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Staff Loan Committee - 1953 - (January - April)

STAFF LOAN COMMITTEE
(Jan - April) 1953



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A1995-291 Other #: 5

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Staff Loan Committee - 1953 - (January - April)

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Notes of SLC Meeting held on Monday, April 20,
1953, at 9:30 A. M., in Room 1005

TURKEY

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Mr. Iliff had asked for this further discussion.

Mr. Garner - There were two matters before us:

- (a) The textile Industry in Turkey - I.B.R.D.'s financing and the applications put up to us. Reservations we had as to the character of the expansion and the proportion of our loans and credits to this industry.
- (b) Whether it was proper for us to exercise our own judgement for the improvement of IDB credits.

Mr. Iliff - Suggested that the question of principle, i.e. dealings with Development Banks generally, should be discussed first.

Mr. Garner - We had a specific problem before us, and he would rather discuss the simplest thing first.

Mr. Knapp - We might spend long enough in discussing the specific case to determine the things the Bank had to have in mind, and then get to general principles.

Mr. Garner - The Industrial Development Bank's concentration in Textile financing was a serious question. Textiles was the first industry the Government went into and this had raised the cotton price very high. It was a serious question, if the Bank concentrated pretty well on the development of this industry at the expense of others.

Mr. de Vries - After the war, Turkey had 250,000 spindles, 300,000 in 1951, 323,000 in 1952, and 423,000 in 1953. Additional requests to the I.B.R.D. were for 58,000. Looms had increased at a slower pace. In 1946 there were 5,500, and in 1952, 6,400.

There were few plans to set up looms outside these applications, and in the 5 applications, looms were not integrated with spindles, and would further increase the imbalance of spindles to looms.

The Government did not allow the free import of yarns. Yarn prices were therefore very high, on account of the special structure of the Turkish industry. The profit was now in spinning and not in weaving. The change would come when the new spindles came into operation.

Mr. Garner - Mr. Rosen and the Technical Operations Department representatives agreed that we should tell the Turks we would do \$2 1/2 million of textile financing, and a little more for looms than for spindles.

Mr. Rosen - The Bank had now put \$1.4 into textiles. Approval of \$5 million would bring the amount in textiles up to 70% of the loan.

Mr. Liefertinck - The Bank had requested the Industrial Development Bank to present a report on cotton spinning and the anticipated production of textile yarns in the near future. Also, the Bank had asked some specific questions. None of these related to any imbalance between spindles, and looms. He had, in a letter to the Bank, made a point of this imbalance. If the Bank was concerned with this, we should ask the Industrial Development Bank to give their opinion of our criticism and give them the chance to present their views. Without this, we would create a poor impression.

The Investment being discussed here was in private industry. Earlier, the industry had been mainly in Government hands, and the Government had planned integration. Private industry concentrated where the business was most profitable, and weaving was less profitable at present.

As soon as spinning capacity became less profitable, weaving would become more profitable. The spinners would by then have experience as industrialists.

We could not expect private enterprise to take the same view. If we stopped this financing, the exchange would not take place. The industry would then continue to be dependent on the Government.

These were the reasons why he was in favor of the Bank approving the I.D.B. applications.

Mr. de Vries - The main factor was that present expansion would not be sufficient to take care of the spindles and this would arise without any action on our part. The integration of the spinning and weary enterprises was desirable. In 1953-54 the price of yarn would have to go down or the spindles would be kept idle. The five additional requests would add to the disequilibrium. Approval of them would be shock treatment of the situation. If there were no industrialists capable of weaving the situation would be dangerous. They would not be available for one - two years.

Mr. Liefertinck - As soon as spindles expanded weaving would step up.

Mr. Garner - In expansion there was not much economic play - as the Government owned about 1/2 of the industry.

With the Government in its present position, natural forces would not be allowed to operate to their proper conclusion. If there were plenty of capital in Turkey the shock treatment might be satisfactory. Devotion to one industry was not suited to the Turkish situation and we could put this question to the Turks.

Mr. Black - He had asked this question when in Turkey with the Prime Minister.

Mr. Liefertinck - You could not force private industry. Next year they would take the second step.

Mr. Black - We were told that IDB had 300 loan applications not processed, and it would be of advantage to know what they were.

Mr. Liefstinck - They had received 300 applications since being set up. Applications for cotton textile projects amounted to 111 million Turkish lira. The IDB had studied these and cut them down severely. The amount invested by IDB in the cotton industry was about 1/3 of its total loans.

Mr. Garner - They had neglected other fields because they were not familiar with them.

Mr. Liefstinck - From the planning point-of-view, Mr. Garner was quite right but from the banking point of view approval of the applications would attract more private capital as they were most profitable.

Mr. Garner - We should consider the types of business that would most develop Turkish economy and if any industry was getting into a shaky position we should be leary of it.

Mr. Black - Discussion in the Bank here on this Question showed a strong feeling that there should be a better balance between spindles and looms.

Mr. Garner - The question was whether we could justify more textile investment in Turkey. The IDB wanted 70% of our credit for this last fling whereas it appeared that it should be used to help broaden the base of private industry.

Mr. Liefstinck - The location of part of the Government textile industry was very irrational. The present applications referred to mills to be built in cotton growing areas.

Mr. Garner - These investments would contribute to rationalization if the Government would close down the uneconomic mills and let the price come down but they would not be willing to operate at a loss.

Mr. Liefstinck - Under the previous administration they had decided to expand mills and the new administration was carrying out this expansion because the orders had been placed before they came into office. He did not know of any new orders made by the present Government.

Mr. Garner - When in Turkey in 1950 he had been told that deliveries were coming right away. He could not understand why these expansions had not been completed.

Mr. Liefstinck - The Central Government operated very slowly in Turkey. They had to do the construction first, then make the power installation.

Mr. de Vries - One of the objectives of the Seyhan Dam was the provision of power for textiles, but it would not be available for spindles provided under these applications. We had not looked into the power supply and it might not be good at present.

Mr. Liefstinck - The question of power was an important one which had not been brought up by Technical Operations before, and should be asked.

Mr. Aldewereld - Mr. Liefstinck's main argument the other day had been that we should only look at the general economic picture, but he now said we should go further into the Technical aspects.

Mr. Garner - There was over expansion in textiles all over the world, and this consideration should not be ignored.

Mr. Black - When he had mentioned this to the Turks, they had said it did not apply there.

Mr. Garner - In textiles, in their approach, they showed ignorance of world marketing, and were unsophisticated.

Mr. Lieftinck - The proposed I.B.R.D. position meant that our Bank would not allow a raw material producing country to develop its manufacture.

Mr. Garner - The I.D.B. was concentrating on the processing of cotton. There were a lot of other raw materials available, e.g. fruit, tobacco and minerals. It was a question of judgement between these. They had gone all for cotton, which was not an export item. The Barker report emphasised the need for development of exports.

Mr. Lieftinck - They had made enormous efforts to process their own minerals, opening up facilities for private investment. Very little had been done yet as the Turkish industrialists were not familiar with other fields.

Mr. Cross - He understood that use of the loan for cotton textiles would not have much effect in reducing imports.

Mr. Lieftinck - It was part of the Turkish Government's policy, and the Bank had said in previous papers, that Turkey should try to improve its balance of payments position by reducing cotton imports. As these were reduced, Turkey could concentrate more on the import of capital goods (investment goods). Imports of yarn could be replaced, but imports of finished goods could not. They could not start on finished goods until yarns were less expensive, and weaving and finishing would develop later.

Mr. Garner - That would entail not only the credits proposed but much more investment in textiles.

Mr. DeVries - The present expansion would cut imports by two-thirds. There would always be some imports and exports in this field.

Mr. Rosen - It depended on the demand estimate.

Mr. Lieftinck - The Industrial Development Bank report said they could be cut two-thirds only if there were an additional 58,000 spindles. This did not take into account the possible increased demand with a price decline.

Mr. Garner - No-one had proved this. The Government investment ran counter to private enterprise.

Mr. Adler - questioned whether the I.D.B. was set up to go into the easy sector. He did not see why it should push to the limit investment in a sector where there was already public interest. The I.D.B. should go where money was more difficult to obtain.

Mr. Black - He had the impression that Yazici had told him that they had 300 applications at the present time unprocessed, and this was a very interesting point. If they had nothing else to go into, our proposed action would be the same as saying we don't want you to make money, and wanted to stop them raising capital. This however, which was a strong point, was not actually the case. They had a lot of applications, and although probably a great number were no good, the textile industry was not the only one the Bank could lend money for.

Mr. Liefstinck - It was a question of timing. The better atmosphere in favor of private industry had only just been created. The success of the applicants in the textile industry was acting as a stimulant to other industry. If the I.D.B. stopped investment in the textile industry, the proportion of its investment in that industry to its total investments would go down rapidly.

Mr. Garner - This was based on the happy assumption that the I.D.B. would get additional capital.

Mr. Rosen - These applications were contingent on the I.D.B. getting another loan this year, otherwise it would be left without funds. If we added another 9 million, the 70% ratio of investment by the I.D.B. in textiles, at present quoted, would not be quite fair.

Mr. Liefstinck - The I.D.B. wanted to become profitable as soon as possible to attract capital.

Mr. Garner - This was another question. The I.D.B. had not been started to make money. As it stood at present, they had a 9 million credit from us and a limited amount of lira funds. He would hesitate to take a course that would oblige us to provide additional credits.

Mr. Rosen - We should not go up to this unless we were prepared to make another loan. Otherwise, we would limit investment in other fields, and therefore the compromise position had been suggested. He proposed that we should point out the imbalance to the I.D.B. and ask them to reconsider the applications.

Mr. Garner - We should give more weight to the fact that this expansion would lead to imbalance in the textile industry, and in the textile industry in relation to other industries, rather than enter into an argument of what the demand might be. This would put the matter on a sound banking basis.

Mr. Cross - We should ask for more information about the unprocessed applications.

Mr. Garner - The Engineers had been telling us about the I.D.B.'s financing of little machine shops. Here, with a small amount of money they had set up something that was harder but better to do. We should tell them we had doubts about their concentration on the textile industry and that the imbalance in the industry seemed to us unfortunate and that we would like to suggest at this time that additional credits be confined to 2½ million preferably for projects where balanced production for spinning and weaving were planned. We should give them our reasons in detail, and invite their views.

Mr. Liefertinck - We should get nearer to the fundamental question of whether the Bank should give directives to private investors with regard to the lines of development they should pursue. This was different from being a bank which considered credits in the light of banking principles. If we tried to make the choice, and told them to substitute our views, we would be in the wrong.

Mr. Garner - It would be proper to ask them for a summary of the industries involved in their other applications, as this had a bearing on the future. We created this Bank, and it was not just a casual interest on our part, and we should exercise our judgement in accordance with our general lines of operation.

Mr. Liefertinck - He had misunderstood the Bank's policy. He had thought that the Bank would not enter into judgement on the I.D.B.'s lines of lending, but would leave this to I.D.B. as it was supposed to be better able to judge than it was possible to do from Washington. If we tried to get an overall picture to determine priorities, it would result in a great loss of time.

Mr. Garner - We should not try to look over and classify everything. We should, however, to the extent practical, get diversified portfolios and stimulate the industry Turkey needed. We should require that more emphasis be placed on broadening the base of Turkish industry.

Mr. Liefertinck - If that was the view, he would interpret it accordingly.

Mr. Iliff - We did not want to be associated with a project if it fell down. It was not sensible to devote time to only a part of I.D.B.'s portfolio. While I.D.B. was not designed for profit making we must have regard to that. This Development Bank was only one of a number and the same considerations would arise probably, as regards Lebanon, Colombia, U. K., etc. We should therefore consider generally what our approach should be. If we examined each of the small loans we would devote a lot of administrative time and expense to them. He would rather see closer overall relations with the management and Boards of these Banks and to use our influence to steer their broad operations. He had in mind, not that the I.D.B. should substitute for the I.B.R.D., but as an investment institute in Turkey, should play a role in the Turkish economy.

It would be worth considering in future whether we should not put a maximum limit of some amount for any particular project. If the project was over 1 million, it would probably be better if the I.D.R.D. did it itself. He had understood that small amounts would be left to the I.D.B.

Mr. Garner - It was also for the purpose of getting away from negotiations with the Government concerned on each specific loan.

Mr. Iliff - If we were convinced by the arguments of the Technical Operations Department, we should put before the Board of the I.D.B. that we think they are making a mistake, and give our reasons. If we turned down the applications and gave directives where private investment should go, we would be taking a serious responsibility on our shoulders. He would either approve all the present textile applications or none of them.

Mr. Aldewereld - We should look at the total operations of I.D.B., and must have regard to profit aspects. The big danger was that small projects like these added up to 5 million which was a substantial amount, and if the procedure suggested by Mr. Iliff was established, borrowers were likely to hide behind the screen of the Development Bank, and the possible encouragement of undesirable enterprise would arise.

Because private interests said they wanted to put up the money, we did not have to say yes to the projects. If it were a limited amount, there might be less objection.

Mr. Garner - Mr. Iliff's proposals were logical, but not in accordance with the general policy of the Bank. The Development Bank was for the purpose of helping develop a broader basis industry in sectors where capital was difficult to get.

We had tried to get close to the operations of this bank. We tried to get a broader basis of operation by conduct of sound banking principles. Because of their inexperience they had agreed to take a foreign manager. We had hoped this would influence their general operations along sound lines. Also we had helped pick their board.

It was not due to their fault that the foreign management had been discontinued and the Board kicked out by the Government so that the independence of the I.D.B. had been undermined. We had not been consulted. The Government had been going to fix the rate so low that it would have been impossible for the I.D.B. to become a profit enterprise.

I.D.B. had been unable to condition loans so that it could take part in a profitable enterprise by a cut on its stock, etc. We had nailed to our agreement that our approval must be obtained to use of our credit.

We had no moral commitment to go along with what the I.D.B. wanted to do.

As regards small loans, we did not consider what was most profitable but considered what would best help to develop the country.

The I.D.B. should make a profit, but primarily it should assist in the economic development of Turkey by providing the financial mechanism needed. This and all our loans would be paid according to whether the overall economy of the country grew properly. It was common practice in banking that when a wise banker saw an industry in bad shape he would tell his customers he was not willing to go along with it. We had come far enough in respect to these Development Banks to determine the extent of our

- (a) basic responsibility,
- (b) amount of control, and
- (c) the amount restraint we should have.

Mr. Black - If we told the I.D.B. to go its own way he shuddered to think what we might run into. Mr. Iliff had made an important point and that was we should have more to say on the management of the I.D.B. This was where Turks had made a mistake. If they had not done so it would have been another story. In future we had got to be sure, e.g. in Lebanon, Thailand, etc., that the management was satisfactory to us.

Someone had said this was a good loan regardless. A bank might say a loan was a good one, but would keep an eye on the amount. If the Turks said, after hearing our reasons, that they were going to make this loan anyhow, it was not all right if we just said we would get our money out of the Government anyhow. This went to the root of all our operations, and was fundamental. We would probably get our money if we took that position all over the world, but it would greatly jeopardise our influence. A lot of trouble would be saved in future if we had a considerable voice in the management, except in cases where they already had highly experienced people.

Mr. Liefertinck - His role was to give information, and he was glad to learn the principles of the Bank. He also had thought that the I.D.B. had been established to promote the private capital market in Turkey. It was new to him that it was conceived to make small loans only, and had thought the original contemplation was a broad one. The I.D.B. had played an important part already in mobilising private capital. Up till now most of the capital had been mobilised in the Textile sector. The rate of interest charged was 6%. The statutory limit was 7%. The U. S. Government had negotiated this with the I.D.B.

Mr. Garner - The I.D.B. had said the Government would not consent to a higher rate. The Government had wanted to put it at 5%. They were told this was inadequate, and that with such a low rate the bank could not be successful. The I.D.B. should be able to take an equity interest or some sort of share in order to make a profit.

Mr. Black - This point had been brought up at a meeting of the Board of the I.D.B. They were trying to be conservative, and did not want to take a chance.

Mr. Garner - He did not see then how they could make enough in the Turkish market to attract capital.

We could not possibly examine all the I.D.B. projects but we should get protection by diversification. Sometimes we might have to send an engineer. We should let them get experience with the help and guidance of the Bank.

Mr. Broches - We should preserve our vote and it was a question of how far off the mark they should be before we used it.

Mr. Garner - We should use the veto when our judgment said so.

Mr. Liefertinck - He would prefer to discuss with I.D.B. the use of the veto power.

Mr. Black - This might not be a healthy thing to do, or to let them know if we relinquished it.

Mr. Broches - A limit to the size of these loans was important.

Mr. Iliff - He had understood a different philosophy -- that we were prepared to risk 9 million to stimulate private investment and set up a capital market and not, through the I.D.B., influence the whole Turkish economy.

When projects came to \$1 - 1 1/2 million we should look at them as direct loans although this involved the Government as the guarantor.

Mr. Rosen - The Bank had approved 16 loans, the others without SLC discussion.

Mr. Aldewereld - The ordinary procedure took about one hour.

Mr. Iliff - If the project was manifestly absurd it was O.K. to veto it, also if it was financially dangerous to IDB the veto would also be in order but if it was only a little pregnant he felt we should leave it to the IDB.

Mr. Black - We had to look at these.

Mr. Liefertinck - I.D.B. had lent TL 70 million. It was not a small institution and had the best staff that could be recruited. Turkey should not be compared with Ethiopia. It was going to become a 500 million lira institution and a great motive force in the Turkish economy.

Mr. de Vries - Our assistance should be helpful to an I.D.B. on

- (1) availability and price of raw materials,
- (2) power - whether its price was reasonable,
- (3) market outlets, and
- (4) Government policies on protection.

We had knowledge that they did not have, and there were points that should be taken up with them before they caused damage, such as lopsided expansion.

Mr. Iliff - Only domestic conditions were involved in this case.

Mr. Cope - The IBRD being on the outside had a more objective view. The responsibility of turning projects down should be squarely on IDB shoulders. Otherwise if they were confronted with an objectional decision they would dump it on the IBRD. As regards the Turks,

- (a) it had been difficult for us to find someone and,
- (b) they had not been fortunate in the foreign advice they did get.

Mr. Garner - When Mr. Garner was there the new Finance Minister of the new Government said he would not agree to a foreign manager. Of the Directors, some were agreeable but they did like to start bucking the Government and there was delay in finding a suitable candidate.

Mr. Knapp - He was always aware of the conflict between projects and the social purpose of an institute of this kind and it was hard to keep a balance. A sophisticated manager would look in both directions. Was the purpose of the I.D.B. to promote the most desirable pattern of industrialisation or to stimulate the flow of capital? In Latin American there was little need to stimulate industrialization. They liked to see treal and error. There was, however, an urgent need there to open up private capital, and there might need to be a heavy concentration on one line as a pilot project.

Mr. Garner - They might then prefer to set up a line to finance breweries, soft drinks, etc. The kind of industry the I.D.B. financed was left broad, but they should only include projects that added to the economic progress of the country. We were not instituted primarily to make profits, but had to earn them at a certain level to do our job, and it was the same for an I.D.B.

Mr. Black - One of the Arguments given for approving these applications had been that you thereby encouraged private capital. You did not encourage private capital unless it made money. If I.D.B. support broke the market on yarn, maybe the industry would not be so profitable. If it didn't make money, the failure of this investment would retard the private market.

It had been a useful meeting and we should do what Mr. Rosen had suggested.

Mr. Rosen - He would like to have the views of the I.D.B. It might be better to get them personally, rather than through a letter.

Mr. Liefertinck - There had already been some four months' delay. He would be glad if approval could be given to two of the applications and the other three left for discussion.

Mr. Rosen - We had these technical questions and would like their views and were prepared to go forward up to \$2 - 2.5 million. We did not want to stop the whole thing. We were prepared to approve applications up to this amount immediately, unless they wished to change them as the result of our comments.

Mr. Liefertinck - The Chairman of the Board of the I.D.B. said he was coming here at the end of April but no information about this visit could be found in the I.B.R.D. If agreeable, he could send him a cable and say there were matters to discuss.

Mr. Black - He had talked to Overby about setting up a meeting of MSA, Treasury and ourselves on Turkey. He had turned this over to Hebard. He had forgotten to include the Fund.

Mr. Liefertinck - Mr. Rooth was much in favor of the loans and he would like him to attend.

Mr. Black - Mr. Rosen should see Mr. Hooker about the arrangements for this meeting.

The meeting adjourned at 12:00 noon.

H.G.A. Woolley
May 1, 1953

Notes of S.L.C. Meeting held on Thursday, April 16, 1953
at 9.30 a.m. in Room 1005

COLOMBIA

Mr. Knapp - Ran through the highlights of SLC/O/558.

Mr. Waterston - We did not have a lot of pertinent information. Mr. Green had come up from Colombia for a couple of days and had drawn a picture of the new estimates and the probability of adequate maintenance. The Working Party, however, was taking nothing for granted, e.g. regarding the size of the estimates or the possibility of getting Congress together.

We wanted to include covenants covering maintenance requirements in the new loan. In fact, it would be inadvisable to lend any further amount without these. The present maintenance facilities required a complete overhaul. Suitable advisory staff was not available in Colombia and was needed from abroad.

It would also be necessary to ensure that maintenance appropriations were not diverted to other purposes.

The gas tax might be increased and allocated to maintenance. However, this would not be so easy as it might appear, as the taxi drivers, who naturally wanted to keep this tax low, had a very powerful union.

The Mission would endeavor to make the neatest possible package and would proceed on the assumption that a plan for suitable maintenance could be prepared for incorporation in the Loan Agreement.

Information received indicated that it would not be possible to obtain ratification by Congress until the latter part of the year and thus the Colombians might not have available either the dollars required for machinery or the pesos needed for operations.

If the Mission found this to be the case they would report to Washington and ask for instructions (see paragraph 23 of SLC/O/558).

Mr. Broches - It would be dangerous to permit the road program to slow down. However, if we made an advance we would not be able to get the assurances needed for adequate road maintenance and he agreed that we should not lend any more without this being settled.

Mr. Garner - This maintenance failure was a shocking thing. He had thought it had been covered fully in the original loan. We had discussed very thoroughly training and organization necessary for maintenance when the Highway Loan was originally considered.

Mr. Knapp - Nothing effective had been done or had been required to be done under the terms of the Loan Agreement.

Mr. Garner - When Mr. Green was here a year ago, Mr. Garner had had a discussion with him and Mr. Leyva and thought that the necessary provision had been made.

Unless maintenance facilities were provided and kept in operation, the highway program was useless.

He saw no difficulty in getting the loan arranged in two stages rather than one, the first one going up to our present limit and the second one after extension of the limit by Congress. It would be easier to obtain fulfillment of our conditions with two tranches.

Mr. Knapp - He thought it would be possible to get the maintenance service established now.

Mr. Garner - It would take time to work up satisfactory maintenance and he expected it would be a problem to effect it.

Mr. Ellsworth Clark - It would not be legal under Colombian law to reorganize the Highway Department for this purpose without approval of Congress.

Mr. Knapp - Hiring would not require but the financing of peso requirements would require Congressional approval.

Mr. Garner - If they could not put up the pesos needed at this time we should not make the loan.

Mr. Waterston - Pesos required would be provided this year out of the Budget.

Mr. Garner - Another solution would be to tell the Colombians to call a meeting of Congress.

Mr. Grayson - This would be almost impossible as the Constituent Assembly was to convene next week and no meetings of Congress were permitted while the Assembly was in session.

Mr. Waterston - The Mission planned to investigate the possibilities.

Mr. Garner - He had thought it was just a question of getting the right people for the road maintenance and had not realized the legal restrictions.

Mr. Iliff - Suggested we should go ahead on the basis of the recommendations in SIC/O/558 and if the Mission found that it was impossible to work things out on that basis, they would report the position and ask for instructions.

Mr. Garner - We should tell the Colombians they could not get the money until they took the necessary action. If there was a law that prevented a meeting of Congress at this time, they could change it and we should let them see this was the only way they could get the money. He had also been shocked to find that under the Ethiopian road contract, provision had only been made for contract for maintenance by the Bureau of Roads for 2-3 years, whereas such provisions should run until our loans matured.

Mr. Aldewereld - The only way to achieve adequate maintenance, was to ensure watertight provision before making a loan.

All Bank Missions complained about road maintenance.

Mr. Garner - Agreed that the Mission should go to Colombia to see what additional money was required and the maintenance program necessary.

We would need the strongest possible assurance of an adequate maintenance organization and would insist on legal protection to the fullest extent before we put up any money.

Mr. Aldewereld - If the Colombians advanced the money required now, we should get our conditions ready for Congress.

Mr. Torfs - The Colombians did not have the money. If the Central Bank advanced it, there would be serious political reaction. Also an advance of pesos would be inflationary.

Mr. Knapp - We would be asking them to dive into their foreign exchange to tide them over and this should not create inflation. Also the amount involved would be small. However, in Latin American countries when they dipped into Central Bank funds they always said it was for the purpose of 'tiding over' but this 'tiding over' too frequently became a long term situation.

He suggested and it was agreed to approve the recommendations contained in SLC/O/558. It was up to the Colombians to find an interim solution if one were necessary.

However, the Mission would not shut the door entirely and if they found it impossible to obtain the conditions required they would report the position to the Bank.

PERU

Mr. Garner - We could not make a loan to Peru until the sterling debt was settled. The Mission report gave an outline of projects and amounts involved but we should not start negotiations until this debt settlement was ratified.

Mr. Knapp - The dollar debt had been settled. The sterling debt was not settled because of its dollar conversion clauses.

We had been pressing Peru to get it settled. We had made 2 small loans to Peru but we were anxious to show we were protecting not only holders of dollar external debts.

He had talked to the President and Minister of Finance on the subject during his recent visit to Peru.

Ambassador Berckmeyer was leaving on May 20 for the Coronation and had been promised and expected to receive his instructions, before then, for negotiations in London. Settlement would depend on these instructions. There was a 50-50 chance that it might be effected.

The sterling debt amounted to about £2.8 million and the controversy was over an amount of \$200,000 a year.

Mr. Mason - Peru was willing to go to \$4.03 to the £ but not to \$4.86.

Mr. Knapp - This was a preliminary presentation before completion of the project reports. Also Mr. Haralz would complete a full economic report. The Department considered the amount of the loans recommended to be reasonable especially taking into account its assumptions on mineral development in Peru.

Mr. Mason - Peru might well be on the verge of a boom in its extractive industries. Besides the Toquepala development mentioned in the paper which was the largest, other developments were iron ore production at Marcona of 2 million tons annually having a value of \$20 million at present prices, and Cerro de Pasco's expansion of lead and zinc should bring in another \$16 million annually. American Smelting and Refining and Cerro del Pasco also had additional projects.

Possibilities of oil development were a much more unknown feature. If oil was discovered in really substantial quantity, Bank loans would not be required. Two big U.S. companies were each spending \$10 million for exploration alone. On the other hand, agriculture was lagging. The chief exports - cotton and sugar - were inclined to go down in quantity due to greater domestic consumption while imports of foodstuffs, i.e., meat and wheat, were rising.

The geography of the country was complicated and some explanation was needed to show the problems of increasing agricultural production. First, there was a narrow coastal strip on which anything would grow if water was obtainable. However, the scarcity of water was the main problem and greater production meant the more effective use of water. Second the high mountain valleys where most of the population lived. The majority were Indians using primitive farming methods. Greater production in this area could only be obtained by teaching the Indians more up-to-date methods and bringing in more marginal land - a very slow process. Third, Eastern Peru where the mountains sloped off into jungle in which sometimes there were small population centers which could be opened up by roads, but which usually involved colonization - another slow process. Even before this could be begun crop experimentation would be necessary.

Our projects were slanted towards achieving greater agricultural production in all areas but the coast had to be the main objective.

The figures in the mission's report were conservative and the technical reports might well show the projects in a more favorable light.

Mr. Haralz - The present price for copper was 30¢ per pound but in estimating the export earnings of the Toquepala development the mission had used a price of 22¢, with 20¢ for blister copper. 7¢ remained in Peru for local expenses and 1¢ as a tax to the Government. The remainder went in service of Eximbank indebtedness and as dividends. Later on, part of these dividends would be re-invested in Peru. The copper exports from Toquepala would according to this estimate be \$40 million a year, out of which \$16 million would remain within the country.

Mr. Schmidt - Both of the mineral projects would bring additional foreign exchange income to Peru.

Cerro de Pasco would soon be exporting refined zinc instead of zinc concentrates.

Mr. Mason - The Eximbank loan would be to a Peruvian subsidiary and not guaranteed by the government. A 5% rate was being discussed for a 30-year loan with a 5-year grace period. Less interest would be charged if the loan were for a shorter period.

The Marcona Company (subsidiary of the Utah Construction Company) was seeking a loan of \$6 million from the Eximbank. It had long term contracts with American steel companies and was going ahead even though the loan had not yet been granted.

Quiroz-Piura (second stage) project

Mr. Garner - It would cost about \$400 per acre to bring the 30,000 hectares of new land under irrigation. The total cost would be higher.

Mr. Mason - Pima cotton would be grown on some of this land producing a crop valued at about \$312 per acre, based on an average of a little under two bales per acre. The land was at present practically desert but was privately owned. The Government would buy the land and resell it after improvement.

Road construction and maintenance project

Mr. Garner - We have learned something about the necessity for maintenance from our experience in Colombia.

Mr. Mason - In the case of Peru, the mission believes that maintenance should come before any loans for construction.

Pacasmayo Cement Plant

Mr. Schmidt - Copeland Morton, representing some West Coast money, were interested in setting up an investment trust. They thought there might be some suitable opportunities in South America for investment where they might

make their income in capital gains. They were trying to get their first project lined up and had travelled a little to find it. They thought the first trust might have about \$3 million in it. We had mentioned the Cement project to them. They had said that they would be glad to investigate and would look at, sympathetically, anything we told them about, particularly if the Bank would participate. The Company needed more foreign exchange, would be delighted to get private money and would be willing to give a position on the Board to a U.S. group willing to participate on an equity basis. The Company would like to get a statement from the Bank that we think it to be a good project so they could use it in their endeavors to raise funds on an equity basis.

The Technical Reports would be ready in 2-3 weeks.

Mr. Knapp - While he was in favor of assisting the Company, the risks the Bank took on the technical soundness of a project were usually in relation to the Bank's investment. In this case other money was to be raised. If we threw in hedges they would weaken the case. It was a question of how far we could go in providing representations for third party investors.

Mr. Cross - We might let them study our Technical Report.

Mr. Broches - It would be unnecessary to say the project was sound. The question of whether we were prepared to put up money for it, however, was a legitimate one.

Mr. Garner - Our statement might be misused as loan and equity positions were quite different. We could say that we would not give an answer until the equity capital was lined up.

Mr. Knapp - When the matter came up to the SLC again the Department would have a draft letter to the Company ready for consideration.

Mr. Garner - We should not take too negative an attitude.

Mr. Haralz - Our present views on balance of payments (paragraph 11) would be made more concise in the full report.

The meeting adjourned at 11:50 a.m.

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Notes of SLC Meeting held Wednesday, April 15, 1953, at 3:00 p.m., Room 1005

TURKEY

Mr. Liefertinck - The economic development of Turkey was progressing rapidly, mainly along sound lines. There were few places in the world where the post-war boom was progressing so rapidly, e.g. Canada and Australia. The national income increased in 1950 by 12%; in 1951 by 15% when the wholesale index rise was 6%; in 1952 by 7% when the wholesale index price remained constant. The main increase in production has been in the agricultural field where production was 50% of the gross national production. Between 1950 and 1952 the area in cereals increased 21%; production increased 85%; the yield per hectare increased for all cereals on the average 32%. The area sown to cotton increased 50% while production increased 47%. Yield per hectare of cotton was down because a less fertile acreage had been sown.

Improvements were under way as the result of technical assistance provided for livestock which now accounted for 20% of the national income, i.e. \$60 million in 1952. This increase reflected a rather unhealthy situation as the meadows were now over-grazed, i.e. 1 to 24 denums as compared to 1 to 124 in Montana. They were trying to work out a program for improving the meadows and trying to add cottonseed cake and other foodstuffs for the cattle. The infant mortality of the cattle was very high because of the over-grazing and insufficient feeding. If the program planned was carried out during the next 7 to 10 years, production of milk products and meat would double and they would become important exports for Turkey. Breeding methods had been antiquated for a long period. The veterinarians' organization was very powerful but the Government was now working out a program backed by it.

Contributions to the increased production had been: the introduction of tractors, of which there were now about 35,000; small irrigation programs, while bigger ones would be completed in the near future. Continuous rise in production was expected especially in wheat, cereals, cotton and livestock.

The Turks had not obtained as high a standardization of products as in other countries but a program was under way in this connection. It was expected that satisfactory results for wheat would be obtained this year while it would take about three years for cotton. When completed, Turkey would be able to compete with most other countries. As regards metals, coal production had increased from 4.3 million to 4.8 million tons, iron from 220,000 to 360,000 tons, chrome from 420,000 to 650,000 tons, copper from 11.7 to 14.9 million tons. The total U.S. aid to Etu had been the equivalent to 2.4 million Turkish lira.

Coal reserves appeared to be more than 500,000 tons. Mining research was active for chrome, etc. and there was hope for discoveries of uranium and radium. They were working on new oil legislation to attract foreign capital in that field. Construction had been started on the Government oil refinery plant at Batun with a capacity of 330,000 tons a year.

Industry

There had been considerable development with the assistance of IDB which had approved almost 80 million Turkish lira of loans and, even more important, with the assistance of these credits, private capital had been mobilized in the amount of 120 million Turkish lira. Investments assisted by the IDB had been made mainly in the fields of cotton textiles, food, brick and tile, and cement. The increase of production had given rise to problems of providing sufficient energy and means of transportation. The Government was aware that if these were not developed production would be severely hampered and there would be great difficulty in disposing of production in bringing it from the interior to the ports.

Various bankers were interested in multi-purpose projects, in the Seyhan, Izmir region, Gediz River, etc. In the Izmir region they hoped to get assistance from the Bank. The Government had allotted in its 1953 budget a large share of investment funds to transport.

It was regrettable that the Port Development projects of the Bank had not progressed better. Most of the contracts were now signed.

The internal financial situation in Turkey had not given rise to serious concern. The budgets reflected sound financial policy. Anticipated tax income had been higher than estimated. Military expenditures were lagging behind and were also likely to do so next year. Provision had been made for cash deficiencies in the past by loans in the market. However, the Government had not placed a loan in the market for last few years deficiency. They were definitely resolved not to finance out of money creation. A weak spot was the pre-financing of the cereal harvest. If the harvest was a large one, Tobrak, which bought all the harvest, had difficulty in disposing of it. Sales then lagged behind but the farmers continued to buy imports. The slow disposal of the export surplus was due to price requirements in a buyer's market and the quality not being up to standard. However, the Turks were doing their utmost to sell their stocks. They had been forced to the path of bilateral agreements although they were reluctant in this respect. This applied particularly to Italy, Yugoslavia and Japan, and Germany had also tried to make this type of agreement, even on a long-run basis with an element of compensation in it. Financing by Tobrak of wheat on a short-term basis was an inflationary factor. The credit policies of the Agricultural Bank were also inflationary. Since the last two years the Government and the Agricultural Bank policy had stimulated agricultural production by extending credit. The amounts involved were over 1 billion Turkish lira as compared with 320 million three years ago. The program in the current year would bring the total up to 1.4 billion. Most of this was short-term for one year. Last Fall repayments were most satisfactory, better than the year before. With the good crops this year it was hoped that they would be even better. The tendency to make long-term loans was greater, but as production increased some increase in monetary circulation should be allowed.

The inflationary element had increased in commercial credits. Legal measures to suppress this were lacking although measures were being prepared to control the volume. Deposits of banks had largely increased from 1.13 billion to 1.7 billion Turkish lira. They had mixed the cause and effect saying they should not worry about credits because they had increased deposits. The external economic position had not been favorable. Imports had been very heavy up to last September when Government measures had been taken to restrict them but these measures took time to take effect. Exports had lagged with the result that the balance of payments had entered a difficult phase. Last year in October there was a balance of payments crisis. There had been an improvement but the position was still very serious. There was the danger that, in order to guarantee sales, Turkey, although reluctant, might enter more bilateral agreements tying imports to exports. The general tendency in Europe was to go in that direction. The external debt position had improved short term. Short term debts amounted to less than \$35 million compared with a much higher amount in September last year. The long-term position was uncertain. Service of the long-term foreign debt would require \$30 million this year. In future years this would go down substantially. Annual service payments would be \$23.8 million in 1954, \$14.9 million of this U.S., \$4.9 million sterling, and \$4 million Turkish lira. The debt service would amount to \$10 million for 1960 and this would be nearly all in U.S. dollars. If they could get through the first years without running up large debts for development, they would be in a good situation in the near future. The economic difficulties had been caused because they had advanced on a long series of development projects which were not yet adding to productive capacities. The question was whether these debts were too much for them to carry. Investment in mining would be completed in 1953. Local currency investment therefore would be less heavy in 1954. Most projects would be completed in the next three or four years.

Textiles

Mr. Rosen - The question before the Bank in connection with the Turkish Development Bank was whether it would approve five cotton textile projects involving approximately \$5 million of the Bank's money. The questions to be considered were (1) the market prospects, and (2) the policy issue, i.e. the line the Bank would take depending on the decision on the market. As regards the market, it was difficult to judge the cotton demand for 1957. The minimum estimate was that it would be increased by 6.2%, while the maximum estimate showed the increase to be 26.5%. The difference was due to two judgements of two different factors. One was the rate at which the national income would grow. On the minimum estimate the national income per capita was to increase 2% per year for a total of 13% over the period. On the maximum estimate, it was to increase 5% per year and 33% over the period. The other factor was the effect of the increased income on demand. The minimum estimate was that demand would be increased by 6% while the maximum estimate was that demand would be increased by 25%.

Spindles in existence or to be completed were sufficient on the basis of the minimum estimates without these five projects. On the basis of the maximum estimates all five projects were needed. It depended whether one took an optimistic or pessimistic view.

Mr. Lipkowitz - 58,000 spindles were involved and they would produce roughly the amount of import reduction expected over the period.

Mr. Garner - Textile industry of the world was over-expanded and there was no disagreement on that point.

Mr. Lipkowitz - He felt that the case made by the Technical Operations Department rested on its own merits without including the world situation.

Mr. Liefertinck - The IDB had applications in other fields before it but not yet processed. Applications in the textiles sector were considerably more numerous than presented by the Development Bank and also they had reduced the amounts to be loaned. They had made a conscientious survey and had the full support of the Government. If the Development Bank and the IBRD approved the five applications, a large mobilization of private capital would be brought about. In recent years there had been large profits in textiles and cotton. The Turks were more familiar with the textile industry and lacked knowledge and know-how of other types of industry. Also they had the difficult problem of disposing of their raw cotton. From the private enterprise point of view, many such applications would be justified. From the Banking point of view and the approach of the Development Bank, these applications constituted the best loans that could be made, mobilized much private capital and were good loans with little risk. By declining them the IDB would have to face less promising projects.

Various textile enterprises in Europe pressed their Governments to allow them to buy dollar cotton because its price was lower. Turkish prices were competitive with sterling cotton but not with U.S. They felt that the U.S. subsidy was unfair.

Mr. de Vries - Cotton producers in Turkey and other Near East countries had exaggerated expectations from the Korea boom. Near East cotton would have to adjust its price, grading, etc.

The organization of the market for export was one of the most important things to be done in Turkey.

Mr. Iliff - The increase in local production would improve the balance of payments position.

Mr. Garner - It would not improve it if women took to two dresses in the place of one. An adequate supply was important, but it was not critical to the real strengthening of the economy. It would not increase exports and would not broaden the base of Turkish industry.

Mr. Lipkowitz - Over the years the Turks had been producing an increasing amount of their own textiles and would soon be producing 90%.

Mr. Liefertinck - The new Government had stimulated private enterprise and it would be a dangerous step if this Bank stopped it. No consideration had been given in the IBRD report to the price elasticity of demand. Profits were limited by law to 20% but the Government allowed higher profits. If we did not lend, the present situation would continue and the Turks had had to fight a gray market for years. It would be of considerable benefit to Turkey to have a supply of cheaper yarns. If price went down, it would increase demand and benefit the population which was notoriously poorly clad.

None of the Government textile factories had been sold to private interests. There was no interest in buying these old-fashioned plants.

Mr. Garner - As long as the Government was running these factories they would not let the price go down below what they could make a profit on.

Mr. Lipkowitz - Expansions under way would increase spindles by 35% and the demand could not rise by 35% in three years. The Government was increasing its capacity in specialized yarns and in other cases.

Mr. Rosen - The best solution might be to let world competition prevail. But there was no possibility of that as the Turkish policy was concerned with the use of its cotton. If the Bank did not go forward with these applications it was probable that the Government would do so.

Mr. Iliff - Our interest should be to see that IDB observed proper banking standards. We had taken the position that the Turkish Government should not interfere but we were trying to do so at this distance. Risk capital was prepared to go into the IDB to a substantial extent for the purpose for which this Bank was created.

Mr. Garner - His observations of Turkey had been that Turkey was going hog-wild on raising cotton. With the high tariffs and high prices supported by the Government, this was a very profitable crop.

We had felt that the textile industry was the best established in Turkey. We had discussed the matter with the President and said they were over-expanding in this field and they had then refused credits for Sumer Bank textile mills.

Events since had fairly well proved that world textile capacity was over-built for the present. The Japanese and U.K. textile positions were critical.

It was natural that the Turks should concentrate on the one type of industry they knew. We had a strong conviction that they needed to broaden their industrial base and the IDB was set up to do this. While it might be easier to develop the textile industry because they knew that business, he had grave doubts that that would be the best thing for Turkey.

It was sound banking to say that the business was over-expanded and it was proper in banking when you saw an over-balanced picture to cut down your credits for it. It was the function of the IDB to diversify industry.

In the relations of this Bank with the IDB, this was exactly one of the things of which we wanted to keep control. It was difficult for us to know the particular set-up in a particular business but when it came to a judgement of a type of business we would see that they did not go hog-wild or get into an unsatisfactory type of business.

There were strong arguments that the expansion proposed was unsound. We could use our power of approval to get better diversity than had been the case in the past. A sound portfolio was desirable and the I.D.B. should not set up as a textile bank when textiles least needed help. The I.D.B. was set up to broaden the base and assist less well established industry. He would be very hesitant to see us go on approving textile projects.

Mr. Rosen - We had thrown out cautions to the I.D.B. at the end of December.

Mr. Garner - He was impressed that we should hold back as much as possible and put the brakes on. Although we should talk about how far we might go.

Mr. Liefertinck - According to the maximum estimates considered there would be no over-capitalization in this field.

It was a decision to be taken by the Turkish Government, whether they used scarce resources for imports of consumer goods, and not for the import of investment goods.

It would be difficult and dangerous for the Bank to impose on the Turkish Government a policy of this type. It was important to give attention to the demand elasticity in this field.

Mr. De Vries - We had to take into account that they would have many more spindles than looms to use. The applications from the clients of I.D.B. would increase this imbalance. If they had 500,000 spindles and only 8,000 looms they would soon be in distress with no market for their yarn.

Mr. Broches - In a loan of this kind while we reserved our right to approve credits for many reasons, he did not think we intended to substitute our opinion for that of the I.D.B. when there was room for doubt.

Mr. Garner - He did not think we could do otherwise. Marketing was a thing in which the Turks were inexperienced. The world's over-capacity was bound to affect them. We could not pass up a responsibility we had to them as a borrower.

Mr. Gregh - They understood that if these were done they shouldn't go further. They were therefore fringe cases. Some people here considered they were going too far. If we said that from now we could not approve this type of application, what would happen? He understood that they would go ahead in any case. Even if we gave them very good reasons, he questioned whether they would follow them. If the expansion was too strong it would also have an impact on the first industries financed through the I.D.B.

Mr. Liefertinck - As far as the feelings of the I.D.B. and the Turkish Government has been sounded out, we believed they would go on with these projects in any case.

Mr. Ross - As regards Turkish creditworthiness we had said on several occasions that it depended on compressibility of imports. These projects would save a substantial proportion of foreign exchange.

If the demand rose close to assumptions then in spite of the expansion in the textile field they would need to import \$40-45 million a year. With the desire to continue development, it would be hard to have a trade deficit over a long period. He did not believe they would limit the export of cotton by developing the industry at home.

Purchasing power was likely to continue its pressure. From the balance of payments point of view and long run creditworthiness, any conclusion against these projects had serious implications. Lipkowitz had made a survey that the Turks would still have to import 2,500 textile cloth, 1,000 specialty yarns. The reduction in imports of textiles, if these applications were approved, would amount to two-thirds in volume of the imports in 1951/52.

Mr. Garner - Supposing machinery was brought in to process export goods. That also would have a very distinct influence on the balance of payments. It was disappointing that I.D.B. had not seen much it could do to promote exports.

Mr. Knapp - They were self-sufficient in textiles. Everyone recognized that the old textile centers were obsolete. They should get out of these. He would view with skepticism any estimates not taking into consideration a price decline. He would say in principle we should favor an increase in capacity if it would reduce price. Private enterprise might be able to get away from the low turnover/high cost mentality and this might be a good chance to try.

Mr. Lipkowitz - Figures from pre-Korea to end of December 52 showed that Turkish prices had gone up with world prices but had not come down with them on yarns.

Mr. Liefertinck - The estimates were based on 1951 or 1952 consumption. He considered they were much below what fitted in with the present income of the Turks. There was a depressed consumption because of import restrictions and high prices and he believed there was greater price elasticity.

Mr. Iliff - If Lipkowitz's figures were wrong and there was going to be a shortage which the Turkish Government felt it had got to meet, the consequences were going to be much worse for us.

Mr. Wheelock - An average drawn between the two estimated assumptions clearly showed there would be over-capacity in 1955-57.

Mr. De Vries - In the meantime, they would have to go into substantial investments in weaving, dyeing and printing - or else there would be an oversupply of yarn.

Mr. Rosen - The disequilibrium between spinning and weaving, if the projects went through, was a crucial point and the I.D.B. and the Bank would then have to support the further expansion of looms and finishing facilities.

Some of the applications involved weaving as well as spinning. Two did not include any looms at all. He wondered whether we could not find a middle way out of the difficult position, by approving the projects integrating adequate weaving facilities with spinning.

Mr. Garner - Textiles or nothing was not the question. They had limited capital for expansion and it was a question of what would be most useful. Why should they go into the one sector likely to go into over-capacity while there was pressing need for loans in other industrial sectors.

The argument relative to the balance of payments position did not take into account other arguments which would have more effect on the balance of payments position.

Mr. Liefstinck - After these applications had been made the I.D.B. would have devoted only 33% of its total loans to textiles. Perhaps the I.B.R.D. should draw up a list of priorities. This was done by MSA and they had told the Turks last year to take textiles off the list. Since then MSA had come to the conclusion they had been mistaken in this respect.

If we selected applications the whole course of our procedure with I.D.B. would change and that responsibility should remain with I.D.B.

Mr. Aldewereld - The recommendations of Technical Operations was a compromise, i.e. to approve the integrated part of the applications but not the total.

Mr. Lipkowitz - \$3.3 million out of \$5 million subject to screening of applications.

Mr. Rosen - Fifty spindles were needed to one loom. This would be out of balance at the end of 1952 but there would be more imbalance by 1954. He suggested that the Bank approve the projects for Bossa Ticaret and Koyuncoglu, amounting to \$2.25 million, which provided for both spindles and looms. Details of the Tarsus project had not yet been received and we should see if it was more or less integrated and if badly out of line send it back.

Mr. Garner - We had doubts about the concentration of this lending to textiles and about the desirability of the increase of spinning capacity and hesitation about further textile financing.

Mr. Rosen - The Area went along with that.

Mr. Liefstinck - There would be a lot of difference if all or some were approved. Refusal would show lack of confidence - turning down the appraisal of the I.D.B. He suggested we should give them a chance to discuss the matter with us.

If the two last ones were approved we should indicate our readiness to discuss the other ones.

Mr. Garner - He did not see the use of our approval authority if we might not exercise it. We should explain in great detail our whole view. They could question it. There was no reflection on the I.D.B. It would however be unfair to lead them on to believe that all we needed was a few more arguments to convince us.

Mr. Rosen - Proposed that we tell them that to do all was going too far, i.e. 70% of the I.B.R.D.'s credit on textiles. He was particularly concerned that if this was done, further investment would be needed in this field. We should say we were prepared to go to a limited amount for integrated facilities, i.e. about \$2-2.5 million and looking at the five project, we thought these two were the most suitable but let them make the choice which ones to bring forward to us.

Mr. Lieftinck - As regards a definite position that our Bank was not willing to invest more than \$2-2.5 million in this sector, the percentage position would improve in the course of years. If the availabilities of I.D.B. increased, he would prefer to use a percentage figure.

Mr. Garner - We should say that our remarks applied to loans at the present time.

Mr. Rosen - Conditions might change which would justify further investment in this sector in 2 or 3 years.

Mr. Iliff - He would approve all or none. The approach used was to keep I.D.B. happy, throwing all principles overboard.

Mr. Lieftinck - In the working party they had thought that the best way was to approve the expansion on spinning and that this would force them into weaving.

Mr. Garner - He would not waste capital to teach them a lesson. It might have some effect to get across to the Turks the serious concern we had in over-expansion in this field at the expense of others.

Mr. Rosen - We should go to them on the subject.

Mr. Garner - They should be given all the criteria.

The meeting adjourned at 5:50 p.m.

H.C.A. Woolley
May 1, 1953

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Notes of SLC Meeting held Wednesday, April 8, 1953 at 11:00 a.m. in Room 1005

AGRICULTURAL MACHINERY

Mr. Garner - SLC/O/555 had been made up after talks with manufacturers and other authorities. Only one-half of a job was done if proper provision for spare parts was not tackled when a loan was made for any sort of machinery or equipment. The Bank had overlooked some things when making this type of loan in the past, and it should consider what action to take in future loans.

We should be satisfied not only that adequate spare parts would be available for the machinery in the project under our loan but also that the spare parts situation was generally satisfactory in the country concerned so that our spares would not be diverted to other projects.

Mr. Connors - Australia was in bad shape for spare parts although the pressure had eased somewhat with the reduction of sales of tractors. Protection had been given to manufacture of spare parts in Australia but they did not then have the necessary manufacturer's warranty of suitability.

Mr. Lund - In Paraguay, 40 out of 48 tractors were out of action because of lack of spare parts.

It was necessary to insist on: (a) adequate spare parts; and (b) adequate and suitable technicians. We had insisted on this in our Pakistan loan and the loan was not yet effective for that reason.

Mr. Connors - Under the Kans Grass loan, machines had done 5,000 hours before they had to be rebuilt and this was a good example of what could be done if proper provision was made for maintenance.

Mr. Lund - The local dealer was the best man to determine and lay out the spare parts necessary. The next best was the manufacturer. Unless the country had experience of the project it could not do the selection. In the Punjab Agriculture loan they had not liked it but we had insisted on 15% of spare parts being shipped with the initial shipment of tractors the first year and 35% later over a period of two years.

Mr. Knapp - While on the one hand it was desirable to have the maximum standardization, on the other there was a great deal of international competition and although it was contrary to good economics, all supplying countries were anxious to get a share.

Mr. Lund - Attempts at standardization on an international basis had met with little success. Turkey had 40 different types of tractors.

Mr. Connors - Because of varying designs of manufacturers it would probably not be possible to overcome this. In case of fleets in general service, the buyer usually had to accept any that would meet specifications. On a specific government project, however, it should be possible to restrict use to one or two makes of tractors.

Mr. Garner - We should weigh one consideration against another and take the responsibility, when desirable, of requiring a specified type.

Mr. Connors - Where there was no project experience we should be careful that only enough were bought at the outset for trial purposes.

Mr. Iliff - The result of the Bank's experience in respect to utilization and maintenance of machinery would be of value and should be circulated to member countries.

Mr. Knapp - In Latin American countries the dealer network was mainly U.S., some British and a little French. In our loans to Colombia, Chile and Peru U.S. equipment was used almost exclusively. The Germans were making a big drive to stage a comeback. It had been reported that Fiat had taken over a large part of National Motor Works in Brazil as an assembly plant for Fiat tractors.

Mr. Garner - In determining the specifications of machinery to be used, dealer experience in the country should be taken into account.

Mr. Aldewereld - U.K. was also prominent in the field of heavy equipment. Some Italian equipment was finding its way into Australia.

Mr. Cope - It would be dangerous to determine specifications on the basis of a good dealer organization where a better machine was available. Therefore flexibility was desirable.

Mr. Knapp - It was desirable to lean on the side of stimulating competition.

Mr. Garner - He favored competition but in certain countries a newcomer would face great difficulties, and unless the manufacturer was prepared to put in an adequate dealer organization it would be undesirable to use his equipment. Also, any built-up consumer preference had to be taken into account.

Mr. Grah - It was up to the manufacturer and not the Bank to prove that his equipment was the most suitable. Technical Operations Department could give advice, but the final choice should be made by the borrower.

Mr. Garner - If on adding up all considerations including previous experience of the machine, dealer organization, etc., the manufacturer was found wanting and we were convinced the borrower's selection was not likely to do the job, we should take the responsibility of refusing to carry out the financing.

Mr. Iliff - It would be dangerous to refuse on the basis of the extent of a dealer organization and would cut across both domestic and international competition.

Mr. Garner - The manufacturer with a dealer organization having experienced service and mechanics in the field was to be preferred and was just as important as the type of tractor. It was undesirable to permit a manufacturer, who could not prove he could meet the conditions, to experiment under the Bank's financing.

Mr. Cope - We should not press extremes but be biased to encourage competition and decide each case on its merits.

Mr. Garner - Our engineers had told us there was more danger in having too many types than in permitting a monopoly. It took a long time to build up the necessary experience to confirm new equipment. The number of different types in underdeveloped countries had become an almost insuperable problem.

Mr. Lund - Difficulties had arisen in India because tractors and ploughs were not properly matched as to power and the life of the tractors had been affected accordingly.

Mr. Garner - A good test, to determine what conditions we required, would be to imagine we were buying the machinery with our own money.

Mr. Connors - Most of the U.S. manufacturers had British firms under license.

Mr. Garner - Equipment used should be designed around the particular machine with a view to getting the maximum performance out of the combined unit. We should insist on the necessary arrangements being made for training in advance before making a loan. If we came across bad dealer performance, we should inform the manufacturer.

Mr. Lund - If the dealer got the regular commission, it covered training, visits by manufacturer's representatives, etc.

Mr. Knapp - General licensing was better than Government 'mark-ups'. If there was over-pricing we should inform the manufacturer.

Mr. Connors - The normal dealer mark-up was 17%-20%. In the Government contract in India, where the dealer benefited from services by the Government, e.g. storage, credit facilities, etc., commission was reduced to 5%. This left the dealer without any margin to cover services after the machinery arrived and placed him in the position of a peddler.

Mr. Lund - Dealers could avoid large losses of spare parts through obsolescence. Our ultimate role is to build up the dealer organization in each country.

Mr. Garner - We have good influence with the manufacturers and, if we thought they were not giving enough commission to cover the performance of services required, we should inform them that this influenced our recommendations for placing contracts.

Mr. Connors - Rate contracts and mark-ups should be established for spare parts. In the U.S., the Government and fleet owners received a regular discount based on the amount of their purchases. Lately, bid forms had required the manufacturer to state the percentage to be paid to dealers.

Mr. Aldewereld - He would not be surprised if the dealer often got a percentage both ways, i.e. from the manufacturer as well as the buyer.

Mr. Garner - Competition held this down. There were times when it would be necessary to have an interim organizational arrangement because countries did not have facilities to train people.

Mr. Lund - Farm machinery institutes established by FAO had not done much.

Mr. Connors - In Punjab the adviser to Thal Development Co., Mr. Garner of F.A.O. had poor knowledge of precision built equipment. He appeared to have the ear of the Chairman and when we insisted certain things should be done, he had said they were unnecessary. A letter had been sent to inform him that if the Bank needed his advice, the Bank would ask for it.

Mr. Knapp - As regards the role of dealers in the distribution of equipment, there was danger of political favoritism to farmers or to dealers.

Our interest was that the machinery should be provided and maintained on the most efficient, economic basis for the purpose.

He suggested and it was agreed that suitable provisions should be included in Loan Agreements to cover, fully, maintenance during the life of a Bank loan.

Mr. Iliff - Suggested and it was agreed that the Technical Operations Department should draw up now a memorandum of these provisions to be included in Loan Agreements.

Mr. Garner - Those setting up projects should provide for the necessary measures to be undertaken in each case. Where necessary, establishment of an open general license might be required for spare parts.

INDIA - Kans Grass

Mr. Connors - The Kans Grass project was coming along well. There had been further improvement in organization.

Difficulties re spare parts and recruiting of suitable stores directors had created bottlenecks. They had been unable to recruit the right type of men to remove these. Usually the clever ones recruited turned out to be crooks and the others were not good enough for the job. They were willing now to pay to get the right kind of man to take charge of this - a foreigner, if necessary.

Storage, particularly of crank and cam shafts and electrical equipment, was excellent. Some spare parts for the project were "pirate" and in some cases were rusted and unusable. Some distressed merchandise had been purchased in U.S. through the fault of the India Supply Mission which had done a poor job generally. There had been trouble with filter elements purchased in New York and it had cost \$5 apiece to alter the 300 purchased.

The land problem continued although the necessary statutes existed. This was due to the vagueness with which the State Governments approached the matter and their unwillingness to enforce the statutes.

They were two years ahead on survey work.

A good many machines were idle because of lack of spare parts, e.g. 37 tractors. On the whole however, maintenance and overhaul was very good due to training by factory men on the spot.

The Parliamentary Committee investigation of CTO estimated that each machine ploughed .72 acres per hour and that the 210 machines in operation would plough 1.5 million acres in the year instead of 2.5 million acres as originally estimated. ~~(F.D.E. and HDIA)~~

Most original (FDE and HDIA) tractors had done over 5,000 hours.

It was expected that CTO would be continued.

There was no incidence of re-infestation with Kans grass after the first three years except where there had been late rains in January or poor quality ploughing. The agronomist's report on this would be available in December. Probably Mr. Kephart should go there early next year to review this.

State Governments had done a fair job of follow-up but some tracts had been left out. State Governments were vague about crop information because they had left more acres fallow than they cared to report.

The cultivators were well pleased.

The Towner plough, weighing 12,000 lbs. with 7/8" discs cut 12" roots, might prove an excellent solution.

They still had, and would have to get rid of, 214 old (Ransome) ploughs.

Morale was good.

Work was being done under a bonus system with a 16-hour day. Jungle clearance of 20-22,000 acres ploughed was the target this year and would complete work under this heading.

It was problematical then what to do with the equipment. Its transfer to Madras or Uttar Pradesh was under consideration.

PAKISTAN - Thal Project

The Chief Engineer for this project had not yet joined but Mr. Connors had seen him. He came from the East Bengal Railway and was an accomplished engineer but had no experience with tractors.

Some tractors had been delivered. The technical staff had little knowledge of machinery. Mr. Connors had insisted that factory-recommended staff should carry out instructions, etc.

Performance of Pakistani compared with Hindus was good but they could not be expected to be any better than their training. Those recruited had only army experience and those at the top had no training.

An Australian from FAO was aiding them and would assist by selecting tractors drivers and mechanics.

Repair shops had not yet been constructed and would not be evident until August.

Their survey methods, which depended very much on the eye, caused wasteful digging in construction of irrigation channels.

The biggest problem however, arose because Zafar-UL-Ahsan insisted on one-man control and refused to delegate.

Chizheh, the agricultural advisor, was a good man.

On the whole, it was a sound and easy project and with the right training a good job would be done provided Zafar-UL-Ahsan did not become too much of a bottleneck.

The Meeting adjourned at 12:20 p.m.

H.G.A. Woolley

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April 21, 1953

Notes of Staff Loan Committee Meeting held Monday, April 6, 1953 at 4:00 p.m. in Room 1005

BRAZIL

Mr. Knapp - He had hoped that SLC/O/550 and this discussion would be adequate for the opening of negotiations on these four loans.

The going had been tough and the Mission deserved high praise.

Mr. Iliff - The method of presentation was a good one and he recommended that the same procedure be followed in similar initial stages.

Mr. Aldewereld - The negotiations should not be started until complete reports on the project were available and had been studied by SLC.

Mr. Garner - We should not rush this matter. We should not start negotiations until we had had further talks with the U.S. and should give Mr. Black a chance to see how much he could find out.

The purpose of this preliminary report was to see whether any obstacles had so far been found to the projects. If preliminary reports were all we needed, there would never be any object in completing project reports.

Mr. Iliff - Suggested that SLC might decide, on the basis of these preliminary reports, that subject to satisfactory discussion with U.S., the Bank was prepared to put up \$33 million for certain purposes and that these four projects came within this framework.

Possibly further questions might arise relative to these projects and come up to the SLC subsequently.

Mr. Garner - The final responsibility for the project reports rested with the Technical Operations Department and we should not authorize negotiations until they approved the projects.

Mr. Schmidt - He suggested that if the Area Department came forward with a report in which Technical Operations Department concurred with the essential elements of a proposed project, the SLC could give its clearance without waiting for the detailed reports.

Mr. Garner - The SLC should not make its final decision on the basis of these preliminary reports. Maybe project reports in full with all the tables might not be needed in this case but the SLC should not act on a brief page or two of information on each project.

Mr. Aldewereld - Para. 4 of the enclosure was not in accordance with para. 2 of the covering memo, SLC/O/550. He was prepared to go along with these projects. After the SLC expressed its view on the approach, he felt the SLC should know all the details. He felt the projects were OK but did not know how the SLC felt about them.

Mr. Garner - If we were just going to take a Mission's recommendations, it would change our procedures considerably. If there was a real urgency we might be willing to have the mission report supported by 2 or 3 hours of oral presentation instead of waiting for a full report to be written up. Many things would be brought up in connection with the Mission's report and the

purpose of this SLC meeting was to see if there were any that constituted major problems to be followed through at this stage.

While the summary provided was an excellent one, the SLC should not make its final decision on that basis.

Mr. Knapp - He thought it should be possible for the SLC to reach agreement on principles on the basis of the summary and did not think it desirable for the SLC to occupy itself with too much detail. He doubted whether it was worthwhile for the SLC to go over the summary and then have another meeting to go over the detailed reports.

Mr. Garner - It would be important for Mr. Elack to be briefed and to obtain his reaction and also to give him time to endeavor to ascertain the U.S. position.

Light Project

Mr. Flesher - He had visited the site of the Light Project, all the data were here, and we were ready to go ahead. The cost of the project had gone up but the amount of our participation had not changed.

Suburban Car Project

Bidders had been eliminated so that only three remained. The Government had asked us to select the firm but we had replied that this was up to them. As the award had not yet been made there might be alterations in the specifications. The change due to fabrication in Brazil had to be presented for Government approval.

The prospective suppliers had agreed to finance the \$6.7 million (or more) for the purchase of new trains.

The last cars would take up to 36 months for delivery and a 20-year loan for this type equipment would be satisfactory.

Maintenance

We proposed that requirements of repair and maintenance services should be made part of the Loan Agreement. They had not yet presented a plan for this and we would not disburse funds until they had taken the necessary steps. The Loan included \$150,000 for repair shops. The present maintenance equipment was reasonably adequate.

35 - 40% of the cars were out of service, including some since 1950, although they were spending about \$1 million annually for maintenance. The way they used this money and in fact all their operations were inefficient. They had a great need for good shop men.

Mr. Garner - At present they could not raise the efficiency of the maintenance service to ensure that 85% of the present fleet could be in service all the time.

They should submit a plan of what they intended to do, after obtaining our agreement and get started on it and bring the fleet to a degree of efficiency before we signed the loan. Experience had shown it was desirable, if possible, to get things like this done before instead of after a loan was signed.

Mr. Quandt - Agreed that it should be made clear to Brazil we would not make disbursements until they had taken decisive steps. The Bank's engineers should go there two or three times to check progress and at the same time show the importance we attached to this matter.

We would probably gain if we signed the loan with the required conditions but without waiting for them to be fulfilled, and held disbursements until they had been fulfilled. A release of the approval of the loan would make a great impression in Brazil and strengthen Lafer's position and this would be to the Bank's advantage.

Mr. Flesher - He had asked for their plan for maintenance at three meetings with the Railroad but they had only been able to present a maintenance manual and clearly did not have a plan.

Mr. Knapp - If we made the loan with conditions to be fulfilled before making disbursements, the onus would be on the Railroad and we could not be accused, as we were at present, of dragging our feet. They would not now be convinced we were going to make a loan until we signed the Loan Agreement.

Mr. Schmidt - In the cases of the Ethiopian Highway Authority and Port of Callao if we had not signed the loan, in advance of the fulfillment of conditions, the projects would never have started.

Mr. Aldewereld - Approaching the matter from a purely business point of view, it was desirable to obtain fulfillment of conditions in advance. However, this was an exceptional case. We were committed to a certain extent and steps were being taken with the trouble, anyhow.

Mr. Garner - We should at least be sure that the equipment we supplied would be operated effectively. The earlier they got the plan, the better off they would be.

Mr. Iliff - It was not possible to get the Brazilians to approach these matters in a sane and reasonable way. It was necessary to nurse them along.

Mr. Garner - If they placed orders in anticipation of the Bank's loan we would be in a hotter spot than we were now. We could not have more than a covenant to ensure maintenance after the loan was made and he was worried about the Railroad raising maintenance to the required level in a reasonable time. It was not unreasonable to ask for the raising of the maintenance level in the course of the loan negotiations. If we acted otherwise, we would create an unfortunate precedent which would plague us later.

Mr. Flesher - At the three meetings with the Railroad he had told them that their maintenance operations and plans were inadequate. He had then taken the matter up with Mr. Lafer who had told the Director of the Railroad to take the necessary steps.

Mr. Garner - Ralph Budd had a good maintenance man there and perhaps we should suggest that they ask him to work out for them a plan, which in his opinion would produce the required results.

Mr. Quandt - The chief engineer in charge of maintenance had been removed and a new man with a good reputation had been put in his place.

Mr. Garner - Whoever worked out the plan should be responsible to the Brazilians and not to the Bank. They needed the necessary equipment and someone to run the operations efficiently.

Mr. Knapp - Agreed that he would endeavor to obtain a statement of their maintenance program.

Mr. Aldewereld - It would be practically impossible to obtain increased rates now but we would include in the Loan Agreement the necessity of increasing them later.

Mr. Bengston - Raising the rates might cause the fall of the Government.

Mr. Flesher - There was no reason why the Railroad should not be self-supporting. He did not feel they should try to raise rates now but felt they would be able to do so when they had the new cars and a better service.

Mr. Garner - He would like them to covenant that they accepted the policy that as improved service became available they would move towards making the Railroad self-supporting.

Mr. Knapp - Suburban services throughout the world were normally subsidized.

Mr. Sommers - The Bank was going in to help the Railroad as an emergency operation. He did not think the Bank should accept the responsibility of trying to make the Railroad self-supporting.

It was a matter that had to be considered for the Brazilian railway system as a whole and the Bank should not get involved in this.

Mr. Garner - If the Brazilians were willing to go on record of a policy towards self-support of the Railroad it would be a good thing to obtain it.

Salto Grande Hydroelectric Project

Mr. Knapp - Action would be taken to set up the new company before loan negotiations and the Bank's negotiations would be with this duly constituted authority, wholly owned by the state.

Mr. Bengston - There was a plan to try to sell some shares to five private companies and the State of Parana.

Itutinga

Mr. Garner - In case the cruzeiro fell, he would like a covenant providing for rates adequate to service the loan.

Mr. Sommers - The Government guarantee went further and this covenant was also unnecessary for a government project.

Mr. Knapp - The question of rates was very important and needed further examination. It was important that the project should not become a drain on the country.

Additional Projects

The next step on the other projects was up to the Brazilians. We were committed to take up the light project. A project for 14 small ports to supplement Rio and Santos had been received from the Joint Commission and he presumed we would look at it.

The meeting adjourned at 6:05 pm.

Notes of Staff Loan Committee Meeting held Monday, April 6, 1953 at 10:00 a.m. in Room 1005

MEXICO

Knapp - This went beyond Mexlight as it involved our relations with the Mexican Government and if no solution were found relations would undoubtedly be strained.

Garner - Governments seemed unwilling to give private utilities adequate rates and it was very difficult for them to finance expansion out of earnings. Now a great growth was demanded and it was a question, not of a fair rate, but a generous rate if the Company was to have enough earnings to do the financing. It almost might come to the Government taking over the utilities and supporting them out of its budget.

If the Government took over it would have either to raise rates or support the Company's operations by financing from the budget. If the Government seized the Company it would have to assume the foreign exchange burden that went with it.

Looking towards the good of the country and its development prospects, there was a good case for increased rates.

Aldewereld - The amount to be found was very great, i.e. a total of 2 billion pesos in ten years.

Sommers - The renewal of Mexlight's franchise was three years overdue and we could press for this to be done.

Iliff - It was questionable whether a generous return would attract capital.

Garner

Garner - Without higher rates of return there was no possibility of raising capital in Mexico. With higher rates there would be something to sell but it would not be possible to sell big amounts. A higher rate of return, with an agreed minimum to be reinvested, might be suitable.

Sommers - We had to find a device such as a surcharge on the rate, to go into reinvestment.

Garner - We had always said that we did not want to determine the rate of return but it must be sufficient to get the required result.

Sommers - When the loan was signed Mexico had promised to take steps diligently to obtain for Mexlight a suitable rate.

Garner - When we made the loan, we realized we could not write a formula, but we had got the Mexicans to agreed to the necessity of the Company having funds and to take action accordingly. They had, however, failed to take said action. Those working on the loan should prepare the best statement they could make to this effect, in order to draw the attention of the U. S. Government to the way in which Mexlight had been treated.

Financial Situation

The Company had accepted the 6% rate in 1949 without protest. Referring to Note 2 of the Appendix to SLC/0/552, it was a grave question whether they should be allowed to bond new property to the extent of 100% of the amortization of old bonds. That was the same as not allowing for the amortization of bonds. We should watch this.

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Sommers - Under the indenture Mexlight had the additional borrowing power to issue more bonds up to the limit under the Loan Agreement. Paragraph 2(f) referred to the hope that dividends could begin in 1954, but they were prohibited during the construction period. Preferred dividends would start accumulating this year.

Cavanaugh - With the stock now priced at \$4.05 the return was very liberal.

Ripman - The advice of Wenzell of First Boston had been that the dividend should be 10% on the equity. Related to the book value of \$25.80 dividends were not high. They were more realistic in relation to the present market value.

The figures for 196-70 should only be taken as indicative of orders of magnitude.

The Company would have to obtain permission under the Loan Agreement for borrowing under paragraph 8(d)(iii).

Garner - The four years cash deficit in operations indicated in paragraph 10 did not make sense.

Schmidt - As regards paragraph 10, Mr. Messersmith had said if they got 8% they would be in a good position until 160, and that requirements after that date could not be foreseen at present.

Sommers - The Mexlight Board had said that they had reasonable expectations that after the construction periods earnings should permit a regular dividend policy.

Ripman - As regards paragraph 11, the drop in book value in 1959 was due to the issue of a large amount of stock at less than book value.

Garner - We should look at financial position. Start with the 7½% rate they propose. On this basis the Company could not raise additional capital. At various rates what could they do?

Ripman - As regards the rate to complete the existing program (under the Bank Loan Agreement) they did not need more than 50 million pesos. They were slowing down all the time. The work should be finished in 1954 but would not be.

Aldewereld - The Commission was expanding by the construction of new plants. Mexlight had to participate in the distribution of electricity generated at these plants.

Ripman - The critical period was from now to 1960. The deficit was based on: (a) the Bank's program being completed; (b) distribution requirements; and (c) the addition of two units at Lacheria.

Garner - It was reasonable to argue that there should be some return to the owners, and it was unreasonable to continue with the projected program unless they got something.

Sommers - Some return to the owners was definitely fair.

Aldewereld - Nacional Financiera was getting 7% and 10% would not be unreasonable for Mexlight as no dividend had been paid for a long period.

Sommers - The real trouble was that while the Company had been earning, it had no cash available.

Garner - It was figured in Mexico that it was necessary to give 10% to attract foreign or domestic capital. Because of the urgent demands for expansion in Mexico the Company needed to plow back 5%. It appeared that a special surcharge would be reasonable, for which the consumers could get some stock. It would be a construction fund and should not be included in the basis on which the rate was determined.

Schmidt - The working party was not in a position to determine this. It was a job for a special group.

Garner - He believed that the Tariff Commission had always studied the rates from a political, and not an economic, point of view.

Gregg - The program had increased since the Bank made its loan, whereas the funds available had not increased correspondingly.

Ripman - If the current provided was to be consumed, distribution facilities had to be constructed.

Garner - He asked whether this had been estimated when we made the loan.

Sommers - The order of events had been in reverse in the loan.

Garner - We had not pressed far enough.

Sommers - We had looked at the particular program but had not realized the whole pressure for expansion.

Garner - He doubted whether a 6% rate would ever be adequate for Mexlight to do a realistic job.

Cavanaugh - As regards item 9 in the appendix, the net earnings with an 8% return as under Alternative "B" would put the Company in fairly good shape.

Knapp - There had been no interchange of ideas on the technical level between the Tariff Commission and the Company on a 7% rate.

Garner - He had the impression that the Tariff Commission waited for decisions from the President's office.

Cavanaugh - Alternative "A" based on a 4 million pesos rate base, was unreasonable. Alternative "B" was closer to what would work out.

Garner - It was not sound for the Company to cover deficits out of short term financing.

Ripman - Under "D" the cash deficit would be eliminated. Brazilian Traction's rate of return was running between 10% and 12%.

Garner - He was skeptical whether the Government would agree to "D".

Knapp - If the Company was awarded a rate high enough to get rid of the deficit, it would get rich at a later period.

Garner - Some part of the return might be handled on a special basis. It was not possible for us to arrive at a reasonable rate of return and the solution could only be determined in stages. Even if the Mexican Government were agreeable, the rate required over a long period could not be determined immediately.

It was a question of how to keep the Company alive while arriving at a solution. If we could not get some agreement on an approach to the longer range requirements, we should be skeptical about accepting a shorter range solution.

Sommers - We had been trying to protect the Company. The Company had said it would accept 6%. We had reluctantly agreed. The Company had delayed for a year application for a rate increase. He had pointed out to the Company the necessity for such an increase two years ago. Now they had put in for a rate increase asking for a rate of 8.6% when they should have asked for 8.9% and they had indicated to us they would be willing to accept a rate of 8%. We should let the Company make up its mind where it wanted to go.

Garner - They had not the necessary capacity in the Company to determine this and the Management was incapable and the Bank should do something about that. We did not want to see the Company go into receivership. We had sat back and if we didn't take the initiative that is what would happen.

He would couple any proposal with insistence that the Company straighten itself out too, or the Company would be taken over by the Mexican Government very soon.

Sommers - If the Company said it was willing to accept the 8% rate, how could we save them? They had made it obvious to the Mexican Government that they were willing to accept anything to keep the construction work going.

Garner - The basic question was whether we were going to intervene if we thought that disaster was approaching. Legally we could say the matter was up to the Company.

Sommers - The situation was so bad that instead of worrying about the Company's position we should be worrying about which way the Bank would have the better possibility of being repaid.

Garner - We also had the prestige risk.

Aldewereld - We should endeavor to obtain an agreement in advance between the Bank, the Mexican Government and the Company to carry out suitable recommendations.

Knapp - We could not have compulsory arbitration unless there was a basic understanding of objectives. We should spell out the basic principles as far as possible in the manner the Mexican Government was most likely to accept.

Garner - We should have a study of the situation, of the various facts and assumptions, to be submitted to a mixed Commission of foreigners and Mexicans to examine it and to make recommendations on the whole policy.

Knapp - Some kind of understanding should be reached between the Bank and Mexican Government about additional debt.

Iliff - The following things were necessary: (1) the Company's view of its future role; (2) whether this fitted in with the views of the Mexican Government; (3) the amount of the additional debt needed; and (4) agreement that the existing equity was entitled to some return.

Schmidt - The report might show that more should go into electricity than the Government would ever be willing to invest. When we had the study that could be answered.

Iliff - The whole question was where the Company was going to get the finance for the foreign exchange expenditures.

Garner - He would agree with all the things Mr. Iliff suggested if we had a year to solve the problem. We should present to the Mexican Government that: (1) up until now there had been a series of crises; (2) would the Mexican Government agree to a real study for the development of factual information and recommendations? It would be necessary to have someone produce the answers under our auspices; and (3) would the Mexican Government join us in trying to develop this comprehensive study?

If we could not get agreement he did not see any basis for the Company to borrow additional money. Additional borrowing would then only postpone the evil day a little. If the Government agreed to our proposals we would then be willing to accept a temporary arrangement. We could not repudiate the Company's application at the present stage.

We should see that any temporary financing was protected as much as possible to avoid getting the Company in a box.

Knapp - The end of September marked the end of the surcharge and was the logical date for a new rate to become effective and it would be satisfactory if the new study could be ready by October 1.

Garner - Without any increase in rates before October 1 he did not think we should approve further borrowing by the Company.

Aldewereld - The Company would need approximately 111 million pesos by October 1. If the new rate could be made effective by October 1, it would be a better tactical position.

Ripman - A rate of 8.6% would make rates to consumers about 12% higher than at present.

Davies - This amount would have only a small effect on consumers.

Knapp - We should determine the conditions we were prepared to accept to tide them over to October 1. They needed short term advances. We should get their agreement on the proposed study and a number of basic conditions.

Garner - He doubted whether the required study could be completed in 6 months. We had had strong assurances from Carrillo Flores that the matter would be tackled immediately after the elections. Now it was April and the only argument we heard was that the President wanted to keep down the cost of living. We ought to press for an immediate rate increase. If they refused we should

require an immediate promise of a rate increase by October 1 to 8.6% pending a study, and agreement by the Government that after the study was completed the rate would be adjusted to an adequate level accordingly.

Sommers - Also we should not give permission to the Company to borrow unless its franchises were renewed. We should also get their agreement not to fight on the basis of a rate of $7\frac{1}{2}$ - 8% as we believed the rate should be higher.

Garner - We had to get an interim rate pending the result of the study. As regards advances, we should go by the Loan Agreement instead of the indenture. Such advances should be repayable out of a surcharge rate only, otherwise the Company could still be thrown into bankruptcy on subordinated debt. He had told Mr. Messersmith several times that we were only interested in their borrowing on a basis similar to last year.

Iliff - We might be in for a series of crises. If we did not get some basic assurance from the Government we should tell the Company we were through.

Garner - If we did not have the basic information, it was hard to ask them to agree. There were some general matters of policy and we should have a basic agreement with the Government on general principles.

Sommers - Perhaps the study should cover all the electric power industry.

Adler - Taking into account the extent to which it affects Mexlight.

Garner - Some assumptions had to be made re all Mexican power and its rate of expansion. While it was more desirable to the Bank if the study covered the whole thing, it was not up to us to request that.

Ripman - To stop work would cost a lot - about a 10 - 15% increase in cost.

Schmidt - Material was on the site and if the tunnel already built were not lines it would cave in.

Garner - Were we prepared to give permission to Mexlight to borrow without a rate increase?

Sommers - Mexlight should tell us what they wanted to do. We should go to Toronto and ask the Company for their proposals and what they wanted us to do.

Garner - We had been waiting for the Company to do something for 3 years now.

Aldewereld - He thought we would have to take a stand and tell the Company our ideas.

Iliff - He felt we were in a jam. If we agreed that the work must go on we would have to allow them to borrow.

Garner - He did not think so.

Knapp - We had to define our position.

Sommers - We should tell the Board they have to make up their mind.

Garner - We had to be prepared to say what sort of program we would be prepared to go along with. He was not suggesting that we should go to Mexico without talking to Mexlight.

Iliff - Are we prepared to let the Company borrow without a rate increase?

Aldewereld - Yes, if the Government means business in a short period. First Boston did not consider $7\frac{1}{2}\%$ to be sufficient.

Knapp - We might agree to the Company borrowing if: (1) the Government renewed their franchise; (2) a rate increase was approved from October 1 to not less than $7\frac{1}{2}\%$; and (3) the Government signed an agreement on the general principles of a study.

Garner - It would be necessary for the Government to announce the October rate increase now.

Sommers - The borrowing should only be repayable out of the excess rate.

Garner - Then the Mexican Government could not put the Company into bankruptcy. Otherwise they might give another wage increase and cause bankruptcy.

Schmidt - They should start by asking for 8.6% or 8%.

Garner - We believed that 8.6% would not answer requirements but should urge them to put that into effect in the interim while awaiting completion of the study.

Davies - The rate obtained now was likely to be the one the Mexican Government would give for the next 2 or 3 years.

Garner - Then we should not allow them to borrow any more.

Hoar - There was likely to be a series of crises. We should hit for 8.6% to begin with. If after the study is completed they will not agree to a new rate we should cut off our support.

Sommers - If Mexlight said it would rather go ahead with a $7\frac{1}{2}\%$ rate we should not negotiate with the Government but, until the rate of the return was what we considered adequate, loans to the Company should be on a conditional or subordinate basis.

Garner - (1) Rate to be increased to not less than $7\frac{1}{2}\%$ and to be announced now, effective October 1.

(2) Franchises to be renewed.

(3) Agreement on certain principles for a real study and factual examination with a cut-off date. Determination by the Government that:

(a) it will be an expert study (one man with his staff) on engineering and financial facts with alternatives;

(b) the study will be submitted to a tribunal nominated by the Government and the Bank. It would be hard to get the Government to accept without its review by a tribunal including Mexicans.

Sommers - It should be a Mexican-Bank study group and leave out any representative of the Company.

Garner - Who in the Mexican Government would study this study and sit down and discuss it? We should see if we could get an agreement on certain principles and that a factual study will be made by some expert mutually agreeable to us and the Government. The Government should give an undertaking

that the study will be the basis for approach to this problem on economic grounds and that the study will be reviewed by people whose opinions carry real weight.

Knapp - We should cover the disposition of the study in a letter.

Garner - This should be drawn up.

Schmidt - Were we going to consider any other financing in Mexico?

Sommers - We would not decide that now.

Garner - Consolo had an understanding with Carrillo Flores that we would not do so until this immediate problem was solved. Mexican representatives were coming up to Washington and they had something to propose to the U.S. Government. Whether Eximbank was going to lend there would determine our decision.

Aldewereld - We had to determine the amount Mexlight had to have to carry it to the end of the year.

Garner - We had to talk to the Company.

Sommers - The Company had to make the basic decision whether it was going on with the expansion and not put us in the position of being willing to come to their rescue any time.

Garner - We should tell Messersmith that we wanted a meeting with his Board at which they should be prepared to propose what they intended to do. We should get our conclusions on paper so that we could show them to Mr. Black to see if he was in accord with the proposed program and then tell Messersmith to arrange the meeting for next week.

Schmidt - They might want a supplementary dollar loan of about \$2 million as soon as possible.

Garner - This would have to be examined in the light of what came up.

HGA Woolley/hmf
July 1/53

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May 22, 1953

Notes of SLC Meeting held Friday, April 3, 1953 at 9:30 a.m. in Room 1005

COLOMBIA

Mr. Knapp - It may be that decree 0053 had been drafted by the Minister of Fomento. Mr. Knapp had talked to the President during his recent visit to Colombia and had informed him that the decree excluded the Bank from lending to private concerns with a Government guarantee. The President had replied that he felt that at any time special exceptions could be made and he appeared unaware of the wider ramifications. It was important that the decree should be repealed for the sake of all capital which might go in there.

Mr. Garner - He had been against weakening the Government Guarantee. However, in this type of loan (a) for a small amount; (b) with funds going into a variety of industries; and (c) trying to maintain the private character of the company, perhaps the Bank should consider a guarantee by the Central Bank.

Mr. Iliff - We were interested here in a guarantee of transfer. In the case of the U. K., the Bank of England owned no foreign exchange and the British Government controlled foreign exchange. As it would be important to get foreign exchange he did not think the Central Bank guarantee would be suitable.

Mr. Gregh - If we did not accept the Central Bank guarantee, the Government would be involved in the Company, but even if we obtained the Central Bank guarantee, legislation re the Central Bank could be changed and make it subject to full Government control. A guarantee by the Government would be best.

Mr. Sommers - If the Government gave the guarantee, it was possible it would use it as an excuse to interfere in the Company's operations. A guarantee covered: (a) credit, and (b) convertibility. (a) gave a government the major incentive to intervene.

We would run into certain difficulties in any case as Central Banks often did not have statutory powers to guarantee loans and would have to get special legislation. In his opinion there was little difference between a private or Government Central Bank. Judgement of the probable future independence of a Central Bank could best be determined by a study of tradition and the Central Bank's reputation. We would be exposed to somewhat more risks if the Central Bank guaranteed the loan but this would be worthwhile if we obtained more flexible lending.

We could require some sort of clause re the availability of foreign exchange to be written into legislation permitting the Central Bank to guarantee loans. Banco de la Colombia did not have power to guarantee.

Mr. Hoar - If we were prepared to recede a little in the interests of flexibility we would be well within a proper way of operation in accepting the guarantee of the Central Bank. A lot would depend on the relations of the Central Bank with the Government.

Mr. Garner - We would not enter into credit negotiations under conditions in which the Government was going to control private enterprise. Our reason for assisting the IDB was in order that private financing might be in private hands. We could not lose our money with a Central Bank guarantee unless the Government defaulted on all the Colombian loans.

Mr. Lopez-Herrarte - If the Government had a basic intention of getting into private business, the acceptance of the Central Bank guarantee by the Bank would not stop it.

Mr. Knapp - In a Central Bank such as this with the shares mainly in private hands, the shareholders would not risk their capital to provide a guarantee although they would be willing to act as an agent for the Government in this respect. The Government only had a minority interest in the Banco de la Republica. 40% of the stock was held by domestic banks, coffee growers, ANDI and others.

Mr. Adler - The Banco de la Republica operated quite independently of the Government. In a number of countries Central Banks had survived several revolutions.

If we wanted to keep the Government out of loans to private business we should accept the Central Bank guarantee. The Central Bank guarantee still implied the Government guarantee behind it.

Mr. Sommers - There were two types of organization:

- (a) Nacional Financiera of Mexico which was authorized to sign and act for the Government. If the Bank accepted the guarantee of this type of organization it would face most of the difficulties inherent in a government loan and possibly some more.
- (b) A Central Bank with a reasonable degree of independence which afforded it a degree of isolation. Some Central Banks had this to a small extent and others had it to a considerable extent and were not exposed to Congress, etc.

Mr. Garner - With a Central Bank guarantee, while it might be difficult to write the Loan Agreement so that it could be called a default if the Government interfered, the Government would be in a position of exposte facto having changed the position under which the loan was made.

Mr. Sommers - We could not protect ourselves absolutely. If the Central Bank came between the Government and the borrower there would be less likelihood of Government interference. An IDE was a different proposition to a Utility Company as it was more based on a selection of projects over a period of time.

Mr. Gregh - In Europe, states did not give their Central Banks the right to give such a guarantee and in his opinion it was not the type of responsibility a Central Bank should undertake.

Mr. Sommers - Agreed that it was probably questionable whether Central Banks should get into this field. U. S. Federal Reserve Banks could not give this type of guarantee.

Mr. Garner - Guarantees by Central Banks were contemplated in our Articles.

Mr. Hoar - Doubted whether this was proper business for a Central Bank.

Mr. Garner - Did not think Central Banks should be in commercial banking or giving credits to private industry, but the giving of a guarantee was a lesser violation.

Mr. Knapp - If it was not the view in Colombia of private stockholders of the Central Bank that they would undertake this Guarantee, would the Bank accept a Government guarantee?

Mr. Garner - No. If the Central Bank was wholly owned by the Government, the established degree of independence of the Central Bank would have to be considered.

Mr. Sommers - In some cases the Government guarantee was considered no real problem as it did not always cause interference.

Mr. Grayson - The record of the Colombian Government had shown non-interference in the past. The Head of the Central Bank had survived the change in the Government. Government members of the Board of the Bank were in a minority.

Mr. Adler - The Central Bank was a powerful outfit and did not give in to Government pressure.

Mr. Lopez-Herrarte - He was fearful in regard to the immediate future in Colombia and doubted that the Central Bank would retain its independence. The Government had already gone into the Federal Coffee Association.

Mr. Sommers - If we take the Central Bank Guarantee we give up something and did not get the highest guarantee in the country.

Mr. Schmidt - We were placed in the position that if the Government adopted a nationalistic line, we would not be willing to lend to private industry for fear of government interference but would lend to the Government.

Mr. Garner - He did not know of any cases in which the Government had guaranteed private industrial credits.

Mr. Knapp - We would not make a loan to a private enterprise with-a-Government with either a Government or a Central Bank guarantee until they change this decree. If we went ahead without this change, the philosophy of the decree would creep in. The decree was passed specifically in connection with Paz de Rio and its sweeping implications had not been realized. The President had said they would make exceptions.

Mr. Garner - While the decree was towards Government control of industry, legislation was being enacted trying to draw private capital into the utility field.

In many cases general legislation was passed in these countries to cover a specific case.

We might say that if the Colombians will put up the capital we would make the credit available with the Central Bank guarantee but if Government capital was to be involved, we would not participate. The Manero report said the Development Bank should be operated by private enterprise and only in an extreme case borrow public funds, and then should borrow from the Central Bank.

Mr. Waterston - The elimination of Government participation would make it more difficult to raise enough capital for establishment of the IDE. He felt that under proper conditions, substantial private capital could be obtained.

Mr. Garner - Did not believe that the Finance Minister in Turkey would have dared to take steps interfering with the IDE unless the Bank loan had been made with a Government guarantee. They had said that the Turkish Government credit was at stake. We had nearly crossed this same bridge in Brazil. We had gone far in saying

that if Brazil could set up small industrial credits we would waive the Government guarantee. That was a special case and if Brazil had pressed we would have accepted this there.

Mr. Iliff - The decree was unreasonable.

Mr. Waterston - The decree had been passed because of special circumstances to cover Paz de Rio. In that case private interests had been required to invest to a point where they had acquired a majority of the stock. The decree was intended to counteract this development by giving the Government majority representation on the Paz de Rio Board of Directors.

Mr. Garner - There were good men on the Board of the Central Bank anxious to keep the Government out of private business. However, the Government might kick them out and put in a political bunch. But private opinion might have an effect.

While Brazil had defaulted on its own obligations, the Banco de Brazil had never defaulted.

Mr. Knapp - The last thing a Central Bank wanted to default on was a commercial credit.

Mr. Broches - A Central Bank would default to us rather than to a commercial bank.

Mr. Sommers - The risk would be that we wouldn't have the highest obligation of the country.

If we dealt with the Central Bank the Government might pass a moratorium and we might have to go into Brazilian courts.

In other words we would not be getting as good or better security.

Mr. Garner - We should not accept the Central Bank guarantee unless there were pretty strong reasons of particular circumstances. Here we would be making a credit available, not a loan in the usual sense. The possibility of interference by the Government was therefore a more delicate matter.

Mr. Sommers - The real test of the IDB would be whether private individuals would avail themselves of it. In Mexico people did not want to get associated with the Government.

Mr. Garner - The exchange question would have to be solved. In the case of Mexico, the consortium didn't know enough about banking law to see the difficulties that would arise. We ought to find out the laws in Colombia and examine them and insist on the necessary legislation for the satisfactory operation of the IDB, in advance.

Our willingness to take the guarantee of a Central Bank related to this particular case. It depended on the positive character of the Central Bank. We should get a strong statement from the Government that they would be very happy if we undertook this and committing themselves that we were not going around them but that the Central Bank guarantee was being used in order to ensure the private nature of the IDB.

The Bank's loan should be relatively small in relation to the capital of the Central Bank.

Off hand \$6 - 8 - 10 million was about the maximum we were thinking about.

Mr. Knapp - He thought that the problem was going to be resolved by the private shareholders of the Central Bank being unwilling to assume the risk.

Mr. Garner - We had a reasonable line of approach which had the best chance of success.

Mr. Sommers - We should look at the whole position and see whether there was room to operate.

Mr. Rucinski - We should examine the creditworthiness of the Central Bank.

Mr. Knapp - Paragraph 2 should be rewritten to avoid mention of the minimum capital requirement for industrial finance corporations. We did not want to be put in the position of advocating a "financial monopoly."

In the next paragraph "will strengthen" should be substituted for "is not one designed to bail out!"

The letter should be redrafted, throwing the ball back to them and showing that we were sympathetic if anything could be worked out.

MEXICO

In the absence of any rate solution, Mexlight would have to suspend construction operations. There was evidence of bad faith by the Mexican Government to the Company and to the Bank. An SLC meeting would be called to discuss this.

BRAZIL - PERU

Mr. Knapp - The missions were ready to put the salient points on paper. The full scale technical reports would come later.

The papers contained the salient policy questions from which the decision might be taken to start loan negotiations. They were more than oral presentations. In future when missions returned endeavor would be made to present the oral reports earlier.

Mr. Garner - He would like to have the SLC discussion of Brazil and Peru before Mr. Black got back from Europe.

SHIPPING INSURANCE

Mr. Garner - Asked whether the arrangements with Mr. Pearsons for handling the shipping insurance to Thailand were satisfactory.

Mr. Aldewereld - Replied that they were working well.

Mr. Garner - As a consequence of the letter we sent out re the possibility of other borrowers making similar arrangements, Bradford had been approached by Paraguay and Indian representatives. It was rather an exceptional case when they could do anything and they wanted to know ahead, in any case, whether it was acceptable to us, or whether we had changed our attitude.

Mr. Rucinski - We should not create the impression that Gibson and Moore had a monopoly, and should indicate other firms as well.

Mr. Garner - This would be satisfactory if we had reasonable assurance that the other firms indicated were equipped to do this work.

Mr. Aldewereld - We had a roster of about 2 dozen but only Gibson and Moore had actually done this work.

Mr. Sommers - It depended a good deal on the relations the insurance agent had with shipping companies, etc. We should make it clear that we would not reimburse for any negotiations with the Bank.

Mr. Garner - Requested Mr. Aldewereld to tell Bradford the situation and agreed that if we could work out attractive savings for our borrowers in this connection it would be well worthwhile.

The meeting adjourned at 11:15 a.m.

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Notes of Staff Loan Committee Meeting held Wednesday, March 25, 1953 at 3:30 p.m. in Room 1005

BRITISH GUIANA

Report by E. Harrison Clark

The advanced work of the preliminary mission had proved valuable. Some good statistics had been prepared although the Mission had trouble with those on agriculture.

Earlier Missions

There had been many missions to British Guiana including fifteen major ones since the end of the war but little had come from them.

Program

Of the projects included by the Mission, 30% were made by the Government and 70% by the Mission.

Population

Population (45% East Indians, 36% Africans) was mostly concentrated in a small coastal area below sea level which was dependent on drainage and sea defences. The full program for expansion of this area depended on expensive irrigation and drainage and amounted to about \$100 million. The vast interior was difficult of access and sparsely inhabited.

Ad Hoc Planning

There had been ad hoc planning and a heavy turnover in Government and it was therefore understandable why recommendations of earlier missions had not been implemented. However, the situation was hopeful and the program prepared by the Mission would remedy most of the deficiencies.

Credit due British Administration

Considerable credit was due to the British administration. National income amounted to about \$200 per capita. The educational system was very good. Eighty percent were literate. Possibly more emphasis was placed on 'arts' and less on 'vocational training' than desirable.

Administration

The Public Administration was good and included both British and Guianese, e.g. the present Treasurer was an able Guianese.

Fiscal

Revenues, which had nearly doubled in the past five years, had largely gone into social welfare. The Government had depended too heavily on the U.K. and there had been large grants by U.K. and loans raised in London. They had borrowed in excess of their needs and had been running a large cash surplus over their budgets. With this strong financial position and large internal savings, it had been possible for the Mission to formulate a program which

could be financed almost entirely from domestic resources. Some dollar financing by the Bank might perhaps be desirable for timber development.

Program for next five years

A lack of engineers and projects narrowed the dimensions of the program for the next five years. Total investment recommended in the program for that period amounted to the equivalent of about \$35 million.

The Government had three projects:

- (a) mechanization of rice farming east of Georgetown;
- (b) drainage and irrigation east of New Amsterdam; and
- (c) drainage and irrigation west of Georgetown.

The program was somewhat similar to that of Dutch Guiana. The Mission's recommendations included:

- (a) more effective land settlement measures;
- (b) no further attempts for the present at large scale mechanization of rice farming;
- (c) five years' study before starting further drainage and irrigation projects in the coastal area;
- (d) review of land settlement and land tenure policies impeding effective land use, e.g. adjustment to overcome survival of troublesome old Dutch laws;
- (e) land use and ecological surveys and establishment of a number of research and experimental stations;
- (f) expert study of production of jute, dairy and beef cattle, etc.

Transport and Communications

- (g) noted the heavy operating deficit of the coastal railway. The Mission had not yet decided whether to recommend rehabilitation of the railroad or substitution of highway communication. Either would be very expensive;
- (h) heavy road building - ten major coastal roads and feeder roads, to open up forestry and the interior;
- (j) extension of airways. What had been done so far had been very effective and construction of additional airstrips for penetration of the interior was recommended;
- (k) port works and new ferry steamers to remove present operating deficit;
- (l) modernization of telecommunications;

Forestry

- (m) revitalization of saw mill industry;

(n) wider use of available woods. Stoppage of over-exploitation of greenheart, e.g. by C.D.C., the worst offender;

(o) Ten-year program for regeneration of depleted areas;

Hydroelectric Power

(p) C.D.C. small scale project only;

Mining

(q) continuance of production of bauxite (90% of total mineral production), gold (C.D.C. operations), etc.;

Other Industry

(r) Aid to a number of small industries.

Administrative

A new constitution had been adopted to come into effect in April. This provided for universal suffrage and was a major step towards self-government. It would have been better if this could have been postponed for five years. The present Government hoped the Bank's report would provide a firm line for the new ministers to follow. The Government had already proposed the establishment of an Economic Council with the Development Commission as its Secretariat. The Mission supported this proposal.

The conclusions of the Mission had been discussed with and seemed acceptable to the Government.

Relationships, British and Dutch Guianas

While the Directors of Agriculture in British and Dutch Guiana exchanged ideas and information, there was neither much economic relationship nor much trade between the two countries.

Population Increase

Malaria control had caused a sharp increase (2.8% annually, largely East Indians) in population. This would not constitute a labor problem for several years but caused a strain on the schools.

A Royal Commission in 1947 had proposed further immigration of African stock, e.g. from the Caribbean, but its recommendations had not been implemented.

The East Indians were excellent farmers, mainly occupied in rice production, and were responsible for most of the savings.

There was fair inter-racial mixture but politics had developed along racial lines.

Mr. Garner complimented Mr. Clark on the succinct, straightforward, decisive picture afforded by his report.

It was useful for this type of oral report to be made to the Staff Loan Committee soon after each mission returned, without waiting for completion of its full report.

Notes of SLC Meeting of Wed., March 25/53 at 3:30 in 1005

NATIONAL POLICIES ON EXTRACTIVE INDUSTRIES

Mr. Garner - Several years ago he had toyed with the idea of a study of oil development, i.e. a factual analysis of the various systems used, to clear up illusions, but had not found the right man for the assignment.

The Paley report pointed out the importance of production of various minerals; there was the difficulty in Iran; in Brazil there were considerable undeveloped resources of increasing value to the Brazilian economy and needed in various parts of the world; etc.

Discussion in these countries was distorted by emotional factors. He felt it was desirable to look at all important minerals rather than oil alone and he had asked Mr. Demuth to undertake a project to see whether it would be useful for the Bank to do something in this direction.

There were a number of countries with which the Bank was dealing which had large quantities of known and suspected mineral resources which would be useful to those countries. An adequate supply of many of these minerals was of importance to many of the Bank's industrialized countries.

If accurate information, not purely technical, analysing what had been done and bringing out successful methods, could be made available to leaders of opinion, etc., it would be a useful service.

Mr. Iliff had listed three important questions relative to this study in para. 3 of SLC/0/547.

The following list of countries had been suggested for study: Belgian Congo, Bolivia, Brazil, Burma, Canada, Chile, Colombia, Indonesia, Iraq, Mexico, Peru, Thailand, Union of South Africa, United States, and Venezuela.

The study would include: (a) history of modern systems; (b) laws; and (c) methods of production.

Mr. Lipkowitz - The U.S. Bureau of Mines collected copies of laws on this subject but made no analysis or any study of how they had been administered.

A number of confidential studies of 10-15 pages had been prepared from the U.S. point of view. A few case studies, including Venezuela, had been made with the Paley report. However, nothing had been done in this connection on a systematic basis.

There would be questions of how the benefits of production were shared, the amount of revenue received by the Government, etc. A good deal of information was held confidentially by business interests.

If analysis were made on an historical basis, it would appear that many areas were badly exploited in the early years and publication would be political dynamite. There would be less difficulty if the study only covered the last 10-15 years but publication might still be a very difficult problem.

A lot of work could be done here and would isolate what had to be done in the field. Also it would be essential to send field missions to get the real feeling.

Dr. Lopez-Herrarte - Edward Schuster, a New York lawyer, had a very complete library on this subject at his office.

General Wheeler - It would be more appropriate for UN to undertake this study. UN had done a good study of water resources.

Mr. deVries - UN had passed a resolution to study oil and steel but had not done anything since the study involved hiring new staff.

Mr. Adler - UN had fiscal experts studying taxation of mineral operations in selected groups of countries.

Mr. Knapp - It should not be a research study, compendium of laws, etc. but a series of policy recommendations on the type of national policy best suited to evoke the development of minerals. Brazil was a good case to follow because of its balance of payments problem and failure to develop indigenous fuel and raw materials.

He had had a discussion with Lafer on whether it would help if the Bank organized some form of technical assistance for them in this field, e.g. a group of Canadians.

Instead of Bank staff doing the study he thought that a working party should be set up and others should be drawn into the study of the general policies involved, on an ad hoc basis.

In Brazil, the situation was affected by legal, institutional, political and psychological considerations. There were small gimmicks in legislation that were serious obstacles to development.

He did not think it would be satisfactory if US or UN undertook the study whereas the Bank's role of stimulating development in its member countries was important enough for the Bank to undertake it. There were a great many false ideas on the subject and it would be of great value to clear them up, but the study should not start too far back.

Mr. Garner - It might be worthwhile for Brazil to know why \$2 billion had been invested in Canadian mineral development compared with \$40 to \$50 million in Brazil.

The study might cause difficulties with some of the Bank's members. Publication of the report would be essential and might cause further similar difficulties but it would be of real educational value.

Mr. Adler - The study should be done on a broad scale to be any good, would take 3 or 4 years and cost \$50,000 or more.

Mr. Iliff - The study should not be undertaken by the Bank.

General Wheeler - The Bank would not get back its investment.

Mr. Gregh - The study should not be undertaken by the Bank. There were many similar subjects requiring study which in theory would be useful but would take a large staff and a large budget. There was now a general feeling for nationalization. The countries concerned were like children. When they became independent they wanted to do things by themselves. In the last ten years they had been pushing out foreign capital, saying that the resources were theirs. Few of them were conscious that they needed more foreign capital and foreign technicians.

The study was unlikely to prove any more than the Bank already knew. It might be a good thing for a University to do but it was very doubtful whether the Bank should undertake it.

Mr. Hoar - It was unlikely that the study would have the effects the Bank desired. Decisions on how mineral resources were developed would not depend on comparative studies. It was largely a matter of emotions. It would be no good making recommendations without publishing the basis of the conclusions and this would probably be most embarrassing. Also budget considerations were very much against it.

Mr. Aldewereld - It was only wishful thinking that the study might change Iran's oil policy. However, it might give useful ideas to other countries where mineral resources had not been developed. The development of minerals was of importance to the Bank and if a limited favorable result was obtained the study would be worthwhile.

Dr. Lopez-Herrarte - He agreed with Messrs. Hoar and Gregh, particularly from his past experience as a legal consultant, that the old pattern of development was no longer acceptable.

A study of this nature could be beneficial and he liked the idea of a working party; as suggested by Mr. Knapp, with the cooperation of outside agencies. Able opinion should and could thus be obtained from underdeveloped countries. It would be difficult to convince people that no more than exploitation by foreigners was planned by the study and it might prove to be dynamite for the Bank.

Mr. Sommers - All the objections offered assumed the worst as regards the Bank's technique. Venezuela went and looked at the Mexican expropriation and decided against it. The study obviously should not be done by a group of Americans, British and Dutch. A straightforward setting out of the facts and an impartial analysis might change the thinking in some areas. Cost would be more likely to be over \$50,000 and up to \$100,000. He would have two or three people think about the matter for a further length of time and not jump into it with a splurge.

Mr. Iliff - At least 60% of the Bank's stock was owned by member nations which needed raw materials from the rest of the world and desired the most favorable possible arrangement. The study would therefore be suspect from the beginning by the owners of the raw materials.

The study would determine that minerals should be exploited by private rather than government capital and would have to discuss what terms should be allowed for concessions. This would be shot at by both governments and owners of concessions. If Brazil wanted to know the best method, she had plenty of examples available. Nothing would alter the feelings against foreign mineral development in Brazil and Bolivia.

Mr. Knapp - Remarks had been made based on the premise that the study would decide whether government or private domestic or foreign capital should be used. This was not his conception of the study. He thought it should include objective facts to contradict a lot of false information and many other things:

- (a) What had been done, how much spent and how much achieved on geological surveys. The category of geologists was not recognized in Brazil.

- (b) provisions of mining laws, terms of concessions, tax policy, depletion allowances, etc.

The interpretation should not be politically unpalatable.

The study should not be done by a group drawn from highly developed countries but should include representative from underdeveloped countries. The group might split and have divided findings.

Mr. Gregh - Mr. Knapp's suggestions (a) and (b) above had altered his opinion to some extent.

Mr. Spottswood - A pilot study should be made before getting deeply into the matter.

Mr. Garner - The majority appeared to favor further exploration of the subject.

The study should include not only the Bank's views but those of outstanding people in various fields. The work could be divided with a leading law school doing the legal analysis and a leading research institute or outstanding university going into other matters. A variety of experts might be consulted. Swiss and Scandinavian possibilities should be studied. It was important to get an authoritative group whose analyses and recommendations would carry the maximum weight.

Mr. Iliff - The project should be done by someone else.

Mr. Hoar - Emotions were so much involved that the Bank would be attacked on both sides.

Mr. Garner - The Bank, in its first annual report, had made the unpopular statement that emphasis on industrialization was a mistake for underdeveloped countries. While the facts were unpalatable they carried a good deal of weight. A study of the facts in this case would show that a country, which goes properly about the development of its extractive resources, will benefit. If countries still said they preferred to keep out the foreigner, that was their prerogative. If the Bank was on sound ground, controversy wouldn't hurt it. The Bank had survived in spite of its position on debt settlement.

The matter was worth further consideration by a working party of the possible approaches and then should be discussed carefully with selected people outside the Bank to get their reactions. It might take 6 - 8 months to organize the project and the Bank might come to a point where it decided that it was impracticable to put the project through.

We should deal with it in the same way as we were dealing with the Development Institutes.

After a proposal had been prepared on paper it would be valuable to obtain the opinion of experts and authorities on its technical, psychological and public relations aspects.

Notes of SLC Meeting of Wed., March 25/53 at 3:30 in 1005

TURKEY - Revision of Oil Legislation

Mr. Hoar - The Turkish Government had asked through Mr. Lieftinck whether the Bank could recommend someone suitable to advise them on their revision of oil legislation before it was finalized.

He would cable a reply to Lieftinck that it was presumed the matter would be discussed with Mr. Black during his visit and that the Bank would endeavor to find someone who might be suitable.

Mr. Garner - Several companies were interested in going into Turkey. We should try to find someone who really knew the oil business and he should definitely not be one of the Bank's staff. We might try to find a suitable Canadian. He would be wanted as an adviser to the Turks and not as a representative of the oil companies.

Mr. Garner would also call Standard Oil Company to see if there had been any negotiations with Turkey by the oil companies.

The meeting adjourned at 5:40 p.m.

HGA Woolley/hmf
April 6, 1953

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Notes of Staff Loan Committee Meeting held Wednesday, March 18, 1953
at 10:30 a.m. in Room 1005

PRIVATE INVESTMENT IN FOREIGN COUNTRIES

Mr. Iliff - He had proposed this discussion because Mr. Maffry's paper had important implications for the Bank. Maffry recommended:

- (a) basic economic financing be done by the Bank and Eximbank keep out of this field;
- (b) development financing, without government guarantee, be done by Eximbank;
- (c) partnerships between Eximbank and private capital in the field of equity capital.

Maffry appeared to be inclined to support the view of U.S. private business in opposing IFC. He also thought that capital would be more easily available if MSA guarantees were extended to cover war risks.

Mr. Garner - It was doubtful whether Maffry's proposal of non-guarantee financing by Eximbank was sound.

Mr. Sommers - The Bank could live with the adoption of the proposal insofar as interference with the Bank's operations was concerned. The dividing line should not be whether a guarantee was demanded. The U.S. should first make up its mind which loans should have a guarantee and then decide who should make them. Probably loans in the utility field should be guaranteed but in the industrial field a guarantee would be impractical in most cases.

Mr. Garner - If the question of a guarantee were to be the dividing line, Eximbank would always be able to get around it by saying it could do without a guarantee and thus take the whole field.

Mr. Knapp - Maffry did not support the opposition of U.S. business to IFC. Maffry felt that IFC had got a bad name and, purely as a political tactic, suggested that the same thing should be done but through the Eximbank. Also Eximbank had the necessary powers to do this whereas the agreement of the countries concerned would have to be obtained for an international organization.

Mr. Garner - It was unlikely that this tactic would prevent the same attacks being made.

Mr. Aldewereld - Maffry had overlooked the U.S. policy that Eximbank should only make loans for purchases in the U.S.

Mr. Sommers - As a matter of law this was not true. Eximbank could lend for local expenditures and had done so in Mexico on a fairly large scale.

It was doubtful whether from the U.S. point of view it was desirable to set up a program operated by the U.S., rather than an international medium.

Mr. Garner - The U.S. could not lay down conditions whereas the Bank could. The establishment of favorable conditions for the development of local capital could be effected much more satisfactorily by a suitable international organization and IFC was still a promising idea. It was fairly apparent that something would happen in that connection if the U.S. Administration was sold on its importance but it was not likely to happen quickly. Anything similar set up by the U.S. Government at the present time would not be effective.

Mr. Rist - Mr. Rockefeller was in favor of IFC and tax incentives. He had no objections to guarantees by MSA provided they were restricted to transferability.

Mr. Garner - It was always the policy of a country to protect its investments abroad. It was not what was written down that counted but what countries did.

Mr. Sommers - The idea behind guarantees was generally phony. In their own country, businessmen had to spend a great deal of their time worrying about politics, and a distinction could not be made between commercial and non-commercial risks.

Mr. Garner - Sometimes it was unattractive to be in business, either domestic or foreign. A government could make life miserable without the company concerned being able to call on the guarantee.

Mr. Sommers - Limited guarantees of convertibility and against outright nationalization would be enough to sell bonds or to qualify for U.S. institutions.

Mr. Knapp - It was not clear why Maffry had made such a strong statement for a clear field for the Bank in basic resource development but it was probably made with the intention of finding something for Eximbank to do and buying off the Bank.

There was a great deal to be said for American capital going abroad into the development of strategic materials, e.g. Eximbank financing in Peru was logical.

Mr. Iliff - Maffry's recommendations supported a policy of increased U.S. investment abroad no matter how it was used. In the event of the division suggested by Maffry there would be the difficulty of a twilight zone but this might be overcome.

Mr. Rist - He was somewhat in sympathy with Maffry's broad distinctions and asked whether the Area directors thought there would then be a big field in each area for the Bank, e.g. steel in India would presumably be left to Eximbank.

Mr. Knapp - Maffry's suggestion was that Eximbank would lend to foreign corporations subsidiary to American corporations.

Mr. Sommers - So far there had not been much lending except in the basic field.

Mr. Rist - There had been a considerable amount, e.g. in Yugoslavia, Australia, Netherlands, etc.

Mr. Hoar - As regards item 4 on page 3, corporations operating in countries abroad frequently got into difficulties in the countries concerned or were of annoyance to them.

Mr. Sommers - Mr. Maffry's paper was very fuzzy on this point.

Mr. Cavanaugh - Mr. Maffry referred to subsidiaries of U.S. corporations.

Mr. Garner - If corporations were slow, private enterprise was much slower. It was the policy of U.S. corporations to expand their business. The building up of sales was their motivating power. They were much more valid to work on than individuals.

Mr. Sommers - The argument on page 26 relative to guarantees against war risks was not valid unless these risks were subject to actuarial calculations. These were banking and not insurance risks.

Mr. Knapp - Non-vetting of such risks was unsubstantial. The risks had to be examined for premiums and claims. Why should the U.S. go out of its way to snoop in the foreign investment field?

Mr. Iliff - There had not been much snooping in connection with French or British export guarantees.

Mr. Garner - There always was the danger that this type of guarantee would be made on an uneconomic basis, e.g. to get rid of surplus goods.

Mr. Knapp - He wondered whether the right of foreign countries to screen investments had to be recognized. This right was against the essence of free competition and government abuse, political intrigue, etc., were liable to cause the screening to be made without regard to the value to the country's economy. Also governments might give in under pressure from certain companies, e.g., soft drink companies. There was no sense in encouraging the spending of funds for gadgeting and luxury.

Mr. Sommers - It might be necessary to be somewhat wasteful in some cases in order to make investment flow generally.

Mr. Garner - Television going into Japan at this stage was outrageous and the Japanese would be justified in opposing it. If the country could afford it, that would be a different thing.

Mr. Sommers - It would be wrong and dangerous for the U.S. to set up mechanisms for stimulating investment by foreign countries.

Mr. Knapp - Maffry's comments on the role of other capital exporting countries, page 6, para. 6, were greatly over-simplified and misleading. Maffry exaggerated the ease of accomplishing a triangular flow. If the movement of private capital from the U.S. to Europe and Japan was increased, it was questionable whether export of the capital to underdeveloped areas would, in fact, occur.

Mr. Rist thought that an increased flow of dollars to Europe would make it easier for Europe to invest in dependent areas and would have the additional advantage of making the transfer of capital easier.

Mr. Knapp - He thought more could be done by American partnership with European experience in investment in these areas.

Mr. Rist - Mr. Black had talked to him before he left about the inclusion of foreign bond issues (subscribed in U.S.) in guarantees by MSA against limited risks (other than credit ones) by the payment of an additional premium. Mr. Rist had seen Mr. Rockefeller about this and Mr. Rockefeller considered it dangerous because it would immediately take on a political flavor and infringe suzerainties.

Treaties were not the proper way to protect investments. A blunt injustice became a matter for the diplomats in any case. Written conditions infringed sovereignty.

Mr. Sommers - They had to be so vague that they weakened the point.

Mr. Rist - There had been a growing interest in mutual investment circles in investment in foreign securities. The amounts involved were uncertain and there might be such a move.

Mr. Garner - It might be some advantage to list certain foreign shares through American certificates so the U.S. investor could buy them. There was not much the Government could do to promote this except on some tax basis.

Mr. Iliff - If the non-dollar world had a dollar deficit of \$2.5 billion, investments could not be serviced unless compensated by U.S. aid.

Mr. Rist - No one visualized a stoppage of U.S. aid.

Mr. Garner - An investor looking over areas abroad to invest money for 10 - 20 years, would not be worried so much about war or expropriation but about how he was going to get his money back.

Mr. Rist - Noted that U.K. had a surplus to the 70's and then reinvested what it earned.

Mr. Garner - Dollars were not being earned at present. Unless the U.S. imported more, foreign investment was not a good proposition.

Mr. Cavanaugh - U.S. investment might increase production in countries abroad so that they could reduce their imports and/or sell larger amounts to the U.S.

Mr. Garner - A change in fundamentals was necessary. 1. U.K. had had a fairly well-developed economy. 2. It had to import more because it was not self-sufficient by its own resources. 3. It never thought imports bad. 4. U.S. thought imports bad.

There was little chance of an increase in private investment abroad without a change in U.S. policy. Our motives were quite different to those of the private investor. We looked to long range development of the world, while it was the private investor's duty to protect his money and make the best earnings on it.

Mr. Sommers - The dividing line depended on whether:

- (a) U.S. motivation was general economic development of world trade;
- (b) U.S. wished to push investment regardless of general economic considerations; or
- (c) U.S. wanted to bail out security holders of American and foreign powers.

He did not think these motives had been sorted out.

Mr. Garner - If the object was to provide capital for Government purposes, this had been met when the IBRD was formed. It was inconsistent to maintain another Bank around the corner. There was no reason why U.S. should finance development projects abroad which could stand on their own feet, i.e. in cases where there was no insuperable obstacle to its being done by the Bank.

The real point was "What was a sound program of U.S. policy to encourage private enterprise throughout the world?" It made no sense if U.S. encouraged export of its capital goods by providing financing as this only widened the dollar gap, i.e. if financing was stimulated without extending imports.

Basic concept when Eximbank was set up was no longer valid. Loans by Eximbank were probably increasing difficulties instead of solving them. Eximbank was said to be kept to take care of the political situation. A lot of things went there which wouldn't be accepted if it was part of U.S. Treasury.

Some U.S. authorities were of the mind to move Eximbank into the background, more in the position of a special institution to take care of certain strategic needs. He believed this was the line the Bank should take instead of Eximbank continuing even in some special field for the stimulation of capital investment.

This offered the best chance of clarification of the Bank's field and the minimum of interference. If the question came up what was the Bank going to do to stimulate private capital, the reply would be 'if you want this done, it is a separate problem to which we think we have the answer.'

We should get the division of functions first and then go into the problem.

Mr. Lopez-Herrarte - The countries which had started the ball rolling were the under-developed countries. Maffry's paper was written from the point of view of how American capital could move abroad faster. Other governments favored an international organization.

Mr. Garner did not believe that Maffry had much influence or that his report would get very far. The paper had been prepared as a helpful gesture by the departing Administration. Maffry had written from his own personal viewpoint.

Mr. Sommers - Maffry's views were also not very important to the old Administration.

Mr. Garner - We should not try to answer Maffry's paper or take a position on the points raised by him. The discussion had been of value in developing views on our problems. We should continue to try to crystallize our ideas on the subject.

The meeting adjourned at 12:10 p.m.

HGA Woolley/hmf
March 24, 1953

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Notes of Staff Loan Committee Meeting held Monday, March 2, 1953 at 2:30 p.m. in Room 1005

ITALY

Mr. Hoar said that more thought given to the report had resulted in some modifications.

Mr. Rosen noted that neither the creditworthiness report nor the technical report had been prepared with the intention they should be circulated to the Executive Directors.

The predomination question was whether the Bank should continue to lend to Italy. If the answer was in the affirmative there followed the question of whether to lend to the Cassa and then the question of amounts and selection of projects.

Supplementing the creditworthiness report, Mr. Ross emphasized that the service Italy paid on its over-all external debt amounted to \$35 million a year or only approximately 2% of over-all earnings of foreign exchange. However, while the over-all burden was relatively light, practically all the debt was in U.S. dollars and service payments amounted to 10% of dollar earnings. The problem was therefore was essentially one of the transferability of currencies.

Italian deficits of \$200-300 million a year had been artificially high. ECA aid had reduced the urgency of redirecting some of the Italian imports. There had been a gradual decline however in Italy's reliance on imports from the U.S. Imports from the dollar area had amounted in 1951 to 21% of total imports; in 1950 to 24%; in 1948 to 38%.

Imports were mainly wheat, cotton and coal, the latter accounting for about 50% of the total.

Italy had excellent trading connections with the Argentine where it could obtain wheat and with Brazil where it could obtain cotton. These relations gave promise of further reduction in Italy's reliance on U.S. exports.

Wheat imports amounted to 2.3 million tons in 1948, 1.6 million tons in 1951, but only amounted to 300,000 tons before the war. Italian agricultural production had increased.

Before the war Italy imported very small amounts of wheat against dollars; cotton imports from the dollar area have also exceeded prewar proportions. In recent years up to 30 million tons of coal had been imported from the U.S. The present landed price was around \$20 per ton.

Natural gas had been developed in Italy to an estimated total of 1.4 billion cubic meters in 1952. This saved the use of about 2 million tons of coal. If the pipe lines now planned were completed a total of 4.5 billion cubic meters of methane, equivalent to about 6.5 million tons of coal, would be available annually.

Foreign exchange for coal, cotton and wheat had accounted for approximately 80% of the dollar deficit annually. There was some element of compressibility. There was a possibility of increasing yields of domestic wheat and use of methane to replace coal. The use of methane in Italy was one of the greatest discoveries of resources in western Europe since the war. It appeared to be practical to substitute the use of methane for coal in most cases but the net saving might amount only to 3 to 4 million tons.

It was important for Italy to divert its trade by redirecting its imports to normal channels. As part of this redirection, Italy was now importing coal from Western Europe.

There were two possibilities in connection with the dollar problem:

- (a) that U.S. offshore purchases and defence aid would be continued as in 1952, in which case they would cover \$200 million and there would be no dollar problem.
- (b) that these purchases and aid would be discontinued, in which case it was questionable how Italy would manage.

Non-dollar supplies of cotton and wheat were below global demand for them and if Italy imported her requirements from Turkey, Argentine and Brazil she would have to pay the equivalent of \$300 million for the volumes imported at a cost of \$200 million at present.

If Italy paid the equivalent of \$300 million it would mean a reduction of slightly over 1% in the per capita income and would wipe out half of the increase in national income in 1952.

If the demand had to be satisfied in relation to higher prices, total imports of these commodities from Brazil and Argentine probably would be below current levels.

Italy was a creditor nation with Brazil and Argentine and had a good market in both countries. The aggressive and healthy postwar Italian commercial policy would assure maintenance of this position. Also Italy received remittances from these countries. Unless the Argentine and Brazil refused to exchange these, there was a reasonable chance Italy would obtain limited amounts in this manner. However, recently Italy had had to make accredit available to Brazil to free remittances.

Mr. Rist noted that some suggestion had been made that it would be to the U.S. interest to import more from Italy. The war emergency had caused the U.S. to maintain its exports of cotton and wheat. The U.S. had not been an international exporter of wheat before the war. The amount involved of \$2.5 billion was more than the dollar gap. It did not depend so much on individual relationships but whether individual suppliers in the non-dollar area could grow more cotton and wheat. Consumption of cotton was rising with the increased output. Wheat and cotton had the same soil requirements.

When there had been a surplus of cotton in the U.S. 2½ years ago a reduction in acreage had been suggested and the Department of Agriculture had stated that the U.S. structure was such that it should not be an exporter to the then existing degree. In order to face war emergency, the U.S. was satisfying existing needs and was not likely to discontinue its aid while these surpluses were available.

And while a war emergency might arise, it was questionable where it would be wise for the U.S. to reduce its production.

Mr. Ross - If the recommendations in the report were approved the over-all Italian debt in 1960 would still be about \$75 million below the present level.

The debt was mainly inter-governmental. Some of it had a clause providing for service by local currency in the event of transfer difficulties.

Mr. Rosen said that it was difficult to show by simple mathematics how there was going to be a dollar balance in several countries in Europe. The service burden in this case was a small proportion of dollar payments to Italy and Italy was expected to give priority to servicing these dollar payments. Also Italy was a major producer for offshore purchases. These sources of dollar earnings over the next two years would be sufficient to cover the deficit we see.

If these dollar sources stopped, very difficult adjustments would have to be made but Italy was in a preferred position to obtain non-dollar supplies from Turkey, Brazil and Argentine.

There were a number of intangibles but we had said we would continue to lend to the Cassa and he thought we should do so.

Mr. Iliff noted that there was no reference in the report to population pressure. Wheat, cotton and coal had to be imported for food, heat and clothing and he wondered to what extent the position might get worse.

Mr. Ross replied that the growth of the population was likely to continue until late in the '60's. Compressibility of wheat was only possible to the extent that the Cassa increased domestic production. Possibly there might be some utilization of cereal substitutes. The Cassa program included production of 250-300,000 tons of wheat and this would go a long way to satisfy the increase in the population by 1965.

A good deal of the wheat imports would have to be redirected instead of compressed.

If Italian textile exports were reduced, it would be possible to reduce imports of cotton substantially. If Italy had to pay prevailing prices for cotton in non-dollar markets she would impair her ability to compete in European markets but from the dollar balance of payments point of view this would not be unhelpful.

Mr. Wheelock noted that for the recent period there had been no net increase in the population of Northern Italy. The population of Southern Italy was increasing at a diminishing rate. At the present rate, there would be no net increase in less than a generation.

Mr. Ross noted that net emigration (which after the war had been considerably higher) now amounted to 150-200,000 annually, i.e. about one-half the annual increase. The total population was about 45.5 million.

Prewar the rate of emigration was much lower. The emigration had been mostly to South America until economic difficulties had arisen, but it included almost everywhere with more sizable numbers to Australia, Canada, U.S. and Europe (some permanent and some temporary).

Mr. Rosen said that it was not proposed to bear Bank lending to Italy to Italian repayments. The size of the lending would be based on Italian creditworthiness of which Italian repayments were a factor.

We had already said we would go forward and he proposed that we should lend (a) to the Cassa at the \$10 million rate; (b) \$25 million to Italy over the next three years.

Repayments made by Italy in this period would exceed this total of \$55 million.

He proposed we should tell Italy at this time that we were ready to consider modest amounts for small projects up to a total of \$10 million.

The amount actually lent in the period would probably be less because the Cassa would probably not spend 100 billion lire a year and also suitable projects might not be forthcoming for \$25 million.

Mr. Rucinski said that Italy had a substantial deficit and its internal finances were in bad shape. He thought it desirable to avoid a three-year program and work on a year-to-year basis. There were indications that several things might improve and we could then review the situation annually.

Mr. Rosen noted that Italy had covered its deficit in a non-inflationary manner by borrowing each year.

Mr. Hoar commented that the Bank had committed itself when it made the first Cassa loan. He agreed that the Bank should be very cautious and he felt that the draft letter (Appendix III) was reasonably safe. The recommendations in the report went farther than the letter.

Mr. Aldewereld questioned the desirability of supplementary projects. Under the first loan the Bank was financing industry jointly with private capital. These projects could stand on their own feet to a large extent. In the case of a big multi-purpose ^{project} there was the danger that Italy would say they needed more after our money was spent.

Mr. Rist agreed. While it was logical we should compensate the impact of the investment program, there was no reason why the Bank should go any farther.

The counterpart system with an approaching balance, gave the country funds without going through the legislature. This was most regrettable and borne out in a recent article by Caroni. We would be rendering a service to Italy if we did not ask for the creation of this counterpart.

Mr. Ellsworth Clark said that Bembert's reasons for the establishment of the counterpart had been that the Cassa had no item to promote the industries of the south and that provision of the counterpart would constitute a convenient method to bring this about.

Mr. Hoar said that in order to avoid the inflationary problem it might be better to make the loan to the Italian Central Bank.

Mr. Rist said that by creating the counterpart, the deflationary effect would be defeated. The amounts involved were small. The trend was to move away from artificial systems.

Mr. Broches said that if the loan were made to the Central Bank it would have a deflationary effect. If we established the counterpart we were forcing the Italians to make additional investments and that was bad.

Mr. Rosen felt that the amount involved was marginal.

Mr. Rucinski said if Italy had suitable industrial projects she would have submitted them. Should we force them into industrial development?

Mr. Rosen agreed that the point raised was a valid one. The establishment of the counterpart had been a fine theory when it was advanced but in performance it had not turned out to be such a good procedure. Not a lira had yet been disbursed on industrial projects.

Mr. Rist said if the loan were made to the Central Bank the dollars could be added to the Bank's reserves or lire circulating could be reduced by that amount.

Mr. Hoar agreed that the question should be discussed with the Italian Government.

Mr. Ross said Italy had available in savings annually 1,900 billion lire. If Banca d'Italia got 6.5 billion lire it could very easily neutralize them as it controlled advances to the Treasury. While it would be an added investment expenditure, such a small proportion should not be the deciding factor in this particular case.

Port of Genoa

Mr. Hoar had been visited by Pick and Ortona in the last few days who wished to accelerate the Bank's loan proposals. He had indicated to them that the Bank was not likely to be favorable to the Genoa project. They had argued that it had some economic utility and with the present political situation around Genoa it would contribute to the stability of the whole of Italy. They pressed the project strongly. He had told them that at best the loan could only be a small one and that if we loaned elsewhere that would release funds that could be used for this purpose. They said this would not be the same as a World Bank loan for Genoa. At most we would be able to justify \$2.3 million. There would be a lot of trouble in working out the loan and we would need a lot more technical information.

Mr. Aldewereld said if we solved the import angle, the problem of the bigger financing would still remain.

Mr. Matter said the main argument was that except for the conversion to natural gas, these projects were not of high priority. They had been under discussion in Italy for four years.

Mr. Iliff asked if the Italians would be able to find projects needing \$25 million.

Mr. Gregh said if the loan was made for the natural gas project they might come along later for a larger loan for a pipeline over a wide area of Italy. A loan to Genoa would raise a lot of questions, e.g. the difference between Genoa and Marseilles municipal projects.

Mr. Aldewereld noted that we had declined them for Le Havre and Marseilles.

Mr. Hoar thought there were some more projects and had asked Pella if he could put them up to the Bank.

Mr. Rosen said we might take the impact of the pipeline financing related to a substantial investment program or we might finance the steel that went into the pipe.

Mr. Hoar suggested and it was agreed that the Italian Government should be informed to the effect that the Bank:

- (a) was now prepared to enter into negotiations with Italy for a further \$10 million impact loan related to the whole Cassa program;
- (b) was willing to consider additional projects up to a moderate amount;
- (c) would like to discuss with the Government the manner in which the counterpart of the \$10 million impact loan might best be handled; and

- (d) did not consider the Genoa projects to be of the highest priority and therefore was reluctant to proceed with them.

The meeting adjourned at 4:55 p.m.

HGA Woolley/hmf
March 31, 1953

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Notes of Staff Loan Committee Meeting held Monday, March 2, 1953 at 9:30 a.m.
in Room 1005

UNITED KINGDOM

The discussion of Dr. Varvaressos' Report EC-8 dated February 9, 1953, was continued.

Trade with Latin America

Mr. Rist - Referring to page 76, para. 3, Mr. Rist noted that this was one of the most controversial points. It was frequently stated that dollars received by Latin American countries from the U.S. could become accretious to Europe. However, Dr. Varvaressos was correct as it was clear that an increase in U.K. exports to this area could only be achieved if U.K. increased its imports from the area.

Increase in competition of U.K. goods with U.S. in South America had not developed because the U.S. accompanied goods with services and there had been a close connection between credits granted in dollars and U.S. trade.

Mr. Garner noted that in case of war, Latin American was cut off from Europe. However, the Colombians had bought their steel mill requirements in France because of the offer of short term credits. U.S. was now less inclined to grant short term credits.

Occidental Trade

Dr. Varvaressos felt it would be very advantageous to U.K. if it could come to fixed broad agreements for long periods in connection with its Occidental trade, e.g. with Egypt on cotton. The U.K. controversial attitude and endeavors to use force were not good as general policy.

Mr. Iliff noted that if U.K. thus made an agreement which turned out to involve a high price it had to stick with it. On the other hand, if the agreement involved a low price the seller brought pressure on U.K. to change it.

Terms of Trade

Dr. Varvaressos noted that U.K. terms of trade were likely to be more unfavorable than before the war.

U.K. Policy

As regards the last para. on p. 78 there were already indications of changes in U.K. policies. These had not yet gone far enough to produce results.

Inventories

Dr. Varvaressos thought that the improvement in the U.K. balance of payments might be due to a deflation of stocks and therefore might be of a temporary nature. When buying of textiles had started up again, it had been found there was a shortage. Tobacco companies had protested that their stocks were getting very low.

Mr. Garner noted that this might be a crucial point and suggested that an examination be made of the movement of inventories in a cross section of 50 companies in important lines of trade.

Mr. Hoar commented that some figures, in this connection, were available in U.K. Retail Trade Statistics.

Productivity

Dr. Varvaressos, referring to his conclusions on p. 86, commented that it was dangerous to rely on an increase in U.K. productivity. Great improvement had been made but further improvement to any large extent entailed changes in the structure of U.K. industry and could only be a long term aspiration.

Mr. Hoar suggested that new power coming available in a year or two might be helpful.

Mr. Varvaressos noted that labor required certain conditions and no spectacular change in industry could be expected.

Mr. Rist noted that investment made at the rate of 15% of national income should have a continuing effect but any hope for a jump in productivity was unjustified. U.S. had had a bigger rise in man-hour productivity than elsewhere.

Tax incentive was needed in U.K. to encourage scrapping of obsolete machinery. Also investment was not always on the right channels, e.g. less should have been put into housing and more into increasing the capacity of industry.

Mr. Kamarck noted that with the basis that industrial production for 1948 equalled 100, in 1949 it was 106, in 1950 - 114, in 1951 - 117, and in 1952 it dropped to 114, i.e. the rapid rise was now tapering off.

Mr. Rist said that this was true all over the world. He noted a current erroneous attitude in a large number of European countries that they had to reach or approach U.S. productivity in order to get in good shape. While they might cut imports in U.K., they could not cut consumer goods. Investment and hard work would be indispensable.

Mr. Garner suggested it was easier to get people to work a little harder if this gave them a little more to spend.

Mr. Varvaressos thought that the present standard of living could be maintained and did not think it possible to reduce U.K. imports. He thought that the volume of imports should be fixed thus avoiding ups and downs which created unfavorable crises.

Mr. Kamarck noted that if U.K. maintained only its present level of production, the increase in population would cause a decrease in the standard of living. He was not in conflict with Dr. Varvaressos that the next five years would be tough for the U.K.

Dr. Varvaressos noted that the U.K. economy was not a free one. A considerable degree of unemployment would solve existing problems but would create new ones.

Mr. Garner noted the effect of the small amount of unemployment in the textile industry in curing the shortage of labor in the mining industry. He agreed with Mr. Varvaressos' conclusion on p. 87 that British resources and the British price level would continue to be subjected to a serious strain in the coming years.

Mr. Kamarck's Report EA-8 of February 20 was then discussed.

U.S. Aid

Mr. Kamarck stated that possibilities of future U.S. aid had not been included in his statistics.

Map

There might be some alternations required to the map and it was agreed that any suggestions in this connection would be sent to him.

External Holdings

As regards the last sentence of para. 3, the RFC loan had been paid off some time ago. The U.K. still held U.S. marketable securities valued at about \$500 million and had returned \$1,500 million of U.S. assets to private owners. Collateral held in Canada amounted to another \$700-800 million. Facts regarding these holdings had to a large degree been kept confidential.

Mr. Rist noted that U.K. losses abroad in World War I amounted to £1 billion, in World War II to another £1 billion, but the U.K. still had remaining several billion pounds of foreign assets.

Background to 1939

Mr. Rist felt that other factors were involved and that the last sentence of para. 9 was too strong.

Mr. Hoar suggested and it was agreed to change this to read that "The functioning of the international gold standard was facilitated by the existence of a single world financial center in London."

Fall in Commodity Prices

Mr. Garner noted that a real drastic fall in commodity prices would greatly increase the problems of all exporting countries and felt that para. 40 was a little over-optimistic.

Mr. Lejeune commented that prices in DOT's could fall further without affecting their purchasing power.

Mr. Hoar suggested and it was agreed to remove the sentence in parenthesis: "But in this event the United Kingdom will benefit from improved terms of trade."

Current Account Target

The British had set themselves a target to export about £200 million a year more than they imported, i.e. to produce a surplus of £200 million over and above consumption.

for example

It would be easier to reach the £180-230 million target if the U.S. provided aid in other ways, even if not specifically noted as defence aid, e.g. if the U.S. took over the defence of the Middle East.

He felt a little more optimistic than Dr. Varvaressos on the possibilities of a change in the pattern of U.K. production. It would not be an easy job but it should be possible.

Budget 1952-53 U. K. Deficit

Mr. Garner suggested that as a deficit of £200 - 300 million was being discussed, receipts would be much more than 'slightly' exceeded by expenditures and it was agreed that paragraph 64 would be rewritten accordingly.

Aviation Gasoline Refineries

Mr. Garner suggested that not much development of aviation gasoline refineries was considered in the U.K. program, and Mr. Kamarck stated that he had already changed the last sentence of para. 79 accordingly.

Increasing output of cotton in non-dollar area

Mr. Rist noted that Pakistan was a surplus cotton producer.

Mr. Kamarck replied that he felt it would be very hard for the U.K. to make up for the proportion of cotton it received from the U.S.

World Study

Mr. Kamarck commented that in making a study of the Sterling Area it was necessary to make a world study with the important part a study of the U.S. dollar problem.

Mr. Rist noted that if there was some change in the dollar area it was questionable whether the U.K. could keep the same position in EPU. It would be a difficult period for the next 4-5 years.

Conclusions

Mr. Garner commented that if the report was correct it showed a better picture than generally credited in the U.S. He himself felt it was a little on the hopeful side but from the practical standpoint he felt that the amount in which the Bank was involved to be safe and that it was necessary to be on the hopeful side.

He suggested and it was agreed that the Department should continue to follow closely trends in the U.K. and report any unfavorable factors.

He also suggested and it was generally agreed that the reports, after slight changes had been made, should go to the Executive Directors.

Mr. Hoar noted that a study of the external non-sterling public debt of the Sterling Area excluding South Africa (EC-10) was being reprinted and would be circulated.

(Note: Mr. Garner here withdrew from the meeting to catch his train to New York.)

U. K. Development Possibilities

Referring to paras. 87 and 105, Mr. Schmidt noted that reliance on an increase in future dollar earnings from the development of rubber, tin and wool had been omitted. He commented that if earnings were notoriously variable they could go up as well as down.

Mr. Hoar replied that he favored that the report maintain a conservative approach in these forecasts.

Mr. Kamarck said that the point was where could one look for increased dollar earnings in the future as there was not much hope that these lines could be developed a great deal.

Dollars from Independent Sterling Area

As regards para. 85, line 4, Mr. Rist had some doubts about the chances of capturing dollars from the Independent Sterling Area. He felt the area would try to earn dollars and to spend them.

Mr. Kamarck noted that as the result of the Sterling Area conference, the I.S.A. had made a net contribution to the dollar reserves. Over a longer period, if U.K. could provide machinery and equipment, he did not see why the I.S.A. should not buy from the U.K.

Mr. Rucinski felt that to the extent to which they secured dollars from loans or other investments, they would try to use them for dollar imports, and perhaps this should be noted in the report in anticipation of questions that might be asked by the Executive Directors.

Mr. Kamarck noted that last year in the case of the dollar loans to Southern Rhodesia and South Africa, the bulk had been spent in U.K.

Mr. Hoar drew attention to the fact that the sentence merely stated that the U.K. 'stood a chance' of capturing dollars.

U.K.'s precarious balance

Mr. Iliff noted that Mr. Kamarck in his report estimated just about a precarious balance for U.K.

Mr. Kamarck replied that he had not tried to forecast how the situation was going to develop. His report was intended to show that a way out was feasible and the U.K. had shown in the past that it would do whatever was possible.

U.S. Aid - a safety feature

Mr. Rist also felt the situation to be precarious but that U.S. aid would supply a safety feature. U.S. aid was problematical and it was right not to discuss it in the report. However, it was inconceivable that U.S. would not protect U.K. as part of its own policy and this provided an element of flexibility.

Mr. Iliff agreed that there were two cushions: (a) as mentioned by Mr. Rist and (b) if things turned bad U.K. could invoke the waiver clause on its debt to U.S.

Suggestion that loan be made to Metropolitan area

Mr. Rist said that the main difficulty arose in the U.K. having to change the pattern of its production to fit the export market. He wondered whether the purpose of the loan would not be equally well served if the Bank made it to the metropolitan area.

Mr. Rucinski suggested that the Bank might, in addition to what it was already doing, supply the I.S.A. with dollar capital and thus reduce the pressure on the Sterling Area. This had already been started with the DOT's. Also could not the Bank do something for the metropolitan territory?

Dr. Varvaressos noted that if the metropolitan territory would accept the help of the Bank, the Bank could provide it.

Mr. Rucinski said the DOT's had a limited absorptive capacity.

Mr. Hoar commented that capital left at home in U.K. might easily find its way into housing.

ITALY

Mr. Iliff suggested and it was agreed that consideration of Report EA-7, "Report and Recommendations of the Mission to Italy" should be postponed to a meeting called for 2:30 p.m., March 2.

The meeting adjourned at 11:40 a.m.

HGA Woolley/hmf
March 19, 1953

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Notes of Staff Loan Committee Meeting held Wednesday, February 25, 1953
at 3:00 p.m. in Room 1005

GREECE

Mr. Hoar briefly reviewed the situation outlined in Report EA-6 and referred to the invitation by the Greek Government (received through the Greek Ambassador to the U.S.) to Mr. Black to include a visit to Greece in his itinerary.

In view of the Report, he considered it undesirable for Mr. Black to visit Greece at this stage.

Mr. Rosen - If the Bank sent someone to Greece, it would be necessary to take every care to prevent interpretation of the visit as an indication that the Bank was prepared to lend there. The request for a mission, of itself, was relatively innocent. Mr. Black had said some months ago that the Bank would send someone to Greece.

The request that the Bank send a mission had also come from MSA. U.S. had worn Greek patience so thin that they were not in a good position to offer advice.

The most recent contact with U.S. authorities on the subject had been at the end of November 1952.

Mr. Sommers felt that sending a mission and offering advice to Greece without being sure of MSA plans might place the Bank in an awkward position and it was agreed that discussions of the present situation should take place with both U.S. and Greek Governments before determining whether the Bank should send anyone there.

Mr. Schmidt suggested that the Bank might have a senior officer, e.g. Mr. Hoar, visit Greece and, based on the impressions he formed there, decide whether the Bank embark on the difficult question of advice to Greece in the preparation of a program. Recommendations would have to include unpopular measures and it was desirable first to see whether there was any possibility of the Bank making a valuable contribution.

Mr. Hoar - There was no suggestion that the Bank might make an over-all survey. The mission, if sent, would look into long term productive measures to help the balance of payments, etc., but would not be called on to advise on fiscal matters. No one had yet looked into long term prospects.

Mr. French - It would be hard to make an effective study without getting into fiscal measures.

Mr. Rist replied that there would be a big gap between (a) any assumptions the Mission might make and (b) the report to the Greek Government.

Mr. Rosen noted that the Greeks had large schemes in mind, e.g. for irrigation, mining, electric power and basic industry including aluminum, oil refining, etc. None of this had yet been examined. It was intended that the mission, if sent, should do that kind of thing and include, inter alia, minerals specialists to examine the soundness of schemes connected with mineral production and, where desirable, the extent to which they could be pushed forward.

If the Bank could play its part in advising Greece on the development of its economy, and at the same time minimize the risk of assumptions that the Bank was embarking on a lending program, it would be worthwhile.

Mr. Beecroft noted that the U.S. Bureau of Mines had sent representatives to Greece but their attention had been confined almost entirely to immediate rehabilitation. The report of the minerals expert they had sent last year had been very incomplete.

Mr. Hoar said that as regards external debt settlement, the Greeks had indicated that they were prepared to take some action.

One small settlement had been made, i.e. with Hambros, in which the capital outstanding was reduced 50% with interest at 2%, without any allowance for arrears.

The bondholders recognized the hopelessness of the Greek position, i.e. the great difficulty of carrying the present load of about \$350 million and it was clearly necessary to reach some long term settlement.

Mr. Iliff questioned whether, if the Bank sent a mission, (a) it could avoid lending in Greece; and (b) the Bank's advice would be effective with the U.S. the main source of financing.

Mr. Sommers considered that if Messrs. Hoar and Rosen thought that a Bank mission could do a useful job, the two difficulties suggested by Mr. Iliff could be overcome.

Mr. Rosen recommended, and it was agreed, that the Bank, after consultation with U.S. authorities and the Greek Minister of Coordination (who was expected in the U.S. about mid-March) might send someone to visit Greece to examine the situation and if his findings were favorable be prepared to send a mission.

Mr. Hoar advised against Mr. Black visiting Greece at this time. There were press stories that the Minister of Coordination was coming to the U.S. to ask for \$500 million.

Mr. Iliff suggested and it was agreed that Mr. Black should be informed by cable

(a) of the invitation by the Greek Government and that it was proposed to reply that in view of his tight schedule, the visit could not be included in his present itinerary;

(b) briefly of the Committee's views relative to the proposed mission.

UNITED KINGDOM RELEASE OF £60 MILLION OUT OF 18% CAPITAL SUBSCRIPTION

Mr. Iliff - In the exchange of letters on this subject, the U.K. had stated that it would wish DOT's included in any 18% lending the Bank pursued under the agreement, without cutting down what the Bank would otherwise lend in dollars to DOT's.

U.K. authorities in recent discussions with Mr. Black in London had again said they did not wish the DOT's to be barred.

The same thing was likely to come up in discussion with the French Government.

He suggested and it was agreed that a working party should be set up to consider the general principles by which the Bank might determine in the case of a project loan to a DOT whether part of this 18% release should be used.

The working party might assume for discussion purposes the existence of a specific case, e.g. the loan to Northern Rhodesia.

Mr. Hoar suggested that it might be desirable also to give thought at this stage to the mechanics of contact and consultation with the U.K. on projects the Bank considered might be financed out of this release.

Mr. Sommers noted that we had agreed with the U.K. to work something out along these lines and it would probably be necessary to send someone to London for the purpose.

Mr. Iliff suggested, and it was agreed, that the working party to consider general principles should consist of Messrs. Cope, Broches, Cavanaugh and Adler.

Mr. Sommers suggested that the mechanics of consultation with U.K. on specific projects appeared to be a matter for Technical Operations Department.

Mr. Aldewereld suggested that he work this out with Heads of Departments concerned.

The meeting adjourned at 3:40 p.m.

HGA Woolley/hmf
April 28, 1953

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Notes of Staff Loan Committee Meeting held Tuesday, February 24, 1953 at 11:00 a.m. in Room 1005

UNITED KINGDOM

The Committee discussed Dr. Varvaressos' Report EC-8, "Post-Korean Developments and Prospects - The United Kingdom," and Report EA-8 of Mr. Kamarck on U.K. creditworthiness.

Purpose of Reports

Mr. Garner - Dr. Varvaressos' report was an estimate of the existing situation and the short term prospects and analyzed the ability of the economy of the U.K. and factors bearing on investment. Mr. Kamarck's report in addition went into longer term prospects in relation to loans.

Mr. Rist - Dr. Varvaressos' report was directed at the possibility of restoring convertibility of sterling in the near future. Dr. Varvaressos was satisfied that even if this were not effected in the next few years, sterling would continue to be an important currency. There appeared to be no contradiction in the approach of the two reports.

Dr. Varvaressos - The specific object of his report was to present a picture of the effect of the Korean war on the U.K. economy and of future prospects. In the postwar period there had been an interchange of periods of crisis and periods of improvement. While there was considerable improvement in the second part of 1952, it would be dangerous without more time to determine that it would be continued, i.e., that the improvement in the U.K. balance of payments was of a permanent nature and relations of the U.K. with the other countries of the sterling area would become more firmly fixed. The U.K. had to increase its exports and must have investments. Its credit, tax and distribution of raw materials policies and its incentives to produce for export should increase production and incomes. With the increased incomes the U.K. must induce savings for export. So far steps had not been taken against crisis until the crisis occurred. U.K. had paid much of the cost of convertibility without realizing it. While it remained to be seen whether they could stabilize the position, Dr. Varvaressos did not think it to be at all dangerous for the Bank to lend more to the DOT countries. However, if the Bank extended an optimistic approach to the U.K. position, it would be dangerous.

Trade Results - 1952

Mr. Garner - From Dr. Varvaressos report it appeared likely that trade results for 1952 would not be as good as projected.

Mr. Kamarck - In 1952, the volume of exports dropped a little for the first time in the postwar period. In the second half of 1952 the situation had been quite good. Although the U.K. had provided him with the figures for this period they were not included in his report as they could not be made available to the Executive Directors.

While there had been a much bigger governmental deficit, in the first nine months, than in the 1951 fiscal year, the last three months of the year was the period of heavy receipts. The deficit should be smaller than the £300 million, referred to on page 45 of Report EC-8, compared with the budget estimates of £80 million.

In addition to the decline in exports there had been a drop of three points in industrial production, largely due to textiles.

Mr. Garner - While wool had held up, manufacture of cotton textiles was a simple industry and had been built up over the world so that prospects for U.K. (and also Japan) in this field were unlikely to improve.

Mr. Kamarck said U.K. Treasury officials had told him there was already a subtle change in the U.K. economy due to the introduction of competition and that the monetary and other measures taken by the U.K. were bound to have good results.

No substantial expansion of exports was likely in 1953. Dr. Varvaressos' conclusion at the bottom of page 67 and top of page 68 was not in disagreement with Mr. Kamarck's report which indicated that the next five years were not going to be difficult.

Drawing Down of Stocks

Dr. Varvaressos - Mr. Butler had already declared that there had been no reduction in stocks and at the time he made the statement it may have been realistic. If at the end of the year there was no reduction it would be a very good sign showing a real reduction in consumption.

Mr. Kamarck - Field of the Economic Secretariat had told him there had been some change but not as important a change in stocks as in the 1950/51 swing. For the first time there was an increase in consumer resistance.

Dr. Varvaressos - After writing his report he had read arguments in Oxford Statistics that there must have been a resultant reduction of stocks.

Mr. Kamarck - This had been accompanied by falling consumption.

Mr. Cope drew attention to the possible desirability of reducing stocks when prices were falling.

Mr. Kamarck - A decrease in exports implied a corresponding decrease in imports because of smaller use of imported raw materials.

Sterling Balances

Mr. Garner - Dr. Varvaressos' report on page 59 showed that the U.K.'s large surplus with the Sterling Area was paid for in large part out of sterling balances and there was a deficit with the dollar area.

Mr. Kamarck - The decrease in sterling balances had caused the sterling area countries outside U.K. to start putting their houses in order.

Mr. Rist - Page 64 of Report EC-8 gave the essence of the present structure and was the basis for a forecast. He doubted that there was sufficient justification to assume that on balance the sterling area countries would not call on the central reserves for an increasing amount of U.S.\$, not only because of lack of exports from U.K. but also because of attractiveness of U.S. goods. There also appeared to be no justification to assume that U.K. in the long run would be able to balance its accounts with either the sterling area or continental Europe.

Dr. Varvaressos - Did not think the assumptions, referred to by Mr. Rist, to be improbable, and

Mr. Kamarck - Thought them to be justifiable. The independent sterling area had been able to run a deficit in the postwar years and had drawn down sterling and obtained capital from the U.K. The U.K. should be able to produce more and increase exports. The independent sterling area was becoming much more aware of the problems and more conscious of the need to earn U.S. dollars.

Mr. Hoar - Noted that the independent countries in the sterling group ran a dollar deficit and would be worse off if they left the pool.

Dr. Varvaressos - Other factors, besides the control of dollar exchange, made the pool very valuable to its members. The U.K. and the other members were complementary in the economic field and it was possible to conceive a strong sterling area even if there were no dollar problem.

Mr. Iliff - Members did not need to keep reserves in any currency other than sterling and they enjoyed freedom of movement of sterling capital. One of the attractions of the pool was access to the London capital market and the ability of the U.K. to furnish some regular flow of capital. The existence of sterling balances also held the pool together.

Mr. Kamarck - Dr. Varvaressos had pointed out in another paper that the countries outside the sterling area had drawn down a larger total amount of sterling balances from U.K. than countries within it and therefore this should not be looked on as a feature responsible for keeping the pool together.

Dr. Varvaressos - If the U.K. could postpone convertibility for the next few years and concentrated on a stable, well-functioning use of sterling, the whole picture would change. The incentive for savings would then be there and U.K. would have the means to send capital to the sterling area countries without draining her own economy.

Mr. Kamarck - Sterling balances had presented more serious problems to him before his discussion in U.K. He now felt the problems were less than shown in Dr. Varvaressos' view but more serious than U.K. at present contemplated.

Dr. Varvaressos - The sterling balances belonged to different countries, with different structures, economies and needs. Some countries would accept the restrictions but others would insist on using more dollars from the pool, and this might be very annoying to the U.K. economy.

Price of Raw Materials

Mr. Kamarck - In the event of a drop in the price of raw materials, what the area lost would be gained by U.K. If the general level of business went off, everything would drop. The basis that there would be no big depression had been used for both studies.

Screening of Projects

Mr. Garner - Dr. Varvaressos stated, on page 72 of his report, that there was no evidence yet of any intention to set up machinery for the screening of projects in order to give the highest priority to those contributing to improvement to the area's balance of payments.

Mr. Hoar

(a) the planning in connection with the recent release of £60 million by U.K. out of its 18% capital;

(b) by C.D.C. for DOT countries; and

(c) under the Colombo plan;

evidenced this intention.

Mr. Garner - Noted the emphasis at the recent Commonwealth Conference on projects increasing the dollar earnings of the sterling area.

Mr. Iliff - Felt no doubt that further screening would be set up in addition to that already being done in India, Ceylon, Burma, Iraq, etc.

Sterling balances

Mr. Garner - He still was more inclined to Dr. Varvaressos' view re sterling balances than to Mr. Kamarck's more optimistic outlook.

Mr. Kamarck - It wasn't that he was more optimistic but simply somewhat less pessimistic.

The U.K. target, but not its prediction, was a current account surplus of £300 - 350 million, including £120 million U.S. Defence Aid. They did not expect to better this at a steady rate but to proceed by a series of "swoops and scoops."

Mr. Garner - Felt therefore that the conclusion in last paragraph on page 75 of Report EC-8 that "unless there is a drastic change in policy in the coming years, large unrequited exports to the sterling area are likely to remain a feature of British foreign trade and to continue imposing a serious strain on British resources and on the British external position" was not too pessimistic.

Mr. Rist - One of the great difficulties of U.K. was that while resources received under the Marshall Plan were re-exported, grant aid had now disappeared and U.K. had to produce for export. He felt a little more pessimistic than Dr. Varvaressos.

The prewar figures included a lot of flight capital and probably now this amount was less than normal. The pressure for conversion was greater than appeared in Mr. Kamarck's report and at least as great as indicated by Dr. Varvaressos.

Mr. Kamarck - After his trip to London he put much more stress on what the independent sterling area meant to the picture.

The meeting adjourned at 12:35 p.m.

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Notes of Staff Loan Committee Meeting held Friday, February 20, 1953 at
2:30 p.m. in Room 1005

JAPANPurpose of Report

Mr. Garner - The report on the Mission to Japan was not intended to decide the Bank's policy in relation to Japan but to be used as a focus for discussion.

Future dependent on U.S.

Japan's future was dependent on the United States. It would be essential for the Bank to estimate U.S. policy and to base its loan policy largely on answers given in discussions on the subject with U.S. authorities. It would be necessary to ascertain whether they thought it desirable for the Bank to lend in Japan at all. Mr. Garner had grave doubts that a nominal loan would be desirable. In that case we could have little effect on the guidance of Japanese policy and would be very much in the position of the tail of the dog.

Pending crystallization of the Bank's views, it would be a mistake, however, to say that we would not do anything there.

Mr. deWilde - The Japanese needed assurance of the extent they could depend on the U.S. for the purpose of over-all planning. The Bank would, in any event, be unable to lend them hundreds of millions and the mission had disabused Japanese hopes along these lines. Provided they had assurances of continued U.S. aid, they could afford to use some of their present foreign exchange holdings. This reserve, however, had been built very quickly and could fall with equal rapidity.

Defense expenditures

It would be important to know the extent and pace with which U.S. expected Japan to take over its defense. U.S. military dollar disbursements in Japan amounted probably to more than \$800 million in 1952. Without these dollar receipts Japan would have run a dollar deficit of about \$600 million.

The present Japanese constitution did not allow Japan to have an Army or Navy. The National Safety Force was almost equivalent to an Army of 110,000. The Coast Guard was an incipient Navy. The Japanese had no treaty obligation in this connection, but the Government would find it difficult, for political reasons, to modify the constitution.

Lack of long range planning

The Bank mission had stressed the need for over-all planning in Japan in view of the scarcity of capital resources. While there had been a lot of planning for specific projects, e.g. power development, no one had pressed for the necessary over-all program. This was, perhaps, due to a reaction to the war-time and immediately postwar centralized controls of Government. The Japanese talked of a democratic free economy but they were short of capital, and controls were almost essential (a) to ensure sound investment and (b) to deter wasteful investment.

The first action by the U.S. in Japan, after the war, had been to break up business to reduce its potential. The next step was to get the Japanese economy working again. This step had not been properly started when the

Korean war began. There had been a period of deflation which had placed the economy under pressure to increase exports and become more self-supporting. But with the Korean war there was no longer the same incentive.

U.S. now feared to attach economic conditions when making grants or loans because such action would be taken as, and the U.S. would be accused of, economic imperialism. The U.S. Embassy in Tokyo was therefore very much in favor of the Bank entering the field.

The Japanese were sensitive and the Bank would probably be able to do things the U.S. could not attempt. Also the U.S. had the disadvantage that since the war they had forced the Japanese to do a good many inconsistent things.

Economic Situation

The economic situation was very difficult and international payments could not be balanced for a long time - perhaps even 25 years. It was estimated there would still be an annual balance of payments deficit of between \$300 and \$400 million at the end of five years, exclusive of U.S. disbursements.

Reopening of trade with China or the development of trade with southeast Asia would help but Japan would still be likely to need U.S. assistance for 10 - 20 years.

The mission's figures had been based on fairly optimistic assumptions and the deficit might be greater than anticipated. There was no room for a significant cut in imports and all the facts demonstrated that no one should want to make a loan to Japan. A loan could not be justified on usual grounds.

While we would not be able to get a commitment from the U.S. to cover any deficit for the next 20 years or to make an outright guarantee, we would have to estimate whether U.S. should in general be counted on to continue its support, because we would have to have a reasonable argument to present to our bondholders for lending in Japan.

At present there were mistaken ideas in U.S. business and financial circles that Japan was a good risk.

Development of trade with southeast Asia, which could be very helpful to the development of both southeast Asia and Japan, would take time. It would be necessary to overcome the fear and resentment held by those with whom Japan might otherwise do business and it would probably take a new generation to effect this.

The Garioa debt amounting to about \$2 billion was now under active discussion. It was probable that agreement would be reached to make a one-third settlement, about the same as was made in Germany. From the economic viewpoint, the debt should be cancelled but political considerations would not permit this.

The Japanese had made a settlement on the privately held sterling and dollar debt and were determined to settle with French bondholders also.

Rate of Investment

There was a steady increase in population and there had been tremendous destruction (estimated at about \$12 billion) of Japanese wealth. The Japanese, however, were capable of a substantial rate of investment, but increased investments would lead to larger import requirements which would have to be financed.

U.S. Procurement

Serious thought had to be given to the continuation of U.S. procurement in Japan if the Korean war ended so as to provide Japan with an opportunity for earning dollars instead of receiving grants.

Attitude of Commonwealth

Mr. Garner noted that the attitude of the Commonwealth countries was important. They might say they did not want Japan coming into their markets, thus magnifying the problem.

There were many intangibles and numerous political aspects to be clarified. No quick steps could be taken.

Report particularly confidential

Some of the information in the report was of a particularly confidential nature and its circulation should be restricted to members of the SLC and staff members to whom it was essential in their work.

Views of U.S. authorities

Allison, who was probably going to Japan as U.S. Ambassador, had told him that the exchange of views with the Bank was held by U.S. as a matter of first priority in connection with U.S. relations with Japan.

Both Dulles and Dodge knew the Japanese situation and if they were affirmative, endeavor should be made to set up channels for close discussion.

There was also the question of whether U.S. aid to Japan was likely to be supported by the American people over a period of time.

Amount of Bank lending

If the Bank lent at all, about \$100 million was as small an amount of lending with which the Bank might expect to have any voice in guiding the Japanese economy. However, under no circumstances should we say that we would go up to \$100 million at the start. We should make a succession of small loans and feel our way along to see if we were encouraged by the Japanese handling of their affairs.

Mr. deWilde noted that it would be necessary for the Bank to indicate a sufficiently sizable amount so as to make it appear to the Japanese to be worthwhile.

Mr. Garner said he would be leary to inform the Japanese of any amount. We should tell the Japanese that how far the Bank went would depend on their actions and how the situation developed.

Projects

Power was the most pressing item but if the Bank confined itself to power projects it would have less basis for advising the Japanese. There was considerable justification for distributing eventual Bank assistance over a number of sectors to enable the Bank to exert some influence on the planning of the use of resources in Japan. Japan could also be assisted through further development of southeast Asia and the countries in the south Pacific, including Australia.

Mr. de Wilde spoke of the Eximbank financing of the dollar portion needed for the Malayan iron ore development and possibilities of something being done for Japan in that connection.

Discussion with other members

Mr. Cliff reiterated the need for discussions with the other big members of the Bank before the Bank committed itself to any principles of policy in regard to Japan.

Type of Loan

Mr. Garner noted that he was leary of impact loans. All that Japan made included imported raw materials, and it would be better to cover the raw materials than to try to balance the dollar impact on the economy.

Mr. de Wilde pointed out the practical difficulty of identifying imports of raw materials with specific projects.

Mr. Garner suggested that it should be possible to estimate the direct and indirect import components as a basis for justifying loans.

Mr. de Wilde concurred that this had to be done, but suggested that in practice the disbursement of an eventual loan might be linked to the rate at which the Japanese invested in a project.

Mr. Garner agreed that this might be an appropriate technique.

The meeting adjourned at 4:15 p.m.

HGA Woolley/hmf
March 12, 1953

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Notes of Staff Loan Committee Meeting held Tuesday, February 17, 1953 at 3:00 p.m. in Room 1005

DEVELOPMENT INSTITUTES

Mr. Garner - No decision had been made whether the Bank should establish this type of Institute. It was a possibility and we should see if we could decide what sort of Institute we intended. The Executive Directors had been told we were thinking about this.

Mr. Mendels - It would be good to get general ideas at this stage. Perhaps greater emphasis should be made in the draft prospectus of the kind of classes planned. He was doubtful whether it would be possible to get men who were big enough for the Course.

Mr. Demuth - The draft prospectus had been prepared by a Committee of Messrs. Mendels, Adler, Christelow, Rosenstein-Rodan and Demuth with Messrs. Schmidt and Howell serving part time. He wondered whether the course should be accompanied by an intensive series of small classes similar to a University. Classroom work of this type would entail a big staff.

The first part should probably consist of background lectures; the middle part of lectures supplemented by case studies; and the last part of seminars just covering one field.

Mr. Garner - If there were too many lectures interest would die. It would be desirable to develop as much as possible free interchange of ideas and this should be possible with a group of 40 to 45.

Mr. Demuth - After the draft had been revised, it should be discussed outside. Then after further revision, approval of Executive Directors might be obtained.

Mr. Garner - The objectives and subjects of instruction should be stated and it should be made clear that the first year would be largely experimental. Four to six additional personnel, assisted by Bank staff, should be sufficient to handle the Institute.

Mr. Demuth - The Committee members had disputed the question of the Board for the Institute and the amount of contributions by Governments. The Committee considered the Government of the country concerned should contribute between \$1,000 and \$2,000 for each candidate but different members of the Committee favored different amounts between these limits.

Mr. Iliff - Practical needs could only be determined with experience.

Mr. Garner - It should be made clear that we were trying to crystallize our own ideas and to obtain and examine the ideas of others who might be interested. The draft should be accompanied by a statement of the need visualized and that it was under consideration by us. In para. 3 on page 1 he would include the 'financial' aspect of development.

Mr. Aldewereld - In line 4 of para. 1 on page 1, a more general description than 'underdeveloped' member countries might be used.

Mr. Garner - There had been no reactions from even our most sensitive members to the use of this term.

The draft should include reasons why we think the Institute should be established by the Bank rather than by a University or other Institution. If these reasons were not valid, we would like them refuted.

Mr. Demuth - A covering note should include the possible cost, estimated at \$10,000 per student. In the case of non-government students, their employer should pay. It was not contemplated that the Institute would pay any cost for families.

Mr. Garner - The latter was not a vital point, it was early to decide it and it should be put tentatively. The draft should be more precise on qualifications for admission. We needed strong assurance that the Institute would be able to draw mature, responsible participants at a fairly high level and it was very doubtful where the Institute should be established without this.

Non-government participants, should be included at the end of the first sentence of para. 2.

The probability of the candidate remaining in government service should be taken into account.

Capable individuals in private business in whom the government was interested and planned to bring back, e.g. as an under-secretary, might be included.

The teaching staff would be closely associated with the operation of the Bank and when not teaching would go on the Bank's staff.

Mr. Hoar - The interchange of staff offered certain difficulties. It might be a burden to spare a staff member for the Institute for six months.

Mr. Adler - The new staff might come on April 1 and spend six months in consultation with the Bank and working up the curriculum, lectures, etc. After six months their conclusions might be debated and they then might merge with the Bank's staff until the term began.

Mr. Garner - In their spare time they might be sent on missions, loan assignments or study practical aspects of their instruction in the Bank. This was one of the arguments why the Institute should be operated by the Bank.

Mr. Hoar - The Institute's staff should be additional to the Bank's staff. It was desirable as far as possible to keep the same people working on a country.

Mr. Garner - Agreed but special jobs arose constantly and there would be plenty for them to do in the Bank without disturbing operating relationships.

Mr. Iliff - Considered that Economic Advisors also should be changed as seldom as possible.

Mr. Demuth - Could see the advantage of someone like Dr. Larsen having the opportunity to systematize what he had learned by serving on the Institute's staff for a period.

Mr. Iliff - It would be important in building up the Institute to avoid impairing the work of the Bank.

Mr. Garner - If we got the right type of people there could be close relationship. Whatever we did in this respect would, of course, be at our discretion.

Mr. Demuth - The director of the Institute should, if possible, have had experience both in the development field and as an academic administrator.

Mr. Garner - There should not be so much administration to do. Perhaps a University or the Bank's staff should assume a great deal of the administrative burden.

Para. 4, page 4 should be modified for Ford Foundation, etc. to read 'it is our thought that' and we should say 'would' instead of 'will', 'our discussion has indicated the approach might be' etc. As written at present, if the draft got into newspaper hands it would be a little dangerous. There would be nothing lost if the draft prospectus were turned into a draft memorandum.

Mr. Rist - Agreed that the present style precluded discussion.

Mr. Garner - Page 4, 2nd para., add 'and discussions' to the first sentence.

Mr. Schmidt - There might be different courses for participants expecting to work in different fields on return to their countries.

Mr. Demuth - All would take the standard lecture course and, as the Institute developed further, specialized courses might be found desirable.

Mr. Broches - This type of school might need a license, the staff might be required to take a loyalty oath, etc. He suggested and it was agreed that the General Counsel would examine legal requirements relative to the establishment of this type of institution in the District of Columbia.

As regards para. 6 we should compromise and endeavor also to attract some teachers who wished to preserve their academic status. We should endeavor to have a Board with good academic standing and a certain amount of independence regarding the academic side of the institution.

Mr. Garner - The proposals for the Board were at present a little fuzzy. The Board would not decide how the money should be spent. If a Foundation participated it might want to be responsible.

Mr. Demuth - Did not think either Rockefeller Foundation or Ford Foundation would want this.

Mr. Garner - It would be best to get three or four outstanding people.

Mr. Demuth - One in U.S. could be obtained at not very much expense and two might be brought in from abroad.

Mr. Garner - This would be worthwhile if the right people were obtained. The idea of the Board was in general satisfactory.

In the last sentence of para. 10 'widest geographical representation' should be changed to 'wide geographical representation.'

In Part II 'fellows' should be changed to 'students.'

Page 11, para. 2 - case studies would largely come out of actual Bank experience and it should be so stated. This showed a value in the Bank's relation to the Institute. The substance of what was proposed in the draft generally appeared practical.

Mr. Riley - Had strong reservations about the possibility of getting suitable participants. Not many would want to go through an intensive training program and in a number of cases it would not be possible to spare suitable candidates from their duties.

Mr. Garner - The best way would be first to line up three good people for the course and then go to others and ask them if they wanted to get on the bandwagon. If we only got 25 first string participants in the first year, the Institute would be established. The class might be small but it must be select. On no account should standards be lowered for admission and we should not launch the Institute unless we had assurance of a suitable nucleus of participants.

Mr. Mendels - Talks with Foundations, etc., would take time and the first candidates might be received in 1954.

Mr. Demuth - The proposal should not be presented to Foundations unless we were fairly well convinced that we would go through with it.

Mr. Garner This was a new enterprise for which both money and students had to be obtained. The Bank might make a tentative agreement to go ahead subject to fulfillment of certain conditions.

After rewriting the proposal we should get reactions of the teaching field, e.g. expert opinion from Princeton, etc., before putting the proposal to Foundations informally. We should then go to the Executive Directors and get their approval to the proposal before putting it up to Foundations formally with a view to their participation. We should not go to the Foundations at this stage as possible contributors.

Mr. Hoar - Those not in an operational department under-estimated the burden of trainees in this type of department. We were at present understaffed and were going to try to reinforce our staff by the summer or fall. The new staff could not make much contribution until they had had about six months' experience in the Bank with its methods of operations. Some time in 1954 we might have adequate staff. He would, therefore, suggest pushing back the program to start in 1955 rather than making any attempt to accelerate it. The faculty staff would then come early in 1954.

Mr. Garner - We should explore the possibilities.

The meeting adjourned at 4:40 p.m.

HGA Woolley/hmf
April 8, 1953.

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Notes of Staff Loan Committee Meeting held Monday, February 16, 1953 at 11:00 a.m. in Room 1005

NICARAGUA

Messrs. Schmidt and Larsen ran through the important points relative to the proposed mission contained in the enclosure and Appendix respectively to SLC/O/539.

Mr. Larsen noted that while there was some danger of inflation, Nicaragua showed strength in the increase and diversification of crop production; the road machinery and agricultural loans were having a very rapid effect. There was no tendency to over-import. Nicaragua was in a strong position as regards its external debt which, if there was no further borrowing, would be extinguished by 1962.

The main risk of the present situation was not so much economic as political. Changes in the head of the state might cause a substantial change in the government and collapse of the present structure.

Mr. Iliff noted that the Bank should be careful to avoid financing any projects (e.g. feeder roads to open up the President's estates) which did not stand up economically.

Mr. Consolo replied that the Minister of Public Works was working out a careful program to avoid such projects.

It was generally agreed that servicing of loans of the amounts proposed appeared to be well within Nicaragua's capacity.

Status of the Bank's Special Mission

Mr. Garner suggested and it was agreed that he and Mr. Consolo should, if possible, meet with Mr. Delgado, Executive Director of the Fund, on February 17 to discuss the questions that had arisen.

Mr. Delgado had been Nicaraguan Minister of Economy. According to the President of Nicaragua he had been appointed to the Fund to gain a little more experience but it was rumored that Mr. Delgado was a little tough and they felt it would be easier if he were out of the way.

We should speak definitely and frankly to the President and tell him that if he 'played ball' with us we would carry out our part.

When Nicaragua had been talking about getting a UN mission, the U.S. Ambassador had seen the President and told him that the U.S. would withdraw its Point IV mission if UN came in.

As regards the request to waive the premium on prepayments of the early maturities of the Bank's loan, Mr. Garner felt and it was generally agreed that whenever a borrower could pay in advance he should be encouraged to do so.

While the right to charge a premium was available for our protection, we were likely to need funds for some time.

Mr. Schmidt suggested and it was agreed that the mission might discuss the use of some of the funds available for the short term interim financing of the grain storage project.

The Committee agreed with the conclusions in para. 32 and 33 and the recommendations in para. 34 of SIC/0/539.

PANAMA

Mr. Consolo said that the mission would probably go on to Panama. A cable had been received from the head of the US Point IV mission there, that the projects would be ready in about a month's time.

Mr. Larsen noted that the Bank had not yet completed a creditworthiness report for Panama. Creditworthiness in this case was particularly difficult to assess.

Mr. Garner suggested and it was agreed that the mission should look at some small projects in Panama, if they were at a sufficiently advanced stage, but in any case that no commitment should be made until Panama's creditworthiness report had been completed and discussed.

NORTHERN RHODESIA

Creditworthiness of United Kingdom

Mr. Hoar noted that Mr. Kamarck would be back on February 18.

Mr. Garner said that the creditworthiness of the U.K. should be considered at a future meeting. Mr. Varvaressos' Report EC-8 on the subject was well worth reading, should be distributed to the Committee and considered with Mr. Kamarck's report.

Mr. Hoar noted that after the other documents on this loan had been cleared with the committee they could go forward to the Executive Directors immediately.

Mr. Iliff suggested going ahead with the loan without waiting for the U.K. creditworthiness report.

Mr. Garner noted that in examining the situation of the U.K., it was necessary to examine the interrelated European situation. It was important to examine the balance of European and U.K. trade and to see how the situation looked from both sides.

He questioned whether in the case of this loan to Northern Rhodesia, the Bank should not base its decision on the situation of the U.K.

Mr. Hoar noted that an amount of £5 million was very much too small to have any real effect on the U.K. position. However, the E.D.'s might feel they wanted to assess the whole bigger issue of the U.K.'s creditworthiness.

Mr. Garner agreed that the discussion of the U.K. creditworthiness should be on a broad basis and not in relation to such a small loan.

Mr. Hoar noted that Mr. Taylor was anxious to announce the loan as soon as possible after his return to Rhodesia February 27 or 28.

He would inform Mr. Taylor that only the formalities relative to the loan remained to be effected and that it would probably go to the E.D.'s on March 3.

Northern Rhodesia

Mr. Lejeune ran through the highlights of the reports and noted that no new principles were involved.

Because Northern and Southern Rhodesia were involved in financing and physically carrying out the project, Southern Rhodesia would sign the subsidiary agreement prepared and would give the Bank inspection rights.

The Portuguese had started their part of the link with Lourenco Marques. They had been granted a credit by Eximbank for the purpose. This had been announced and Portugal would sign the agreement with Eximbank any day. Delay had been due probably partly because they were waiting for the IBRD loan but probably also because of Portuguese lack of haste.

However he believed that the Portuguese would be prompt in executing the Eximbank project.

General Mehaffey noted that the work was being done mainly with hired labor and not be large contractors. He had not visited the Portuguese area.

Mr. Cope commented that when he was in Bulawayo the authorities gave high praise to the degree of collaboration by the Portuguese.

Mr. Garner said it would be important for the Bank to follow both projects and to be aware if either was starting to fall behind.

Mr. Oppenheimer noted that the Eximbank had substantially the same end-use provisions as the Bank in their agreement, and had decided that they did not need a consulting engineer.

President's Report

Mr. Aldewereld noted, as regards para. 15, that the first London borrowing had taken place but that the second had not yet been effected.

Mr. Hoar commented that the recent floods had had a temporary depressing effect on the market and the underwriters were open to criticism as possible investors were doubtful of the desirability of the 40-year term of the second London loan.

Mr. Rist noted that the real reason for the loan by the Bank was that the U.K. found it difficult to finance it. If the U.K. supplied the equipment, resultant U.K. dollar expenditure would be very close to its cost. He wondered whether the Bank would not be justified in lending sterling under the provisions of Art. IV, Sec. 3(b) of the Bank's Articles of Agreement, provided exceptional circumstances could be shown.

Mr. Garner suggested that the circumstance was a prevailing one and he doubted whether a good case, which did not apply to any one of our borrowers, could be made to use Sec. 3(b).

Mr. Rist suggested that similar circumstances applied as regards loans to Western Europe.

Mr. Broches replied that the Bank had developed the impact idea (based on Sec. 3(c)) in the last two years and it would be much harder to use Rist's argument.

In the case of Western Europe, the countries did have productive capacity. Mr. Garner commented that U.K. was one of the few places where local currency could be raised on fairly reasonable terms.

He had always been unhappy about local currency loans unless they were narrowly confined. If the Bank loosened up in this respect we would be faced with countries endeavoring to carry out too extensive programs in relation to their own efforts.

We operated on the basis that the country worked out a plan which involved their doing the reasonable maximum possible and the Bank's loan being a small part in relation to the total effort.

Mr. Tliff suggested and it was agreed that paras. 18 and 19 should be revised to show in more specific terms that the Bank would be justified in making this loan in dollars (or other foreign exchange) because the provision of capital on a large scale by the United Kingdom for investment at home and abroad gives rise to a substantial need for foreign exchange.

He also suggested that the U.K. creditworthiness report should include a study of the U.K. investment program at home and abroad.

Mr. Garner noted that the U.K.'s getting into balance on its payments was dependent on such investments abroad.

He suggested and it was agreed that paras. 23-27 should be removed and a statement to be substituted to the effect that, based on the general creditworthiness report on the United Kingdom, the President is satisfied that the United Kingdom as guarantor will be in a position to meet its obligations under the proposed loan.

Mr. Rist suggested and it was agreed that para. 28 should be revised to show that Northern Rhodesia was to be the borrower in deference to the preferences of both Rhodesias and the U.K.

Messrs. Aldewereld and Cope suggested and it was agreed that para. 30 should be revised to state that the disbursement procedure will be the normal procedure and without the special modification employed in the Southern Rhodesian loan.

Mr. Broches suggested and it was agreed that "increasing" should be substituted for "diminishing" in para. 9.

General Mehaffey, in reply to Mr. Garner, said that he had nothing to add and had no reservations about this loan.

The meeting adjourned at 12:40 p.m.

HGA Woolley/hmf
March 17, 1953

Notes of Staff Loan Committee Meeting held Tuesday, February 3, 1953 at 3:00 p.m. in Room 1005

YUGOSLAVIA

General

Mr. Rosen suggested and it was agreed that both the Technical Report and the Annex thereto should go with the other papers to the Executive Directors. There were some minor errors to be corrected before presentation.

Mr. Spottswood noted the added cost in one project due to price increases and spare parts. The Bank was financing only 35% of the total foreign exchange cost of the projects.

He had received disturbing news on a confidential basis of some sabotage to the installation of a steel blooming mill at Zenica. However, the Bank had no part in the financing of this part of the project.

Mr. Rosen considered it would not be very serious if the technical reports reached the Czechs. Most of the information had already been published.

Technical Report

The extent of the increase in Yugoslav industrial production was surprising. In some cases their workmanship was very good - e.g. in the case of transformers, switch gear, etc., it compared favorably with Swiss production and in some cases orders were being received from Germany. There were a large number of foreign technicians working in Yugoslavia and benefit was obtained of their exchange of information.

As regards paragraph 12, the real assurance was the availability of sufficient productive capacity. Amounts in domestic currency had little meaning.

Annex to Technical Report

In general the large projects included had been examined by the Bank much more intensely than in any other of its loans.

Mr. Spottswood noted that with regard to the production of aluminum, power was sufficiently cheap, i.e. between 3 and 4 mil per kwh. When the plant was ready to operate there would be ample capacity for it and other demands on the network.

Mr. Lipkowitz noted that the Yugoslav export prices had been used to estimate a true cost basis for this project.

Mr. Spottswood noted that technical personnel in Yugoslavia were fairly well qualified but generally overworked. Tilson had been impressed by the Chief Engineer of the aluminum plant. Holgate had been favorably impressed by those employed in steel production. The technical people were generally much better qualified than the managing directors.

Labor appeared to be fairly industrious. They were mostly employed on piece work. Some were not as skilled as they should be and a larger number were used than employed on the same work in U.S. but there was variation in this respect in different parts of the country.

Workers' Councils were not what they were supposed to be and defended the attitude of the Government.

As an incentive they received a monthly share in the profits and in case of sub-standard production wages could be cut to as low as 80% of normal. They were not really working for wages yet but living on promises that in a few more years everything would be wonderful. While there were all sorts of arrangements re compensation, immunities, provision of housing etc., there was no wide disparity in wages.

They used hand labor to a greater extent than was found profitable in the U.S. but this was justifiable at present because of low wage rates. They were fairly adept in improvising and getting along with crude substitutes when without proper equipment.

Recommendations to President

Yugoslavia had waived the normal time requirement and agreed to the circulation of the Administration Report immediately.

The answer on the debt limitation was expected on February 4.

As regards provision of sterling for the loan, the equivalent of \$1 million had been put aside from release of U.K. 18% capital subscription for the purchase of 13 diesel engines under the Pakistan loan. Pakistan now only wanted 11 diesel engines at a cost equivalent to \$800,000. The balance thus available was somewhat less than the remaining amount required for the Yugoslav loan. Mr. Basyn thought that Belgium could cover the gap of \$100,000 - 150,000 equivalent.

Mr. Iliff noted that if necessary both U.K. 18% and proceeds of sterling bond issue might be used.

* * * * *

Mr. Garner noted that the increase in production shown in paragraph 19 of the Technical Report was impressive and that without listing every item it would make a good story in press releases.

Mr. Rosen said he would put a paragraph drawing attention to the increased production on page 11 of the President's Report and Recommendations.

Mr. Spottswood noted that there would not be a net increase in timber production. A number of farmers were cutting independently. FAO considered the rate of cutting to be about one-third to one-half above the average growth. Cutting was heavier in some areas than others especially where suitable transport facilities were not available. A little new planting had been done in Serbia. The old Austrian Service was doing good forestry service in Hertzgovinia.

Mr. Rosen noted that the Yugoslavs were aware of this problem. FAO considered that the Slovians in charge of forestry were good but it was hard to keep the individual cutters under control.

Mr. Lipkowitz noted that Yugoslavia was producing 150,000-160,000 tons of crude oil annually. They were drilling in Bosnia and Montenegro. They used about 500,000 tons annually.

Mr. Rosen suggested and it was agreed that paragraph 40 should be removed as the same information was included subsequently in paragraph 47.

Mr. Iliff suggested, and it was agreed that paragraph 42 should be deleted.

Mr. Rosen agreed to modify paragraph 44 and to omit "considerable" in paragraph 54.

As regards paragraphs 49-51 there were two big amounts - one owing to the U.K. and the other to Germany.

The U.K. had agreed to defer its maturities until 1954 although the commitment had not been signed or announced.

The countries which had given aid under the tripartite program had been unable to agree how debts incurred by Yugoslavia under this program should be met. The U.S. was in favor of a long extension. U.K. favored a standstill arrangement, with perhaps a writing-off of a substantial amount. The French wanted a general deferment but did not wish the French military credit to Yugoslavia to be included.

The tripartite countries could not decide what to recommend either to Yugoslavia or to fourth parties.

Suitable assurances had been given by the tripartite countries in London before the first loan had been made.

Only the tripartite debt had been mentioned in the report and Mr. Rosen agreed to include details of other indebtedness.

He noted that the inclusion of paragraph 52 depended on the receipt of a favorable reply from the Yugoslav Government.

Mr. Garner commented that a fine job had been done by all concerned. He had not seen a better or more difficult presentation.

The meeting adjourned at 4:10 p.m.

HGA Woolley/hmf
February 25/53

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Notes of Staff Loan Committee Meeting held Monday, February 2, 1953 at
11:30 a.m. in Rm. 1005

YUGOSLAVIAGeneral

Mr. Rosen noted that endeavor was being made to have the papers ready so that this loan could be presented to the Executive Directors on February 11. The Technical Report and the President's Report and Recommendations would be distributed as soon as possible for discussion at the Committee's meeting p.m. February 3.

The Loan Administration Report showed that at the end of 1952 payments totaling \$11,671,000 equivalent had been made and there was outstanding on letters of credit guaranteed by the Bank the equivalent of \$13,877,000. Production had risen but the results of the financing could not be properly measured until later. In the revision of projects an important switch had been from industry to include the coal washing and drying plant at Kolubara. In general the projects were moving ahead satisfactorily. In one project in which management had appeared unsuitable, the management had been replaced.

Mr. Hoar noted the delay in supply of electric equipment purchased from Austria under the loan. Mr. Spottswood replied that these delays were not caused by U.S.S.R. as the equipment was being manufactured in the U.K. and U.S. zones.

The Administrative Report had not yet gone to Yugoslavia. They had been given a copy on a 'draft' basis and preferred to accept that in preference to the one-month delay that would arise if clearance were awaited. The Bank would probably receive their waiver in this connection. Otherwise its title would be changed to "Progress Report."

Economic Report

Mr. Lipkowitz emphasized paragraph 26 and 27 of the Economic Report. He also noted on the unfavorable side measures favoring the urban population which tended to dull farmers' incentives.

It had not been stressed enough in the Report that the Government had supplied the Bank with a great deal of statistical data. They were publishing more series of data in their monthly bulletin and revising old figures. They were publishing more and more information, a fact which would make it difficult for them to reverse themselves on this score. This included an index of over-all industrial production, currently.

The estimates of future levels of investments (page 18) were not based on any definitive plan. Emphasis was to be placed on projects they could do mainly with local resources instead of projects based largely on imports.

If they saw a trade surplus in the future, it was likely they would go in for more capital goods imports but probably not much more than the Bank expected. They had promised to limit such imports broadly within balance of payments capabilities.

Mr. Garner noted that Yugoslavia had had considerable experience in the past few years of the dangers of excessive imports, which had necessitated financial rescue operations and he did not think they were likely to repeat this.

Mr. Rosen said that this was the risk the Bank would have to take in the case of Yugoslavia. It was difficult to give a firm answer on what might happen. There were two schools of thought in Yugoslavia, with the group now in the saddle favoring priority for debt service.

The first half of 1952 they had increased their reserves and paid off part of their debt. They knew their exports depended on surplus agricultural production and that reserves were necessary to cover a year with a bad crop.

At present they had no payments backlog like Brazil and the equivalent of \$10 million in convertible exchange reserves. This was partly due to the fact that no one was willing to afford the Yugoslavs letters of credit without the guarantee of the Central Bank.

Net invisible earnings were due to a number of items:

- (a) figures used in balance of payments were F.O.B. for exports and C.I.F. for imports;
- (b) immigrant remittances;
- (c) some tourist trade in 1952; and
- (d) some gold production.

Mr. Lipkowitz noted that very few of the revised projects needed substantial imports of materials for operations.

Mr. Rosen said that a basic exception to this would be the import of phosphate rock from North Africa for the fertilizer project.

Mr. Rist questioned whether there was a trend of falling agricultural production.

Mr. Lipkowitz replied that the fall in the 1947-51 period was partly due to lack of adequate incentives to the farmers. The farmers had probably underestimated crops to avoid taxation and compulsory delivery burdens. FAO had made a survey of statistical methods in Yugoslavia.

Mr. Rosen noted that the fragmentation of land was not so serious a handicap as in France and a number of other countries. The farmers, however, usually lived in one village and often had to go 18 to 20 kilometers to reach their holdings. 1950 had been a bad drought year. In 1952 there had been heavy hail in April and second plantings had been killed by drought. These two things coming together had caused great damage. The probability of such a coincidence of events was unlikely for more than about one year in fifty.

Assuming the existence of an aid program of quasi-military nature, Yugoslavia should be able to get by in 1953 and 1954. The Bank's estimate was that Yugoslavia would be in balance in 1955. Good breaks in the weather could make this occur earlier.

Yugoslavia had received sizeable amounts in reparations from Germany and Italy but these were mainly restitutions. Also these had been compensated to some extent by nationalization payments for private investments in territory taken over from Italy.

The prewar debt was not mentioned in the Report. An interim agreement had been made with France for a token payment to turn into 1954. The U.S. bondholders were waiting. The debts owing to various governments and the refunding problem was discussed much more fully in the President's Report.

The budget was not discussed as dinar information was of little value. Domestic prices had been increased 4 to 6 times what they had been earlier. The only meaningful analysis had to be made in physical or real terms. Data on the money supply did not show much. Interpretation of monetary data was complicated by discontinuous price changes, coupons, etc., and not much of value could be obtained from the financial data.

Any lessening of the international tension would have an immediate and substantial favorable impact on the balance of payments. There were indications that there would be some reduction in military expenditures in 1953.

Mr. Garner commented that the Economic Report had been well prepared and it was generally agreed that it seemed to present a reasonable case.

Memorandum SLC/0/538

Mr. Rosen ran through the highlights of this memorandum and made the additional comments:

- (a) Unallocated Reserve. Although the reserve referred to in paragraph 4 might not be fully utilized, he had thought it desirable to provide for it.
- (b) Consultation Clause. As regards paragraph 5, the clause in the original Loan Agreement had been very broad and it had not been possible for the Government to live up to it as regards short term debt. The negotiators were agreeable to the terms of the enclosed letter.
- (c) Debt Ceiling. The negotiators had been told that the Bank would like the debt limitation to remain effective until December 31, 1955. It would be useful but was not too important to obtain this agreement as it was very unlikely in any case that they would reach the \$380 million ceiling by December 31, 1954.
- (d) Commitment Charge. Settlement had to be made regarding Mr. Hoppenet's proposals and it might therefore be necessary to have these discussed by the Financial Policy Committee before presenting the loan to the Executive Directors.
- (e) Terms of the Loan. It was generally agreed that these were satisfactory.
- (f) Interest Rate. Mr. Black noted that this, including 1% commission, would be 4-7/8%.

Technical Report - President's Report and Recommendations

It was agreed that a meeting of the Committee should take place, at 3 p.m. February 3, to consider these reports.

The meeting adjourned at 12:25 p.m.

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Notes of Staff Loan Committee Meeting held Wednesday, January 28, 1953 at 3:00 p.m. in Room 1005

ICELAND

Mr. Stevenson discussed the main points contained in SLC/O/532, emphasizing that his conclusions regarding Iceland's creditworthiness were not based on an assumption that exports would rise but on the willingness of Iceland to meet its obligations, even if this should involve sacrifice, making slashes in imports if necessary. With exports expected to run about \$50 million equivalent a year, Iceland could tighten its belt to the extent of \$3.5 million of debt.

Possibly the communication sent to the Icelandic Government should be phrased negatively rather than positively, i.e. that the Bank was not prepared to go ahead unless the conditions in para. 30 were fulfilled.

Mr. Hoar agreed that the negative approach was probably desirable. As regards Iceland's creditworthiness, the difficulty in dealing with such a small economy was that moderate increases in the external debt put up the per capita total quite heavily. However, the service on the amounts involved in these two applications was not very great and provided the conditions required by the Bank were met, he thought the Bank might be prepared to go ahead with the two loans.

However, he was not quite clear whether a cement plant of such a high capacity as 75,000 tons was justified in view of the emphasis on cutting down building.

Mr. Rembert replied that Iceland's application was for a 75,000-ton plant. The justification of a plant of that size would depend on Iceland's future level of investment.

Mr. Stevenson suggested that if the demand were for only 40,000 tons it would probably not be worthwhile building a plant but that if a total of 60,000 tons was required annually within five years the project would be worthwhile. In reply to a question from Mr. Garner, as to why the staff was now prepared to recommend loans over and above the limit given to the Icelandic Government in September 1951, Mr. Stevenson said that the amount recommended in September 1951 was based not on creditworthiness grounds but on the Bank's opinion that Iceland did not have physical resources to undertake the Sog-Laxa projects, the fertilizer plant, and the cement plant at the same time.

Mr. Cope noted that if we sent a mission to Iceland, by the time it returned the two-year period covered by the earlier report would be completed.

Mr. Stevenson suggested that Iceland would like to know the Bank's views on the agricultural loan as soon as possible to enable the Agricultural Bank to prepare its program.

Mr. Garner asked what more the cement plant would do than replace sod houses.

Mr. Hoar replied that the agricultural building program was part of the desperate effort to keep people on the farms.

Mr. Garner asked what the farmers would do with their output if they increased it.

Mr. Stevenson noted that Iceland annually imported at least 30,000 tons of cement and would save an important amount of foreign exchange if the cement

plant were built. The import price was \$18 per ton. The net reduction in foreign exchange requirement would be a little less than \$18 per ton as Iceland would still have to import the bags and fuel required for the cement plant.

Mr. Aldewereld noted that lamb and mutton bought from Iceland cost twice as much as that from New Zealand and Australia.

Mr. Craig-Martin said that as regards the question of price policy, Iceland had competed with world prices in the past. Present agricultural policy had two aspects: first, they now fixed prices for agricultural products in relation to the cost of unskilled labor. As wages went up, prices went up also; second, the fixed prices favored cattle more than sheep products. Unless Iceland's sheep prices were adjusted to world prices the agricultural loan would not be justified. The present supply of mutton only covered domestic requirements. There was no possible export of dairy products. It would take quite a period of time to carry through any change in the price policy.

Mr. Rist questioned that the farmer would be willing to increase production with the prospect of prices going down 50%.

Mr. Hoar suggested that if a tough policy were enforced, reducing prices, the farmer would find it necessary to produce more to obtain the same income.

Mr. Craig-Martin noted that if prices were altered to favor sheep over cattle it would cause a greater production of sheep.

Mr. Rist inquired about the prospect of devaluation in Iceland.

Mr. Stevenson replied that his report was not based on a devaluation but that it would not be surprising if that happened within the next few years. He felt that Iceland would continue to subsidize agriculture, probably less than now and perhaps differently distributed. For political reasons, he did not expect subsidies to be removed.

Mr. Cope suggested that devaluation would have the effect of lowering agricultural prices.

Mr. Aldewereld noted that agriculture in Iceland might be said to be a marginal interest and he was worried whether increasing production might defeat its purpose.

Mr. Stevenson noted that about 1,000 farms were involved and it was almost possible by direct observation to see where productivity could be increased. Icelandic farmers had shown concern about the price situation. Last fall they had not taken all the increases the price formula allowed them and they had someone at the U.S. Department of Agriculture now looking into possible changes. However, he was uncertain whether they could make adequate adjustments.

Mr. Garner said the loans could not be justified unless it could be shown that Iceland had taken the measures mentioned in para. 30. If Iceland continued with the projects on its own without taking these measures it would come up against the facts and would have to take the consequences.

Mr. Stevenson, in reply to Mr. Rist, said that in the past Iceland had enjoyed a premium in the price it obtained from U.K. for mutton. Also the price in U.K. could go up. It was a lot less there than in New York.

Mr. Aldewereld noted that U.K. was the natural market for Iceland's mutton. The price was set by New Zealand and Australian prices.

Mr. Garner said he felt the attitude of the farmers was very important and if they did not want to accept the conditions, the Bank should keep out of the matter. He did not think that successful results would be obtained if the Government forced them on the farmers.

Mr. Hoar commented that that was the reason why he favored informing the Government that (a) while the Bank considered Iceland creditworthy in moderate amounts, it was disturbed about certain aspects of the projects, and (b) it required assurances on the points listed in the memorandum before lending.

Mr. Garner was inclined to have someone go there and he agreed to the addition to the letter to Iceland that the Bank was ready to send a representative for discussions.

Mr. Aldewereld noted that the question of a second instalment under the agricultural program would come to the Bank in 1954.

Mr. Stevenson noted that as regards the problem of the provision of the necessary amounts of local currency, the cement plant might be financed out of counterpart funds through the Development Bank. If this were the case, the Development Bank would not be able to do much more until the cement plant was completed. He did not consider that too serious since the Bank considered that Iceland generally tried to do too much.

In reply to Mr. Rist, he said that MSA had given Iceland \$600,000 to finish up the projects the IBRD was financing but had not yet made up its mind on further aid. Probably Iceland would get some more from MSA in the end. It might get some dollars in connection with military activities and also from the GI catch. Most of what was used for the GI's had to be imported. Activities connected with air bases might bring some foreign exchange but the Bank's assessment of Iceland's creditworthiness was not based on this.

Mr. Garner did not think the Bank should make any commitment on future financing in Iceland. He felt that what Iceland would do if the Bank went no further than the two projects should be fairly well defined.

Miss Morsey asked whether it would be desirable to include a debt limitation clause if loans were made for these two projects.

Mr. Stevenson said it might, but at present he would beware of a rigid formula. The economy was so volatile that if such a clause were included the Bank might well regret it.

Mr. Garner recommended, and it was agreed, that the Bank be prepared to consider loans to Iceland in moderate amounts as follows:

Agriculture. If the farmers had taken action showing the development of a policy permitting the sale of their agricultural output.

Cement Plant. If, after examination, the market was judged large enough to justify building the plant. There was some question whether a plant of 40,000-ton capacity would be economic and we would want to investigate further.

Mr. Garner asked whether other projects might come up.

Mr. Stevenson replied that apart from the agricultural project in 1954 none were in view now. Mr. Harrison Clark had drawn up a program for Iceland and the Government had agreed to it. There was a possibility of additional transmission lines being needed. There was also a possible future development of water power. Many of the water resources could only be developed, however, if there was a sufficiently big industrial demand. There might also be some small projects through the Development Bank.

Mr. Aldewereld noted that because of Iceland's small size and type of economy any mistake made there would be magnified many times.

Mr. Stevenson commented that Iceland did not intend to build the cement plant until the Sogdaxa hydroelectric plants were finished.

The meeting adjourned at 4:05 p.m.

HGA Woolley/hmf
February 11, 1953

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Notes of Staff Loan Committee Meeting held, Monday, January 26, 1953 at 11:00 a.m. in Room 1005

ETHIOPIA

Mr. Prud'homme ran through the highlights of SLC/O/537.

Development Bank

Ethiopian officials were not happy with the past policy of the Development Bank which has led to - in their view - a disproportionate amount of industrial loans. Dr. Baranski talked of stagnation and said that the Bank would not operate profitably unless considerably more of the remaining Eth \$3 million of the Government's capital subscription were paid in, and unless further industrial loans could be made.

Mr. Black asked why the Government made the provision for the Development Bank to borrow at the State Bank.

Mr. Prud'homme replied that the Government had given no reason. It might be that they had an eye to providing earnings for the State Bank. The credit was obviously made on the excuse that the Government had difficulties to make capital payment; thus the Development Bank had to borrow if it needs further capital funds. Messrs. Rucinski and Diamond had felt they could afford to subscribe larger amounts of capital.

On December 31, 1952, of about \$810,000 credited to loan account by the Bank, \$378,000 had been withdrawn and \$264,000 committed. The closing date is August 1, 1954. The Bank was under obligation to make available the second half of its loan only in proportion to payments on the remaining Eth \$3 million of the Government's capital subscription.

Progress had been slow in 1952, and if debarred from making industrial loans, the Development Bank would find itself limited to making local currency loans.

Mr. Garner suggested, and it was agreed, that the recommendations in paras. 10(a), (b) and (d) of SLC/O/537 should be approved subject to the letter to Dr. Baranski stating the Bank's views rather than threatening any action the Bank would take, including that in the Bank's judgement unless the Development Bank continued to make loans to industry the Development Bank would have little need for foreign exchange and if the proceeds were not used before expiration date of the loan (August 1, 1954), Ethiopia would lose the balance of this capital.

It was agreed that para. 10(c) should not be included.

Mr. Paul Parker had been recommended by Mr. Jack Bennett to replace the President of the State Bank and it was agreed that if Mr. Parker were selected, Mr. Iliff should have a talk with him before he went to Ethiopia.

Telecommunications Project

The recommendation contained in para. 15 of SLC/O/537 was approved.

Highway Project

Mr. Tliff suggested that the Bank should require that the conditions under the Telecommunications be fulfilled before the Bank lent Ethiopia any more money.

Mr. Aldewereld noted that the Bank so far had made no commitment to reimburse the Highway Authority for the expenditures Humbard was now making in the U.S. We knew what he was buying and the prices. The purchases were being made without bidding. This was an unusual departure in procedure but the equipment could only be produced in U.S. Purchases were being made through the U.S. Bureau of Public Roads and prices could be checked. The Bank would have a full list before it reimbursed the payments made.

The Highway project was going well. Mr. Prud'homme commented that it should not be blocked because of vagaries of the other two loans.

It was agreed to postpone any decision on an additional Highway loan until after Mr. Black's visit to Ethiopia.

Mr. Aldewereld suggested and it was agreed that some thought should be given to sending an engineer to Ethiopia before any additional road loans were made, to check the progress on the Highway project.

Mission to Ethiopia

Mr. Rucinski referred to the question of sending a mission, raised in the Committee earlier. It had been decided not to send a Mission, but to improve our information as much as possible. He felt that before the Bank moved on any further loans to Ethiopia, a mission including an economist should be sent. We had never had a good survey report on Ethiopia and now Eritrea had to be taken into account.

Mr. Rist felt that there were some economic and financial facts and mechanisms which should be looked into closely. Such a mission would take 4-5 weeks.

Mr. Garner felt that the Bank's problems with Ethiopia were not economic, and inquired whether most of the available information could not be gathered during the visit of Mr. Black's party.

Mr. Rucinski noted that Mr. Diamond would meet Mr. Black in Cairo and would have only three days in Ethiopia. He would then have five days in Turkey before returning to the Bank.

Mr. Demuth suggested that considerable information might be obtained from U.S. Point IV representatives working in Ethiopia and in absence of a more substantial loan program doubted that a special mission was warranted.

It was agreed that the question should remain open until after Mr. Black's forthcoming visit to Ethiopia.

The meeting adjourned at 12:05 p.m.

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Notes of Staff Loan Committee Meeting held Wednesday, January 21, 1953 at 3:00 p.m. in Room 1005

SYRIA

Mr. Stephens said negotiations had been difficult and he had tried to keep the door open.

Port of Latakia Project

As regards the Port of Latakia Project, when the bids came in in a second adjudication (the first award having been cancelled) they were much higher than the low bid submitted a year earlier. The principal low bidders were satisfactory to the Bank. However, a Yugoslav company submitted a bid outside the adjudication which was much lower and near the French bid of the previous year. Mr. Stephens had pointed out to the Syrians that little was known about the Yugoslav firm and that Gibb & Partners, the consultants, were very dubious about its ability to do the job. When he had been in London later he had found out that Gibb were putting in their formal withdrawal as consultants but leaving a loophole for their recall. Mr. Stephens felt that Gibb was out of the picture. The contractors had not started yet.

Dr. Rembert felt that the situation was much confused and that Gibb & Company's withdrawal prevented the Bank from going ahead.

Mr. Stephens noted that the Yugoslavs had done some good work on their own small ports. They might be ignorant of what they were up against. If the Yugoslav Government subsidized the importation of cement from Yugoslavia they might be able to come within their bid.

Mr. Garner felt that this cut rate bid was a strong warning signal of trouble ahead. He would not like to see the Bank participate in a project where a cut rate was likely to cover skimpy construction.

Mr. Stephens replied that the Syrians had not much expectation that the Bank would participate. They could state for the benefit of the public that they had the greater part of the necessary funds in their Treasury to finance this project.

Oil Refinery

This project had come up during his visit in May. IPC was committed to build a refinery if the Syrians requested it. The Syrians, however, wanted their own refinery and had asked if the Bank were interested. They had been informed that the Bank would have to be convinced of the economic desirability of the project and also that the oil companies were not prepared to construct it. He had talked to shareholders of IPC. They had shown no enthusiasm for a government-owned refinery but did not seem likely to construction one themselves.

At the request of the Syrian Government the Bank had sent someone to examine the aspects of a refinery to be owned jointly by Jordan and Syria. The report on this should be ready soon.

Mr. Garner suggested and it was agreed that Mr. Tim Wilkenson should be asked what position the oil companies took on the construction of the refinery.

Mr. Iliff noted that when he had seen Gibson of IPC in June 1952, Gibson had (a) drawn attention to the failure of their investment of £25 million in Haifa and the cost of their investment in Tripoli, and (b) stated that IPC would not be willing to put any more capital investment in the Middle East.

Mr. Rucinski suggested that if the Bank took a decision now on its participation in the project, it might change the course of events.

Mr. Stephens replied that the Bank should be careful not to place itself in the position of a foil for the oil companies.

Mr. Rucinski noted that some of the shareholders of the pipeline company took a strong position that the refinery should not be built by the Government.

Ghab Vally Project

Mr. Stephens noted that the Bank had taken some interest in a project for the draining and irrigation of Ghab Valley. A Dutch firm had been employed to make a survey of the project and its report should soon be ready. The Government was likely to refer the project to us again. Dr. Schacht had strongly urged that top emphasis in Syria should be placed on agriculture. We had asked for a copy of the consultants' report when completed.

Railway Link - Latakia/Aleppo AND Dam over Euphrates

The Syrians did not wish to go ahead with detailed and costly engineering of these projects (a) until they could get a copy of the report of the Bank's technical mission, and (b) unless the report was favorable.

Mr. Craig-Martin was of the opinion that a fairly large fertile area could be cultivated by using gravity flow from the dam. This project would involve discussions with Iraq, and possibly Turkey, relative to backing up waters of the river. However, implementation of the project was a long way off.

General Survey Mission

At the last Annual Meeting of the Board of Governors, the Syrian Governor had asked questions about the cost of a general survey mission and suggested personnel. Although the Minister of Economy had shown he was in favor of a mission, the matter had not been discussed in the Cabinet up to the time Mr. Stephens left.

They had been told if they really wanted one the Bank would go ahead with it. The mission would consist of about ten members. If the head of the mission were not a financial man, it would be desirable to have both a monetary and a fiscal expert.

The Syrians had raised no objection to the size of the mission but had shown some secondary reaction in favor of the use of experts from the lesser countries.

Mr. Stephens considered the mission would perform a useful purpose. There was some skepticism in Syria about the manner in which the U.S. Government went about foreign programs. About 70 U.S. officials were employed in neighboring Lebanon and they were accused by the Lebanese of not doing much useful work. There was difficulty in getting top flight consultants.

The Syrian approach to the U.S. was on a project basis. The Chief of State had said that if Syria put up a project like the Ghab they would like to do it on an international basis with UN, Bank and U.S. Government aid.

State Department proposals for project financing had not got very far on the Hill.

Under the UN scheme for resettlement, it had already been agreed that Syria was to receive \$30 million out of a total of \$250 million approximately. The Syrians were endeavoring to settle about 80,000 refugees already in Syria.

The amount of less than \$400 per head was too little; at least \$1,000 per head was needed.

Settlement program included grants from public domains, drilling of wells, setting up of settlers in business, building of schools and hospitals. Anything beyond this was in abeyance.

Ratification

He had raised the question of ratification with the Government. They had previously talked of elections in the autumn of 1952 but none had been held to date. The Minister of National Economy had acknowledged that they had been given notice of the Bank's policy. They hoped that the Bank would be flexible and noted that it had been in its dealings with Yugoslavia.

Slowness of Progress

Mr. Garner questioned the long period of discussions with Syria without any results. Mr. Stephens noted that the Syrians were naturally slow to move and they were not at all convinced that they should borrow. On our side, we had raised a few obstacles which they thought could be handled in a less flexible manner. We had said we could only deal at the official rate and they did not see why they should take a loss on currencies used for the Latakia project. They suggested the Bank should pay the contractors dollars or alternatively that the Syrian Government be allowed to sell our dollars against European currencies, this being to build up their official reserves of hard currencies. The subject needed more discussion and possibly should be taken up with the Fund.

Mr. Black said he had talked to Frere on this subject in Belgium. If the French Government asked us, he did not see why we should not do this.

Mr. Aldewereld noted that six months ago when we had bought sterling for the Chilean account at a discount of the official rate, Christelow had received a letter from the U.K. Treasury stating that they would not like to see the Bank engaged in transactions of this kind.

Mr. Iliff noted that Syria had only been operating as an independent country for about 10 years and we should be patient. Mr. Stephens commented that he did not consider the case to be hopeless. Action now was mostly up to the Syrians. We would continue to exchange views on the roads project. We should send an irrigation engineer to look at the Euphrates dam project. Mr. Garner would talk to Wilkenson re the oil refinery.

The meeting adjourned at 4:10 p.m.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Notes of Staff Loan Committee Meeting held on Monday, January 19, 1953
at 11:30 a.m. in the Board Room

NIGERIA

Mr. King. A survey mission to Nigeria might be one of the most complex of those sent by the Bank.

The country was divided into three regions, each with its own legislature. Certain members of the regional legislatures were in turn elected to a federal legislature, in which the executive body was the Council of Ministers under the chairmanship of the Governor appointed by the U.K. The Council of Ministers was composed of 6 ex-officio members of the Civil Service and 12 African members. In the Civil Service most of the seniors were still British but this was changing.

There appeared to be a larger number of competent Africans in Nigeria than in the Gold Coast. He had only met one Nigerian Minister and had been favorably impressed by him. Though Nigeria was politically not so far ahead as Southern Rhodesia or the Gold Coast, it would probably move ahead within 4-5 years to the present position of the Gold Coast.

The Colonial Office was not attempting any general economic survey in the area and was in favor of the Bank carrying out the survey. Financing of schemes in Nigeria had so far come from local resources, Colonial Development and Welfare Funds and loans made on the London market. While the Colonial Office looked at development plans from a general aspect, it was doubtful whether it went into them in detail.

Mr. Garner. It was doubtful whether it was desirable for the Nigerians to employ an industrial consultant, as the mission when it came along, might have views limiting the amount to be invested in industry.

Mr. King. The impression the Nigerians gave was that this consultant would be in the nature of a permanent executive official, who might, for example, run a local Industrial Development Corporation.

Mr. Garner. Agreed that in that case there would be no objection.

Mr. Demuth suggested and it was agreed that

- (a) the Bank should inform the Colonial Office that if the Nigerian Government requested it, the Bank was willing to send out a preliminary mission to discuss an economic survey mission;

- (b) action under (a) should be taken informally, using procedures similar to those followed in the case of the mission to Jamaica.

Mr. King. Replied to Mr. Iliff that the Nigerians did not expect any borrowing from the Bank to come out of the Mission, but they might come forward next year, possibly for financing of development of electricity. Mr. King had not looked into this. The Nigerians had fairly large reserves of one kind or another.

Mr. Kindleberger - Criticisms of Bank Methods
of Conducting Missions

Mr. Garner. Drew attention to doubts expressed by Mr. Kindleberger on some of the Bank's methods of conducting economic survey missions contained in Press Digest 965.

Mr. Rist. Mr. Kindleberger was one of the best economic professors in the U.S. and had served in the State Department, on Staff of High Commissioner in Germany, and was now at M.I.T.

Mr. Garner. Suggested and it was agreed that Mr. Kindleberger should be invited to come to the Bank for a meeting with a small group, including possibly other than Bank staff, to review the Bank methods concerned and his criticisms.

SYRIA

Mr. Garner. Suggested and it was agreed that Mr. Stephens' oral report on Syria should be postponed to Wednesday, January 21.

The meeting adjourned at 12:05 p.m.

January 29, 1953.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Notes of Staff Loan Committee Meeting held on Friday, January 16, 1953
at 10:30 a.m. in the Board Room

INDIA - Damodar Valley Corporation

Mr. Garner asked about the assurances that the required technical personnel would be recruited. If necessary, in the last analysis the Indians should be willing to pay for these technical personnel. Mr. Rucinski replied that the Indian Government had promised to write a letter assuring the Bank on this point.

Mr. Rucinski noted that when the project had been described in 1952 approximately \$23 million was required for dollar expenditures. When the DVC representatives arrived in Washington the total foreign exchange cost was put at the equivalent of \$30 million in various currencies. The Bank had made a counter-proposal that it would consider financing the outstanding balance of the foreign exchange cost amounting to the equivalent of \$26 million. The Government had then asked that high tension lines from Calcutta to Bihar be excluded, as the economics of this part of the project had not yet been approved. It was possible that the Calcutta Electric Supply Co. might be willing to invest for the expansion of its own plants. On that basis the Bank had considered that the Konar development should be postponed. This reduced the amount to be financed to the equivalent of \$16.5 million.

Reimbursement of actual disbursements since July 1952 amounting to \$1.5 million and additions for spare parts, and contingencies of \$1.5 million brought the total up to \$19.5 million.

Technical Report

Mr. Aldewereld. The map in the Technical Report required amendment of total hydro capacity of 100,000 kw.

Some of the text required bringing up to date, e.g. para. 7, and this would be done.

In para. 53 "and the balance in other currencies" should be added to the first sentence and the remainder of the paragraph deleted.

President's Report and Recommendations

Mr. Garner questioned whether the Bank was satisfied that the Corporation would employ the number of technicians necessary. Mr. Cargill replied that the Bank had a letter from the Chairman of the Corporation assuring the Bank that if it could not get these through T.C.A. it would obtain them direct if possible. A letter also had been received from the Finance Minister impressing on the Bank the Government's anxiety for the employment of the technicians but that there had been considerable difficulty in finding them.

Mr. Garner. This appeared to be satisfactory but the matter should be followed up. He understood that in the past there had been some reluctance to employ foreign technicians. He suggested, and it was agreed that "mainly for" should be inserted after "foreign exchange" in paragraph 10.

Mr. Cope suggested and it was agreed that in paragraph 23 "annually" should be inserted after 400,000 tons.

Mr. Iliff suggested and it was agreed to delete "sounds" before "policies of the Government" in paragraph 26.

Mr. Rucinski suggested and it was agreed that the papers should be sent to the Executive Directors in the afternoon of January 16 and that a meeting of the Executive Directors should be called for January 23 for presentation of the loan.

Mr. Graves suggested that for publicity purposes the loan should be signed on Monday, January 26. Mr. Nehru was leaving Saturday, January 24.

Mr. Garner directed that the Executive Directors be informed in New York that the papers would be in their offices January 16 afternoon if they wished to get them to read.

Mr. Rucinski. When the Bank had indicated to India that the Konar project should be withdrawn, the Corporation was not very happy about it. The Chairman, Mr. Mozumdar, had asked us whether we could state now that we would finance the third part of the program when it came forward later. We told him that the Bank could not make a statement to this effect, since it would be a commitment. Mr. Rucinski suggested that we should tell the Executive Directors in the presentation of the loan that India would probably want the Bank to participate in part three of the Damodar project which might come up in the next two or three years.

Mr. Garner commented and it was agreed that we should tell the Executive Directors that we had been notified by India that they might like to talk to us about this but that we had made no commitment.

Mr. Rucinski. Dr. Basch, if available, would present the loan. If he were still sick this would be done by Mr. Rucinski.

Mr. Garner suggested and it was agreed that following the usual procedure the loan officer should give the general background and the technical officer should give details of the project.

Mr. Aldewereld noted that this project was based particularly on economic requirements and it was agreed that it was the responsibility of the Technical Operations Department to present the Economic Report as well as the technical details.

The meeting adjourned at 11:15 a.m.

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Notes of Staff Loan Committee Meeting held Thursday, January 15, 1953 at 3:00 p.m. in Room 1005

BRAZIL

Mr. Knapp - Quandt's mission would be in Brazil for about 6 weeks for a general review. Mr. Knapp would be there for one week. They would get up to date with the Joint Commission (winding up in March) and with the Development Bank (now taking over). There had been disturbing reports about getting the latter organized and staffed. The position in Brazil had started to improve. Trade deficit had been substantially reduced if not reversed. Commercial backlog was no longer growing and it might be possible to reduce it.

Mr. Garner - Two years ago, when Brazil insisted that the Bank indicate a loan program, it seemed that \$300 million over several years might be reasonable. No commitment had been made by the Bank.

Brazil then had a fairly good trade picture and foreign exchange program. But debt had built up and there had been a basic change in the picture. Up to the autumn of 1952 this had seemed temporary. It now looked more serious and more persistent.

There was talk of refunding the backlog. If so, this should be on a short term basis as, on a long term basis, it would become a permanent part of Brazil's indebtedness.

Brazil was an important country to the Bank, as it had already received a considerable amount in loans. If the Bank were able to go along with Brazil's development program, Brazil might become the Bank's biggest borrower.

While Brazil, by passing the bill creating a free foreign market, had met a condition laid down by the Bank, other obstacles which must be taken into account had arisen.

Mr. Knapp - A funding loan had been discussed in Brazil since last February. Brazil was suffering considerably from the premium prices of up to 20% it had to pay to exporters to Brazil to cover delays in payment. In New York, Brazilian paper was being discounted at 20-25% per annum. This was uneconomical and refunding on the basis of a reasonable loan was justified. The restoration of confidence which it would bring would compensate for its cost.

Little enthusiasm for this was shown by the Minister of Finance and others in Brazil because they felt that if the current situation was cleared up, there would be almost irresistible pressure to liberalize unduly controls, import licenses, etc.

The Fund and Eximbank had both been interested in the funding loan. There was considerable pressure from U.S. exporters and at the moment Brazil appeared to be in the position that it was being asked to take a loan.

It was doubtful if the Fund would do anything. The Brazilians were not unduly worried at present but would be if the backlog was removed at the cost of the assumption by Brazil of a dollar obligation.

The Eximbank was talking of imposing conditions but they would only be able to impose the term of the credit.

The Bank should probably require, if the refunding loan were made by Eximbank, that it be on a short term basis, and that the Brazilians should reduce their imports to the minimum.

Mr. Sommers - Asked whether any hypothesis of world changes, which might cause major changes in the Brazilian import-export program, had been used in the Bank's economic study.

Mr. Larsen - Replied in the negative. Coffee terms of trade were falling slightly. Cotton was in the position that the reward was greater in other crops and the output had been reduced in favor of rice and its better prices. Domestic consumption of cotton was growing. As regards cocoa, large old estates in the north, where the quality of the beans suffered from bad handling, were turning enthusiastically to rubber. Other items were each less than 3% of total exports and radical changes in any one of them would hardly make Brazil rich.

Much had been said about increasing mineral output and this could possibly give the quickest result. Iron ore might do well but nothing like replacing coffee. No new bonanza in exports was to be expected. They had to import increasing amounts of fuel and wheat and domestic wheat was high cost.

Industry was based to a large degree on imported raw materials, and requirements for import of equipment, etc., would grow with industry.

Exports amounted to 11% of total output and not enough was going into exports to cover required imports.

Mr. Iliff - Felt that the best that could be hoped for in the next four or five years was balance of Brazil's trading account and that was somewhat doubtful. They had \$150 million of invisible payments to meet each year and these could only be met by the inflow of private capital. A cut in dividends would mean a cut in investments and possibility of default.

Mr. Cope - Noted that an inflow of public capital would also contribute to offset the adverse balance of invisible payments.

Mr. Garner - Suggested that if U.S. did not give the Brazilians credit no one else would extend it much for import of capital goods.

Mr. Larsen - Noted that from the Brazilian point of view \$400 million was not an excessive amount. \$1.3 billion had been invested in 1949 and \$1.7 billion in 1950.

Mr. Knapp - Brazil was a present getting a fair amount of foreign heavy equipment, particularly European at terms of 3 to 5 years. The Bank of Brazil had an unblemished record and had lived up to fixed dates at the expense of holding up the queue of exporters awaiting payments.

Mr. Garner - Suggested that the position had changed in the last 18 months.

Mr. Knapp - Replied that if it came to a question of default on external obligations or squeezing out on merchandise trade, he felt sure Brazil would do the latter.

Mr. Adler - He had come to the same pessimistic conclusion as Mr. Iliff. While adjustments to run the economy satisfactorily were economically and technically feasible, the record was not good and no Brazilian Government had the stamina to see them through. Adjustments necessary were marginal.

Mr. Garner - Noted that Brazil was building very rapidly to expand its industrial economy without domestic fuel and operating to a considerable extent

on imported raw materials. There was too easy an acceptance in Brazil that industrialization saved exchange. Often it meant a more inflexible demand caused by requirements of raw materials, spare parts, etc. They appeared to be trying to build their economy similar to the U.S. without the means of doing so.

Mr. Schmidt - Questioned whether an adjustment of the cruzeiro might have a corrective influence.

Mr. Larsen - Replied that the situation warranted substantial devaluation. While it would be an unnecessary supplement to present coffee prices it would aid all other exports. Sao Paulo industrialists supported devaluation but its advantages would have a short life - 3 to 8 years before deflation caught up.

Mr. Garner - Felt that a free market rate would help exporters.

Mr. Knapp - There was a division of opinion in Brazil on the subject of a free market. The Minister of Finance was opposed. He had a blind spot which committed him strongly to the preservation of financial orthodoxy. He had insisted on restrictions in the Bill which caused grave damage, placing crippling obstacles on exports and distorting the export pattern.

Mr. Larsen - Barter deals that had been in vogue in Sao Paulo area had amounted to the same thing as partial regional devaluation.

Mr. Garner - The risks made it very difficult for the Bank to continue to lend to Brazil at a heavy rate for a total large amount. We should tell them firmly that events in Brazil last year had gravely disturbed the Bank.

Mr. Knapp - Felt it to be a bad time to make such a basic decision. Things might change in the next 6 to 9 months.

Mr. Garner - We should proceed cautiously on the basis of projects and amounts for this year.

Mr. Aldewereld - We had in the mill \$100 million for various projects, \$30 million for transport and \$60 million for power - a total of about \$200 million in round figures and it would be necessary to make a selection.

Mr. Larsen - Some of the economic work could be firmed down but at bottom the judgement for lending in this case was not economic but political and social.

Mr. Garner - He wished we could avoid crossing the bridge.

Mr. Iliff - Questioned how Brazil could meet the service of additional operations.

Mr. Larsen - Replied that they could expand export items - e.g. cotton which had fallen from \$315 million to \$150 million, and some 23 minor exports. Most of Brazil's minor exports were gathered, not grown. Expansion depended on better prices and might be obtained by part devaluation.

Mr. Iliff - Questioned whether import inventories had been built up.

Mr. Larsen - In some items there were large stockpiles and in others there were not. Stockpiling was badly balanced and there was no great strength there. Oil stocks were lower than formerly.

Railroad Program

Mr. Knapp - The Brazilians viewed the railway program requiring approximately \$100 million as quantitatively their largest single program. Consideration in any block way by the Bank must await clarification on reorganization. They were anxious to defer any survey mission until March so that its presence would not coincide with discussion on the subject in Congress.

The bank was saying fundamentally that a very substantial start must be made by the Brazilians before the Bank could consider starting on the \$100 million program. Also the Bank would have to have the feeling that such additional loans could be paid for.

He suggested that the Bank should set aside for six months the question of provision of \$100 million for railroad projects. Roughly \$100 million was required in other fields.

Mr. Larsen considered it likely that a foreign trade surplus would appear in next 12 to 18 months.

Mr. Garner said this was not yet a sustained trend but another 6 months should show whether it was likely to be maintained.

Mr. Knapp said investments totalling \$60 million had been proposed in SLC/O/533. Others amounting to \$40 million were under study. Lending \$100 million in the next 6 months should not unduly disturb the Bank. The net indebtedness of Brazil would be offset to the extent of \$40 million annually by amortization payments. Increase in loans outstanding in 1953 therefore would amount to \$60 million aside from the railway project.

Deferment of the railway project would give us a useful breathing space.

Mr. Iliff noted that if the Brazilians operated sanely we would not have any trouble but if they went on a buying spree, the present trouble would be repeated. He suggested that Lafer might be told of the influences affecting the Bank's thinking and that we could not consider a total of \$300 million. We did not intend to stop lending, however, and were prepared to go ahead to the extent of the amounts of payments made by Brazil on its external debt.

Mr. Sommers said he favored going ahead with the four projects totalling about \$34 million, and negotiations with a view to signing them in the next 3 to 4 months. He would proceed with the examination of another two so that we could proceed if the situation warranted.

Mr. Knapp said Brazil did not expect to be offered a global figure when the Bank indicated the magnitude of its lending.

Mr. Aldewereld noted that the Bank had an expert on his way from London to look at ports and dredging prospects.

Mr. Knapp considered that a limit of \$40 million was too restrictive and that it would not be possible to placate the Brazilians within those limits.

While Mr. Schmidt agreed that the Bank should move slowly with Brazil, he noted that they had not only reduced imports but had made a reduction in import license amounts which would show up in the future.

None of the projects would be ready for more than 3 months. He felt that we should go ahead with the four proposed, pay some attention to others and be ready to select priorities beyond that.

Mr. Aldewereld agreed with Mr. Schmidt and felt that the economic priority of the ports compared with further power development could be determined here.

Mr. Garner suggested and it was agreed that the arrangements already made should not be cancelled but that we should not take up the examination of a lot of new projects.

Mr. Aldewereld noted that we would make clear to the Brazilians that our examination of the three port projects did not commit us in any way to make a loan for them.

Mr. Garner said there were three alternatives:

- (i) we might tell Brazil the amounts we were willing to lend and they might consider this inadequate and break with the Bank;
- (ii) the present situation might begin to clear up and some other things might be begun by the Brazilians which could improve the position fundamentally. There were some indications of this but we would not know the answer for six months; or
- (iii) U.S. might take care of Brazil without Brazil doing anything, in which case the Bank would keep out.

If (ii) developed we should sit down with the Brazilians and talk over possibilities. Until we knew, we should tread lightly. Taking on loans of \$35 million was as far as necessary caution would let us go at present. We should not create any impression we were ready to negotiate these four projects unless the Brazilians were going to put them in shape.

For our approach we should give them Larsen's memorandum and tell them it is the picture as we see it and ask Mr. Lafer what, if anything, he sees wrong in our findings.

We should tell them that we are willing to lend on the four projects on the assumption that Brazil will make progress in reducing its backlog of external commercial payments and that is as far as we can go now. But he would like to know whether Mr. Knapp thought he could get the Brazilians to accept this.

Mr. Knapp - Replied that he thought it unlikely. He would like authority to tell the Brazilians bluntly of the decision. There had never been a heart-to-heart talk with them.

Mr. Garner - Said that Mr. Knapp might tell them that we had under-estimated the seriousness of the Brazilian situation and had to take the facts as we saw them. With boldness we might lend \$60 million in the next 3 years but could we maintain satisfactory relations with Brazil on this basis?

Mr. Knapp did not consider we could. Even if we could, we would not gain

their confidence sufficiently to obtain a voice in their internal administration.

Mr. Garner noted that so long as the U.S. was willing to step in, no amount the Bank could lend would satisfy the Brazilians. We needed time to see what U.S. would do. The chance of a satisfactory lending program by the Bank would only occur if the U.S. agreed to turn Brazilian financing over to us and to back us up. The Brazilians had nowhere else to go.

Mr. Larsen noted that Brazil was able to obtain short term credits up to 5 years.

Mr. Knapp suggested and Mr. Garner agreed that we should tell the U. S. Government frankly where we stood as soon as there was someone to tell.

Mr. Garner commented that Brazil was the greatest gamble the Bank had to consider.

Mr. Larsen added that there was little possibility of Brazil becoming conscious of the dangers and dealing with them in an organized way, at least during the time of the Vargas Government, i.e. for the next 3 or 4 years.

Mr. Knapp said he would be leaving on January 24.

Mr. Garner asked Mr. Knapp to write a brief memorandum of where we stood and to discuss it with Mr. Black by telephone to see whether Mr. Black agreed.

Salto Grande Hydroelectric Project

Mr. Knapp - The Brazilians had stated that no foreign exchange would be required for the primary transmission lines but the Bank wanted to check this. The answers to the Bank's questions were readily available and the Brazilians must put them in reassuring terms.

Mr. Garner - If the customers wanted to, they might underwrite the cost of the transmission lines. If anything had to be done outside the loan, it was better to get as much as possible actually done or signed up before signing the Loan Agreement. Sometimes the borrower would not spend anything until the loan was available and therefore there might be some exceptions.

Mr. Sommers - It was important to know in advance how this was going to be done because of additional legislative action that might be necessary.

Mr. Flesher - The economics of the Railroad were being studied.

Mr. Knapp - There was great interest in Brazil in electrification because of the uncertainty of fuel sources.

Mr. Garner - We should be satisfied that these two Railroads should be continued and that electrification was justified.

Mr. Flesher - Other customers for the electric power would be subsidizing the railroad cost.

Highway Project

Mr. Iliff questioned whether this loan should be made to the Highway Authority.

Mr. Knapp - This was a federal and state program to be paid for by the federal gasoline tax. The State Highway Department was autonomous financially. The idea in the U.S.-Brazil Joint Commission had been to isolate the project from the State and make the credit available to the Highway Authority who would set aside revenues for the purpose.

Mr. Aldewereld - It had never been supposed this was a self-liquidating project.

Mr. Garner - We would have to have a set-up to see the revenues flowing in from the whole financial program.

Mr. Knapp - None of these borrowers had dollar resources.

Mr. Aldewereld - The Authority would be able to check on prices charged by contractors.

Mr. Sommers - The Bank should go slowly before getting into a project involving any pledge of revenues. If federal revenues were financing this Authority there was something to be said for making the loan to the Federal Government. There were complications in becoming involved in the revenues of local authorities. The Mission would have to examine this question carefully.

Mr. Larsen - Noted that in the state there was a strong regional local pride and distrust of Rio and if the opportunity offered it would be desirable to lend to the local authority.

Central do Brazil Railway

Mr. Knapp - Fares had been a bitter subject in the U.S.-Joing Commission discussions and agreement had been obtained that they would have to be increased very substantially. It was very doubtful whether they could be made fully self-supporting. The subsidy should be isolated and not an open end drain.

Mr. Iliff - We should take the position that we would not make the loan unless the conditions in paras. 1 to 5 of Annex E were satisfied.

Mr. Knapp - This would not be in contradiction to anything Mr. Black had said to the Brazilians. It was to be a question of whether in our judgement they had done enough for the Bank to go ahead. The issue was of passionate interest in Brazil.

Mr. Garner - It was important to get improved service and this would not necessarily follow but might be worse if they got new cars.

Mr. Flesher - The foreign exchange cost of this project might go as high as \$30 million.

Mr. Knapp - Considered it might amount to \$15 million but it would depend on how much could be manufactured in Brazil. Components of trailer units might be imported and assembled in Brazil.

Mr. Flesher - There might not be adequate power to run the cars.

Mr. Garner - We should stick to \$12.5 million or within a million or so of that figures.

Mr. Knapp - If we agreed, fresh bids might be called with suppliers taking the short maturities of the financing. If an additional \$.5 million were needed for the Salto Grande transmission lines, would we be willing to increase our loan?

Mr. Garner - We couldn't add amounts that might turn into several million. We might have to drop one of the projects.

Mr. Aldewereld - He had doubts on the market for the power.

Mr. Iliff - He suggested that we might go ahead on the assumption these four projects did not exceed \$35 million. If they came much higher we might drop one out.

Mr. Garner - Suggested that Mr. Knapp should talk to the Brazilians on the basis that we might lend \$30 - 35 million.

Mr. Knapp - The Mission was not described as conducting loan negotiations. It should discuss the provisions of the Bank loan agreement. The Mission must first tackle the problems raised at this meeting and see whether there was a basis for Bank operations. If it determined this was reasonable, the mission would then discuss the items that had to be gone into.

Mr. Garner - After a certain amount of discussion, the mission should advise the Bank of its recommendations. If serious alternatives arose, the mission should check with the Bank to the extent desirable.

The meeting adjourned at 6:05 p.m.

HGA Woolley/hmf
April 2, 1953

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Notes of Staff Loan Committee Meeting held Monday, January 12, 1953 at 4:10 p.m. in Room 1005

Present: Messrs. Black, Garner, Iliff, Hoar, Knapp, Sommers, Mendels, Riley, Demuth, Rucinski, Aldewereld, Adler and Woolley (Sec)

UNITED KINGDOM - 18% RELEASES

Mr. Black - Sir Edmund Hall-Patch and Mr. Christelow had seen him on January 10 and said that the British Government was willing to release £60 million out of the U.K. 18% capital subscription for loans in the Sterling Area under the Commonwealth scheme but not more than £10 million in one year.

This was to be a special particular release and did not apply to releases in the past or other releases in the future.

Mr. Black had had the idea of getting the total amount of the U.K. 18% capital subscription released. Some authorities in the U.K. were in favor of this. Others were against it and Mr. Black was glad they had not released the full amount with these strings attached, since there would be a balance which might be released from time to time without restriction.

Replying to Mr. Sommers, Mr. Black said that the intention of the scheme was to deal with releases on a project-by-project basis.

Mr. Iliff commented that when we received each project we would inform U.K. Mr. Black added that procedure would be somewhat similar to the releases made for the Yugoslav loan.

Mr. Black noted re para. 5(b) that one of the U.K. reasons for suggesting the scheme was to increase their supply of raw materials. We would not have part in any agreement they might make to this effect.

As regards para. 5(a) they had been told we must keep to our policy of competitive bidding and loans for which releases were made could not be "tied."

Mr. Garner did not agree with para. 7. In stating that by providing sterling through the Bank they were undertaking an additional burden, they were apparently giving a reason why they should not release any additional amounts.

Mr. Black noted that the British had said they were not adamant re additional releases and Mr. Iliff pointed out that they picked this point up in para. 11.

Mr. Garner said he would hope that the scheme would not be prejudicial to obtaining sterling outside it.

Mr. Hoar noted that amounts to be raised on the London market were rationed. U.K. was determined to squeeze as much as possible for outside use.

Mr. Garner said under the scheme the Bank was to take over lending that U.K. would have to do in any case.

Mr. Black commented that U.K., under the scheme, had gone further than France had done although they had done nothing like what Canada had. He suggested that the Committee go over the paper and see how much the Executive Directors should be told. The U.K. had to tell the Commonwealth countries and it would have to go to Parliament before release to the public.

In reply to Mr. Rucinski, Messrs. Black and Iliff said that because of the scheme there was no less likelihood of releases of sterling for Yugoslavia and Syria.

Mr. Sommers asked, if we accepted the scheme for the provision of sterling for Commonwealth countries, whether it would cause a cutting down of the amount to be released for non-Commonwealth countries.

Mr. Iliff replied that whether we accepted the scheme or not, the position would be the same in regard to releases to non-Commonwealth countries.

Mr. Sommers said that para. 7 would put up to the Executive Directors whether they acquiesced in the releases to the Commonwealth countries at the cost of possible releases to non-Commonwealth countries. The para. indicated U.K. was willing to do more than it had in the past for the Commonwealth countries but did not mean they planned to increase their releases generally.

Mr. Garner said U.K. had to put up the £60 million for the Commonwealth countries in any case and he did not think they should use the scheme as an excuse for not making other releases.

There was general agreement that para. 7 was unsatisfactory.

Mr. Iliff questioned whether the Bank was willing to accept Commonwealth as foreign countries in relation to the U.K. for use of sterling releases.

Mr. Knapp considered that would be a poor way to use of British commitments to the Bank.

Mr. Sommers said it would be a bad precedent to use 18% released out of the capital subscription of a country for use in territories of that country.

Mr. Black replied that all U.K. asked in para 8 was that it should be possible in suitable cases for these territories to borrow sterling under the scheme.

Mr. Sommers reiterated that he did not think that the U.K. should treat sterling releases used in these territories as "foreign currency."

Mr. Black noted that para. 11 meant that it would be necessary each time to see if the market would make the loan. This was a protection we had to take anyhow. The new London company was not even formed yet.

Para. 12 meant that if we sent a mission, e.g. to Ceylon, and the mission thought the Bank might finance, for example, a textile plant, the Bank would notify U.K. Government as soon as the Ceylonese showed their interest. The Ceylonese would probably have anticipated the notification and already informed U.K. We would then have to keep U.K. posted on progress.

Mr. Iliff noted that by para. 12(a) to (c) U.K. was trying to set up a procedure roughly similar to N.A.C.

Mr. Demuth objected to clause (e) as indicated that the Bank could not go ahead unless assured of a sterling release.

Mr. Rucinski drew attention to cases which might arise, e.g. a textile interest in which the project by a U.K. territory was competitive to U.K.

Mr. Sommers said para. 14(e) relative to detailed examination of projects went too far.

Mr. Demuth suggested that all this meant was that when studying any loan likely to require sterling we would keep in close contact with U.K.

Mr. Black considered that if we had something which would require sterling we should let them know and after detailed examination tell them how it looked.

Mr. Sommers suggested that the memorandum under clause (c) would be of a quick preliminary nature.

Mr. Black noted that the scheme offered much more than the Bank had hoped to get from the U.K.

Mr. Garner did not think the procedure offered any real difficulty. If U.K. were approached at an early stage it would make matters easier.

Mr. Black noted that para. 15 meant that sterling under the scheme would not be released ahead of its requirement.

Mr. Sommers considered this would not be satisfactory if U.K. reserved their right, under para. 14(f) to reject a scheme, until the last moment. If the Bank could not plan on use of sterling until a loan was signed, the loan would never get to signature.

Mr. Hoar noted that if the Bank found something new in the conditions of a project, U.K. would rather know and raise any objections early. There must be good spirit on both sides.

Mr. Garner suggested that agreement that U.K. and the Bank would work closely together regarding applications likely to come under the scheme should be substituted for para. 14. The Bank should not go further with U.K. than it would with any other member government releasing 18% capital insofar as how loans were to be made or the imposition of loan conditions by the member releasing the capital.

Mr. Sommers felt that the paragraph meant much less than it indicated. He recommended that the Bank tell Sir Edmund of desirable modifications, to para 7 and to simplify procedure under para. 14, before the Bank gave it to the Executive Directors.

Mr. Garner considered that it was unnecessary to go into matters with the Executive Directors that would govern U.K. judgement re releases and that they should only be informed of the essence of the scheme.

Mr. Black noted that Sir Edmund had asked the Bank to tell him any changes the Bank wanted.

He suggested and it was agreed that Messrs. Iliff and Sommers should discuss changes considered desirable with Sir Edmund and Mr. Christelow.

The meeting adjourned at 5:20 p.m.