France and the World Bank: A Historic Partnership

INTRODUCTION

May 9, 2022, marks the 75th anniversary of the very first loan of the International Bank for Reconstruction and Development (IBRD)—then known as "the International Bank" and later as the "World Bank"—which provided $250 million to France in support of the government's ambitious effort to rebuild the French economy after the devastation of World War II. The loan remains significant to the history of the World Bank in particular and that of international financial cooperation in general, for a number of reasons:

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Scale: In real terms, Loan 0001 to the Crédit National of France is still the single-largest loan the World Bank has ever granted. Given that IBRD's market capitalization was $10 billion, the loan represented a real test of the fledgling institution's financial model and its ability to respond to countries' needs.

Sense of purpose: More importantly, the loan was intended to help launch implementation of the *Plan Monnet*, and the size of the loan indicated IBRD management's confidence in the ambition, vision, and determination of France's post-war government to rebuild the country's industrial base, modernize its agricultural capacity, and set its economy on the path to lasting growth.

Post-war European reconstruction: The *Plan Monnet* was conceived and implemented against the backdrop of mass destruction on the European continent; financing needs ran to several billion dollars, exceeding what the US Treasury could provide at the time. The IBRD loan to France, followed by three other reconstruction loans to The Netherlands, Denmark, and Luxembourg in 1947, provided critical large-scale financing until the Marshall Plan was launched the following year. Today, with war once again raging in Europe's eastern border, the history of these early reconstruction loans serves as a hopeful reminder of what international cooperation can accomplish, even in the bleak aftermath of war.

Innovation: Loan 001 to France set several precedents for the World Bank's operational policies and business model, which in turn provided the blueprint for other multilateral development banks that still work along the same lines today. Fundamental elements such as country economic analyses, budget support for reforms and investment loans, the structure of the project cycle, terms of lending, and project supervision were innovations that IBRD pioneered through this first loan to France—and they have stood the test of time, maintaining the confidence of both governments and financial markets over the years.

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Partnership: This historic first loan served as a touchstone for France and the World Bank's shared commitment to the system of international financial cooperation established at the end of World War II.

« The World Bank was created in 1944 to help Europe rebuild after World War II. As we did then, we will be ready to help Ukraine with reconstruction when the time comes. »

David Malpass,
President of the World Bank Group,
Warsaw, April 12, 2022

Today, France remains the fifth-largest shareholder, with an appointed seat on the World Bank's board; is the fifth-largest donor to IDA, the World Bank's concessional fund for the poorest; and works closely with the World Bank Group to build effective responses to the defining challenges of our time: poverty and fragility, conflict, and violence, especially in sub-Saharan Africa; climate change and biodiversity loss;

gender inequality; the public health, social, and economic impacts of COVID-19; and quality education for all. The first IBRD loan also prompted the World Bank to establish a presence in Paris in 1947, which has remained ever since and is now set to grow.

NEW PEACE, NEW INSTITUTIONS

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In the summer of 1944, as the glimmer of peace appeared on the horizon of World War II, delegates from 44 countries met in the United States to establish a new post-war international financial and monetary order. The historic conference in Bretton Woods, New Hampshire, resulted in the creation of the International Monetary Fund (IMF) and the IBRD. The latter's mandate was to support rapid reconstruction in Europe after the Second World War and to foster economic development, especially through lending to build infrastructure.

« The world looks to you to provide leadership in helping to build a stable world in which nations can trade and prosper in peace. Your governments have accepted the Bretton Woods plans and have placed substantial funds at your disposal to carry them out. Let us put both the plans and the funds to work. »

Harry Truman,
US President to the Boards of Governors of the IMF and IBRD,
September 23, 1946

On December 27, 1945, representatives from 21 countries, including France, convened in Washington to ratify the Articles of Agreement, thus becoming IBRD's first members. IBRD had an authorized capitalization of $10 billion, and only 20% of countries' capital subscriptions was payable, in a combination of gold or US Dollars and national currencies. The idea that it should raise funds on the basis of shareholder governments' callable and paid-in capital, in order to provide countries with medium- and long-term capital for investments, was wholly new at the time; it remained to be seen whether there would be sufficient uptake of IBRD's bonds and demand for its funding.

THE PLAN MONNET

Meanwhile, in the aftermath of World War II, France's economy lay in ruins. More than half a million French citizens had been killed in the conflict, entire cities destroyed, and large portions of its infrastructure obliterated. The country had to import coal due to labor shortages and a lack of modern machinery.

On January 3, 1946, Chairman of the Provisional Government of the French Republic Charles de Gaulle established the General Planning Commission and appointed Jean Monnet as its first commissioner. Undeterred by the wholesale devastation the war had wrought, Monnet developed a vision to restore France's economic strength by rebuilding its infrastructure, modernizing key sectors—coal, electricity, cement, agricultural machinery, transport, and steel—and raising productivity within four years by 30% above that of 1938.

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The *Plan Monnet* (or *Plan de Modernisation et Equipement*) adopted in January 1947 called for massive capital investment—the equivalent of 24% of national income each year—and significant imports of essential goods and equipment. With the decline in output and foreign exchange reserves affecting the country's fiscal and balance-of-payments situation, the government sought to secure some $3 billion in loans from the United States. However, congressional approval for such large sums from the US Treasury would have been a complicated and lengthy process, and other sources—including $1 billion from the Ex-Im Bank—had to be found.

LOAN 001

On May 31, 1946, in a brief letter from French Ambassador to the United States Henri Bonnet to Acting IBRD President Emilio Collado, France requested a loan of $500 million; attached was an outline of the *Plan Monnet*. The request was one of a handful of loan applications received by IBRD, but by far the most comprehensive and detailed. "The stated purpose of the loan is to meet the cost of purchasing and importing into France certain equipment and materials required as part of [the] general plan of reconstruction and modernization," noted Banque de France Governor Wilfrid Baumgartner. These included $106 million for equipment—ships, freight cars, trucks, radio and electrical equipment, and coal mining equipment—$180 million for

coal and petroleum products, and $214 million for raw materials—fertilizers, copper, tin, synthetic rubber, animal fats, and chemicals.

In the talks that followed, IBRD began to develop its procedures for appraising and negotiating loan applications, and eventually for supervising the use of its funds. It also gave rise to the first policy debates within IBRD on how to assess the credibility of comprehensive economic programs, and whether to support them. In the event, although the loan was not "for the purpose of specific projects of reconstruction and development," as specified by the Articles of Agreement, IBRD management invoked a "special circumstances" provision and agreed to half the amount requested—committing over a third of its loanable funds at that point—with the possibility of a second $250 million tranche.

The loan agreement was signed on May 9, 1947, between IBRD President John McCloy and Governor Baumgartner for the *Crédit National pour faciliter la Réparation des Dommages causés par la Guerre*; and the guarantee by the Republic of France was signed by Ambassador Bonnet. The terms of the 30-year loan provided for an interest rate of 3.25% per annum on the principal outstanding; a 1.5% per annum commitment charge on any undisbursed portion; and a schedule that required no payments for the first five years and very low payments in the subsequent nine.

In recommending the loan to IBRD's Executive Directors, President McCloy had noted that, due consideration having been given to the multiple challenges facing France, "the fundamental fact that emerges from any detailed analysis of the country's economy is that it is master of its own future." Moreover, "by reason of its size and productive capacity, France is pivotal in the western part of Europe. The economic rehabilitation of France would speed the recovery of surrounding countries and, through an expansion in trade, would be beneficial to the rest of the world."

On July 15, IBRD entered the bond market for the first time with a $250 million offering. Its initial issues comprised 10-year bonds at 2.25% and 25-year bonds at 3%. They were substantially oversubscribed and sold at a premium over the public offering price—a strong vote of confidence in

"In the winter of 1947, the prospects that Western Europe would achieve economic viability were bleak indeed … The Bank's reconstruction loans were an emergency measure to meet this situation. It took a bit of stretching for the management to conclude that the repayment prospects were reasonable … The Bank's gamble paid off handsomely, however, for it won time necessary for the European Recovery Program (the Marshall Plan) to be formulated and put into effect, with considerable help from Bank staff …"

Richard Demuth,
Assistant to IBRD President John McCloy

IBRD's innovative model. Within months, and even though Loan 001 was not intended to set a precedent, IBRD had also approved reconstruction loans for The Netherlands, Denmark, and Luxembourg.

IMPLEMENTATION AND COMPLETION

France lost no time in putting the IBRD funds to work. The loan administration report of May 1950 noted that "contrary to the Bank's experience with several subsequent loans, disbursement of this Loan was made at approximately the rate contemplated during the loan negotiations. Within two months of the effective date, more than half of the loan had been expended and by the end of September 1947, only one-fifth of the commitment remained unused."

Among the imports financed by the loan were 6,919,000 tons of coal ($63 million) for "Metropolitan France and French North Africa"; 173,000 bales of cotton ($28 million) for spinning factories; steel products ($28 million) for public works, public utilities, the national railway company (SNCF), and the shipbuilding industry; and even nine Constellation airliners ($5.9 million) "used by Air France on the Paris-New York run, and engines and equipment used in the construction of a new 70-ton four-engined aircraft."

More importantly, "in the three years which have passed since the IBRD loan was made, French national production has expanded very substantially. … The population of France has now recovered to its pre-war level. The expansion of resources available in France has permitted a considerable improvement in living standards over the past two or three years …"

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Despite the fact that the Marshall Plan had meanwhile raised French external debt to $3 billion, IBRD remained confident its $250 million loan represented an acceptable level of risk, and that France's debt service record was excellent—a view that took hold in the markets when repayments began. On August 7, 1963, the Banque de France purchased all remaining maturities of Loan 001. IBRD President George D. Woods wrote to then Finance Minister Valéry Giscard d'Estaing, "The faith which the Bank … demonstrated in France's national resiliency has proved amply justified. That other investors have shared the Bank's confidence is evidenced by the fact that over the years, a substantial portion of the loan has been purchased from the Bank by a number of investors outside France." He concluded, "I understand that there is good likelihood that next year the French capital markets may again be open to foreign issues. France having been the first borrower of the Bank, it would, I believe, be most fitting if the Bank might thereupon become one of the first external borrowers of French capital."

FRENCH PROTAGONISTS IN IBRD HISTORY

Pierre Mendès France,
First Executive Director
for France

France's delegation to the Bretton Woods Conference was headed by none other than Pierre Mendès France, who would later become President of the Council of Ministers in the Fourth Republic. In 1943, General Charles de Gaulle had appointed him *Commissaire aux Finances* of the *Comité français de Libération nationale* and, following the Liberation of Paris in September 1944, Minister of National Economy in the Provisional Government of the French Republic. Mendès France subsequently served as France's first Executive Director for the IMF and IBRD, from 1946 to 1947.

Léonard Rist,
First World Bank
Chief Economist

Léonard Rist arrived in Washington in April 1946 at the request of the French Treasury, and thereafter was appointed IBRD Alternate Executive Director for France. He joined IBRD senior management in August 1946 as the first Director of the Research Department, which he later renamed the Economics Department. Rist was responsible for developing the basis of the economic aspects of lending, directing country economic analyses, and setting standards for economic appraisals and assessing creditworthiness. As a Frenchman, he recused himself from deliberations on Loan 001. He served as head of the Economic Department until April 1961, when he was appointed World Bank Special Representative for Africa. From January 1963 until 1970, he was the Special Adviser to the President, beginning with President George D. Woods.

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