europe - 53%

Latin America - 23%

Asia, Africa, Australasia - about 8% each

Beneficiaries from our loans have ranged from big corporations in highly industrialized countries to government agencies in highly underdeveloped countries. We have had an immense variety of material to work on and an infinite variety of problems to work out.

16. Out of this wealth of material I propose to select three International Bank operations to illustrate our methods.

17. I will take my first example from ETHIOPIA. How does the Bank approach the problem of lending to such an underdeveloped, indeed to such a primitive, country?

(a) Sent small mission early 1950 to survey economy and assess its needs.

Found country potentially rich (coffee, hides, oilseeds, modest p. favorable) but relatively untouched by modern economic influences. In particular, communications, the arteries of a healthy economic system, were almost entirely lacking.

Creditworthy modest loans.

(b) Roads

Practically none before Italians.

Italian roads built in late Thirties, and no maintenance (story).  
Pointless to try to get farmers to produce more hides, oilseeds, cotton for export, if they cannot be brought to a port for shipment.

Loan of \$5 million September 1950, for equipment and materials.

Conditioned on: Highway Authority satisfactory to Bank and with adequate financial resources. Now set up and being administered as a technical operation under U.S. Bureau of Public Roads.

(c) Telecommunications

Country  $1\frac{1}{2}$  times size of Texas.

Population over 12 millions.

Only 1,750 'phones, of which 1,200 in Addis.

Government intended Radio.

We found remains Italian land-line system: 50,000 steel poles and enough copper wire.

Loan of \$1.5 million February 1951. Again insisted on properly set up Authority. Brig. General Moran, U.S. Army retired.

(d) Development Bank

Numerous operators of small, but successful, businesses unable to expand or improve production because unable to obtain capital.

Mission recently established Development Bank to make loans on reasonable terms to farmers and manufacturers' organisation and management acceptable. Baranski Loan \$2 million. Initial operations - few tractors, textile machinery.

18. I will now turn to a different type of operation altogether. Financing the development of an electric utility owned by a big foreign corporation. This is already a big undertaking; and the country one which has advanced a considerable distance along the road to development. I refer to the Mexican Light and Power Company.

19. The Company, as you will know, is incorporated in Canada, but with ownership widely distributed in North America and Europe, and has for many years been the chief private electric power producer in Mexico. It approached the Bank in 1949 for a loan of \$26 million to finance the foreign exchange costs of a program of expanding its generating and distributing facilities serving the Mexico City area. The Mexican Government was anxious that this program should be carried out without delay, and informed the Bank that it was prepared to guarantee the loan.

20. The Bank studied this application from several points of view. In the first place, its engineers investigated the market for power in the Mexico City area, the technical appropriateness of the proposed installations, the competence of the Company's staff to carry out the program, and the coordination between Mexlight's plans and those of a government agency, the Federal Electricity Commission, which proposed to carry out certain supplementary projects to serve the same area. They were able in a relatively short time to confirm the merits of the program from all these points of view.

21. At the same time, since we had made no previous loans to Mexico, the Bank's economists made detailed on-the-spot inquiries into the country's economic and financial position. They were aware that Mexico, like other Latin American countries, had been faced during and after the war with the

problem of inflation, and also that, in the past, there had been unhappy episodes in the relations between Mexico and foreign investors. Their conclusions, however, were reassuring. They found that the Mexican Government was clearly aware of the problems that confronted the country, and was making skillful and resolute efforts to solve them. They advised the Bank that, if the Government adhered to its current policies, the economic and financial situation should offer no obstacle to a loan.

22. The third path of investigation, into the financial position and prospects of Mexlight, proved to be more thorny. The Company's capital structure, built up piecemeal over many years, was exceedingly complex and no longer appropriate to the Company's needs. The Bank, from the point of view of its own interests, was concerned to find that any loan it made to the Company would have to rank junior to existing first and second mortgage bonds. It also pointed out that the capital structure as it stood would be a handicap to any future attempt on Mexlight's part to obtain funds in the capital market. Moreover, as long as an application made by Mexlight to the Mexican authorities for new power rates remained unsettled, there could be no certainty that the Company's earnings would be satisfactory. Finally, it was doubtful whether, if the Bank, according to its normal policy, financed the foreign exchange cost of the program only, Mexlight would be able to command sufficient resources to finance the peso cost.

23. In view of these difficulties, the Bank informed Mexlight that it could not consider a long-term loan to the Company unless an appropriate financial reorganization were carried out. The Bank added, however, that,

in order that the execution of the urgently needed expansion program should not be delayed, it would give sympathetic consideration to interim financing provided that the Company assured it that such a reorganization would at once be put in hand.

24. In July 1948, Mexlight gave the Bank such an assurance. The situation was further clarified by the Mexican Government's expressing its intention to expedite a rate award, and to make Mexlight an interim loan towards the peso costs of the program.

25. On January 6, 1949, the Bank made a loan of \$10 million to finance imports required to carry the program through 1949. The loan was to mature on December 31, 1949, and, in view of the problem of security, was made, not to Mexlight, but to Mexican Government agencies which re-lent the proceeds to Mexlight. At the same time the Bank informed Mexlight that, when the interim loan matured, it would be prepared to grant a long-term loan directly to the Company, provided that the reorganization had been satisfactorily completed, the rate and local currency financing problems had been settled, and no other obstacles to a loan existed.

26. The reorganization, which required the consent of security holders in many different countries, took longer to complete than was expected. In particular, the devaluation of the Canadian dollar and of sterling in September 1949, made it necessary to revise the terms on which it was proposed to convert securities expressed in those currencies into new U.S. dollar securities. The electric power rate negotiations were also protracted, and the definitive rate structure was not promulgated until December 1949. The Bank was therefore unable to grant the long-term loan before the end of 1949, and agreed

to postpone the maturity of the interim loan until July 1, 1950.

27. Early in 1950, however, the reorganization was completed, and the Mexican authorities agreed to provide long-term peso financing. The Bank was therefore at last able, in April 1950, to make Mexlight a long-term loan of \$26 million to refund the interim loan and to finance the balance of the foreign exchange costs of the expansion program. (Able to report good progress: Lecheria (Th) nearly finished; unit in Necaxo - Patta (Hydro) end 1952.

28. This loan also provided an example of a borrower ultimately endorsing the Bank's rigorous approach. The Chairman of the Mexlight Board, Mr. George Messersmith, whom you will remember as a former U.S. Ambassador to Mexico, is fond of recalling how, when the Bank proposed the reorganization, he and his colleagues shuddered at the prospect of such a Herculean task, and how, when it was at last completed, they were full of gratitude to the Bank for having made them do it.

29. The most recent of the Bank's loans was one of \$28 million to Yugoslavia and I thought this would be one in which you would be particularly interested.

"What in the world are you doing lending to Yugoslavia?"

A very fair question and one I am glad to try to answer to your satisfaction.

(a) First of all, no political motive. If we had not seen the possibility of making a sound and productive loan, we would not have made it. We have satisfied ourselves on that possibility, but



certainly this has been about the most difficult loan the Bank has ever made. Correspondingly, it has been one of the most interesting.

- (b) What about creditworthiness?
- (c) What about chances of honoring obligations?
- (d) What about rigid economic and financial controls?
- (d) What exactly have you tried to do?

30. Rather than deal with these questions separately, I think I can best attempt the answers by giving you some insight into the results of our extensive review of the whole Yugoslav picture over the last two years. I shall have to condense very much because this is a subject on which I could talk, literally, for hours.

31. First of all let me say that we have had the fullest and frankest cooperation from the Yugoslavs themselves. Our experts have gone where they wished and seen what they wished.

32. Yugoslavia is potentially a prosperous country (minerals, forests, agriculture), with resources sufficient to permit a considerable increase of production and exports in all major fields, including agriculture, if existing productive facilities are expanded and modernized. The country, however, is passing through a period of transition which has created serious immediate difficulties. It has had to repair heavy war damage, to reorient its foreign trade from Russia and its satellites to the west, to devote a large part of its resources to military defense, and to reorganize its economic machinery with a view to restoring incentives discarded during the first phase of

collectivization. While struggling with these problems, Yugoslavia was confronted last year with widespread crop failures due to drought.

Overall conclusion: (a) if short-term difficulties surmounted;  
(b) if investment program widely carried out, requiring long-term borrowing;  
(c) Yugoslavia viable at higher standard of living than at present.

33. Yugoslavia has therefore had to borrow heavily abroad since the war in order to meet its balance of payments deficit and, as a consequence of the 1950 drought, will probably not be able until 1952 to pay for imports for current consumption without external aid. This problem of a temporary deficit had to be solved before the Bank could lend for long-term development.

The Governments of France, the United Kingdom and the United States have announced their intention of helping Yugoslavia to meet the deficit for the period up to July 1, 1952.

34. Then, and this is bound up with the question of honoring obligations, there was the question of the default on Yugoslavia's prewar external debts. The Government of Yugoslavia has recognized its liability for these debts, which are predominantly in French francs and U.S. dollars. In April 1951, the Yugoslav Government reached an agreement with the French Government for partial payments, for a three-year period, on Yugoslav French-franc bonds held in France. The Yugoslav Government has also had some discussions with the U.S. Council of Foreign Bondholders, but further negotiations have been deferred until the economic situation improves sufficiently to permit a more adequate level of service to be resumed.

35. Apart from these intricate international negotiations, the Yugoslav loan also involved, for the Bank, prolonged technical and economic study of

the country's development plans, including policies, and discussion of them with the Government in order to ensure that they were on the right lines. Flexibility increasing over the period of the negotiations, the Government has considerably modified these plans to take account of changes in the country's internal and external situation.

36. The Bank's loan, as eventually worked out, covered projects in seven basic sectors of the economy: electric power distribution, coal mining, non-ferrous metals, manufactures, <sup>ie</sup>lumber, agriculture and fisheries, and transportation. It is only a small part of the total investment program, which will require the equivalent of more than \$200 million, the greater part of which will be financed by Yugoslavia out of its own resources. The projects to be financed by the loan were carefully selected as those most significant from the point of view of breaking bottlenecks and providing key items of equipment essential to the success of the whole investment program. The Bank's loan may in this way help to improve Yugoslavia's balance of payments by as much as \$60 million a year, and thus help Yugoslavia to return to its prewar position as a country with an export surplus.

37. The examples I have chosen show, I think, that each of our member countries, and indeed each loan application, presents special features and special problems. Unless each loan is individually tailored to meet these features and problems, it will fail to make its full contribution to the member's development.

38. I hope that what I have said has been sufficient to show you that the International Bank is aware of its serious responsibilities towards both those who have invested in it and those who look to it for help in raising

their economic levels. I hope, too, that I have shown that, in discharging these responsibilities, far from discarding traditional principles of sound banking and investment, it seeks to apply these principles with a novel vigor in the field of international investment by means of developments of technique made possible by its special position.

39. The International Bank is not an isolated institution, whose success or failure concerns a relatively small number of individuals only. It is an integral part of the effort of the free peoples of the world to demonstrate that their way of life offers the only real hope for those great masses of mankind who have been taught by the free peoples themselves to aspire to higher standards of living.

40. I am happy to be your guest today, and to be able to associate myself with you as a fellow banker. I shall be happier still if my remarks have helped you to realize that the International Bank is not simply to be bracketed with your own banking institutions on the basis of its name, but also because it shares your standards of prudent banking and, most important, because it is linked with you in a tradition of service to the communities, large or small as the case may be, in which we work.



INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

THE ROLE OF THE INTERNATIONAL BANK IN  
POSTWAR RECOVERY

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delivered April 29, 1953, at Dusseldorf

It gives me great pleasure to be able to take part in today's meeting of the Zeitschrift fuer das Kreditwesen, especially as I can look back with great pleasure to many connections with Germany, both before and after the war. Now that Germany has become a member of the Bank in this business year, I am particularly glad to take advantage of the opportunity to speak with a group of leading practical bankers. I have always regarded it as extremely valuable to exchange ideas with practical people about interesting problems. Today, I would like to apply such an exchange of ideas to the basic problems of the current balance of payments situation as they affect particularly an international investment institution. I do not propose to go far into detail, but I will attempt to supplement the very interesting remarks of President Bernard and Professor Roepke with a few ideas drawn from my own particular sphere.

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This is a particularly appropriate time for us to pause and survey our postwar progress: you will remember that 1952 was the year in which the postwar transitional period was to end. That is, by 1952 the rebuilding of a world multilateral non-discriminatory trade system without foreign exchange restrictions was to have been completed. 1952 was also the year in which the Marshall Plan was to end with the economic reconstruction and recovery of Europe completed. It is now 1953 and we have still far to go to reach these goals.

In order to discuss the role of the International Bank in postwar recovery for an audience such as this, there is no need for me to give a detailed account of the origins of the International Bank, its capital structure and its methods of operation. I would, however, like to give a brief summary picture of our operations since we opened our

doors almost seven years ago. I will then proceed immediately to the relation of our operations to the topic of discussion today.

The total of all loans which the Bank has made now stands at \$1.6 billion. Of this, almost half a billion dollars represents reconstruction loans made in 1947 to France, the Netherlands, Luxembourg and Denmark. They were made in the period immediately before the Marshall Plan and were a vital contribution to Europe's dollar needs at a critical time. The remainder of our loans, amounting to a little over one billion dollars, are loans for projects of economic development in 23 of our member countries and in three dependent territories. We have lent \$240 million in European countries (apart from the half billion for reconstruction), \$374 million to the countries of Latin America, \$182 million to the Middle and Far East, \$140 million for development on the continent of Africa, and \$150 million to Australia. We have found that our principal task in economic development so far has been to finance the provision and improvement of basic utilities. Some \$400 million has been devoted to electric power. \$200 million or so has been for transport, railways, roads and ports. In the agricultural field we have lent over \$150 million for irrigation projects, land clearing schemes and for the provision of farm equipment. We have also made investments in mining and industry.

In all our lending operations we have taken great care to satisfy ourselves that the projects which we have helped to finance have been properly conceived and economically sound, and that their execution has been entrusted to competent hands.

The funds for these operations have come partly from our original capital subscriptions and partly from our own bond issues. We have disbursed about \$825 million from our original capital, of which around \$635 million was from the United States subscription. We have made bond issues in four countries, the United States, Canada, Switzerland, and the United Kingdom, from which we have obtained the equivalent of \$556 million. We have also made sales of our borrowers' obligations, sometimes with and sometimes without our own guarantee, for which we have received almost \$67 million.

And now, as we survey all this activity, what can be said of its relation to the great problem of the postwar disequilibrium in the world economy with its results in the form of balance of payments difficulties which have affected almost all countries this side of the iron curtain (and perhaps some countries on the other side as well)?

I should like first of all to make some distinction between the different economic diseases which may lead to the kind of difficulties which are now generally referred to as "balance of payments problems." By doing so, we shall be able to separate those which the Bank was not designed to cure from those where, I believe, it is of help.

Firstly, there may be, as there was in Europe immediately after the war, a simple lack of goods. The economy may be unable to produce enough to rebuild the damaged or destroyed industry, the transport, and the housing necessary to get the economy going again, and at the same time maintain a level of consumption for the population which could be regarded as at all tolerable. It was to meet this kind of situation that the first Bank loans in Europe were advanced and for which the Marshall Plan was devised. It was originally hoped that the restoration of productive capacity would by itself be enough to cure the balance of payments difficulties of the countries of Europe. We now know that this has not happened and I shall return in a moment to discuss the reasons why it has not happened.

A second, and very familiar, cause of balance of payments difficulties is the pursuit by governments of ill-advised monetary and fiscal policies. In all countries which depend to any extent upon international trade, the existence of internal inflationary pressure, or, more strictly speaking, of more inflationary pressure than there is in the rest of the world, leads to deficits in the balance of payments. The Bank is able to help at times by putting its weight on the side of sound policies, but this problem is not one for which Bank loans are a primary cure. There is no need for me to labour the virtues of sound money before a group of bankers, particularly in Germany where the evils of inflation are in no danger of being overlooked and where recent monetary policy has not erred in this regard.

Thirdly, there are the purely short-term balance of payments difficulties which may arise from such events as a crop failure or a temporary fall in demand for a commodity on which a country is very dependent. It is in such situations that our sister institution - the International Monetary Fund - can help.

Fourthly, it is sometimes suggested, even in responsible quarters, that the Bank should deliberately vary its rate of lending in accordance with variations in the supply of dollars from the United States to the rest of the world. The principle invoked is that of so-called "anti-cyclical lending." When the United States goes through a period of relative deflation, then, it is argued, the Bank should deliberately lend faster. Conversely, when the economic activity in the United States is very high and the current surplus on its balance of payments diminishes, we should slow down our lending. As far as we in the Bank are concerned, this idea puts the emphasis in the wrong place. We do not mean that we feel that any arrangement is bad whereby the supply of dollars to the world would remain fairly constant over the cycle. There might be considerable merit in achieving this. But we are convinced that it is wrong to expect to use the Bank for this purpose. In the Bank, to be of most benefit to our borrowers and to make good loans we must determine our loans on the basis of the needs of the borrowers and the soundness of the projects and development they undertake. If our loans were instead to be determined by the needs of

the U.S. balance of payments, we would be sure to make bad loans for hasty, ill-conceived, half-baked projects. And we would not meet the needs of our borrowers. What we can try to do, however, is to influence our member countries to be cautious in their development plans in time of boom and not be over pessimistic in time of slump.

It was originally envisaged that in certain circumstances the Bank might make stabilization loans for the reconstruction of monetary systems. So far we have not made such a loan and, unless conditions undergo a rapid change, I doubt whether we shall make any in the near future.

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Having now warned you what not to expect from the Bank, I must proceed and describe the ways in which I believe it is of great value. It is now becoming clear to all that the mere physical reconstruction of Europe is not a sufficient condition for the reestablishment of a free multilateral trade and payments system in the world economy. Production in Western Europe is now generally much higher than before the war. Even consumption per head is, in most countries, higher than in 1938. It is, however, a fact that even in countries where inflation has been very mild, or even non-existent, it has not been found possible to dispense altogether with import and exchange controls, certainly not against the dollar. Thus even if the forms of economic maladjustment that I have already mentioned are overcome, there is still a problem left.

This problem is sometimes called the "dollar problem." This is correct for some purposes in that it focuses attention on the dollar shortage. But it is incorrect if it diverts attention from the fact that the problem is due to the structural changes in the world-wide pattern of trade and production. We have learned that Europe's post-war difficulties are due not so much to what the war did to Europe but rather to what the great depression and the two wars did to Europe's place in the world. Briefly, while the physical damage wrought by the war has now been repaired, Europe and the world have not yet made the structural adjustments necessary as a result of the loss of European investments abroad, of the division between Eastern and Western Europe and of the fundamental shift in favour of the position of raw material and food-producing countries vis-a-vis the industrialized countries. There has also been a relatively greater expansion of output in the dollar area which has increased European dependence on dollar commodities and a rise in prices which has reduced the significance of gold in meeting the dollar gap.

The consequence of all these changes has been the breakdown of the system of multilateral trade which we knew before the war. Today world trade is being kept under control by a complicated network of restrictions and discriminations. The reestablishment of a system of



fully convertible and fairly stable currencies will depend on economic adjustments both in Europe and in the rest of the world. Perhaps an example will make clear what I mean and how the Bank helps: An important part of Western Europe's dollar shortage is caused by its need in the postwar period to import more grain from the U.S. and Canada. An important reason for this is that Japan now gets less rice from Korea and Formosa. How do the two connect? Getting less rice from Korea and Formosa, Japan has to get more from Indo-China, Burma and Thailand. Moreover, the output in Indo-China and Burma has been hurt by civil war. As a result, India, which used to get rice from these countries, now has to import more wheat from Australia. This means less Australian wheat for Europe that must be replaced by dollar wheat. This example, of course, is very rough and is an over-simplified analysis. But the point, I think, is clear. And the conclusions for what the Bank has done are equally clear. When the Bank makes loans, as it has done in India to increase the production of wheat and other crops, or to Thailand for irrigation to increase rice production, these loans may be just as helpful indirectly in reducing European expenditures on dollar wheat as our recent loan to Turkey will be directly helpful by making possible an increase in wheat production there.

The task of building up a free world economy in the face of the profound structural changes will be long and arduous. It cannot be done by a mere change in government policies. It may well require lasting changes in prices and exchange rates. But, as the examples I have just given show, it will certainly require investment to increase the right kind of output in the right place. Much of this investment must come from the countries directly concerned but a rational movement of international capital has an important part to play. It is the Bank's task to help bring about such a movement both by its own operations and by encouraging and fostering the movement of private capital.

In our activity we have attempted to help development that will contribute to the establishment of a new free world economy. In many of the under-developed countries of the world, the increase in output of primary products which are dollar-saving, or dollar-earning, or both, is often dependent upon the improvement of certain basic economic utilities such as transportation, port and storage facilities and power capacity. We have made many loans for such purposes in, for example, India, Pakistan, Thailand, Southern Rhodesia, Northern Rhodesia, South Africa, Turkey and the Belgian Congo. In each case we have always satisfied ourselves that expansion of these facilities would help to increase production. There is no question that such loans, together with other private and public investments from domestic and foreign resources, can go a long way to alleviate the world shortage of primary commodities and provide facilities for a steady growth of production commensurate with growing world demand.

Another aspect of the Bank's operations in this same connection is its growing role in supplementing the flow of capital from certain

*production of*

European countries to their associated overseas countries; that is, from the United Kingdom to the sterling area, from Belgium to the Congo, and perhaps from France to the overseas franc area. Since the war this flow of capital has been substantial. Although its results have not yet had time to mature, and in some respects it is possible to criticize the type of investment that has occurred, it should ultimately bring substantial benefits in the form of increased dollar-earning and dollar-saving commodities. This investment was to a large extent made possible by the receipt of substantial dollar aid by the European metropolitan countries. Now, with the decline of U.S. economic aid and with the growing popularity of tighter monetary policies, it is becoming doubtful whether it can be maintained at the levels of the last few years. The Bank attempts to supplement this investment by adding dollar capital and it can also help to ensure that it is directed in the most productive way.

The long-run consequences of the development of primary production in the rest of the world will be not only a reduced dependence upon the dollar area but also the expansion of markets for European goods. Rising living standards in these countries will create a demand for industrial products and an opportunity for European manufacturers. It is up to the European manufacturers to see to it that the manufacturers in the hard-currency countries do not get all the orders from this additional demand. Our loans to Latin American countries will, in addition, provide Europe with a chance to increase its direct earnings in dollar markets.

All these operations provide greater or lesser direct benefit to Europe. In addition, there is still another benefit that results from the Bank's operations. The Bank is committed by its Articles of Agreement to make only "untied" loans, i.e. loans not earmarked for expenditure in any specific currency. But in the immediate postwar period the supply of readily available capital goods, which form a large part of Bank-financed projects, was confined largely to the United States so that most of the Bank's loan proceeds returned to America. However, as a consequence of the reconstruction of the capital goods industries of Europe, a growing proportion of supplies financed by Bank loans will come from Western Europe, thus increasing the dollar earnings of the supplying countries. But perhaps more important in the long run is the fact that the "untied" character of Bank loans and the Bank's insistence on international bidding procedures has enabled the countries of Western Europe, among them Germany, to reestablish business connections which had been interrupted by the war and the postwar difficulties.

But, of course, in addition to the effect upon Europe of the Bank's activities in the rest of the world, we must not overlook its direct loans to Europe which will also increase the output of key materials. Our loans to Yugoslavia will lead to larger supplies of aluminum, copper, lead and zinc; we have made loans to Finland to increase the output of timber and wood products and to Belgium for increased steel production.

The encouragement of the movement of capital from the United States to the rest of the world is a matter of the most obvious importance. But it is, I think, almost equally important that something should be also done to try to stimulate the movement of capital among European countries themselves. Ever since the depression, inter-European capital movements have been very small. The risks arising from economic and monetary instability and from exchange restrictions have combined to prevent savings from moving over national frontiers. This development is one aspect of the general tendency which was so characteristic of the depression period, for countries to try to reduce their economic links with and dependence upon each other. While behaviour of this kind may well be regarded as the natural result of attempts by governments to maintain employment at home and to defend themselves against the waves of deflation which seemed to come from abroad, it has produced some economic distortions which have by now become deeply entrenched into the European system. These factors, the consequence of many years without inter-European migration, inter-European capital movements and, until recently, with a minimum of inter-European trade, explain why it is that the efforts towards a re-integration of the European economy encounter such complex and formidable obstacles.

In the attempt to build a more unified economy in Europe and the world, the rehabilitation of a European capital market must be an essential part. During the period of physical reconstruction in Europe, it would perhaps have been unreasonable to expect much in the way of inter-European capital movements because all countries were severely short of capital for their own needs. (Even so, there were some inter-European reconstruction loans; governmental credits from Belgium, Sweden, Switzerland and the U.K., mainly to France, and the Netherlands.) Moreover, the receipt of large-scale aid from the United States, distributed roughly in accordance with the relative needs of the recipients, could take care of differences in the supply and demand for capital within each country. But with a reduction in U.S. aid and in the absence of a substantial flow of private capital from the United States to Europe, there will have to be some revival of European lending unless each country is to rely solely upon its own savings. There is here another opportunity for the Bank to help. We can do this in two ways: by issuing our own bonds in European markets so that we can make loans to other countries in European currencies or by drawing on that part of our share capital which has been paid in by our European members and using it for the same purpose. To an increasing extent our members are finding it to their own advantage as well as to ours to cooperate by consenting to operations of this kind.

Altogether we have received permission to make use of nearly \$47 million from our European capital subscriptions for loans to other European countries and we have disbursed a little over the equivalent of \$13 million. As much as \$9 million of this amount represent the

movement of capital from the highly developed western and northern European countries to the lesser developed countries of southern Europe. This is, I think, the sort of capital movement which it is economically desirable to encourage at this time.

The Bank was not conceived as a substitute for international capital movements from private sources; it has always considered its proper role to be not only to supplement but to foster and encourage private international capital movements. The lending operations of the Bank itself depend largely on its ability to raise funds for lending in the capital markets of the world from private investors, since only 20% of its lending capacity rests on the financial contributions to the Bank by the member governments. The Bank has so far raised capital in four countries, two of them in Europe. There is a fair chance that the Bank's borrowing operations could be extended to the capital markets of other European countries - as a matter of fact, it is inconceivable to me that the Bank can fulfill in the long run its role as a truly international lending institution unless it obtains access to the capital markets of Europe. I might add that because of the prevailing inconvertibility of the majority of European currencies into dollars, I can conceive of a situation in which the Bank makes dollar loans to some countries of Europe while it borrows, at the same time, non-dollar currencies from them for loan operations either within or outside Europe.

But the Bank is interested not only in raising private capital for international loan operations for its own purposes. It attempts, through all its operations, to stimulate the resumption of private international lending through portfolio investment, through direct investment, or through medium- and long-term credits of capital goods producers to their foreign customers. Many of the Bank's loan operations for public investments in transportation and power generation provide the physical basis for an expansion of domestic and foreign investment in manufacturing and commercial enterprises in the borrowing countries. The Bank has always taken the position that justified ambitions of under-developed countries for an improvement in their living standards can be accomplished only if the flow of public foreign investment is supplemented by private investment. This applies particularly in the form of direct business operations, since this method of international capital movements transmits not only foreign capital but also the all-important ingredient of technical and managerial know-how.

The Bank's efforts to promote a flow of capital between countries take two directions. First, the Bank does what it can to arouse the interest of private investors in the United States in foreign investment, and by making the financial community aware of investment conditions and opportunities abroad. This is not easy, for investors have memories of some of the ill-conceived foreign investments of the twenties and of losses caused by arbitrary treatment of foreign capital. Hence, the second aspect of the Bank's efforts is to stress the importance of fair treatment for foreign investors and the creation of an atmosphere in which foreign capital can feel secure.

The Bank conceives its task as helping to develop the world economy and to bring about conditions where investment capital can move freely and confidently to those areas where it is most urgently needed. It now has more than six years of experience behind it. It is willing to examine and to do whatever it can to work towards this ultimate goal. Its only really rigid requirement for any operation is that it will make only "sound loans;" for only a "sound loan" is a truly economic loan. It has gained the confidence of investors and it has established close contacts with the financial communities and with the central banks and government treasuries of its members. It can and does take an independent international attitude to the problems which it faces. It does its best to encourage and induce countries to pursue rational and far-sighted economic policies for it is only by consistent effort and the eschewing of easy short-run expedients that any lasting progress can be made towards a freer and more stable world economy.



INTERNATIONALE BANK FÜR WIEDERAUFBAU  
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DIE ROLLE DER INTERNATIONALEN BANK IN DER  
AUFBAUARBEIT DER NACHKRIEGSZEIT

Ansprache von Herrn. A.S.G. Hoar,  
Direktor der Operationen für  
Europa, Afrika und Australasien,

am 29. April 1953 in Düsseldorf, Deutschland,

unter der Patenschaft der  
Zeitschrift für das Kreditwesen

Es ist für mich eine besondere Freude, an der heutigen Tagung der Zeitschrift für das Kreditwesen teilnehmen zu können, zumal sich für mich vor und nach dem Kriege bereits mancherlei Beziehungen und Verbindungen in Deutschland ergeben haben, auf die ich gerne zurückblicke. Nachdem Deutschland in diesem Geschäftsjahre Mitglied der Weltbank geworden ist, ergreife ich die heutige Gelegenheit besonders gern, um mit einem Kreise führender praktischer Bankleute Fühlung zu nehmen. Ich habe es immer besonders geschätzt, mit Praktikern über interessante Probleme in Gedankenaustausch zu treten. Dabei möchte ich beim heutigen Gedankenaustausch den Rahmen nicht allzu eng ziehen, sondern halte es für richtig, auch in die grundsätzlichen Probleme einzusteigen, die sich für eine internationale Investitionsbank aus der gegenwärtigen Lage des internationalen Zahlungsverkehrs ergeben. Ich will mich allzu sehr in Einzelheiten gehen, sondern mich bemühen, die überaus interessanten Ausführungen von Herrn Präsident Bernard und Herrn Professor Röpke durch Darlegungen aus meinem speziellen Arbeitsgebiet zu ergänzen.

Der gegenwärtige Augenblick ist besonders geeignet, um einmal haltzumachen und einen Rückblick auf die in der Nachkriegszeit auf wirtschaftlichem Gebiet gemachten Fortschritte anzustellen. Sie werden sich daran erinnern, dass das Jahr 1952 nach den allgemeinen Vorstellungen das Ende der an den Krieg sich anschliessenden Übergangszeit bringen sollte. Man hatte gedacht, dass bis 1952 wieder ein weltweiter, multilateraler Handel, ohne diskriminierende Praktiken und Devisenrestriktionen, erreicht sein würde. Man hatte gedacht, dass das Jahr 1952 - das Jahr, in dem der Marshallplan zu Ende geht - die wirtschaftliche Wiederherstellung und Gesundung Europas bringen würde. Nun hat aber bereits das Jahr 1953 begonnen, und wir sind noch immer von den genannten Zielen weit entfernt.

Um vor einem Kreise wie diesem die Rolle darzulegen, die die Weltbank beim Wiederaufbau in der Nachkriegszeit gespielt hat, kann ich darauf verzichten, die Gründungsgeschichte der Bank, ihre Kapitalzusammensetzung und ihre Arbeitsmethoden im Einzelnen zu erläutern. Ich möchte Ihnen einen kurzen Überblick über diejenigen Massnahmen geben, die wir seit Aufnahme unserer Tätigkeit ergriffen haben. Als dann darf ich unmittelbar zu Gedankengängen übergehen, welche sich bei Betrachtung der Tätigkeit der Weltbank im Zusammenhang mit dem heute hier zur Diskussion stehenden Thema ergeben.

Der Gesamtbetrag der von der Bank bis heute zugesagten Kredite beträgt 1,6 Milliarden Dollar. Hiervon sind ungefähr 500 Millionen Dollar im Jahre 1947 als Wiederaufbaudarlehen an Frankreich, die Niederlande, Luxemburg und Dänemark gegeben worden. Diese Darlehen wurden unmittelbar vor Inkrafttreten des Marshallplanes gewährt und bildeten zu einer sehr kritischen Zeit einen entscheidenden Beitrag zur Befriedigung des Dollarbedarfs Europas. Der Rest unserer Darlehen im Gesamtbetrag von etwas über einer Milliarde Dollar setzt sich aus Darlehen für wirtschaftliche Entwicklungsprojekte in 23 unserer Mitgliedländer und in 3 abhängigen Territorien zusammen. An Europa haben wir - ausser den 500 Millionen Dollar Wiederaufbaudarlehen - noch weitere 240 Millionen Dollar ausgeliehen. Ferner 374 Millionen Dollar an lateinamerikanische Länder, 182 Millionen Dollar an Länder des Mittleren und Fernen Ostens, 140 Millionen Dollar für Entwicklungsprojekte in Afrika, sowie 150 Millionen Dollar an Australien. Unsere Hauptaufgabe bei Gewährung wirtschaftlicher Entwicklungsdarlehen haben wir darin gesehen, die Beschaffung und Verbesserung sogenannter "public utilities" zu finanzieren. Etwa 400 Millionen Dollar sind in die Energiewirtschaft geflossen, 200 Millionen Dollar betrafen Transport-, Eisenbahn-, Strassen- und Hafenprojekte. Zur Förderung der Landwirtschaft haben wir mehr als 150 Millionen Dollar für Bewässerungsprojekte, Landbereinigung und den Ankauf landwirtschaftlicher Maschinen ausgeliehen. Ausserdem sind Darlehen für Bergbau und Industrie gegeben worden.

Bei allen Anleihen haben wir unser Augenmerk sorgfältig darauf gerichtet, dass die von uns finanzierten Projekte technisch erstklassig, wirtschaftlich gesund und in ihrer Ausführung qualitativ hochstehend waren.

Die Mittel für unsere Darlehensgewährungen haben wir zum Teil aus dem von unseren Aktionären gezeichneten Aktienkapital und zum anderen Teil aus dem Ertrag unserer Wertpapieremissionen genommen. Von unserem Grundkapital haben wir 825 Millionen Dollar zu Ausleihungen verwendet; davon stammten rund 135 Millionen Dollar aus der Kapitalzeichnung der Vereinigten Staaten. Anleihen im Gesamtbetrag von 556 Millionen Dollar haben wir in 4 verschiedenen Ländern aufgelegt, nämlich in USA, Kanada, der Schweiz und England. Schliesslich haben wir im Gegenwert von 67 Millionen Dollar Obligationen unserer Darlehensnehmer unsererseits

weiterverkauft, und zwar jeweils nach Lage des Falles mit unserer Garantie oder ohne diese.

Nach diesem kurzen Überblick über unsere bankmässige Tätigkeit darf ich mich der Frage zuwenden, welche Bedeutung die Tätigkeit der Weltbank im Rahmen der gestörten Weltwirtschaft der Nachkriegsjahre gewonnen hat - Störungen der Weltwirtschaft, die sich insbesondere in den Zahlungsbilanzungleichgewichten manifestierten, unter denen fast alle Länder diesseits des Eisernen Vorhangs zu leiden hatten - und vielleicht auch einige Länder jenseits des Eisernen Vorhangs.

Zunächst möchte ich auf einige Unterscheidungen zwischen den verschiedenen wirtschaftlichen Krankheitserscheinungen hinweisen, welche zu den gemeinhin als "Probleme der Zahlungsbilanz" bezeichneten Schwierigkeiten führen. Wenn wir diese Unterscheidungen machen, wird es uns leicht sein, diejenigen herauszufinden, bei deren Beseitigung die Bank nicht behilflich sein kann, und auf der anderen Seite diejenigen herauszustellen, wo sie sich mit Nutzen hilfreich betätigen kann.

Zunächst einmal kommt es vor, dass die Schwierigkeiten einfach auf dem Mangel an Gütern beruhen, wie es unmittelbar nach dem Kriege in Europa der Fall war. Es kann sein, dass die Wirtschaft nicht stark genug ist, genügend Waren zu produzieren, um den Aufbau einer beschädigten Industrie, eines zerstörten Transportsystems und vernichteter Häuser durchzuführen und gleichzeitig einen Lebensstandard für die Bevölkerung aufrecht zu erhalten, der noch als angemessen angesehen werden kann. Die ersten Anleihen der Weltbank an Europa und die Einführung des Marshallplans hatten das Ziel, in Fällen dieser Art zu helfen. Man ging ursprünglich von der Hoffnung aus, dass die Wiederherstellung der Produktionsfähigkeit bereits ausreichen würde, um die Zahlungsbilanzen der europäischen Länder wieder in Ordnung zu bringen. Wir wissen jetzt, dass diese Erwartung sich nicht erfüllt hat, und ich darf später noch kurz auf die Gründe zurückkommen, warum dieses der Fall war.

Ein anderer und uns allen geläufiger Grund für Schwierigkeiten der Zahlungsbilanz kann an einer falschen Währungs- und Finanzpolitik der betreffenden Regierung liegen. Bei allen Ländern, die irgendwie vom internationalen Handel abhängen, führt das Bestehen eines binnenwirtschaftlichen inflationistischen Druckes - oder genauer, eines inflationistischen Druckes, der grösser ist als auf der übrigen Welt - zu Schwierigkeiten der Zahlungsbilanz. Bisweilen hat die Bank in solchen Fällen dadurch von Nutzen sein können, dass sie das Gewicht ihrer Ratschläge in die Waagschale zugunsten gesunder Währungs- und Finanzgrundsätze geworfen hat; aber die Grundübel so gearteter Schwierigkeiten können nicht durch Anleihen der Weltbank beseitigt werden. Ich kann es mir vor einem Kreise von Bankleuten ersparen, näher auf die Vorzüge einer gesunden Währungspolitik einzugehen, insbesondere in Deutschland,



wo keine Gefahr besteht, dass die inflationistischen Gefahren unterschätzt werden und wo Irrungen der Währungspolitik in der Nachkriegszeit in keiner Weise hervorgetreten sind.

Drittens darf ich auf kurzfristige Schwierigkeiten in der Zahlungsbilanz eines Landes hinweisen, die zum Beispiel durch Missernten oder durch zeitweiligen Rückgang in den Absatzmöglichkeiten der Hauptexportware eines Landes entstehen. In Bedarfsfällen dieser Art kann unsere Schwesterorganisation, der Internationale Währungsfond, helfend eingreifen.

An dieser Stelle müssen wir uns noch mit einem vierten Gedanken-gang auseinandersetzen. Von manchen Seiten, die zum Teil beachtlich sind, wird darauf gedrängt, dass die Bank planmässig den Umfang ihrer Ausleihungen zu dem Auf und Ab der Dollarversorgung in Beziehung setzen soll, die die übrige Welt von den USA erhält. Es handelt sich um das sogenannte "anti-cyclical lending". Wenn in den USA eine Zeit relativer Deflation eingetreten ist, soll die Weltbank nach den hier behandelten Vorschlägen ihre Ausleihungen planmässig verstärken; umgekehrt soll die Weltbank nach diesen Vorschlägen dann ihre Ausleihungen abdrosseln, wenn die Konjunktur in den USA auf Hochtouren läuft und der laufende Überschuss ihrer Zahlungsbilanz sich vermindert. Nach den Vorstellungen in unserem eigenen Hause verschieben die Befürworter dieser Vorschläge die Akzente. Wir halten zwar keineswegs Vorkehrungen für falsch, durch die die Dollarversorgung der Welt einigermaßen konstant gehalten wird. Diese mögen sich sogar segensreich auswirken; wir sind aber fest davon überzeugt, dass es nicht richtig wäre, die Weltbank zur Erreichung solcher Ziele einzuschalten. Um unseren Kreditnehmern am besten dienen zu können und um wirklich gute Anleihen zustande zu bringen, müssen wir unsere Anleihen ausschliesslich auf die Bedürfnisse unserer Kreditnehmer und die wirtschaftliche Zweckmässigkeit der von ihnen unterbreiteten Projekte und Programme abstellen. Würden wir statt dessen unsere Anleihetätigkeit nach den Bedürfnissen der USA-Zahlungsbilanz ausrichten, so würden wir uns der Gefahr aussetzen, schlechte Anleihen für übereilte, unangebrachte Projekte zu machen. Ausserdem würden wir nicht den wirklichen Bedürfnissen der Anleihenehmer dienen. Das einzige, was wir in solchen Fällen zu tun versuchen können, ist, bei unseren Mitgliedsländern unseren Einfluss dahingehend auszuüben, dass sie in Zeiten der Hochkonjunktur mit ihren Investitionsplänen vorsichtig und in Zeiten des Rückgangs nicht zu pessimistisch sind.

Es war ursprünglich einmal geplant, dass die Bank unter gewissen Umständen auch Stabilisierungsanleihen für die Stärkung einzelner Währungen machen sollte. Bisher haben wir uns jedoch von solchen Anleihen fern gehalten, und ich halte es auch für zweifelhaft, ob wir in absehbarer Zeit solche Anleihen machen werden, wenn sich nicht die Voraussetzungen ganz grundsätzlich und schnell ändern sollten.

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Nachdem ich mich nun im grossen Zügen mit den Leistungen beschäftigt habe, die man von der Weltbank nicht erwarten kann, darf ich nun dazu übergehen, Ihnen ein Bild davon zu entwerfen, wie die Weltbank wirklich mit Nutzen eingesetzt werden kann. Inzwischen ist es allgemein klar geworden, dass der bloss physische Wiederaufbau Europas nicht ausgereicht hat, um einen freien multilateralen Handels- und Zahlungsverkehr in der Weltwirtschaft wieder herzustellen. Die Produktion in Westeuropa ist jetzt in ihrem Durchschnitt erheblich höher als vor dem Kriege. In den meisten Ländern ist auch der Verbrauch pro Kopf der Bevölkerung grösser als 1938. Auf der anderen Seite haben selbst Länder, in denen nur schwache oder gar keine inflatorische Erscheinungen aufgetreten sind, es nicht fertig gebracht, ihre Export- und Importkontrollen vollständig aufzuheben; insbesondere nicht gegenüber dem Dollarraum. Infolgedessen bleibt, neben dem physischen Aufbau und dem Inflationsproblem, worüber ich bereits gesprochen habe, noch eine weitere schwierige Aufgabe übrig.

Sie wird oft als "Dollarproblem" bezeichnet. In mancher Hinsicht ist dieser Ausdruck richtig, da er die Aufmerksamkeit besonders auf den Dollarmangel hinweist. Er ist aber insofern nicht richtig, als er die Aufmerksamkeit von der Tatsache ablenkt, dass die Schwierigkeit in Wirklichkeit in den strukturellen Veränderungen im Weltsystem von Handel und Produktion zu suchen sind. Wir haben inzwischen erkannt, dass die europäischen Nachkriegsschwierigkeiten nicht so sehr auf den direkten Auswirkungen des letzten Krieges beruhen, sondern im Grunde in den Veränderungen liegen, die die Stellung Europas in der Welt durch die grosse Depression der dreissiger Jahre und die beiden Weltkriege erlitten hat. Im Kürze heisst das folgendes: die physischen Schäden des Krieges sind jetzt in etwa ausgeglichen. Europa und die übrige Welt haben aber noch nicht diejenigen strukturellen Massnahmen durchgeführt, die nötig sind infolge des Verlustes der europäischen Auslandsinvestitionen, der Teilung zwischen Ost- und Westeuropa und der grundsätzlichen Änderung des Verhältnisses zwischen den Rohstoff- und Nahrungsmittelproduzierenden Ländern sowie den Industrieländern zugunsten ersterer. Ferner ist zu berücksichtigen, dass das Produktionsvolumen im Dollarraum verhältnismässig stärker gestiegen ist als in der übrigen Welt und dass die Preise allgemein in die Höhe gegangen sind, wodurch die Bedeutung des Goldes für den Ausgleich der Dollarlücke gesunken ist.

Die Folge aller dieser Veränderungen war der Zusammenbruch des multilateralen Welthandelssystems, welches wir vor 1939 gekannt haben. Heute steckt der Welthandel in einer Zwangsjacke von Restriktionen und Diskriminierungen. Die Wiederherstellung eines Systems frei konvertierbarer und einigermaßen stabiler Währungen hängt von der Durchführung wirtschaftlicher Anpassungsmassnahmen sowohl in Europa als auch in der übrigen Welt ab. Ein Beispiel wird vielleicht klar machen, was ich damit meine und wie die Weltbank imstande ist zu helfen: Westeuropas

Dollarmangel in der Nachkriegszeit liegt zum grossen Teil in der Notwendigkeit begründet, mehr Getreide aus den USA und Kanada einzuführen. Ein wichtiger Grund hierfür wiederum ist, dass Japan jetzt weniger Reis von Korea und Formosa erhalten kann. Wie hängen diese beiden Dinge zusammen? Die Antwort ist folgende: Da Japan weniger Reis von Korea und Formosa erhält, muss es mehr Reis aus Indochina, Burma und Thailand importieren. Die Produktion in Indochina und Burma ist durch Bürgerkrieg herabgesetzt. Ausserdem muss Indien, ein Land welches früher Reis aus Indochina, Burma und Thailand bekam, jetzt mehr Getreide aus Australien importieren. Dadurch ist weniger australisches Getreide für Europa verfügbar, wofür Ersatz durch Dollargetreide geschaffen werden muss. Dieses Beispiel ist natürlich grob und stark vereinfacht, aber es zeigt klar, was ich meine. Schlussfolgerungen darüber, was die Bank in diesem Zusammenhang geleistet hat, sind ebenfalls klar. Die Bank hat Anleihen an Indien gegeben, um die Produktion von Weizen und anderem Getreide zu steigern, und an Thailand, um durch Einführung von Bewässerungsanlagen die Reisproduktion zu erhöhen. Dadurch hat die Bank zur Schliessung der Dollarlücke Europas indirekt beigetragen als unmittelbar durch ihre kürzliche Anleihe an die Türkei, die bezweckte, dort die Weizenproduktion zu heben.

Die Aufgabe, angesichts der eingetretenen tiefgreifenden strukturellen Veränderungen eine neue freie Weltwirtschaft aufzubauen, ist schwierig und langwierig. Sie kann nicht durch blosser Regierungsklamationen erreicht werden. Vielleicht sind grundsätzliche Veränderungen in Preisen und in Wechselkursen erforderlich; gewiss aber, wie ich vorhin an einem Beispiel zeigte, werden grosse Investitionen erforderlich sein, um am richtigen Platz die richtige Produktion auf die Höhe zu bringen. Der Grossteil dieser Investitionen muss von den jeweils betroffenen Ländern direkt bestritten werden. Aber ich glaube, dass eine planmässige Hinlenkung des internationalen Kapitals zu derartigen Investitionen ebenfalls eine wichtige Rolle zu spielen hat. Es ist die Aufgabe der Bank, durch ihre eigenen Operationen und durch die Ermutigung und Betreuung privaten Kapitals solche internationale Kapitalbewegungen zustande zu bringen.

Wir haben versucht, durch unsere Tätigkeit eine Entwicklung zu fördern, die zur Bildung einer neuen freien Weltwirtschaft führt. In vielen unterentwickelten Ländern ist die Erhöhung der Produktion von Rohstoffen, die dollarbringend oder dollarsparend sind, oft von der Verbesserung öffentlicher Einrichtungen abhängig, wie zum Beispiel des Transportsystems, der Hafen- und Lagereinrichtungen, sowie der Energieversorgung. Wir haben viele Anleihen auf diesen Gebieten gewährt, wie zum Beispiel an Indien, Pakistan, Thailand, Süd-Rhodesien, Nord-Rhodesien, Südafrika, Türkei und Belgisch Kongo. In jedem Einzelfalle haben wir uns sorgfältig davon überzeugt, dass die finanzierten Anlagen auch tatsächlich zu einer Produktionsausweitung führten. Fraglos können Anleihen dieser Art, kombiniert mit privaten und öffentlichen Geldern

aus heimischen und ausländischen Quellen weitgehend dazu beitragen, den Mangel auf der Welt an Rohstoffen zu lindern und ein ständiges Anwachsen der Produktion im Einklang mit dem wachsenden Weltbedarf herbeizuführen.

Ein weiterer wichtiger Ausschnitt aus dem Tätigkeitsgebiet der Bank ist darin zu erblicken, dass sie ihrerseits in steigendem Masse den Kapitalfluss aus gewissen europäischen Ländern nach deren abhängigen überseeischen Territorien und assoziierten Ländern durch Weltbankanleihen ergänzt - von England in das Sterlinggebiet, von Belgien zum Kongo und gegebenenfalls von Frankreich in das überseeische Franc-Gebiet. Nach dem Kriege sind hier erhebliche Kapitalien geflossen. Obwohl die Auswirkungen durch die Kürze der Zeit noch nicht voll ausgereift sind und obwohl man in mancher Hinsicht auch die Art der gemachten Anlagen kritisieren kann, dürfte sich schliesslich doch ein erheblicher Nutzen durch die erreichte Mehrproduktion an dollarbringenden oder dollarsparenden Waren ergeben. Weitgehend sind diese Investitionen nur dadurch möglich geworden, dass die europäischen Mutterländer ihrerseits erhebliche Dollarhilfen erhielten. Nachdem nun die amerikanische Wirtschaftshilfe nachlässt und sich auch allgemein eine wachsende Neigung zu strengerer Währungspolitik zeigt, erscheint es zweifelhaft, ob der Kapitalstrom im Umfang der Vorjahre aufrecht erhalten werden kann. Die Bank bemüht sich, die aus den Mutterländern fliessenden Mittel ihrerseits durch Dollar-kapital zu ergänzen, wodurch sie übrigens auch in den Stand gesetzt wird, ihren Einfluss dahin geltend zu machen, dass die Mittel in diejenigen Projekte fliessen, die den produktivsten Erfolg versprechen.

Auf lange Sicht gesehen wird die Vermehrung der Rohstoffproduktion in der übrigen Welt nicht nur eine Verminderung der Dollarausgaben Europas zur Folge haben, sondern auch zu einer Ausweitung der Märkte für europäische Exportgüter führen. Der gehobene Lebensstandard in den Rohstoffländern wird eine Nachfrage nach Industrieprodukten und damit Exportmöglichkeiten für die europäischen Hersteller zur Folge haben. Es ist Sache der europäischen Produzenten, sich hier einzuschalten und dafür sorgen, dass sich nicht die gesamte zusätzliche Nachfrage an die Hartwährungsländer richtet. Die Weltbankanleihen an Lateinamerika sind für Europa im übrigen auch deshalb von Nutzen, weil sie Europa zusätzliche Möglichkeiten bieten, direkt auf Dollarmärkten durch Exporte zu verdienen.

Mehr oder weniger können alle diese Massnahmen der Weltbank Europa zugutekommen. Für Europa ergibt sich aber noch ein anderer Vorteil aus der Tätigkeit der Weltbank. Die Bank ist durch ihre Satzungen gehalten, nur "nichtgebundene" Darlehen zu gewähren, das heisst, die Darlehen werden nicht zur Verwendung in irgendeinem bestimmten Lieferland zur Verfügung gestellt. Allerdings waren in der unmittelbaren Nachkriegszeit Kapitalgüter, die für den grössten Teil der von uns finanzierten Projekte erforderlich waren, nur in den USA zu erhalten, sodass ein grosser Teil der von der Bank gewährten Anleihen geldmässig nach Amerika

zurückgeströmt sind. Nachdem aber jetzt die Kapitalgüterindustrie in Europa wieder aufgebaut ist, kann ein ständig wachsender Anteil der von der Bank finanzierten Lieferungen aus Westeuropa bezogen werden, wodurch sich der Dollaranfall bei den Lieferländern erhöht. Auf lange Sicht ist es vielleicht noch wichtiger, dass die hinsichtlich des Bezieherlandes nicht gebundenen Anleihen der Bank und die von der Bank verlangte internationale Ausschreibung bei Vergebung der Aufträge die Länder Westeuropas - und damit auch Deutschland - instand setzen, geschäftliche Beziehungen wieder aufzubauen, die durch den Krieg und die Nachkriegsschwierigkeiten unterbrochen worden waren.

Natürlich dürfen wir über unseren Untersuchungen der Auswirkungen von Anleihen an aussereuropäische Länder auf Europa nicht die Bedeutung der direkten Anleihen an Europa übersehen. Auch diese Anleihen tragen zum Teil dazu bei, die Umsätze in Schlüsselgrundstoffen zu erhöhen. Unsere Anleihen an Jugoslawien werden eine stärkere Versorgung mit Aluminium, Kupfer, Blei und Zink zur Folge haben. Wir haben Anleihen an Finnland gegeben, um den Absatz von Holz und Holzprodukten zu steigern; desgleichen an Belgien, um die Stahlproduktion zu erhöhen.

Besonders wichtig ist es natürlich, Kapitalbewegungen aus den USA nach dem Rest der Welt zu ermutigen. Gleichermassen ist es meiner Meinung nach wichtig, Massnahmen zu ergreifen, um Kapitalbewegungen innerhalb der europäischen Länder lebhafter in Gang zu bringen. Seit den Jahren der Depression sind Kapitalbewegungen innerhalb Europas recht unbedeutend gewesen. Die Risiken, die sich aus dem Mangel an wirtschaftlicher und währungsmässiger Stabilität ergeben, wozu noch die Devisenbeschränkungen kommen, haben gemeinsam verhindert, dass sich Sparkapital über die nationalen Grenzen bewegt. In dieser Entwicklung kommen im übrigen deutlich auch autarkische Tendenzen zum Ausdruck, die sich in den Jahren nach der Depression entwickelt haben. Die Länder versuchten, weitgehend ihre wirtschaftliche Verknüpfung mit anderen Ländern und ihre Abhängigkeit von diesen zu beseitigen. Wenn man auch für ein solches Verhalten als für das natürliche Ergebnis der Bestrebungen einer Regierung Verständnis haben muss, den einheimischen Beschäftigungsgrad aufrechtzuerhalten und das Land gegen die Wellen deflatorischer Auswirkungen aus dem Ausland zu verteidigen, so muss man doch zugeben, dass ein solches Verhalten wirtschaftliche Störungen herbeiführt, die inzwischen im europäischen System tief Wurzel geschlagen haben. Lange Jahre hat weder eine intereuropäische Wanderung noch eine intereuropäische Kapitalbewegung stattgefunden und der europäische Handel war auf ein Minimum reduziert. Das erklärt, weshalb die Bemühungen um eine europäische Reintegration auf solch weitverzweigte und gewaltige Hindernisse stossen.

Bei dem Versuch, in Europa und der ganzen Welt eine mehr auf Zusammenarbeit abgestellte Gesamtwirtschaft wieder aufzubauen, ist die Wiederherstellung eines europäischen Kapitalmarktes von entscheidender Bedeutung. Während der Zeit des physischen Wiederaufbaus in Europa waren intereuropäische Kapitalbewegungen von beachtlichem Ausmasse selbstverständlich nicht zu erwarten, weil alle Länder ihr Kapital weit-

gehend für ihre eigenen Bedürfnisse benötigten. (Trotzdem sind einige intereuropäische Wiederaufbaudarlehen gewährt worden, zum Beispiel die Regierungskredite von Belgien, Schweden, der Schweiz und England, die hauptsächlich an Frankreich, Finnland, Norwegen und Holland gegangen sind.) Darüber hinaus konnte der Empfang beträchtlicher Hilfszahlungen aus den USA, die im wesentlichen im Hinblick auf die Bedürfnisse der Empfängerländer verteilt worden sind, Spannungen zwischen Kapitalbildung und Kapitalnachfrage innerhalb der einzelnen Länder ausgleichen. Nachdem aber nun die USA-Hilfe herabgesetzt ist und ein privater Kapitalstrom nennenswerten Umfanges aus den USA nach Europa nicht eingesetzt hat, muss ein intereuropäischer Kapitalverkehr wieder aufgenommen werden, wenn nicht jedes Land allein auf seine eigene Kapitalbildung angewiesen sein soll. Hier ist eine weitere Stelle, wo die Weltbank mit Nutzen eingesetzt werden kann. Wir können in zwei Richtungen helfen: zunächst indem wir unsere eigenen Wertpapiere auf europäischen Märkten emittieren, so dass wir an andere Länder in der Währung der Emission Darlehen gewähren können; dann aber auch dadurch, dass wir denjenigen Teil unseres Aktienkapitals, der von unseren europäischen Mitgliedern einzuzahlen ist, einsetzen und ihn ebenfalls zu Anleihen an andere Länder verwenden. In steigendem Masse nehmen unsere Mitgliedsländer den Standpunkt ein, dass es zu ihrem eigenen Vorteil ist, mit uns hier zusammenzuarbeiten, indem sie zu Transaktionen dieser Art in ihren Währungen ihre satzungsmässig erforderliche Zustimmung geben.

Bisher haben wir von unseren europäischen Mitgliedern die Zustimmung bekommen, den Gegenwert von rund 47 Millionen Dollar aus der europäischen Kapitalzeichnung für Anleihen an andere europäische Länder zu benützen, wovon bisher etwas mehr als der Gegenwert von 13 Millionen Dollar zur Auszahlung gelangt ist. Rund 9 Millionen Dollar aus diesem Betrag sind dabei aus den wirtschaftlich entwickelteren west- und nord-europäischen Ländern zu den industriell weniger entwickelten Ländern Südeuropas geflossen. Nach meiner Meinung sollten in der jetzigen Zeit Kapitaltransaktionen dieser Art, die ich für besonders wünschenswert halte, ermutigt werden.

Die Bank ist nicht mit der Absicht gegründet worden, dass sie internationale Kapitalbewegungen aus privaten Quellen ersetzen oder verdrängen sollte; sie hat es im Gegenteil immer als ihre legitime Aufgabe angesehen, mit privaten internationalen Kapitalbewegungen ergänzend zusammenzuarbeiten; ausserdem ist sie immer bestrebt gewesen, private Kapitalbewegungen zu fördern und zu betreuen. Das Vermögen der Bank, selbst Geld auszuleihen, hängt wesentlich von ihren Möglichkeiten ab, auf den Kapitalmärkten der Welt von privaten Zeichnern Geldbeträge durch Emissionen zusammenzubringen, denn nur 20 Prozent des vorgesehenen Ausleihungsvolumens können von der Bank aus Kapitaleinzahlungen der Mitgliedsländer aus ihren Zeichnungsquoten aufgebracht werden. Wie schon gesagt, hat die Bank bisher in vier Ländern Anleihen emittiert, darunter in zwei europäischen. Es bestehen gute Aussichten dafür, dass das Passivgeschäft der Bank auch auf die Kapitalmärkte anderer europäischer

Länder ausgedehnt werden kann, und ich bin sogar davon überzeugt, dass die Bank auf die Dauer ihre Aufgabe als echtes internationales Finanzierungsinstitut nicht erfüllen kann, wenn sie nicht in zunehmendem Masse Zutritt zu den Kapitalmärkten Europas findet. Ich darf noch folgendes hinzufügen: da die europäischen Währungen zur Zeit nicht in Dollar konvertierbar sind, kann ich mir Fälle denken, in denen die Bank Dollarkredite an europäische Länder gewährt, während sie gleichzeitig aus denselben Ländern Nicht-dollarbeträge erhält, um sie für Anleihen inner- oder ausserhalb Europas zu verwenden.

Die Weltbank ist nicht nur daran interessiert, private Kapitalien für ihre eigenen Anleihezwecke aufzubringen; die Bank versucht es darüber hinaus durch ihre gesamte Tätigkeit, generell die Wiederaufnahme internationaler Finanzierungstätigkeit zu beleben, und zwar gleicherweise durch Wertpapieranlagen, durch direkte Finanzierung oder auch durch mittel- und langfristige Kreditgewährung der Kapitalgütererzeuger an ihre ausländischen Kunden. Viele Kreditgewährungen der Weltbank für öffentliche Investitionen auf dem Gebiet des Verkehrs und der Energiewirtschaft bieten die Grundlage für eine Expansion der heimischen und ausländischen Investitionen in Industrie und Handel der Empfängerländer. Die Bank hat immer den Grundsatz betont, dass berechtigte Wünsche unterentwickelter Länder nach einer Verbesserung ihres Lebensstandards nur dann erfüllt werden können, wenn der Strom des organisierten Auslandskredits durch private Kredite ergänzt wird. Ich habe dabei in erster Linie Investitionsfinanzierungen in Form direkter Geschäftstransaktionen zwischen Lieferanten und Empfängern im Auge, da diese Form internationaler Kapitalausleihungen nicht nur fremdes Kapital ins Land bringt, sondern auch Hand in Hand geht mit der überaus wichtigen Heranführung technischer und geschäftlicher Erfahrungen.

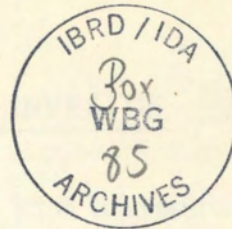
Die Bemühungen der Bank, Kapitalbewegungen zwischen verschiedenen Ländern herbeizuführen, haben zwei Richtungen. Zunächst setzt die Bank ihren gesamten Einfluss ein, um das Interesse privater Investoren in den Vereinigten Staaten an einer Hergabe ihres Kapitals für Investitionen im Ausland zu wecken und um die Finanzwelt auf Investierungsmöglichkeiten aufmerksam zu machen und sie über Investierungsvoraussetzungen im Ausland zu unterrichten. Dies ist nicht einfach, da die Kapitalisten natürlich noch die Misserfolge der Kapitalfehlleitungen der zwanziger Jahre im Gedächtnis haben und sich an Verluste erinnern, die im Ausland durch willkürliche schlechte Behandlung von Auslandskapital eingetreten sind. Auf der anderen Seite verfißt die Bank bei den Darlehensnehmern mit grosser Klarheit die Wichtigkeit einer loyalen Behandlung des hereinströmenden Auslandskapitals und die Bedeutung der Schaffung einer Atmosphäre, in der sich das Auslandskapital wohlfühlen kann.

Die Weltbank sieht ihre Aufgabe darin, die Entwicklung der Weltwirtschaft zu fördern und zur Schaffung der Voraussetzungen beizutragen, unter denen Investitionskapital frei und vertrauensvoll in diejenigen

Gebiete strömen kann, wo es am dringendsten benötigt wird. Die Bank kann heute auf eine Erfahrung von sechs Jahren zurückblicken. Sie ist willens, alle Wege zu prüfen und alle Pläne in die Tat umzusetzen, mit denen dieses Endziel erreicht oder gefördert werden kann. Sie muss nur auf jeden Fall bei ihren Transaktionen darauf dringen, dass nur gesunder Kredit gewährt wird, denn nur gesunde Kredite sind in Wahrheit wirklich wirtschaftlich segensreich. Die Bank hat sich das Vertrauen des Kapitalmarktes erworben, sie unterhält enge, vertrauensvolle Beziehungen zu den Kreisen der internationalen Finanz und pflegt gute Zusammenarbeit mit Regierungen und Zentralbanken ihrer Mitgliedsländer. Sie kann es sich leisten, in jeder Beziehung eine wahrhaft unabhängige internationale Haltung zu den bei ihrer Arbeit auftretenden Problemen einzunehmen. Sie tut ihr Bestes, um die einzelnen Länder zu veranlassen und darin zu bestärken, eine weitsichtige und gesunde Wirtschaftspolitik zu verfolgen: denn nur durch konsequente Arbeit in dieser Richtung und durch die Vermeidung von kurzlebigen Notlösungen kann dauerhafter Fortschritt erzielt werden in Richtung auf eine freie, stabilere Weltwirtschaft.



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THE  
WORLD BANK  
AND THE  
PRIVATE INVESTOR

Address by  
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for the  
*International Bank for Reconstruction and Development,*  
to the  
*Regional Conference,*  
*National Association of Bank Women*

The Biltmore  
New York, N. Y.

April 16, 1955

## THE WORLD BANK AND THE PRIVATE INVESTOR

It was good of you to ask me to speak to your convention today. I have long come to realise whose hand it is that rules the world, and an invitation to address you is a tribute of which the Bank may be proud.

One of your many attractions as an audience is, of course, that I do not feel constrained to justify investment banking. I do not have to persuade you that the World Bank ought to make a profit and build up reserves, or apologise - not that I would - for the fact that it does. But perhaps it would be useful to discuss with you what sort of an investment institution the World Bank is, why it was set up and what it is working to achieve.

I deliberately called this talk "The World Bank and the Private Investor" because it is basically the idea of a partnership that I want to leave with you. It is true that the Bank was set up because of a belief that the job to be done was beyond the capacity of private investors. It is true that the ultimate test of the Bank's success would be that the private investor had put it out of business. But there has never been any danger that the Bank would put the private investor out of business and there can be no question of "World Bank or Private Investor."

### Deterrents to Private Foreign Investment

You see, we make loans that other people will not look at or, if they get as far as looking, won't make. But before you decide that this is no fit subject for you to be listening to, let me make two quick comments:-

- (a) First of all, our Articles specifically rule out Bank lending where finance on reasonable terms is available elsewhere. The Bank was set up to stimulate private investment, not to displace it.

(b) Secondly, the private investor is in any case often unwilling to lend abroad for reasons which have nothing to do with the merits of the loan project as such. The most excellent proposition in a foreign country carries risks that would not arise in domestic affairs: risks that cannot be covered by the lender in the way, for example, that an importer can cover himself on the forward exchange market. The Great Depression made unpleasantly explicit some of the risks inherent in foreign lending; and the policies that so many countries followed in their attempts to combat depression - higher tariffs, quotas and restrictions of every kind, bilateral agreements, exchange controls on capital movements - all meant that new uncertainties and new obstacles were added. Moreover, depression fostered political instability and xenophobia. And, of course, the later thirties were dominated by that overwhelming risk, the risk of war itself. One can readily understand how new U. S. portfolio investment abroad from 1932 through 1939 amounted to less than \$200 million, compared to more than \$1,100 million in the single year of 1927.

#### Need for Foreign Investment

But the instability of foreign investment was not only the effect of loss of balance in the world economy. It was itself one of the causes. The failure of capital, even in the 1920's, to flow in sufficient quantity into productive investment in the underdeveloped areas of the world meant that the potent economic expansion of the 19th century - of which your country is an outstanding example - found no parallel in the 20th. As a consequence resources lay idle that might have been put to work. Poverty remained unrelieved. The demand for capital equipment

and for consumer goods was lower than it might have been and lower than it could have been. The long run expansion of world trade, and hence prosperity, lacked sound foundations.

Both the necessity of international investment and the deterrents to it were fully present in the minds of those who conceived the International Bank. The risk of war had become war itself and the need to provide capital for reconstruction was being added to the long run need for capital for development. The decision to set up an International Bank was taken at an inter-Allied conference at Bretton Woods in New Hampshire, rather more than ten years ago. This was a remarkable decision, for when the Bretton Woods Conference concluded in July 1944, the war had still to be won. The marines had just landed on Guam. The invasion of Europe was barely six weeks old. The Conference was, if you like, a firm expression of Allied faith in ultimate success in war and the possibility of winning the peace as well.

In the event, the measures planned for the long pull proved too small for the immediate tasks of reconstruction, for not only had physical damage been underestimated, but, more seriously, so had the intangible damage to the delicate fabric of international trade and payments. But we are now through the postwar period, - thanks in great part to American adaptability and generosity, - and I think it remarkable how well founded the plans of 1944 appear more than ten years later.

#### Why IBRD was Founded

The Bank, as seen in 1944, was intended to reconcile the evident need for capital for reconstruction and development with the equally evident fact that conditions for private investment could not have been more discouraging. The problem was, if you like, how to resolve the dilemma that a resumption of productive foreign investment was needed in order to get the world economy

straight again, yet, until the world economy looked straight, the potential foreign investor was unlikely to put his money abroad.

Notice that the problem was always conceived in terms of private capital. Those who drew up the Articles of the Bank did not believe in the virtue of government action as such. If they had, they would have relied entirely on government lending. But they did recognize that only government action could overcome or minimise the non-commercial risks which held private investment back.

The solution adopted was a unique blend of public and private finance. The Bank's capital is subscribed by member governments, of whom there are now 56. But only 20% of this capital can be used for lending operations under any circumstances and a much smaller part is, as a practical matter, freely available for lending. The balance of 80%, amounting to about \$7.3 billion, can be called only to meet the Bank's obligations and constitutes a very substantial guarantee fund which puts the Bank in a position to approach the private market. The idea was that the private investor could be tempted to lend to the Bank under the umbrella of what was in effect a government guarantee, and so provide the Bank with funds for foreign borrowers that the market would be unwilling to lend to them directly. That is, the first line of attack on the problem of stimulating a renewed flow of private capital was to set up an intermediary which would, so to speak, filter out the risks peculiar to international lending, while retaining the advantages and the attractions of sound financial investment.

### Prudent Lending

What does the Bank, for its part, do about risks? Some risks, of course, such as war or invasion, have simply to be accepted. Loans to countries on the fringe of the Iron Curtain might, I

suppose, be thought to carry this risk more than others, though that may be debatable. It is in any case a risk we all have to live with and a risk the Bank is meant to take. Some risks can be minimised by contractual arrangements with governments. Others demand the exercise of judgment. Among these, perhaps the most important arises from the fact that most currencies are inconvertible and hence there is always the possibility that a borrower, although solvent in his own currency, may be unable to obtain the foreign currency required for debt service.

Over a period when the dollar has been the currency most readily available to the Bank and most commonly required by our borrowers, the consequences of what we used to call the dollar shortage have been of particular concern to the Bank. Even though the world is appreciably closer to dollar balance than only a few years ago, there remain a number of countries to whom the Bank prefers to make loans in currencies other than dollars because repayment is likely to offer fewer problems. But even if convertibility broke out tomorrow, we should be left with what is after all the fundamental question, namely, what is the borrower's capacity to carry additional foreign debt.

The Bank consequently always undertakes a careful study of the economy of a borrowing country, of its production potential, the volume and direction of investment, the financial situation, the pattern and evolution of its external trade and payments. We study the structure of its foreign debt and its debt record. We pay particular attention to the policies that are followed. Do they encourage enterprise or do they lead to sterility of effort and dissipation of resources? We are keenly attentive to what I might call financial habits and behaviour, for we are not merely trying to judge the capacity of a country to absorb capital usefully and to repay it in due course but also its attitude towards financial obligations. Do its people and its government believe that debts are to be honoured - even when it hurts to do so.

Of course we do not try to determine precise limits. We endeavour to leave a reasonable margin for error and take care not to lend beyond it. Certainly we are not always popular for doing so. In these days, a young and ambitious country is likely to take optimistic views, to say the least, of the amount of debt it can carry and a somewhat jaundiced view of the Bank's judgment. However, the Bank has an interest not merely in getting its money back but, more broadly, in seeing that the international credit rating of its members is enhanced or, if already high, is unimpaired. We hope to have absorbed one lesson of the 1920's, namely, that to say that some countries were over-borrowed is only another way of saying that they were "over-lent to."

Parenthetically, the current version of over-lending appears to lie in the field of equipment credits where each individual exporter fights competition by offering more attractive credit terms than his rival without regard to - indeed without knowledge of - the total of such credit being extended. The Bank has been consulting with member countries to examine how far the evident dangers of such developments can be minimised.

### The Bank's Lending

I shall have more to say about the relation of the Bank to borrowers and lenders. For I have perhaps suggested so far that we operate by keeping them apart, whereas our long run objective is, of course, to bring them directly together. There are a number of ways in which we are already doing this and we expect to do much more, for the Bank is continually on the watch for new opportunities as economic and financial conditions evolve. However, I think that you will more readily appreciate the way in which the Bank operates if I say something first about the kind of loans that it has been making.

Perhaps this is the moment to stress that, while the Bank is a co-operative international institution, it has as a practical matter many of the attributes and advantages of the business corporation in being able to develop the powers of judgment and of decision required by the successful banker. We have now made more than 110 loans without a single default and I think I need say no more than that we exercise the kind of scrutiny of borrowers and projects that you would expect of a banking institution.

The Bank's first business was to make loans for the reconstruction of Europe. In 1947 we made four loans to France, Denmark, the Netherlands and Luxembourg, totalling about half a billion dollars, which kept supplies of equipment and raw materials flowing at a critical period when their exchange reserves were nearly exhausted and the European Recovery Program still lay some way ahead. One of the countries we assisted, the Netherlands, is now in such good economic shape that it has arranged to pay off in advance over \$100 million of its \$195 million reconstruction loan from the Bank. Since 1947, we have continued to lend in Europe but most of our loans have been made in under-developed countries elsewhere in the world. In this second phase in our activity, we have lent something over a billion and a half dollars.

### Loans for Development

What have these loans been for? Well, before answering directly, let me make the point that our objective of stimulating private investment is not limited to getting capital to flow abroad. It is equally concerned with helping to create those conditions in the borrowing country in which enterprise can thrive. In our eyes, a good loan is one that generates more production and more investment. The Bank has itself financed industrial and mining

projects, to the tune of nearly \$200 million in fact. And the incomes in the regions where these operations are taking place have gone up in consequence. As you will have seen around you in the United States, when the income of an area rises you get a more attractive market and you get higher savings. More enterprise is attracted and more investment can be financed locally. If skills are there, if costs and the product are right, the process will go on in a kind of chain reaction. But all this pre-supposes that there is an efficient railway or a good road to the outside world, adequate water and power, indeed, all the basic facilities that the producer needs to make possible and to sustain efficient and profitable production. Without adequate and reliable power or good transport facilities, you cannot expect an economy to thrive. But except where a very large scale producer is considering very large scale production - for example, aluminum at Kitimat in British Columbia or iron ore in Labrador - except in such cases you rarely get the producer who can afford to put in his own power, or his own communications. Or even if he can, he may find himself held to ransom by an inefficient port at the far end of the road.

It should, therefore, come as no surprise to you that the greater part of our loans have gone into basic utilities. More than \$550 million of our investment in development has been devoted to electric power. Some \$540 million has gone into transportation - railways and roads, ships and aircraft, ports and pipe lines. The Bank has invested about \$185 million in irrigation schemes, projects to clear and rehabilitate land and farm equipment, for, as many young economies have found to their cost, it is essential that agricultural production keep pace with the growth of industry. Sometimes we have found it possible to finance a program embracing some or all of these activities and have lent over \$100 million in this way.

### Loan for Port of Callao

Let me tell you of something about two or three individual loans. Our loans have varied in size from a few hundred thousand dollars to \$250 million. But we have often seen that a relatively small loan can produce large results. In 1952, the Bank made a loan of \$2-1/2 million to improve the port of Callao, the chief port of Peru. The proceeds were used to finance new handling equipment and grain-loading and storage facilities. The results already achieved have led to the saving of \$1 million a year that used to be lost through delays in handling ships and cargoes that were spoilt.

### Loans for Mexican Power

The Bank has made a number of large power loans and I could give you a mass of data on the effects on output in a wide range of industries, old and new, which have gained access to convenient, and above all, dependable power for the first time. But perhaps it would be more vivid if I told you of the effect of the arrival of power on a small community. I am thinking of the little town of Tecuala in Mexico which had a population of about 5,000 in 1951. In that year the new interstate highway came in and so did the power plant which the Bank helped to install. The population of Tecuala has since tripled and the school population has increased by seven times. The town, for the first time, has a newspaper and a radio station. It now has a night school and a public library, for electricity has added hours to Tecuala's day. A new electric pump assures regular water supplies. The local hospital has installed refrigerators and the only modern X-ray equipment for sixty miles around. Three years ago, there were just three industrial users of electricity in the town. Today, there are 33. The Mayor of the town, trying to express what power has meant to his community, said "we have come out of the dark ages into the light. Without power, we would never have done so."

### Kans Grass Loan

I don't want to give the impression that things always go smoothly from the beginning, because sometimes they don't, no matter how carefully prepared in advance. Consequently, the Bank gives a great deal of care to following up the loans that it makes, to try and ensure that the purposes for which they are made are achieved. In 1949, for example, a Bank mission to India agreed with the Indian Government that one of the most important projects for meeting India's vital need for more food-stuffs was the reclamation of large areas of land in central India that were infested by a weed called Kans Grass. Kans Grass has roots which are too thick and go too deep for the Indian peasants' wooden plough to have any effect. It was, however, considered that deep ploughing by heavy tractors would cut the roots, turn them over to dry and die in the sun, and a plan was worked out to clear in this way 3 million out of the 10 million acres infested by the weed. The Bank made a loan to finance 375 heavy tractors. In the beginning, results were disappointing. There were difficulties with spare parts and maintenance of the tractors, there were weaknesses in organization and in the way land was made available. It took time to determine the best way to plough and the best time of year to do it. Even the weather seemed against us. Early rains in one year revived the dying roots and too little rain the next parched crops on land newly reclaimed. The Bank's own staff and consultants made repeated visits to the project. Patience, continual attention to detail, in cooperation with the borrower and the Government, are now paying off. The project is firmly under way. Over 1 million acres have been reclaimed and, although this is not primarily a settlement scheme, 5,000 new farmers have been settled on the land. Wheat yields have increased by 75% and, with improved cultivation, they could go up further. But already 100,000 tons of grain have been added to India's production, saving equivalent imports of wheat valued at

about \$6 million a year. Our loan was for \$7 million. If the program continues smoothly, it is expected that production will be increased by the equivalent of up to \$20 million a year.

I could go on for a long time telling you of the way new roads have opened up new opportunities in Brazil, Nicaragua, Colombia or Ethiopia. How new rolling stock is cutting time and costs on railroads in Australia, India, Pakistan and French West Africa. I could talk about how the Bank has financed wood products industries in Finland, a fertilizer plant in Iceland, equipment for mining in Yugoslavia, or irrigation in Thailand and flood control in Iraq.

### Development Institutions

In all these cases, the Bank has been putting capital directly into productive purposes. Now I should like to refer briefly to a rather different kind of loan operation in which Bank funds are certainly devoted to productive purposes but in a way that helps to set off a financial chain reaction that results in a more effective use and a greater use of local financial resources.

You know the common tag about underdeveloped countries, of course, - that they are poor because they cannot save, and they cannot save because they are poor. In these cases, foreign capital is essential to get the economy off the ground. But there are countries in a somewhat more advanced stage of economic development which do save but lack the financial machinery to mobilize and encourage their savings.

### Industrial Development Bank of Turkey

A good example of what I am thinking about is Turkey, where the Bank was able to assist in the formation of an Industrial Development Bank, set up in 1950 under private management and

with private equity capital to meet the double need for stimulating private enterprise in industry and fostering a capital market by which private industry could finance itself. The World Bank has made two loans, each of \$9 million, to the IDB to provide for the specific foreign currency needs of its Turkish borrowers. The IDB has equity and loan resources in Turkish liras equivalent to \$44 million, of which \$26 million represent E.C.A. counterpart funds made available to IDB on a management basis. The arrangements between the World Bank and the IDB provide that individual projects which involve the use of World Bank funds have to be submitted to us before final commitments can be made. These submissions have been well prepared and an important by-product of our association has been the introduction, through IDB, of the concept that investment decisions have to be based upon thorough technical, financial and market analysis. So far, the IDB has made more than 250 loans and these cover a wide range of activities, including many industrial fields in which there had been virtually no private enterprise before. The World Bank's loans to IDB are being used to finance imported machinery needed for such varied activities as quarrying and processing marble, concentrating antimony ore and producing yarn from silk waste. They have financed equipment for textile mills, a pharmaceutical plant, factories producing soap, fibreboard, nuts and bolts and reinforced concrete poles. Quite a range.

One of the outstanding successes of the IDB consisted in marketing its second equity issue. The first had been subscribed by only thirteen shareholders, mainly banks. But the second issue was sold publicly to nearly 300 shareholders, there is a market in the shares and they are now selling at a slight premium. The IDB has earned enough in recent years to pay a dividend of 6% and the outlook for higher future earnings is optimistic. We feel that the IDB is operating well and is making a very important contribution to the development of private enterprise in Turkey.

### Industrial Credit and Investment Corporation of India

Perhaps still more interesting is the newly established Industrial Credit and Investment Corporation of India, the creation of which the Bank has actively encouraged. The Corporation has been formed by private investors for the purpose of assisting the growth of private industry in India. The share capital is coming from private investors in India, the United Kingdom and the United States, the American investors being the Bank of America, the Rockefeller Bros., Olin Mathieson Chemical Corporation and Westinghouse Electric International Corporation. The Government of India has made a 30-year rupee advance, and the Bank has made a loan of \$10 million for the purchase of imported equipment and services needed to carry out private industrial projects financed by the Corporation.

The new Corporation will make long- and medium-term loans to industrial enterprises, purchase shares in industrial enterprises, underwrite new issues, guarantee loans and help industry to obtain managerial, technical and administrative advice and assistance. As rapidly as is prudent, the Corporation will sell its loans and share holdings to other investors and thereby expand the capital market and recover its own capital for further investment. The nature of the Corporation and its sponsorship by leading financial institutions in India and abroad should enable it to tap funds in India not at present being made available to industry. Its powers to underwrite new issues will fill a gap in the Indian capital market. The nature of the Corporation and its sponsorship should help it to increase in due course the flow of foreign investment into India. But the Corporation will also benefit the Indian economy by its contacts with foreign technical knowledge and managerial experience, which are almost as pressing as the need for finance.



## How the Bank Raises Funds for its Own Use

These examples of mobilizing capital in the borrowing country have steered me back to the question of the way in which the Bank goes about mobilizing capital in creditor countries. The Bank began to issue its own bonds in 1946 and has now sold twenty-three issues. This did not prove as simple as I suspect those who drew up the Bank's Articles thought it would be. It was soon apparent that having a suitable capital structure was not enough to sell bonds. First, people must be able to buy them and, as you will be well aware, legislation in many important states prohibited key institutional investors from buying our bonds and a number of years went by before these laws were amended to allow the purchase of Bank bonds. Secondly, people must want to buy our bonds. I believe that, no matter what the formal financial virtues of an institution may be, good performance and worthwhile operations are of considerable sales value and I would not wish to under-estimate the inimitable fervour of Mr. Black himself.

## Dollar Bond Issues

We have \$828 million worth of bonds now outstanding. The United States market was the first, and has naturally remained the most important, market for our bonds. But we have been able to sell our dollar bonds to foreign holders of dollars and to make issues in other capital markets for other currencies. \$710 million of our bonds are denominated in U. S. dollars, of which the U. S. investor holds nearly \$490 million. The rest, that is \$220 million, represents bonds bought with foreign-held dollars, that the Bank has succeeded in mobilizing, notably by a \$50 million 5-year U. S. bond issue last year, which was placed with investors in twenty-three countries outside the United States.

## Bond Issues in Other Currencies

But our job calls for international borrowing as well as international lending. We frequently need non-dollar currencies to lend to borrowers whose dollar debt is already heavy but who can reasonably service further debt in other currencies. The Bank has welcomed the opportunity that improved economic and financial conditions in other countries have given us to sell bonds outside the United States. The Bank has successively gained access to the Swiss, British, Canadian and, most recently, the Dutch capital markets. Between 1951 and 1954 the Bank has sold nearly \$100 million worth of its own securities in Europe, as well as about \$40 million worth of obligations from our portfolio. I find it a particularly encouraging sign of Europe's financial recovery that during 1954 European investors took up about one-third of all our bond issues and portfolio sales. The Bank's bonds are now quoted regularly on all the leading European Stock Exchanges and I think we can reasonably claim that our bonds constitute a security of international interest and repute.

## Sales out of Portfolio

Selling bonds on the basis of our own credit and lending the proceeds to our borrowers on the basis of theirs will undoubtedly continue for a long time to be the Bank's major activity. But the Bank is working to bring the private investor more directly into the business of international investment, to restore his nerve, to give him back the taste for foreign securities. We began to do this in 1947 when we started selling borrowers' obligations out of our portfolio. Total sales from portfolio are now just over \$160 million. They were at first made with the Bank's own guarantee. Now-a-days, such sales are generally made without our guarantee. The foreign borrower is, so to speak, floated off on the basis of his own credit and put directly in touch with the ultimate source of funds. This, I think, is a healthy trend.

## Participations

As an extension of this process, the Bank has been enlisting private capital in our loans right from the beginning by arranging with private investors to finance their early maturities (without the Bank's guarantee) at the time the loans are made. The total of such participations is now \$37 million.

In December, the Bank engaged in another kind of operation which is, I think, of considerable interest as an exercise in direct collaboration between the capital market and the Bank. In this combined operation, the Bank itself made a loan of \$20 million to help Belgium finance a transportation program. We adapted the maturities of our loan so that Belgium could go directly to the capital market with an issue of short- and medium-term bonds to raise a further \$30 million for the same program. The Bank has the responsibility for selecting the projects to be financed from the proceeds of the combined loans and will watch the progress of the whole program. The Bank was particularly gratified with this operation because the market issue was the first public offering of Belgian bonds in the United States in more than twenty-five years and the first public offering which any European Government has made to obtain new money in the United States since the Netherlands and Norwegian issues in 1947. The issue aroused considerable international interest for, in addition to the seventy-one investment firms comprising a nation wide underwriting group headed by Morgan Stanley and Smith Barney, a substantial portion was sold to foreign holders in the Netherlands, Switzerland, Great Britain, Belgium and other countries.

All in all, the Bank has mobilized not far short of a billion dollars of private funds for international investment. There is no sign that the pace is slackening. Indeed the present financial year promises to be the most active on record and may well see

the total of new loans approach \$400 million. Our activities have been expanding, not because we have relaxed our standards, but because we have kept our lending techniques flexible. We try to hold a fair balance between the caution that those who lend to us admire and the more adventurous spirit that our borrowers might prefer. If I had to choose one principle that the Bank would set above all others, it is that a bad loan is in nobody's interest.

## International Finance Corporation

You will be interested in the latest scheme on which we are at work: the proposal that the Bank should set up as an affiliate an International Finance Corporation to cover ground which the Bank's own loans cannot reach. When we lend to a private borrower the loan must be guaranteed by the government of the country in which the loan is to be made. This has meant that some excellent projects -- in particular private industrial ventures and useful but relatively small proposals of many kinds -- may not come to the Bank. The sponsor may hesitate to accept a government guarantee because to him that would imply the threat of government interference. The government, for its part, may fear charges of favoritism in extending a guarantee to any particular private company. A second limitation upon Bank lending has arisen from the fact that the Bank's financing takes the form of fixed-interest loans. The Bank does not make equity or share investments. Yet these may be more appropriate than loans for the financing of various kinds of venture.

The International Finance Corporation would set out to overcome both these limitations. It would make loans without government guarantee. While it would not make equity investments, it would buy securities providing private industrial companies with a more flexible source of funds than in a conventional fixed-interest loan. We believe than an equally important function of

the Corporation would be to act as a clearing house to bring together private investors and industrial investment opportunities in foreign countries.

I said at the beginning of my talk that the ultimate success of the Bank might be measured by the fact that the private investor had put it out of business. I confess that I still think this time lies indefinitely far ahead. The needs for capital are so great that I cannot foresee the demand for it exceeding what is likely to be available. Consider how far living standards in many parts of the world would have to be raised before you could begin to recognize them as tolerable. And then remember that you have to struggle against the tide of rapidly rising populations. I certainly don't believe that in the short run capital can be productively invested in prodigious quantities in underdeveloped areas. There have to be certain minimum aptitudes and an appropriate social organization. The ability to organize the sound use of capital is limited even when the opportunity is there. But as economies do develop, you can, so to speak, step up the dosage. I have confidence that the private investor has an invaluable part to play, the more so when he finds it possible to operate more on his own initiative. But I also believe that there will be for a long time investors who need encouraging, perhaps meeting half way, and borrowers unknown to the market who need fostering. As far ahead as I can see, there appears to be an unbroken need for the Bank and the private investor to work together.