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THE ROLE OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Address by

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to the 52nd Annual Convention, Maryland Bankers' Association, Atlantic City, May 28, 1948.

There are so many misconceptions and misunderstandings about the International Bank that we who work in the Bank welcome the opportunities given to us to describe what the Bank is, and how it functions. In particular, it is an honour to do so before a body as representative and as important as the Maryland Bankers' Association, assembled at its annual convention. Before going on to many of the current inaccurate ideas about the Bank, may I describe briefly a little of the atmosphere surrounding the Bank and its purposes.

The Reason for the International Bank

The United States today is a nation which has the greatest productive capacity in the world and which is producing in record-breaking quantities everything from food to steel and automobiles. Across the oceans, east and west, are nations starving for those goods, but without the foreign exchange resources with which to purchase them. They find themselves in that condition because of the ravages of war. They are suffering not only from the destruction of their industrial plant by bombs and shells and enemy sabotage, but also from the deterioration of their economies because of lack of proper upkeep and maintenance during the war years and the exhaustion of their working stocks resulting from the war. That deterioration has been accentuated in some countries by fear and lack of confidence arising from political uncertainties and disturbances, depreciation of currencies and severe shortages of food, fuel, clothing, and other living essentials.

To restore peace, if it is to mean anything, must mean to restore free international intercourse, the free exchange of goods and services between those who need them and those who can satisfy the need. In order to restore that free intercourse it is first necessary to create in the countries which need such goods and services the purchasing power with which to buy them, so that they may restore the normal functioning of their own economies and thus create their own purchasing power through the production of exportable surpluses of goods which they can produce.

At the moment the needs of the respective countries are so great, and political and economic conditions are so uncertain that private investors hesitate to take the risks involved. In order to bridge the gap, the representatives of 44 nations who met at Bretton Woods, N.H., in July 1944, created two great international cooperative institutions which were intended between them to promote freedom and stability in international exchanges and to restore the flow of international capital investment. Those two institutions are the International Monetary Fund and the International Bank for Reconstruction and Development. It was intended that the Fund should operate in the international monetary field and the Bank in the international investment field.

It should be remembered that at the time this Conference was held and these plans were laid for future rebuilding of a war-torn world, it was not yet clear how formidable a task lay ahead. The extent of destruction and economic collapse was not fully apparent.

To meet the much bigger job a more ambitious and drastically altered program had to be developed. The Marshall Plan was the answer and the Economic Cooperation Administration is now actively effecting that great humanitarian and development program. Because of the size of this undertaking many persons in this country have gained the impression that there would be no further need for the International Bank for Reconstruction and Development. That is not true. There is still need for the Bank but before it could discharge its obligations and undertakings it was necessary that a power program precede the Bank to take over an immediate load not anticipated or fully comprehended.

A large share of ECA assistance in Europe will be in the form of grants, which are essential in many parts of the 18 country area. Additional assistance will be in the types of loans which the Bank's Articles would not permit it to effect. Once the critical needs for food, fuel, and raw materials are met and the immediately required loans have been effected on terms which those borrowers can meet there should be developed a number of projects for financing by the International Bank. Some of these already are being examined by the Bank and loan negotiations are in progress. Actually the European Recovery Program should complement the Bank's operations rather than interfere in any manner. I think you will find the two organizations working closely in the determination of their respective areas of financial assistance. And in its proper area the International Bank for Reconstruction and Development will function actively.

Organization of the Bank

The Bank is an international institution owned by its member governments, now numbering 46. Unlike some international bodies, however, it has the power to take action and not merely to make recommendations. It has funds of its own to lend and authority to borrow more. Its staff is international with members at the moment from 23 different countries but in their work, they owe no responsibilit to their respective governments, only to the Bank itself. There is a Board of Governors, composed of one governor appointed by each member and an alternate for each Governor, which has been meeting annually. A Board of 14 Executive Directors, each representing one or more of the member governments, meets regularly at the Bank, sets policies, and passes on major decisions, but the initiative in all operations is taken by the Bank's international staff. Decisions of the Board are made by majority vote, each Executive Director having a different number of votes depending on the amount subscribed to the Bank's capital by the nation or nations he represents. In practice, there has been an extraordinary unity of viewpoint on the major questions of policy facing the Bank, and the Executive Directors of all nationalities have given fine support to the management and staff.

Finances of the Bank

A unique aspect of the Bank is the source of its finances. Although it is an intergovernmental institution, and its member governments have subscribed to the Bank's capital in varying amounts according to their means, it must obtain most of its loanable resources from private sources by selling Bank bonds. The total of member subscriptions in all currencies is equivalent to \$8,263,100,000 of an authorized capital of \$10 billion.

There is one special source of strength deriving from the Bank's international character. It is not an arm of any government, but is responsible to all 46. Its loans are made, therefore, on an objective, non-political basis, taking into account not only the soundness of the particular project it is asked to finance but the effect of the loan on the borrowing country's economy as a whole and relevant international factors as well.

At the same time, as a cooperative institution of its 46 members the Bank has greater prestige and authority than any private institution could have. Since its interests are identical with those of its members the latter have confidence in its objectivity. The Bank is therefore in a strong position to insist on the conditions which are necessary not only to safeguard its loans, but also to make them effective - conditions which might be resisted as an invasion of sovereignty if they were imposed by another government or by private investors.

One of the Bank's major purposes, in fact, is to assist its members, particularly those which are economically under-developed, to establish internal conditions which will promote stability and healthy growth. It tries to help them to lay their economic plans realistically and to make the best use of both domestic resources and foreign aid in carrying out those plans. It has indicated its readiness to help its members obtain necessary technical aid, either by assigning experts from the Bank's own staff or by assisting in the selection of competent private advisers.

After this rather general background, it would be useful to look at some of the misconceptions and misunderstandings about the Bank to which I referred at the outset. It is inevitable in the case of such a unique institution that there should be little known and many mistakes in that knowledge. There will be time, of course, to cover only certain of the more important misconceptions.

I. AS TO AMOUNT OF BANK'S CAPITAL AND FUNDS AVAILABLE FOR LENDING

The Bank does not have the full amount of its subscribed capital of \$8,263,100,000 on hand. Member countries are required to pay in only 20% of their subscriptions amounting to \$1,652,620,000. Of this 20%, however, only 1/10 or 2% of the total, had to be paid in gold or U.S. dollars, the remaining 18% being paid in members' own currencies. Therefore, the Bank actually received approximately \$731,000,000 in U.S. dollars made up of 2% of each member country's subscription, together with 18% of the U.S. subscription. The Bank also has \$915,858,000 in member currencies, representing 18% of the other members' subscriptions. Of these, the Bank has lent Belgian francs to the equivalent value of \$2,000,000 but it is not anticipated that there can be any considerable lending of these currencies for some time, in view of the inability of the countries concerned to export capital at this time. They are however, an asset of the Bank.

The remaining 80% of each country's subscription cannot be used for lending and can be called only when needed to meet the Bank's obligations. You can see, from these figures, that the Bank's only access to funds over and above the original \$731,000,000 paid in, is through the investment market.

There is one very vital fact that should be borne in mind about this uncalled 80%. If called, the unpaid 80% of each subscription must be paid by each country regardless of what other member countries do. In the case of the United States, the 80% part of the subscribed capital amounts to $2,540,000,000.

II. AS TO STRENGTH OF GUARANTEE OF 80% CAPITAL SUBSCRIPTIONS

Following the losses on inter-Governmental loans made during and following World War I, and due to the emphasis on the unfavorable aspects of U.S. lenders' experience with foreign dollar bonds, there is a tendency to regard foreign lending as suspect per se. There are certain factors on the other side of the picture, however, which are sometimes overlooked, such as the excellent credit record of many foreign countries and the fact that considerable capital was invested in bonds which were already a questionable risk at the time of issue. Some foreign issues were sold at substantial discounts, there were yields running as high as 8%, and excessive underwriting commissions, which all constituted warning signals.

The record shows that 75% of the total capital of the International Bank is subscribed by governments that have never defaulted on external public debt. Of the remaining capital, 10% is subscribed by countries which defaulted only because of conditions arising out of World War II. The majority of those countries have since cleared up most of their deferred obligations. Only the remaining 15% of the Bank's capital is subscribed by countries that may be said to have had unsatisfactory default records.

III. AS TO THE REPAYABILITY OF THE BANK'S LOANS

The Bank has an excellent staff of men experienced in foreign lending. In considering a loan application, these men devote months of study and investigation to its advisability. When their report is completed it goes to a loan committee. Only after that committee has recommended the soundness of the loan does the Bank's President recommend the loan to the Executive Directors.

Under its Articles of Agreement, the Bank can make loans only for productive purposes and cannot make political or relief loans. Under its operating rules it is permitted to advance money only on documents showing that the money is to be used for the specific purposes for which the loan was made. To make sure that this condition is met, it carefully follows up on the use of the proceeds of all loans.

Arrangements have been made with the borrowing countries whereby Bank observers assure that the goods purchased are used only as specified in the loan agreements. In addition, the borrowing countries provide the Bank regularly with full information on the loan's contribution to their entire reconstruction or development effort. In fact the Bank system of supervision over the end use of its loans is a major contribution to sound international financing, and a technique which may be borrowed by the European Cooperation Administration.

In nearly two years, the Bank has made six loans totalling $513,000,000:

One to France	- $250,000,000
One to Netherlands	- $195,000,000
One to Denmark	- $ 40,000,000
One to Luxembourg	- $ 12,000,000
Two to Chile	- $ 16,000,000

An example of the effect of the Bank's lending operations may be seen in the case of the French loan. France has purchased such raw materials as cotton and capital goods such as steel mill equipment, locomotives, cranes, and drilling and automotive machinery. Bank observers on the spot have found that the use of these commodities has contributed materially to the restoration of French industry. Production figures in recent months have been encouragining; in some industries they have surpassed pre-war levels.

Experience shows that loans are not made rapidly and will not be made rapidly. The way the Bank approaches a loan and thoroughly examines the economy of a borrowing nation, as well as underlying credit facts, precludes haste. Reasonable assurance is required that a loan will be used for productive purposes and that it will be repaid.

IV. AS TO THE BANK DISPLACING PRIVATE LENDING

It is a stated objective of the Bank to encourage the revival of private foreign investment. In fact, where private financing is available on reasonable terms, the Bank is forbidden from lending. The Bank is concentrating on the encouragement of the re-entrance of private foreign investment. In the absence of private capital the Bank makes production loans on reasonable terms, thereby strengthening the economy and credit standing of the borrowing nation, which in turn will promote world trade. The Bank likewise is establishing a pattern for a sound resumption of private international investment on terms equitable to both lender and borrower. Those are objectives which the Bank staff keeps constantly in mind.

A fact usually overlooked is that the International Bank is authorized to participate in loans or guarantee loans made by others, and it is likely that it will not only be frequently invited but will be welcome, either to guarantee foreign loans or to participate.

As to the idea that private bankers will skim the cream and leave the less desirable loans for the Bank, one needs only to examine the Articles of Agreement, the operating practices and the record to date to recognize the International Bank staff has neither the right nor the inclination to make unsound loans. Certainly there is going to be a risk attached to some of our loans, but it will be a calculated risk. The Bank will make no loan unless there is a reasonable prospect that it will be repaid.

V. AS TO THE BANK'S ABILITY TO BUILD UP RESERVES AGAINST POSSIBLE LOSSES

The figures show that the Bank is building up a reserve. Its loans carry a fixed 1% annual commission charge, which the Bank is required to hold in liquid form in a Special Reserve, and which is not included in profit. On March 31st, with a total of about $400 million disbursed, there was already $1,993,000 in the Special Reserve. Each month there is an increasing amount added, to be held exclusively for the payment of the Bank's liabilities under its own borrowings or guarantees.

VI. AS TO QUALIFICATION OF THE BANK'S BONDS FOR INVESTMENT

Subject to various qualifications as to amounts and certain other conditions in some states, as of May 20th last, International Bank bonds were legal for investment:

a) By commercial banks in 39 states and the District of Columbia, holding approximately 90% of the deposits of all commercial banks in the United States. All national banks in the United States may invest in Bank bonds up to 10% of their capital and surplus, by ruling of the Comptroller of the Currency.

b) By insurance companies and fraternal organizations in 28 states, wherein 88% of the admitted insurance company assets are held. The jurisdictions include such important insurance states as New York, New Jersey, Massachusetts, Connecticut, Pennsylvania, Wisconsin and Illinois.

c) By savings banks in 22 states and the District of Columbia. Since 13 states have no separate savings banks, this means that there are only 13 that are doubtful.

d) By trust funds in 28 states and the District of Columbia.

In the state of Maryland, as you know, the Bank's bonds are legal for investment by all types of investors. Negotiations and legislation are pending in other states.

VII. AS TO THE BANK MAKING ONLY LARGE LOANS

It happens that the Bank's first two loans were large, but they do not necessarily establish a precedent. The Bank emphasizes the desirability of smaller amounts. Although applications for loans usually are in large amounts, because the prospective borrower is thinking in terms of long-term overall programs, the Bank's loan officers encourage the breaking down of the plans into a series of immediately-required, separate projects; the most urgent to be financed first.

VIII. AS TO THE BANK OFFERING FREQUENT BOND ISSUES IN LARGE AMOUNTS

The Bank sold $250,000,000 of its bonds in July 1947. The size of this offering, again, establishes no precedent for the future. As a matter of record, the Bank has at the moment, about $470 million available for lending.

Unless its present rate of lending increases rapidly, there should not be any necessity for selling more bonds for some time. However, as a matter of sound business, the Bank will probably offer bonds whenever the investment market appears able to absorb them, and provided the Bank needs the money. That does not mean they will necessarily be large issues. It might even prove desirable to sell $100 million at a time or maybe $50 million. It is even possible that from time to time foreign markets will be able to absorb small issues, a possibility that is continually being explored.

IX. AS TO THE SECURITY BEHIND THE BANK'S BONDS

To summarize briefly in conclusion, it should be pointed out that the Bonds which the International Bank sells to private investors have behind them the following assets:

a) The Bank's own portfolio of carefully-made loans;

b) The Bank's liquid assets, including an increasing special reserve; and

c) The entire 80% of the Bank's uncalled capital subscriptions, amounting to approximately $6 billion 600 million.

Speaking off the record, and as a Canadian, I have observed the emphasis given, in the selling of the Bank's bonds, to the U.S. guarantee in effect of 2 billion, 540 million dollars. While it cannot be denied that this is a strong factor in the security behind the Bank's bonds, it should not be allowed to have the effect of subordinating the other forms of security behind the Bank's bonds. The Bank's portfolio of loans, its growing liquid assets, and the virtual guarantee provided by the 80% of its members' subscriptions all serve to distinguish the kind of international financing that the Bank is creating from previous forms of such financing and the distinction is primarily in the spread of risk among all its members and the total collective security behind its obligations.

SPEECH BY MR. MORTON M. MENDELS, SECRETARY OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
BEFORE THE ROTARY CLUB OF CHESTER, CHESTER, ENGLAND
September 25, 1950

I shall begin by expressing my thanks to you for your kind invitation to speak here today on the International Bank for Reconstruction and Development. The International Bank, or the World Bank as it is often called, has recently passed an important milestone in its development with the conclusion of its fifth annual meeting in Paris. The results of half a decade's participation in the financing and planning of reconstruction and development over broad areas of the globe were discussed and studied at the meeting, as were plans and policies to govern future activities of the Bank.

The last five years, as you are only too well aware, have not been easy ones; what with hot and cold wars added to the political, social and economic problems which naturally resulted from a conflict of such proportions as World War II. Certainly, these years did not smooth the path for an organization such as the Bank, which embodies the idea that international investment be put on a basis of co-operation between nations with an assist from private investors. What the next five years will bring is in the lap of the gods, but if present indications mean anything I expect they will, at best, be as trying as the previous five.

Despite the difficulties under which it has been forced to operate the Bank has proven its worth and has made thirty-two loans in seventeen countries amounting to $965,845,000. It has also given technical assistance to many of its 49 member countries in planning economic programs. Most important of all, however, the Bank through its successful operations has shown that international co-operation is possible and that it can be carried on in a spirit of objectivity and mutual trust and understanding.

Mendels'Speech in Eng.
on Septmber 25,'50

The World Bank is an unusual organization and I do not believe that it has a counterpart in the history of international lending. It was founded by delegates to the United Nations Monetary and Financial Conference held at Bretton Woods, New

Hampshire, United States, in July 1944. Under the Articles of Agreement of the Bank which are its Charter, the Bank has three principal purposes which may be summarized as follows:

1. To assist in the reconstruction and development of its member countries by facilitating the investment of capital for productive purposes, thereby promoting the long-range balanced growth of international trade and the improvement of standards of living;

2. To promote private foreign investment by guarantees of and participations in loans and investments by private investors; and;

3. When private capital is not available on reasonable terms, to make loans for productive purposes out of its own funds or out of funds borrowed by the Bank in the investment market.

As you can readily surmise, that in practice the Bank's operations are largely limited to capital investment, which is designed to add to the productive capacity of the countries in which loans are made, and that it is not a relief agency.

Further conditions governing the loan and guarantee activities of the Bank are set by its Articles of Agreement. The Bank may guarantee, participate in or make loans to its member governments, their political sub-divisions or to enterprises located in their territories; but the government concerned, its central bank or some similar acceptable agency, must guarantee loans to private enterprises. Competition for loans with private investors is barred, since the Bank may not make a loan which can be obtained by the borrower in the private market at reasonable terms.

All loans made by the Bank must be justifiable on economic grounds, and must show a reasonable prospect for repayment, and the Bank may not make "tied loans", which require that the proceeds be spent in any particular country or with any particular supplier.

I have dwelt at length on the purposes of the Bank, and on the various conditions covering its operations in order to clarify for you the type and scope of the lending in which it may engage or participate. Now, I should like to talk about the loans themselves.

During the early period of the Bank's existence there was a worldwide cry for production and more production, to fill the enormous gaps created in the supply of goods by the war. As the most practical means of meeting at least a part of basic needs, the Bank turned to financing reconstruction in Western Europe. In that area, despite the effects of the war, a substantial part of industry was still capable of production, skilled labor was in substantial supply, and technical and managerial ability of a high order was at hand to guide the wheels of industry. What was needed was equipment and materials with which to start the wheels turning again.

The first four loans made by the Bank in the spring and summer of 1947 were, therefore, made in Western Europe to France, the Netherlands, Denmark and Luxembourg for a total of about $500,000,000. The loans to France, the Netherlands and Denmark might be termed "general economic reconstruction loans." They financed a wide variety of goods and services. Included under purchases made with the proceeds of these commitments were ships, railway equipment, steel, petroleum products, coal, cotton, machine tools, earthmoving and agricultural equipment, animal feed and a host of other items essential to supply and re-equip basic industry and agriculture.

I have avoided discussing the loan to Luxembourg in conjunction with the other loans for reconstruction in Europe, for a particular reason. This loan marked a departure from general reconstruction loans in that it financed two specific projects. Specific purposes and items to be purchased with loan proceeds were cited in the loan agreements with France, the Netherlands and Denmark, but these loans as previously pointed out, covered a broad economic range. In the case of Luxembourg, however, two major segments alone of the Grand-Duchy's economy, rail transport and steel capacity, benefited directly from the loan which amounted to $12,000,000.

We have found that usually loans financing a particular project or projects are the most suitable. This is particularly true in the case of underdeveloped countries which need to orient their economic progress toward key areas, rather than to attempt to move the entire economy forward at once, with the resultant imbalances and inflationary dangers that arise from such a move.

At this point, I should like to emphasize, that the Bank does not lend for a specific project or projects just because they appear attractive and without regard to the country's overall needs and the relationship of the projects to such needs. On the contrary, prior to making a loan we study carefully the economic and financial condition of the country in which the prospective financing is to be made, and we chose those projects for financing which are essential for general economic development.

While the Bank has generally adhered to the project approach to lending, it does not regard this method as a hard and fast policy, and when desirable it will make further loans for broad economic purposes. For example, our loan to Australia for $100,000,000 on August 22, covers a variety of purposes comprising a broad development program.

Before going into development lending, I shall digress a moment to discuss the current position of the Bank in relation to Europe. With the Luxembourg loan, in August 1947, we terminated what might be called our "reconstruction phase." A number of factors brought this about. The principal one, however, was the fact that the amount and the kind of financing required was far and away above the assessment made by the Bank's founders at Bretton Woods. Thus, our capital and other potential resources could not possibly meet the demand for reconstruction loans.

A further difficulty was that many countries in Europe could not service loans of the magnitude they required for their reconstruction programs, particularly in view of the fact that most of the indebtedness would be in dollars. Grants from the United States, Canada and other countries were obviously the primary need and they were and are being made through the Economic Cooperation Administration and directly from government to government.

You may well ask, therefore, what part can and will the Bank play in Europe outside of its initial reconstruction loans which were made more than three years ago? The answer is that the Bank is and will continue to serve as a source of capital for the long-range development, rehabilitation and modernization of European industry. Already, it has supplemented the activities of E.C.A. by financing the purchase of 6 ships in the United States by four privately-owned Dutch shipping companies. It has also lent $16,000,000 for the rehabilitation and modernization of Belgium's steel industry; $8,800,000 for modernization of a wide cross-section of Dutch industry connected with export trade; and, $12,500,000 to aid in modernizing Finland's woodworking industries and in the expansion of the production of electric power and limestone powder for agricultural use.

Other loan possibilities in Europe are currently under study, and I believe when E.C.A. comes to a close in 1952, that the Bank may find a fertile field for investment in that area.

The World Bank turned to development lending in the spring of 1948, when it made two loans to Chile. Since it began lending for development, the Bank has made 17 commitments of this type, in ten countries, amounting to $408,345,000. Of that sum $216,645,000 went to six Latin American countries, mainly for electric power development which is vital to the economic progress of that area. Included in these loans are $75,000,000 to Brazilian Traction, Light & Power Company, Ltd., a privately-owned Canadian company, to enable it to enlarge power and telephone services in the rapidly expanding Sao Paulo and Rio de Janeiro areas; $60,100,000 in loans to Mexico and Mexican Light and Power Company for electric power expansion in that country; and, $12,500,000 to El Salvador for hydroelectric development.

A total of $191,700,000 in development loans have been made in other areas of the world, of which $100,000,000 went to Australia for purposes which I have previously described. India has borrowed three times from the Bank, $34,000,000 for purchase and importation of locomotives and other railway equipment from the United States and Canada, to aid in rehabilitation of her rail transport system; $10,000,000 for purchase of equipment to aid in clearance of 3,000,000 acres of weed-infested agricultural lands; and, $18,500,000 for the purchase and importation of equipment for a steam power plant in the Damodar Valley, which lies in the heart of that country's industrial area. In addition Iraq has borrowed $12,800,000 to aid in financing construction of a flood control project on the Tigris River; and, Turkey has two World Bank loans amounting to $3,900,000 and $12,500,000 respectively to aid in financing construction of grain storage facilities and in development of major ports.

There is one characteristic of the Bank's loans that is common to each of them no matter where they are made or what their immediate purposes are. All of our loans are designed to be productive. By that I mean that, through completion and operation of the project financed or through addition of transport or other facilities, production in other areas of a country's economy will be stepped up as a result. This is particularly evident, for example, in our loans to aid expansion of electric power facilities, which supply a cheap and efficient source of power not only to existing industrial and agricultural enterprise, but often make possible the development of additional capacity in these enterprises.

We who are connected with the World Bank are often asked how we know that the Bank's loans are sound and how we know that they are in the best interests of the country in which they are made? I shall attempt to answer both of these questions by describing for you how the Bank goes about making a loan.

The first step, of course, is a request for a loan from either a member government or from some public or private enterprise located in a member's territory.

We prefer that these requests be informal and that no definite figure regarding the amount of the financing be submitted with them. There are a number of reasons for this. Prior to getting deeply involved in a loan, the Bank desires an opportunity to make a preliminary study to ascertain whether or not the proposed commitment falls within the limits set by its Charter. We would waste a great deal of time and money if we permitted the Bank to start a full dress loan investigation only to find out at some late date that a loan was barred by our Charter. In addition to looking rather silly, I am sure that such a development would not endear the Bank to its member countries.

Once, however, we have decided that the financing would come within the scope of the Bank, and that the project is worthy of consideration, our investigative machinery goes into high gear and we study all aspects that may have a bearing on the project, the loan and the borrower. While circumstances vary from loan to loan, in general these studies look into the economic and financial condition of the country where the loan is to be made, whether the country is to be the borrower or the guarantor. In this connection we inquire into the country's ability to service additional foreign debt; into the government's fiscal and economic policies and procedures and their effect on economic development; into the place the project occupies in the order of priority for development of the country; and, the effect that the construction and completion of the project will have on the overall economy of the country. Where necessary the Bank does not hesitate to point out weak points in the economy that need strengthening, nor to make suggestions for improving governmental administrative policies and procedures in order to insure sound economic progress.

In cases where a member country is not the borrower, the Bank in addition to insuring that a government guarantee is available for the loan, also looks into the creditworthiness of the borrower and its ability to complete and run the project successfully.

The Bank also makes a thorough technical study of the specific project to be financed. Among the aspects investigated are markets, transport, raw material supplies, the availability of labor, the availability of local currency to meet local costs, and the supply of skilled and management personnel to satisfactorily complete and run the project.

Generally as a part of its investigation of a prospective loan, the Bank sends a "field mission" to the country concerned to get a first hand view of conditions there and of the project or projects to be financed. These missions report back to the Bank, and their findings have proven invaluable to us in reaching decisions concerning loans. The personnel of a mission normally is composed of Bank staff members who may be assisted by outside experts engaged for the particular job at hand.

Our loan investigations, and particularly our field missions, have resulted in the development of an important role for the World Bank, namely the giving of technical assistance to our member countries in need of economic development. The reports and conclusions of the Bank and its missions, concerning various member countries, have been most helpful in drawing up and implementing sound plans for development. Consequently, a number of countries which have no particular financing in view, have asked us for assistance in connection with their economic programs. Colombia was the first country to benefit from a large scale economic study by the Bank, and the report which covers every major segment of Colombia's economic and social structure has recently been published and aroused widespread interest all over the world. Three similar missions have been at work in Turkey, Cuba and Guatemala and others are being prepared to go to the assistance of additional member countries.

The Bank's work in the field of technical assistance is perhaps as important and far reaching as are its loans. I should like to point out that some of our under-developed members have not the personnel or facilities required to properly work out a sound plan for improvement of their economies and of the standards of living of their peoples. Simple statistics, indicating the country's condition and needs, may in some cases be non-existent; no means may be at hand to marshall and channel local capital into productive investment; and, taxes and other fiscal policies may be such as to be inimical to investment in development. In all these and other related fields the Bank advises its under-developed members, and makes recommendations on how to overcome the problems involved. By helping to solve these difficulties I believe the Bank is making a major contribution not only to future economic stability for the world but also to the resolution of many of the political and social problems that spring naturally from depressed areas.

I have been talking at length about what we do with our funds, but have hardly mentioned where the money comes from. The foundation of the Bank's credit both as a borrower and lender is its capital, which was subscribed by the 49 member countries. Our capital, I might add, is unique in its structure in that it is designed so as to enable both capital exporting and capital importing nations to belong to the same lending organization; it gives both classes of countries a joint voice in the management of the Bank through the voting of capital shares; and, it makes both classes jointly responsible as shareholders for the Bank's obligations.

Total capital subscribed by the members amounts to $8.3 billion in terms of United States dollars. All of this sum, however, is not available for lending by the Bank. Two percent or about $160 million was paid-in by all the members in gold or United States dollars, and is freely usable for all of the Bank's operations. An additional 18% of subscribed capital, or the equivalent of $1.6 billion, was paid-in in the various currencies of the members and may be employed for lending only with the consent of the members whose currencies are required for a loan.

To date the United States, Ecuador and El Salvador have fully released their 18% contributions for Bank loans; while Belgium, Canada, Denmark, France, Guatemala, Mexico, Paraguay and the United Kingdom have given partial releases of their contributions. Honduras has consented to loans in respect of all its 18%

after January 1, 1951. Costa Rica, France, Italy, and Netherlands have agreed in principal to loans in respect of all their 18% and Colombia to a part of its 18%. Total funds actually made available to the Bank for lending purposes out of its capital amount to $752,500,000, to which may be added $29 million in Bank earnings which brings the figure up to $781,000,000.

It is the remaining 80% of capital which has not been paid-in which along with the Bank's loans and investments, forms the basis for its credit in the investment market. This portion of capital amounting to the equivalent of more than $6.5 billion can be called by the Bank only to meet obligations arising from the sale of its own bonds or from its guarantees of the borrowings of others. It cannot be called and used for lending purposes.

In the event the Bank may not be able to meet its market obligations it could call on this portion of its capital. The failure of one or more members to meet such calls does not relieve other members of their liability to make payment. Thus the unpaid 80% of subscribed capital is something in the nature of a reserve fund for the Bank's market obligations and is in fact a joint pooling of the credit of the member countries to strengthen the credit of the Bank. The liability of the United Kingdom to meet calls on unpaid capital totals $1,040,000,000 while that of the United States is $2,540,000,000.

It is obvious from an examination of the Bank's capital structure that it must turn to the investment market for additional funds if it is to fulfill its functions. The founders at Bretton Woods intended that the Bank should have to rely on the investment market for a major part of loan funds, because they believed such reliance would require us to act prudently and to adopt a strictly non-political approach to loans.

Currently we have four bond issues aggregating the equivalent of more than $260 million outstanding, of which $250,000,000 are dollar obligations sold in the United States, and $10,587,000 are Swiss franc obligations sold to banking institutions in Switzerland. Through constant efforts on the part of our officers and staff our bonds now possess a broad market in the United States, particularly among institutional investors such as commercial and savings banks, insurance companies and trust funds. Similar efforts along these lines are being made in a number of other member countries at the present time. For without a wide-spread market for both dollar and non-dollar bonds it will be impossible for the Bank to achieve its purposes effectively.

Prior to closing I should like to mention briefly the management of the Bank, which strongly influences its international character. The Bank's directorate consists of fourteen executive directors, five of whom are appointed, one each, by the five largest shareholders, and the remaining nine are elected by the other forty-three member countries. The directors meet monthly, or at more frequent intervals when necessary, and they must approve all loan recommendations and policies of the Bank, and elect its President. The voting power of each executive director is based on that of the country or countries he represents - each member country is entitled to a minimum of 250 votes plus one additional vote for each share of stock held.

The President, who is also chairman of the executive directors, is responsible for the appointment and dismissal of the other officers and the staff of the Bank. Currently, we have about 400 people working for us, which is a rather small group considering the size and scope of our operations. This staff has been recruited from 27 different countries, but such appointments have been based, not on a quota system, but on the needs of the Bank and on the qualifications of the individual employee. Among our top officers five countries are represented, Canada, France, the Netherlands, the United Kingdom and the United States.

Our duty during the working day is to the Bank and to no other authority. We all get along harmoniously, and I have not seen an instance where a member of the staff attempted to push national interest ahead of the interests of the Bank. Thus, while we may retain our national idiosyncrasies we leave our national prejudices at home, and try to work wholeheartedly to make the Bank a sound and well-run organization.

Having an international management and staff has been of enormous advantage to the Bank. It has placed at our disposal knowledge and ability matched by few other financial organizations, and it has enabled us to arrive at a detached viewpoint concerning the problems we must face in all parts of the world. Most important of all, however, the international character of the Bank has given it a reputation as an unbiased and non-political organization which has won us the confidence of our member countries.

Again I should like to thank you for the opportunity to speak here on the World Bank. I hope that I have established for you what the Bank is and what it is doing to speed economic development. Most of all, however, I hope that I have demonstrated that the Bank is making a real contribution not only to a better world economy but to the cause of peace in a war-weary world as well.

NY + UN (60c)
UN Inf Centers - 24
Paris Office - 5
Beirut - 2
Suppts. Lis - 5
Internal - 247
Total 343

2/7/55 - 100 c; 2/18/55 - Rerun 350

4/55 To be published by Canadian Institute of Int. Affairs as an article

Address by Morton M. Mendels, Secretary
of the
International Bank for Reconstruction and Development
before the Canadian Institute of International Affairs
at Toronto, Ontario - February 9, 1955

THE WORLD BANK - RETROSPECT AND PROSPECT

I was very happy to be asked to address this distinguished group, and to have such good reason for visiting Toronto. To me as a Canadian — after all, I am still a Canadian even after working in Washington since 1946 -- Toronto remains one of the friendliest and most pleasant cities I know.

The institution which I am to talk about tonight is now nine years old. Since its birth it has grown fast and has travelled far. But it has rarely excited either the fervor or the fury that international innovations usually attract. Being concerned with nuts and bolts, roads and railways, tractors and turbines, rather than with blueprints for Utopias, it has not occupied the centre of the international arena. We believe that it has been getting on with its job all the same -- and it is a job in which Canada has lent a strong hand.

The International Bank for Reconstruction and Development (for short, the World Bank) took shape at the conference held at Bretton Woods, New Hampshire in 1944. This conference was organized by the Allies (with Canada as a very active member) as part of the effort to set the world back on a sane peacetime course and to reopen the channels of international investment and trade. As you doubtless know, and as its name implies, the Bank was set up to help, through finance and know-how, to reconstruct the apparatus of production in war-shattered areas, and to develop more effective use of economic resources. Its ultimate objective has been to spread the use of the productive processes and patterns which have become available in the 20th century, and so help to raise living standards throughout its member countries.

Long-term loans are the main instrument put into the Bank's hands to carry out its task. The necessary capital has been provided both from the capital subscriptions of member governments and from the investment of private funds. An indication of the Bank's progress is given by the fact that it now has 56 members and a subscribed capital of some $9,030 million. It has made loans amounting to more than $2,060 million, on which we are now receiving a growing flow of repayments. It has bonds outstanding on the capital markets of Canada, the United States, the United Kingdom, Switzerland and the Netherlands.

At the outset let me make one point quite clear about the way the Bank machine works. The Bank is a cooperative international institution. But is has always held firmly to the belief that it must also be a workable and durable business organization. As Secretary of the Bank I should certainly not deny that its international structure serves to complicate some of our working procedures. I know of no private corporation whose management would not be alarmed at the thought of having representatives of its stockholders always at their headquarters, as we do with our Board of Executive Directors continuously in Washington. I know of no other head of a corporation who might claim, as could our President, Mr. Eugene R. Black, that votes from 56 countries counted in his selection. But the fact remains that the Bank works with most of the administrative and legal characteristics of a business corporation and profits from the advantages that this gives in efficiency of operation.

This has allowed the Bank to develop powers of judgment and decision without which no banking business could for long be successful. It has helped us to make more than 110 loans without a single default, and to raise some $850 million on the capital markets. It has helped us (dare I say this?) to operate at a profit. As a businesslike undertaking with growing obligations on its hands, we regard the building up of an appropriate reserve from earnings as a mark of prudence and not of original sin. We make no apology for the fact that our income now exceeds our expenditure by more than $20 million a year.

Canada's stake in the Bank is a large and growing one. This is hardly surprising. The World Bank's twin objectives of promoting the international flow of private capital and encouraging the growth of international trade fit in remarkably well with Canada's national interests and established policies. Canada, after all, carries on more foreign trade per head than any other country in the world. Goods and services worth some $630 are bought abroad or sold abroad on behalf of each Canadian in a year. Canada also attracts larger investments of foreign capital than any other country. Over the last five years private long-term investment, either from fresh investment or from earnings reinvested in existing enterprises, has poured into Canada from the United States alone at an average annual rate of about $525 million. This is equivalent to an addition to Canada's resources of $35 for each Canadian each year, and has usually more than paid for the excess of imports over exports which Canada has been running.

Moreover, as a country of high production and high living standards, Canada can look forward to playing an increasing part as an exporter as well as an importer of capital. Since 1951 Canadians have been putting $50 million a year into long-term investments abroad, and this is a process which must surely quicken as Canada's economic stature continues to grow.

It is fully in line with this development that Canada should feature in the Bank as a source rather than a destination, of both finance and equipment needed by Bank borrowers. There is nothing in the Bank's Articles of Agreement to prevent Canada from applying for a loan -- the Bank can lend in the territory of any of its members. But one of its basic principles is not to lend where private funds can do the job. And indeed, with the favorable position occupied by Canada as a magnet for U.S. and other investors, a Bank loan here would look rather like a modern version of carrying coals to Newcastle.

Canada subscribed the equivalent of $325 million in U.S. dollars to the capital of the Bank. Under the Articles of Agreement, 2% of this, amounting to $6½ million, had to be paid in gold or U.S. dollars. The Articles provide that a further 18% shall be paid in the member's own currency, not to be used without the member's consent. Canada and the U.S. are the only countries which have so far given full consent and so made the whole of their original 18% subscriptions -- in Canada's case amounting to $58½ million -- freely available for Bank lending. The remaining 80% of a member's subscription may not be used for lending and is not paid in, but can be called to meet the Bank's obligations. This guarantee fund, as we might call it, has been a substantial help to the Bank in establishing a market for its bonds.

Two bond issues have been made in Canada. The first, a ten-year issue of $15 million, was made in February 1952; and the second, a 15-year issue of $25 million, was made last June. Apart from holding most of these issues, Canadians hold $25 million in Bank bonds issued in the United States. This raises the total of funds provided to the Bank by Canada to $115 million.

Investment of Canadian funds in Bank bonds was made easier by federal legislation passed in the early days of the Bank. The Bank is now hoping for a further extension of the market for its bonds through the passage of legislation allowing the investment of the funds of insurance and trust companies, and similar institutions in the various Canadian provinces. The Bank is particularly anxious to see such legislation passed in Ontario, as a leading financial province. And I am glad to be able to say that the Government of Ontario, in recent discussions, gave us a very favorable hearing, and action may soon be taken.

Bank funds are being spent as well as raised in Canada. There is no tying of the Bank's loans, and the Bank's borrowers are given full freedom in choosing their suppliers. It should therefore be particularly pleasant for Canadians to notice that the sums being spent by borrowers in Canada have grown fast, and have now reached important dimensions. Under our loans, some $80 million worth of Canadian products have been exported to 16 of the Bank's member countries under 32 different loans. Let me give examples of major items only: $30 million worth of electric power equipment to Brazil; $19 million worth of railway equipment to India; $9 million worth of transport equipment and petroleum products to France; $5 million worth of locomotives and agricultural machinery to Australia; $3 million worth of lumber and wood products to the Netherlands; $3 million worth of power equipment to Mexico; and $1 million worth of railway stock to the Union of South Africa.

A recent example of the success of Canada's manufacturers in winning business financed by the Bank was provided in the case of a $61 million loan for railway improvement in Mexico. With the Bank's encouragement, a contract for steel rails worth about $25 million was opened to international bidding. It was secured by the Dominion Steel & Coal Company which will supply 175,000 tons of rails for use on the railway serving the west coast of Mexico. Experiences of this kind are doing much to stimulate the interest of Canadian businessmen in orders arising under Bank loans. It was for this reason that the Canadian Manufacturers Association sent a group to visit the Bank last October. They spent several days in Washington studying the way the Bank works and what is has accomplished.

Let me now say a few words about the loans that the Bank has made. (Although we have made loans in various currencies to fit the needs of the borrower, for convenience I shall give U.S. dollar totals. I hope you will forgive me for not showing the slightly smaller figures that would result from expressing them in the harder currency used in Canada.) Our first business was to make loans for the reconstruction of Europe. That we did in 1947, at a time when Canada had already begun her extensive aid program, but in advance of the U.S. European Recovery Program itself. To France, the Netherlands, Denmark and Luxembourg, we made four loans which totalled about half a billion dollars. Since 1947, the Bank has been lending principally for projects which will help the less developed countries of the world. In this second phase of our activity, we have lent something over a billion and a half dollars.

It will come as no surprise to Canadians, I think, to learn that wherever we have gone, we have found that basic utilities must be provided as the backbone for economic growth. More than $550 million of our investment in development has been devoted to electric power. Nearly $500 million has gone to transportation: railways and roads, ships and aircraft, ports and pipelines. The third major field of our lending has been industry and mining, for which we have lent over $170 million. Our investment in agriculture has been nearly as much, and has gone into irrigation schemes, projects to clear and rehabilitate land, and farm equipment. Finally we have lent over $100 million for general programs of development embracing most or all of these different fields of activity.

Apart from governments which have borrowed from us, our largest single private borrower is, as it happens, a Canadian company. It may help to give you an idea of what the Bank has done if I mention our lending to the Brazilian Traction, Light and Power Company. It is the largest supplier of electric power in Brazil, and the principal supplier for the rapidly growing industrial area around Sao Paulo and Rio de Janeiro. In 1947, the Company began an expansion program which required more capital than it could obtain from the Canadian and American markets. In 1950 and 1951, and again in 1954 the Bank made three loans, totalling $109 million, to Brazilian Traction. The expansion program supported by these loans is now completed, and two Bank staff members recently had a chance to see at first hand something of what this means to

Brazil.

Last November these two Bank representatives attended the inauguration of a giant underground power plant -- not so large as Alcan's Kitimat plant completed last year, but still one of the largest underground plants ever built. The inauguration was an historic occasion for Brazil and President Café Filho was present with all his senior officials. The plant is 30 miles from Rio de Janeiro, and was financed with the help of the Bank's loans to Brazilian Traction. To drive the turbines, water from the Paraiba River has to be pumped over a ridge and then shot down a 1,000-foot drop into a cavern hewn out of the rock near the edge of the Atlantic. The turbines have a capacity of 330,000 kw. and have doubled the supply available in the Rio-Sao Paulo area. Other parts of the expansion program previously completed with Bank assistance have added over 400,000 kw. to the Company's capacity.

This obviously means a lot to Brazilian Traction. It means a lot to the people who will actually use the power. And I believe -- as the Brazilians evidently do too -- that it may even mean much to the future of Brazil. Of course, I could not pretend, particularly in the light of recent developments in Brazil, that ample electricity supplies are all that is needed to ensure a prosperous economy and a stable government. But this kind of solid economic accomplishment can do a good deal to help a country ride out the temporary storms that spring up when export income slumps or governments topple.

On the other side of the world I might mention a much smaller project, but one which will be of interest to you at a time when Canada's petroleum wealth is for the first time being discovered and harnessed. The Bank is helping to strengthen the economy of West Pakistan by introducing natural gas to take the place of more expensive imported fuels. Soon after the Burmah Oil Company found gas deposits in the Baluchistan foothills, Pakistan approached the Bank for a loan to finance the laying of a pipeline from the gas wells to Karachi.

A private company was set up early last year to operate the pipeline, and the Bank made a loan of £5 million to bear part of the construction cost. First the industries and later the homes of Karachi (so long dependent on coal or kerosine -- or in very many dwellings only wood or, more often still, buffalo dung --) should begin from August this year to make the acquaintance of this modern fuel.

Altogether the Bank has lent the equivalent of $145 million in the Indian subcontinent. Apart from the gas pipeline, it has helped to finance irrigation and land clearance, electric power, railway modernization and an iron and steel expansion project. But the Bank does not limit itself to underdeveloped countries. One of its largest borrowers is Australia, which has received $204 million. This is being used to cover the dollar cost of tractors, trucks, industrial equipment, aircraft and other imports needed to make possible the present rapid economic growth of the country. In South Africa, to pick another Commonwealth example, the Bank has lent $110 million to increase electricity supplies and improve transport services.

With its great diversity of physical resources and human skills and experience the British Commonwealth has been the scene of a large part of the Bank's activity. The Commonwealth as a whole has received $518 million in Bank loans -- more than one-quarter of all the Bank's lending for development. Many of these loans have provided dollars with which the borrowers have bought dollar goods. This has supplemented their capital resources and at the same time provided parts of the Commonwealth with essential equipment and materials.

In other cases, perhaps still more significantly, the Bank has been able to provide dollars even in cases where the necessary goods were available within the sterling area. Our four loans in the Union of South Africa and our two loans in the Federation of Central Africa have all been made in dollars but spent in the sterling area. We are at this moment working toward a similar operation in the British East African territories. In each of these cases our loans both relieve the strain on the London capital market and add to the sterling area's central reserve of hard currency in London. They have thus helped to keep up the tempo of economic development within the Commonwealth and at the same time made more currency available for imports from Canada and other dollar countries.

Being a newcomer to the field, the Bank has been careful to work very closely with the established centers of international finance. London in the Old World, like New York and Toronto in the New, constitute wells of both funds and experience from which the Bank has drawn freely. Wherever possible it has collaborated actively with institutions engaged on the same task as itself. Thus it took a keen interest in the formation of the Commonwealth Finance Development Company in London. Both the pipeline loan in Pakistan and a loan for the establishment of an Industrial Credit and Investment Corporation in India were arranged in close collaboration with the Company.

I believe that the Bank can look back on the record of its first nine years with real satisfaction. But I should not pretend that we have not had our troubles and our teething pains. We encountered a quite widespread initial misunderstanding of our function. At first we were sometimes looked upon rather like a new kind of gold reef which had to be staked out and dug into quickly before the supply was exhausted. For example, shortly after we had opened for business in 1946 one country hurried to us with a two-line application for a loan of $500 million in the fear that our reserves would soon be used up.

After that, when the Bank's policies were better known, it came under fire for being much too miserly with its money. Even people who recognized that we were there to meet long-term financing needs, and not to make swift and irreversible handouts, accused us of holding back our funds from worthwhile development tasks. We were told -- and we are still being told -- that we are too conservative in our assessment of an underdeveloped country's ability to absorb outside capital, and that our rate of lending should be higher -- some say a great deal higher. But we have held to our position that we make loans not gifts, and that our job is to provide funds for carefully prepared projects that should bring solid economic gain to the borrower.

Even where we have made a loan, and where the borrower is beginning to feel the benefit of the equipment and supplies we have financed, we are sometimes accused of meddling too much in the borrower's affairs. It is true that we watch to see that our money is in fact spent as we have agreed. If the management of the project is weak, or if the government is following policies which put the project in jeopardy, we say so. We may suggest ways in which the situation could be improved. In this way we believe that we can make a most important contribution to the development effort. But at the same time we are forced into the unenviable position of the candid friend -- which is supposed to be the quickest of all ways of losing friends, even without being a lender as well. Against this background I think it is significant that the membership of our club has continued to grow since the beginning -- and that we are still on speaking terms with all our members. (In honesty I ought to add that we have lost two members (but only two) -- Poland in 1950 and Czechoslovakia last year.)

I have said enough about the Bank's past; now perhaps a word about its future.

Though the Bank was set up under the stress of war and was fashioned with special reference to the troubled seas that would inevitably follow the storm, today, almost ten years after the end of the war, it seems clear that the world has safely navigated those waters. Even if we do not trust the future, we can hardly claim any longer that our problems are still those of the transition from war to peace.

The problems that are occupying the world today are surely typical of peacetime. We have fears of unemployment, breaks in commodity prices, mounting agricultural surpluses, a stock exchange boom. We have a struggle for export markets, and established industries calling for tariff protection. We have here and there a country in debt up to its waist (or higher) on import account, and we have exporting countries continuing to bail the debtors out and to look to them for new orders. All this has a familiar peacetime ring. If the world is "back to normal" to this extent, can the Bank, tailored in part at least for the transition period, still play a useful role?

In answer let me first say in all honesty that, when the transition is truly over, the Bank should find little call for its services. As I have already said, it is one of the basic concepts of the Bank that it should encourage and supplement, not supplant, private capital. If we are confident that in the long run private funds will be available to seek out all the opportunities for sound and productive investment abroad, then in the long run the Bank should be able to retire. I am personally not too confident that this is the long-run prospect. Perhaps the most unique feature of the present age is the phenomenal rate of population growth. With about 30 million extra mouths to feed every year, in much of the globe a desperate race will have to be run even to keep misery and starvation at bay. In these circumstances, it seems to me at least arguable that, even in the long-run, the need for productive investment may well remain beyond the capacity of traditional private sources. But we need not pause for too long to peer into the more distance future. All that we know for certain is that, as Lord Keynes so rightly said, in the long run we shall all be dead anyhow. So we should surely devote most of our planning and pondering to what lies only a short way ahead.

In the short-term, I should be surprised if the Bank were not still busier than it has been in the past. There are already indications of this. Our rate of lending in the financial year ending next June promises to be the most active on record, with a total of new loans that may be over $400 million. Our survey missions, our engineering and economic studies and other technical assistance activities are now in such demand that we are having quite a hard time in organizing ourselves for the volume of new work.

Moreover, we are devising new kinds of operation to meet changing world conditions. We were recently able to give effective help toward reviving the use of the New York market as a source of capital for foreign governments. When the Belgian Government decided to seek capital last December through a bond issue in the United States, it did not take business away from the Bank. On the contrary, the public issue, amounting to $30 million, was made conditional upon Bank association with the operation. The Bank therefore made a simultaneous loan of $20 million to Belgium, to supply longer-term funds than those raised publicly. It also made arrangements whereby the publicly-raised funds would be used for the same projects and with the same safeguards as in the case of its own loan to Belgium. A similar joint operation is now under discussion with another European country.

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

The International Finance Corporation will set out to overcome both these limitations. It would make loans without government guarantee. It would also make certain other special types of investment -- again without government guarantee While it would not make equity investments, it would buy securities providing private industrial companies with a more flexible source of funds than in a conventional fixed-interest loan. We believe that an equally important function of the Corporation would be to act as a clearing house to bring together private investors and industrial investment opportunities in foreign countries. The Corporation as now proposed would start operations with an initial capital subscribed by the member governments totalling $100 million,

The establishment of the International Finance Corporation was first proposed in 1951. Since then we have carefully studied and canvassed the proposal, and have found that it showed promise. Canada showed a keen interest in the idea at an early stage. I am therefore glad to be able to say that there is now a real prospect that the Corporation may see the light of day in the fairly near future. Last November George Humphrey, Secretary of the U.S. Treasury, announced that the U.S. Administration had decided to support the proposal, and provision for it has since been written into the Administration's budget proposals for the coming fiscal year. Canada also announced her definite support for the proposal toward the end of last year, and the U.K. and other major capital exporters are actively studying it. Meanwhile the Bank has set up a Committee which is busy drafting a charter.

I think I have now said enough to show why the Bank has proved a useful and effective addition to the world's financial machinery. I have also referred briefly to some of its recent activities which suggest that it is growing and adapting itself as required by the changed conditions of the post-transition economy. It only remains for me to admit frankly that the task of increasing productivity and raising living standards throughout the world is a truly formidable one. In relation to this task, the Bank's efforts may seem puny. But most people would surely agree that the building of a prosperous and stable world depends above all on local money, local skill and local initiative. The greatest contribution that the Bank can make is to help through its loans and through its influence, to overcome the weight of age-old inertia and to direct these local energies into hopeful and productive endeavor. I know that it is in this light that Canada judges the Bank's achievement, and has accorded it such wholehearted, active and valuable cooperation.

# # # # #

IFC: investment banker to world free enterprise

By M. M. Mendels

THE PRESENT-DAY FLOW of private capital and know-how from the developed to the developing countries is influenced by a wide variety of forces. They include, for example, a new-found confidence in some Latin American countries, constraints on company planning by tighter credit conditions in the industrialized countries and the underlining, by recent harvest failures, of the need for fertilizer industries in Asia. While it is too early to say what all this will mean in quantitative terms, there is no doubt that private industry has an opportunity to play a bigger role than ever before in international economic development. This article explains the way in which the International Finance Corporation (IFC), an affiliate of the World Bank, is helping to develop partnerships that foster the spread of private industry for the benefit of both the developing and the industrialized countries.

Canada was a founder member of the Corporation, and has made a continuing and valuable contribution to the evolution of its policies. A number of Canadian companies also have been associated in one way or another with projects that IFC has helped to finance. One of IFC's earliest investments was undertaken to help establish a Mexican subsidiary of Bristol Aeroplane Company of Canada, in conjunction with Mexican airlines, for the overhaul of aircraft engines and other engineering activities.

Canadian companies also benefited from the expansion of a Chilean pulp and paper company, serving the domestic Chilean market, which was financed with the help of IFC. In this case, the Corporation was called in to help close a financial gap by joining the Chilean company, the Inter-American Development Bank and the Canadian Export Credit Corporation in an investment which totaled some $42 million U.S.; and once the plan went ahead, Canadian companies shipped some $8 million of machinery and equipment for the project.

In general, however, Canadian industrial companies with overseas interests have not made as much use of IFC as might have been expected. Canadian investment institutions, unlike many of their counterparts elsewhere, have so far not joined IFC in pursuing their interests abroad. Yet IFC's financial resources are growing, and the scope of its operations likewise is increasing.

Unique Provisions

IFC was established in 1956 as an affiliate of the World Bank, with the specific aim of assisting privately owned enterprises, especially in the less developed areas of the world. This concentration on the private sector in itself makes IFC unusual among institutions engaged in international financing; and among international organizations, its ability to provide risk capital makes it unique.

Since IFC made its first invest-

in brief: *The International Finance Corporation, an affiliate of the World Bank, was founded specifically to assist privately-owned enterprises, especially in the world's less developed areas. Its charter empowers it to invest in private enterprises without government guarantee and to provide them with risk and working capital. IFC also provides its clients with a variety of expert services such as private investment firms in Canada and the U.S. make available to corporate customers. Although Canada was a founder member, Canadian industrial companies with overseas interests have not made as much use of IFC as might have been expected. Yet the Corporation's financial resources are growing and the scope of its operations increasing. This article explains how IC helps to develop parnerships that foster the spread of private industry for the benefit of both the developing and the industrialized countries.*

ment in 1957, it has made commitments of over $155 million in 34 different countries. Of this amount, about $90 million U.S. has been committed for projects in Latin America, about $30 million for projects in Asia (with enterprises in Pakistan and India leading the list), about $20 million in Africa and about $15 million in some of the less developed countries of Europe.

The over-all cost of the projects in which IFC has participated is on the order of four to five times as large as IFC's stake—say half a billion dollars or more—and very often, it has been the IFC participations which, in one way or another, have made it possible to arrange or complete the total financing involved. The Corporation has often been joined in its investments by overseas industrial companies and investment institutions of North America and Europe. United States commercial banks have been particularly frequent investment partners in undertakings IFC has helped to finance; as far as industrial sponsors are concerned, it has been chiefly domestic entrepreneurs, and to a lesser extent, European and American firms, that have been involved.

The origins of IFC go back to the early 1950s, when it was realized that the World Bank itself could not meet some of the pressing needs that existed in the broad field of development financing. For one thing, when the Bank lends to private borrowers, it is required to have a government guarantee; but many governments are reluctant to extend guarantees and many businessmen are reluctant to accept them. For another thing, the Bank makes loans; it does not invest in shares. Again, the Bank almost always finances specific goods and services, and especially those which must be imported; it is less common for Bank financing to cover local expenditures, and in any case, the Bank does not provide working capital. These factors appeared to indicate a need for an institution able to invest in private enterprises without government guarantee, and able to provide private enterprises with risk and working capital. IFC was fully armed to achieve the second objective only in 1961, when its charter was amended to permit investment in capital shares.

How IFC Operates

Today, IFC gives support to the private sector with four typical methods of operation. First, it invests its own funds in private enterprises. Second, IFC enters into standby or underwriting arrangements in support of new stock or bond issues by private companies. Third, IFC actively seeks to sell parts of its investments to other private investors. Finally, IFC has taken a particular interest in helping to establish or strengthen local development finance companies (sometimes known as development banks), which provide long-term capital for industrial enterprises in the less developed countries.

IFC's charter says that the Corporation must invest in enterprises that are predominantly private in character; but it does not specify what particular kinds of enterprise are to constitute the Corporation's field of investment. At the beginning of its activities, the Corporation felt that it should concentrate its investments on industrial or mining projects. This policy was adopted out of purely practical considerations: in the first place, industrialization was considered to be of high priority; and in the second place it was felt that the Corporation itself should acquire some seasoning before it attempted a wider range of investments.

Apart from investments in development finance companies, the principal categories of projects in IFC's investment portfolio are still industrial: for example steel companies in Argentina, Brazil, India, Mexico and Venezuela; companies providing cement or other construction materials in Greece, Iran, Peru and Mexico; textile companies in Colombia, Ecuador, Ethiopia and Pakistan; food products in Chile, Colombia and Venezuela; and fertilizer companies in Greece, Peru and Tunisia.

Supports Variety of Projects

It was never intended, however, that the Corporation should be permanently limited to industrial financing, and one of the noticeable current trends in IFC's operations is the larger variety of projects to which it is now giving support. For instance, IFC recently helped to finance a grain storage company in Colombia, and is now preparing to invest in a project there for producing and distributing beef. The Corporation also has under consideration investments in an electric power company, a hotel operation and a telephone company—all, of course, owned by private investors. On the other hand, IFC does not finance export or import trade, nor does it invest in real estate development.

At the same time as the scope of the Corporation's investments has grown, IFC has become a seasoned investment banking institution providing a variety of expert service to its clients, such as private investment banking firms in Canada or the United States make available to corporate customers.

Virtually all IFC operations go beyond the mere provision of capital. Frequently, IFC assists both in the determination of the true financial requirements of a project and helps the sponsors to arrive at a sound plan, tailored to their needs, for financing the project. The Corporation may also assist in finding financial or technical partners for the sponsor, in the organization of the corporate structure and of management, in recruitment of managerial and technical personnel, and by advancing proposals for improvement of the project. To be in a position to supply any or all of these forms of assistance, IFC must apply expertise not only to the particular problem or problems, but also must examine the basis on which the whole project proposal rests.

Underwriting and Standby Activities

Among the most important services rendered by IFC are its underwriting and standby commitments to insure the sale of shares or obligations issued by private corporate enterprises in the less developed countries. By its underwriting and standby activities, IFC has been helping to introduce into the less developed countries a technique for the sale and distribution of corporate securities that is vital to the development of a capital market.

IFC is contributing to the development of a market for private issuers in other ways. It constantly seeks to sell and distribute to private interests items held in its investment portfolio. To date it has sold, internationally, some $32 million equivalent of portfolio investments, equal to more than 25 per cent of total holdings. For IFC itself, of course, these sales have the advantage of retrieving capital already invested which then can be re-employed in new investments.

As investor and advisor, IFC helps bring together the many essentials necessary to the sound financing and implementation of development projects in the private sectors of its less developed member countries. And many of IFC's clients have returned to the Corporation for further assistance, thereby establishing the typical, continuing relationship common to the investment banking business.

The establishment of NPK Engrais in Tunisia demonstrates some of the activities of IFC. This company was founded to construct and operate a triple superphosphate fertilizer plant, capacity 150,000 tons a year, at the Port of Sfax. The plant is designed to use locally available phosphate rock as its principal raw material.

The principal interest in NPK is held by a major Scandinavian fertilizer company, which turned to IFC for assistance in completing the financing of the project. The Corporation examined the project and advanced several proposals for improvement that were included in the final project plans. To insure marketing of NPK's output—all of it to be exported—IFC suggested that the Swedish sponsor contract to purchase and distribute a sizable amount of NPK's production on a long-term basis.

IFC also proposed that NPK construct and operate its own sulphuric acid unit, as part of the project, on the grounds that it would be more efficient and cheaper than importing acid. Adoption of this proposal involved the addition of more capital and the need for more technical help. These were obtained by gaining the participation of a subsidiary of a leading American sulphur company.

Through the intervention of IFC the missing capital elements were obtained for NPK, and the project was improved. IFC actively sought outside private participation, and sold over $1 million of its $3.5 million investment to financial institutions in the United States, Kuwait, Sweden and the Netherlands.

NPK's plant is now in production, and is making a solid contribution to the economic development of Tunisia. It is utilizing a raw material resource, providing work for several hundred Tunisians, along with technical training, and increasing foreign exchange receipts through export of its output.

In India, the Corporation has provided loan and share capital for Mahindra Ugine Steel Company, Limited, which is constructing a mill designed to produce 18,000 tons of finished alloy steel products annually. The sponsors are the Mahindra business interests in India, and Ugine, a leading French alloy steel producer. The initial cost was estimated at nearly $14 million, including about $6 million in foreign exchange. The sponsors were joined by leading Indian investment institutions and by the Industrial Credit and Investment Corporation of India, a privately owned development finance company originally organized with the help of the World Bank.

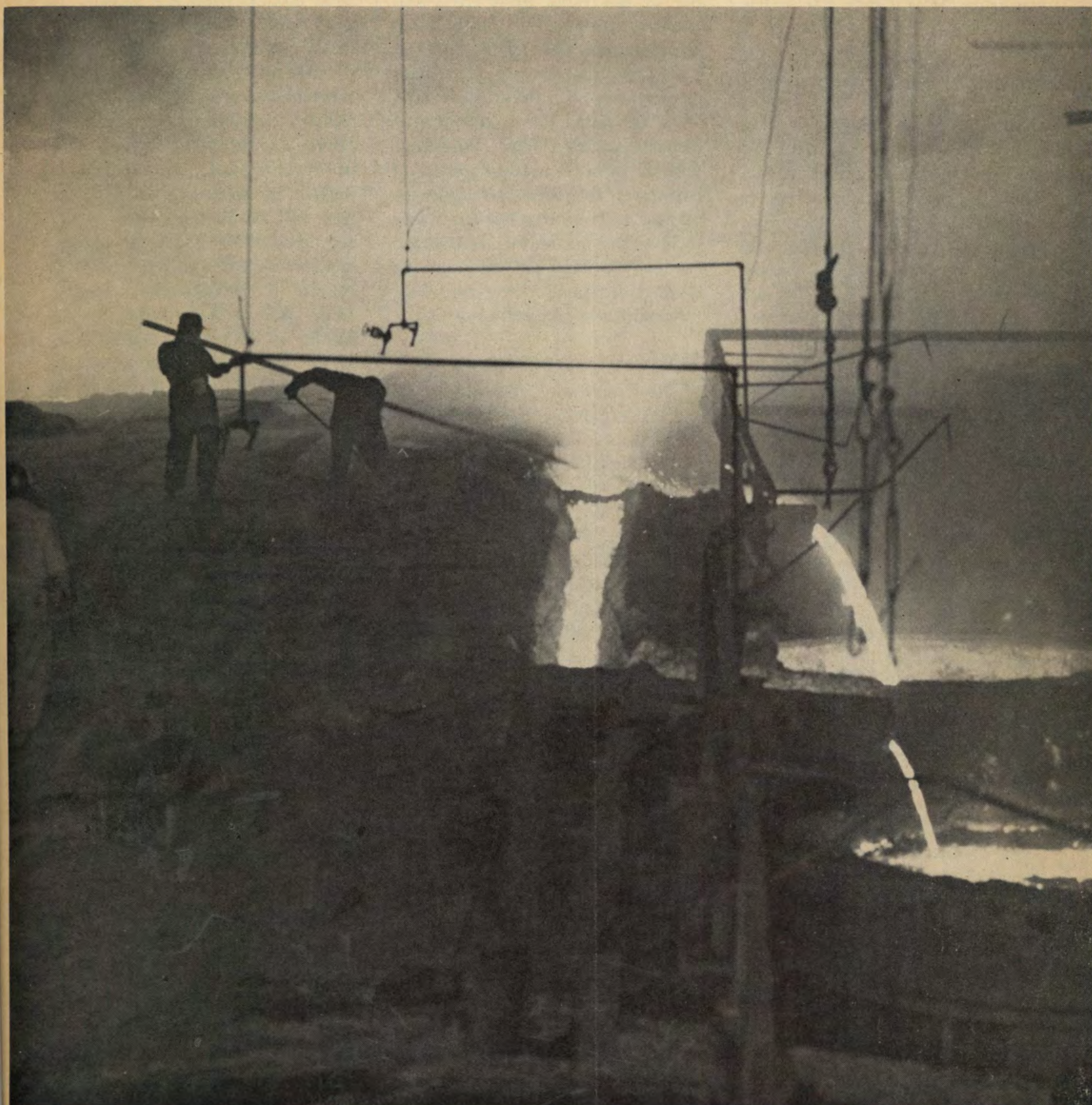
A serious gap in the foreign exchange portion of investment requirements could not be closed by the sponsors or their backers, and ICICI asked IFC to examine the proposition with a view to investing in it. During the course of its examination, IFC urged that the technical arrangements between the sponsors be clarified to insure the project's soundness and efficiency. It also concluded that cost estimates were too low, and offered a financial plan that included an over-run agreement to finance expenditures beyond those estimated. During the period of nearly two years required to work out the details of the project and an acceptable plan for financing it, IFC maintained liaison between the interested parties in France and India.

In this instance IFC's help was instrumental in keeping the sponsors and their backers together and in spurring them to bring the project to fruition. In addition, the Corporation's investment, amounting to $3.4 million U.S., made possible a total investment of some $14 million in an enterprise that should prove profitable to the sponsors and valuable to the economic development of India.

IFC As Underwriter

An example of IFC's activities as an underwriter is illustrated by its role in the financing of a very large expansion program by Cia. Fundidora de Fierro y Acero

Pouring molten metal at blast furnace No. 2 of the FUNDIDORA steel plant at Monterrey, Mexico. The Compania Fundidora de Fierro y Acero de Monterrey, S.A., (FUNDIDORA), the largest private steel company in Mexico, is being expanded with the financial assistance of an International Finance Corporation (IFC) investment.



de Monterrey (FUNDIDORA), Mexico's largest privately owned steel company.

In 1962 FUNDIDORA, as part of a U.S. $100 million expansion program designed to increase annual ingot capacity to 500,000 tons from 200,000 tons, decided to make a stock issue equivalent to about $5.1 million. The size of the issue presented problems to the Mexican market, and the company sought IFC's assistance. The Corporation bought 128,000 shares for its own account at a cost of $1.1 million equivalent; and it agreed to underwrite 75 per cent of the remaining shares, to be sold through an offering to existing shareholders. The 25 per cent not covered by IFC was underwritten by Credito Bursatil, a subsidiary of the Banco Nacional de Mexico.

As usual IFC sought to bring in other outside capital, and enlisted financial institutions in New York and Zurich to take up part of its underwriting commitments. The offering was a success, with the bulk of the shares going to Mexican investors, and some being subscribed by investors in Canada, Europe and other countries of Latin America. When in 1964 the company decided to broaden its equity base further, it turned again to IFC. This time a share issue amounting to $12.5 million was involved, the largest of its kind ever to be offered in the Mexican market. IFC, the same New York and Zurich underwriters, and Credito Bursatil underwrote the issue. This second offering also was a success, with the bulk of the shares being taken up by Mexican interests.

The expansion of the Corporation's role as an investment institution has been matched by its assumption of new responsibilities in the World Bank Group, consisting of the Bank itself, IFC and another affiliate, the International Development Association (IDA). The Bank makes long-term loans at conventional interest rates. IDA lends for much the same kinds of projects as the Bank, but deals with a rather different group of customers: its particular mission is to lend to countries not fully able to bear the burden of loans made on conventional terms, and its credits are made at very long term and free of interest.

Appraisal Responsibilities

The Corporation, because of its special expertise, has now been made responsible for the technical and financial appraisal of all proposals for industrial and mining projects that come before the three institutions. It has also assumed similar responsibilities in regard to development finance companies. Altogether, the three members of the World Bank Group have made loans, investments and credits for industrial development amounting to well over $1.5 billion.

IFC's capital, paid in U.S. dollars by its 81 member countries, amounts to $99.4 million. It has been able to deploy considerably more than that by selling items from investment portfolio, by using its underwriting and standby capabilities, and by enlisting participations in its commitments.

Recently, the Corporation's horizon has broadened still further. Amendments to its charter and the charter of the World Bank now permit IFC to borrow up to about $400 million from the Bank. The availability of these additional funds will make it possible for IFC to take part in a larger number of transactions as well as larger individual transactions. For example, IFC's largest single commitment up to now has been around $6 million; in the future, the Corporation will be able to invest up to, say, about $20 million in a single enterprise. IFC will be able to commit funds borrowed from the Bank, just as it commits its own funds, without government guarantee. This will add greater flexibility to the financing which the World Bank Group can supply to the private sector.

IFC itself will continue to put emphasis not only on the funds that it can provide itself, but also on the amount of investment that it can mobilize from others. Its access to loans from the Bank gives IFC the prospect of growing from a $100-million to a $500-million institution; and the multiplier effect of the Corporation's investments on the mobilization of private capital may likewise be enhanced.

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About the Author

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IFC has invested the equivalent of $449,400 in the Pakistan Industrial Credit and Investment Corporation Limited (PICIC) to assist the growth of industry in Pakistan. Photo at right shows an artisan at work in the Dadabhoy Ceramics plant at Karachi, one of the industries benefiting from PICIC funds.

Below: an overhead crane loads storage bins at cement plant of Compania de Cemento Pacasmayo, S.A., of Peru. An IFC investment of $1,600,000 is helping this company to double its cement production capacity.

CANADIAN BUSINESS
THE MAGAZINE FOR MANAGEMENT

Banker to the world

by Morton M. Mendels

Reprinted from November 1965 issue

Banker to the world

by Morton M. Mendels

In the drive to close the gap between plenty and poverty, the World Bank is recognized as one of the leading development agencies. This article describes Canada's important role in the Bank's work.

CANADIAN ENGINEERS from Montreal and Vancouver are today engaged in a \$2.5-million appraisal of the potential hydroelectric resources of South-Central Brazil. They have been there since 1962 and their task will not be completed for another year. Other Canadian consultants are working in Bolivia and Pakistan, while still others have recently been engaged in surveys of port and irrigation requirements in Guatemala and of mineral resources in Surinam.

These firms all have one thing in common: their presence in these countries, in the pioneering stages of major development projects, has been financed, wholly or in part, by loans or credits granted or supervised by the World Bank group of institutions. Moreover, it is a continuing process. One of Canada's leading highway engineering concerns will shortly be undertaking surveys for two new road projects in Somalia as a result of contracts obtained through the World Bank group.

The International Bank for Reconstruction and Development (World Bank) of which Canada is a founder member, is associated with the United Nations as a specialized agency. It is chiefly concerned with channeling funds from the developed to the less developed nations. It does so by mobilizing the proceeds of the paid-up shares of its 103 member countries and by using its own credit standing to float bond issues and sell outstanding loans for long-term financing of approved development projects. Its own credit standing in the world's capital markets is backed by 19 years' successful operations and over \$23.4 billion of capital subscriptions. (All dollar figures used in this article are expressed in terms of Canadian dollars, \$1.08 Canadian = \$1 United States.)

By June 30, 1965 (end of fiscal year), the Bank had lent the equivalent of nearly \$9.7 billion in 77 countries for basic development projects in the fields of power, transportation, agriculture and heavy industry. These loans represent a significant contribution to the total development financing provided from all sources. In 1962 and 1963, the latest period for which the comparison can be made, it is estimated that the contribution of the Bank and its affiliates to financing development projects in the less-developed countries was somewhat in excess of one-fifth of the total bilateral and multilateral assistance committed for this purpose by governments of the non-communist industrialized nations and by international agencies.

Canada is also a member of the World Bank's two affiliates: the International Finance Corporation (IFC), established in 1956, and the International Development Association (IDA), founded in 1960. IFC's chief objectives are to assist private enterprise in the less developed of its member countries without government guarantee, and to help mobilize private capital alongside its own investments. By contrast, IDA was formed to make interest-free loans with longer repayment periods to countries which need somewhat "softer" assistance than conventional borrowers, although the types of projects financed are essentially the same as those financed by the Bank.

The projects financed by the Bank range from livestock improvement schemes to giant power dams, from the building of highways to the construction of steel or pulp and paper mills. Whatever their size, these projects need skilled preparation and sometimes extensive preliminary studies. In cases where the Bank conducts a study on its own behalf or as executing agency for the UN special fund, it chooses the engineering and management experts together with the suppliers of machinery and any other services for the job. In other cases, where the

MORTON M. MENDELS, 57, is the Montreal-born Secretary of the World Bank group of institutions in Washington, D.C. Educated at McGill University, he took his B.A., M.A., and B.C.L. degrees with honors and held a fellowship in economics and political science. During his career in Canada, he worked as assistant director of economic research for a leading advertising and research agency, in private law practice and as a consultant economist. He joined the World Bank as Secretary shortly after its formation in 1946.

Bank is the lender but not the executor of the project, it has the responsibility of approving the experts chosen by the government and ensuring that their terms of reference are suitably drafted.

This makes the Bank a significant factor in world business. Its influence has been direct and indirect; in a way, the very size of the contracts it helps to set up have demonstrated the advantages of pooling resources in consortia, which might include many firms of varying sizes to meet the wide range of services now required by the world's developing countries. This is a newly emerging feature in Canada and it could well grow in importance in the future. Consortia such as CANAMBOLA (Montreal Engineering and G. E. Crippen and Associates of Vancouver) and CANSULT (which includes 11 firms drawn from Toronto, Montreal, Vancouver and Calgary) are among these groups.

How does Canada benefit?

When businessmen ask what Canada has got out of its membership of the Bank the answer is a complex one, but it reduces finally to a fairly simple conclusion. Both sides have benefited to a considerable degree and the benefits include those which can be counted statistically, like orders and contracts, and the intangibles which are no less important and which result from the interaction of ideas and policies in a continuing partnership in the business of raising living standards for a major section of the world's population.

Tangible benefits have accrued to the firms which have won orders. So far this year, Canadian factories have shipped millions of dollars worth of capital equipment to developing countries who decided to "buy Canadian" with the help of loans and credits from the World Bank group, after shopping around Europe, Japan and North America. The exporters include manufacturers of electric power equipment, railway materials and agricultural machinery.

The amount of this business coming to

Canada at present is no longer comparable with the flood of orders won in the mid-1950's. This undoubtedly reflects much fiercer competition in world markets and, because competition is a spur, need be no precedent for the future. In fact, Canadian deliveries in the first quarter of this year under these types of contracts, won in open international competitive bidding, and financed by the Bank and its affiliates, were running at an annual rate of over $7.5 million. This represents an increase over the rate of the earlier sixties.

Canada has won orders from over half the developing countries which have borrowed from the Bank. Her customers include governments and public service authorities in Asia, Africa and Latin America. Canadian firms so far have sold more than $170 million worth of goods and services for Bank-financed projects. The total value of these orders is more than double the amount of Canada's paid-in capital subscription to the Bank and they have gone chiefly to the electric power and railroad equipment industries, and to a large category of miscellaneous industries. In addition, a further $11-million worth of orders can be traced to projects financed through funds provided by the International Development Association. A somewhat different kind of transaction is represented by the sale of $8-million worth of Canadian-built machinery and equipment to a privately-owned pulp and paper mill in Chile. This was done through the help of financing provided by the Export Credit Insurance Corporation, in conjunction with an IFC investment in the Chilean company.

Orders for electric power equipment have included transformers, relay equipment, generators and cables, and the total value of this business to date is more than $62.5 million. Some of the prominent firms in Canada which have fulfilled these contracts include Federal Pacific of Canada, John Inglis Company, Foster Wheeler Limited, Canadian Westinghouse, Canadian General Electric and Aluminium Limited Sales.

World Bank financed purchases of railroad equipment in Canada, including locomotives, rails, cars and timber, have totaled around $70 million with a further $9 million attributable to funds made available by IDA. The firms which have received orders include Montreal Locomotive Works, Dominion Steel and Coal Corporation, Canadian Car and Foundry Company, Seaboard Lumber Sales Company and Brown Site Company.

The rest of the developing countries' shopping list ranges from Canadian-built aircraft and aircraft parts, communications equipment, trucks and ferry boats to tractors, mechanical shovels, agricultural combines, cranes and livestock. The firms in this sector include de Havilland Aircraft of Canada, Ford Motor Company of Canada, Andrews Antenna Corporation, Massey-Ferguson, Allis Chalmers and Blackwood Hodge.

Intangible benefits

This trade is helping to build goodwill for Canada through competitive selling — and something extra. Essentially, this "extra something" reflects the value of Canada's own contribution to the package of technical and financial assistance which made the orders possible in the first place. The technical assistance includes the work of consultants and experts on the Bank's own staff (whose total includes some 80 Canadian nationals) in the preparation of development projects. As founder member of the Bank and its affiliated organizations, Canada has played a prominent part in the evolution of policies designed to obtain the maximum developmental returns from its overseas investment dollars. Her paid-in capital subscription to the Bank of $81 million has been well utilized to "buy development." A new proposal has now been approved by the Bank's board of governors to increase Canada's total shareholding by a further $45 million, of which 10% will be paid in for lending purposes.

Canada has also helped to swell the funds available to IDA for lending on easier terms to developing countries. Her original subscription of approximately $40.8 million has been followed by a commitment to supply an additional $45 million, payable after November 1965.

Canadian investors have periodically helped to replenish the funds available for projects in the World Bank pipeline by subscribing to the Bank's bond issues. Four issues, aggregating $80 million, have been floated on the Canadian market, through underwriting syndicates headed by Wood, Gundy and Company Limited, Dominion Securities Corporation Limited and A. E. Ames and Company Limited. The last issue totaling $25 million was made in March 1965. The total of outstanding Canadian dollar issues of the Bank is now about $44 million. These issues are held by the big investment groups, such as the chartered banks and insurance companies. These groups have also bought some of the Bank's outstanding loans, joining the ranks of investors in more than 20 other countries who now hold World Bank loans in their portfolios.

Another way in which Canada is able to mobilize help and influence events in a practical manner is through its role in the Consortia of aid-giving countries which, in partnership with the Bank, focus technical experience and critical advice, as well as material help, on the problems of individual countries. The "Aid India" and "Aid Pakistan" clubs are examples of these. Each member country in the consortium has its own special contribution to make and Canada has pledged $270 million so far to the development plans of India and Pakistan. Canada has also included shipments of commodities in short supply, such as aluminum, copper, wheat, woodpulp, and sulphur to Pakistan, as well as special loans and export credits for such items as electric power stations and transmission lines.

These are all long-term continuing processes. The gap between plenty and poverty is more pervasive today than the most divisive ideologies. The need to close the gap or at least prevent the gulf from widening is part of the constant search for world stability. In this process, the World Bank is recognized as one of the leading developmental agencies and Canada's position in it is well known and respected. Canadians can well be proud that their government has chosen to join in the effort to accelerate the economic growth of the less-developed countries of the world. Ok

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