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THE WORLD BANK  
Washington, D.C.

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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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*free file*

ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST

SECOND SESSION

STATEMENT MADE BY MR. R. G. M. DE SERCEY, OBSERVER FOR THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT



On behalf of the International Bank for Reconstruction and Development I should like to express the Bank's appreciation for your invitation to participate in this meeting of the Economic Commission for Asia and the Far East. We welcome the opportunity to discuss informally the needs and plans of the Asiatic and Far Eastern countries for economic reconstruction and development.

By the terms of its charter the International Bank is given a dual objective - to assist in the restoration of production in the war-damaged countries and to promote an increase in production in areas where further development is needed. So far the Bank has had to lay major stress on reconstruction problems in Europe, because of the importance of European productive capacity to the recovery of the world as a whole, and especially because it has been possible for the European countries to define their reconstruction needs and prepare applications for credit assistance relatively quickly. But the Bank is equally conscious of its responsibilities in the field of economic development. In fact it is increasingly clear that the two purposes must go hand in hand. The pre-war pattern of the world economy has been fundamentally dislocated, and a new equilibrium can be achieved only at a substantially higher level of production and trade, in which the relatively underdeveloped areas of the world must plan an important part.

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This intimate relationship between reconstruction and development is perhaps especially apparent in the area with which this Commission is concerned. A sound, stable economy in Asia and the Far East certainly requires the reconstruction of essential facilities destroyed or outworn during the war; but no informed person would deny that mere restoration of the pre-war economic pattern would be wholly inadequate, and in fact quite impossible.

We are fully aware, therefore, of the challenge and opportunity presented by the need for sound development and effective use of Asiatic and Far Eastern resources. Such development must necessarily be a long process, and the speed with which it can be undertaken will depend upon many factors which cannot now be foreseen. Nevertheless, the Bank has already initiated a series of investigations of the whole problem, and is actively engaged in defining its loan policies to determine where and in what form it can make the best contribution. We welcome the cooperation of this Commission in our exploration of this problem.

I am sure that all of you are aware of the limitations on the Bank's loanable resources. At the first session of this Commission, held in Shanghai last June, the representative of the Bank pointed out how limited are the funds available to us, in relation to world requirements for credits. Loanable funds which we have actually in hand total only about \$500 million. Any further funds must, for the immediate future, be borrowed from American investors; thus, in effect, the Bank's loans are automatically restricted to the amount of bonds which can be floated in the private capital market. The amount of bonds which can be sold to the public at any one time or during any relatively short period is quite limited and not entirely predictable. And whatever amounts can be raised must be spread to cover meritorious applications for credits not only from the countries represented here, but also from Europe, Latin America, the Middle East and Africa.

Officials of the Bank hope and expect that these limitations

/are temporary

are temporary, that with the progress of world recovery and stabilization it will be possible to draw on sources of capital outside the United States, and that the soundness and constructive importance of International Bank loans will be so conclusively demonstrated that our bonds will prove a most attractive investment for private capital everywhere. We are firstly convinced that the granting of economically valid and productive loans for development purposes will have an important influence in this direction.

Even if these hopes are fully realized, however, it would still not be possible or desirable for the Bank to attempt to finance the whole job of development that needs to be done. Sound and practical development needs are tremendous; they will require capital in amounts which only a free flow of international credit and investment can provide. The Bank's role is that of a trailblazer for private capital. Because of its international character and the guarantees provided by its members' subscriptions, the Bank can sometimes take initiatives and incur risks which would be impossible for the ordinary private investor. It may be able to finance projects which, by eliminating bottlenecks to production or generating an increase in the output of related good or in related areas, will stimulate a revival or expansion of industry and agriculture far beyond the narrow confines of the projects in question. To use an analogy from the physical sciences, the Bank's aim is to start a series of economic chain reactions - by using its limited funds at strategic points to release the expanding forces in the world economy, which will result in raising productivity and living standards everywhere.

In considering any prospective loan the Bank is required by its Articles of Agreement to "pay due regard to the prospects that the borrower' . . . will be in a position to meet its obligations under the loan." Even if this requirement were not in the Articles of Agreement it would clearly be implicit in the Bank's obligation to its member governments and to the purchasers of its bonds. To meet this condition it is important that the project for which financing is required should be sound

/and productive

and productive, but there is involved also a much broader judgment as to the credit standing and economic prospects of the borrowing country.

One factor in making this judgment is the existence or prospective attainment of internal economic stability. Foreign financial assistance may often be useful or necessary to achieve such stability where it has been upset by the war, but it is even more essential that the countries asking for credits should themselves be willing to take effective measures to strengthen governmental finances, curb inflation and stabilize their currencies.

Another important factor influencing repayment prospects is the extent to which specific projects, for which Bank financing is requested, will themselves contribute to internal economic stability and improvement of the applicant's external payments position. At this initial stage it is especially important that projects submitted to the Bank be of manageable size and definite productive value, designed to render substantial benefits within a relatively short period.

It is the desire and hope of officials of the Bank that we may be able to make a real contribution to solution of all those problems. For this reason the Bank would welcome the opportunity to consult informally with any prospective applicant before a formal application for credit is submitted. By permitting an initial joint examination of the special problems and needs of the country concerned, this procedure would make it easier to define appropriate projects to be financed and to fit the terms of credit and other conditions to the particular situation.

The Bank believes that the studies prepared by the Economic Commission for Asia and the Far East will be of great value in providing a framework within which the Bank can consider the needs of individual countries and develop loan policies appropriate to meet them. Several of the Far Eastern countries have undertaken to develop comprehensive national economic plans. Many far-reaching, constructive programmes for long-term development have been proposed, and will undoubtedly be given careful consideration by the Commission. For the immediate  
/future, however

future, however, the Bank would sound a warning that the most practical line of approach will be to develop plans for small, well-defined projects, which will require limited external financial assistance, can be completed within a reasonable time and will yield early productive results. Such projects would be far more suitable for financing by the Bank than any comprehensive development scheme, because they would permit most effective use of our available financial resources, because they could often be approved without writing for basic policy decisions or extended negotiations, and because they would obviate the planning delays, production bottlenecks and administrative complications inevitable in large-scale programmes.

In conclusion I should like to express again the Bank's hope that we shall be able to maintain close liaison with the Economic Commission for Asia and the Far East and our confidence that cooperation between our two organizations will prove of substantial benefits to both.

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