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ARCHIVES

NASR

Nassr made a
speech Apr 1, 1949

to Graduate Economic Society
Columbia University

Not Cleared - Not for Publication

approx June 30, 1949
see p. 5.

Lecture for Mr. Taghi Nassr, Alternate Executive Director for Turkey, Egypt, Ethiopia,
Iran, Iraq, Lebanon, Syria



under-developed

In all discussions of development of ~~backward~~ areas one must finally turn to the International Bank for Reconstruction and Development of which I have the honor of being an alternate ^{Executive} director. The Bank is an important factor in the field of development and promises to become more of an influence in the future. Its contribution to development goes far beyond the lending of money. In many instances the results of its investigations on loans have been most useful in suggesting measures for economic and fiscal reforms, as well as in aiding a better understanding among prospective borrowers and others of the problems involved in expanding the productive capacity of an economy.

There has never before been an organization like the International Bank, or the World Bank as it is usually called. For convenience some observers like to compare it to the Bank for International Settlements of Basle, Switzerland, or to the Export-Import Bank. It is, however, very different from either of these two institutions, though it does work in co-operation with them on the staff level.

The Bank for International Settlements was founded in 1930, for the purpose of facilitating payment and smoothing the effects of German reparations for the first world war. Since then it has evolved into the central banking organization for the various national central banks of Europe. The Export-Import Bank, on the other hand, is wholly owned by the Government of the United States, and its main functions are to aid in the financing of exports and imports from and to the United States.

Forty-seven nations are the owners of the International Bank for Reconstruction and Development, which was organized under articles of agreement drawn up at Bretton Woods, New Hampshire in the summer of 1944. These articles, which have since become the charter governing operations, state that the purposes of the Bank are:

1. "To assist in the reconstruction and development of the territories of its members by facilitating the investment of capital for productive purposes;"

2. "To promote private foreign investment by guarantees of, or participations in, loans and other investments made by private investors; and"

3. "When private capital is not available on reasonable terms, to make loans for productive purposes out of its own capital or out of funds borrowed by it."

In addition to the misconceptions about the role of the Bank in relation to the Bank for International Settlements and the Export Import Bank, the World Bank is also mistaken at times for its sister institution the International Monetary Fund. The Fund was also organized under a charter drawn at Bretton Woods; its membership is the same as the Bank's; and if a nation desires to become a member of the Bank it must first join the Monetary Fund. At this point most of the similarity between the two institutions ceases. Under its charter the purposes of the Fund are:

1. "To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems;"

2. "To promote exchange stability; to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciations;"

3. "To make its resources available to members under adequate safeguards and thus provide them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national and international prosperity; and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members."

Thus, the prime differences between the Bank and the Fund are: That the former is concerned mainly with long-term financing for purposes of reconstruction and development; and the latter is a monetary authority, whose funds act as a reserve on which

the membership can draw to meet temporary deficits in their balance of payments.

Capital of the Bank is authorized at \$10,000,000,000 of which \$8,336,000,000 has been subscribed by the member countries. Paid-in capital amounts to 20 per cent of the subscription; of which 2 per cent was required in gold or dollars and 18 per cent in the local currencies of the member countries. Through these contributions the equivalent of about \$1.6 billion was paid, and of this sum about \$735 million was in United States dollars and the remainder in local currencies. Payment of \$4 million by certain members has been deferred until 1951.

The initial 2 per cent paid-in may be used for all purposes, and the 18 per cent employed to defray administrative expenses, but the latter may not be loaned without consent of the member country whose currency is to be used. To date, the United States is the only member which has permitted unrestricted use of its 18 per cent for lending; and Belgium, the United Kingdom and Canada have released the equivalent of \$12,000,000 from their share. It is the earnest desire of the Bank's management that as the world economy recovers from the effects of the war, more and more countries will permit full or partial use of their currencies for lending purposes.

As regards the 80 per cent of unpaid, but subscribed capital, it can be called on only to meet payments on obligations arising out of the Bank's own borrowings or guarantees of the obligations of others. When called, the 80 per cent is payable, at the members' option, in United States dollars, gold, or in the particular currency required to meet the obligation for which the call was issued. Consequently, the unpaid balance is in the nature of a guarantee by the membership of market obligations. It serves to strengthen the institution's credit in the investment market when it requires additional funds for lending purposes from private investors. Total unpaid capital amounts to \$6,668 million, of which \$2,540 million constitutes the share of

the United States. All members are individually and collectively liable to answer calls on the 80 per cent; but they are not subject to double liability once the full amount of their subscription is paid-in. Total loans outstanding at the Bank cannot exceed the sum of its subscribed capital.

Because of its unusual capital structure the Bank cannot obtain sufficient funds to achieve the purposes for which it was organized, without resorting to borrowings in the private investment market. Such a limitation was intended by the founders of the Bank, and it has a twofold purpose.

First the founders wanted to insure that private funds would of necessity have to be joined with those of the Bank for the bulk of lending operations. Such a development is in line with the Bank's charter which states that promotion of private foreign investment, is a principle aim of the institution. Secondly, they sought to assure that the Bank would operate on sound business principles through forcing it to hew to practices and policies not at variance with the views of private investors.

The Bank made its first test of market opinion in the United States on July 15, 1947, when it sold two issues of debentures aggregating \$250,000,000. One issue amounting to \$150,000,000, consisted of twenty-five year, 3 per cent bonds due July 15, 1972. The other was comprised of \$100,000,000, ten year, 2 1/4 per cent bonds, due July 15, 1957. Both issues were sold successfully, and over the last two years have achieved an accepted place in the market. They are traded on the over-the-counter market and are listed on the New York Stock Exchange. Their ownership is largely vested in institutions such as insurance companies, commercial banks and savings banks.

A small issue has also been sold in Europe, which consists of 17,000,000 Swiss Franc serial bonds, carrying interest at 2 1/2 per cent, and maturing in 1953 and 1954. Proceeds from the issue, which was sold in full to the Bank for International Settlements, were made available to the Netherlands as part of the \$195 million loan granted to that country in August 1947. Obligations of borrowers, pledged as security on

for funds to aid reconstruction has waned materially in the last year, so far as the Bank is concerned, because of some improvement in conditions in Western Europe and of the rise in intergovernmental assistance through the medium of the European Recovery Program. Since the Bank's full attention is no longer focused on reconstruction, it has moved toward the other main function for which it was organized. Namely to assist in the development of production and resources in less developed countries.

So far all loans by the Bank for development purposes have been concentrated in Latin America. The largest of these credits is to Brazilian Traction, Light & Power Co., Ltd., which borrowed \$75,000,000 last January. This concern is a privately owned Canadian company, which operates, through certain subsidiaries, the principal hydro-electric and telephone services in Brazil. The commitment is guaranteed by the Brazilian Government.

In my opinion the loan to Brazilian Traction was of prime importance, because it highlights a section of the Bank's charter that observers, in many instances, lost sight of when all the initial loans were made to governments or their official agencies. I take this opportunity of pointing out that the overlooked provision in the charter states the International Bank "may guarantee, participate in, or make loans to . . . any business, industrial or agricultural enterprise in the territories of member nations," subject of course, to the same restrictions limiting loans to member governments, and with an additional requirement that the commitment be guaranteed by the member government, in whose territory the enterprise is located, or by the central banking or other agency of the government acceptable to the International Bank.

The International Bank expects and welcomes inquiries from private business regarding loans of this type. So long as it can be shown that the loan does not interfere with the flow of private capital investment, at reasonable terms, and that the

loans by the Bank, have also been sold. These include \$10,300,000, out of \$12,000,000, of notes securing a loan for a like sum to four Dutch Shipping companies; and \$16,000,000 of Kingdom of Belgium bonds covering a Bank commitment for a similar amount. Both of these obligations bear the unconditional guarantee of the International Bank for payment of interest and principal.

Further sales of direct obligations by the Bank, and of guaranteed items, is of course dependent on the speed with which loan applications are approved and the amounts named in the loan agreements. Presently the Bank has on hand about \$368 million in United States dollars for lending purposes and this sum appears to be sufficient to take care of requirements for at least the near term. Thus, there is no strong pressure at this time to sell either additional debentures or guaranteed issues.

Currently the Bank has loan commitments totalling \$650 million outstanding. Of this sum, \$525 million was lent to five European countries; largely to assist in financing their postwar reconstruction programs. The remaining \$125 million has been committed to borrowers in Latin America, for use in partially financing development. The major share of loans to Europe were made during the spring and summer of 1947, when France borrowed \$250,000,000; the Netherlands \$195,000,000; Denmark \$40,000,000; and the Grand-Duchy of Luxembourg \$12,000,000. Later in July 1948, four Dutch shipping companies borrowed \$12,000,000 from the Bank to finance the purchase of six ships in the United States; and Belgium borrowed \$16,000,000 last February to be employed in modernization and expansion of steel producing capacity.

As a logical result of the tremendous damage to Europe's economy arising from the war, the International Bank first turned its energies and resources toward assisting in the reconstruction of productive capacity in that area. This was in conformity with the charter which requires the Bank "to arrange the loans made . . . so that the more useful and urgent projects . . . will be dealt with first." Demand

project to be financed is bankable under the charter and from a risk viewpoint, inquiry or application for a loan from a private corporation will receive serious attention by the management. The member government involved must sponsor the application and indicate willingness to guarantee the commitment if it is made.

In addition to its interest as a loan to private business; the commitment to Brazilian Traction is of primary consequence, because it will accelerate development of the Brazilian economy, through partially financing a 25 per cent increase in hydro-electric generation in that country. This will not only permit substantial expansion and development of industrial and other output in Brazil, but the country's expenditures of foreign exchange resources for fuel to supply energy will be materially reduced. A gain of 40 per cent in local telephone services and a substantial increase in long-distance capacity will also be financed in part by the loan from the Bank. Business in Brazil will benefit through increased efficiency and availability of communications.

Actually the \$75,000,000 supplied by the Bank forms only a part of the funds required to support a four or five year expansion program planned by the utility company. Total cost of the program is estimated at about \$185 million, of which the equivalent of about \$110 million will be largely in local currency from the company's own resources. The Bank's share in the financing is vital, however, as it will contribute foreign exchange required for the purchase of essential equipment and services in the United States, the United Kingdom and Belgium.

Mexico has received two commitments from the Bank amounting to \$24.1 million and \$10 million respectively. The funds are to be used to assist in a program for expansion of electric power generation and distribution. As in the case of Brazilian Traction, the Bank's share will be used to meet the foreign exchange cost of equipment from abroad. An additional 200 million pesos or more in local currencies will be spent

by the Federal Electricity Commission, which is responsible for operation and completion of the program.

Chile has also received two commitments from the Bank for \$13.5 and \$10 million. These loans have not as yet become effective. They are for the purpose of financing foreign exchange costs for development of hydro-electric potentialities, irrigation and acquisition of agricultural machinery. The loans will assist in a program, which, over a period of years, should help to relieve the Chilean economy of reliance on export of nitrates and copper for virtually all foreign exchange. This program also is aimed at expanding domestic production of many items for home consumption, thereby relieving some of the necessity of heavy imports. Power available in Chile at the present time is not sufficient to meet all needs, but if the current program is successful about 200,000 kilowatts will be added to the supply by 1950. The loan will also finance purchase of some irrigation machinery to be operated with off-peak excess power created by the electrification projects. About 10,000 acres of land will benefit from this part of the program.

The smaller loan to Chile, will be used for purchasing and importing farm and agricultural machinery into the country. Machines so acquired will be employed in pools or sold directly to individuals engaged in agricultural pursuits. To insure the most efficient use and proper maintenance of the machinery, the Government of Chile through an agency will provide training and education to users and purchasers of the equipment.

A question that is often raised against the Bank is: "In view of the enormous need for reconstruction and development throughout the World, why has the International Bank advanced only a relatively small amount of funds for these purposes."

Only recently the Bank was attacked by certain members of the United Nations Economic and Social Council, when its president, John J. McCloy, presented the third annual report. The delegate from Poland to the Council claimed that the sum of \$650 million of loans outstanding, "as a result of two and one-half years of operations, would have been protested by those who attended the Bretton Woods Conference." They would have rejected the idea that the Bank's action should be so completely out of proportion with actual world needs, he asserted. The Polish delegate also argued that the Bank's loans were not for reconstruction and development, but were made primarily to facilitate delivery of consumption goods and of perishable production goods, such as fuel and raw materials. Other criticism of the Bank, at the same meeting, included the charge that it was too cautious in taking risks and that its demands regarding political and economic measures prior to making a loan were too severe. While remarks against the Bank at the Council meeting were perhaps more stringent and acrimonious than usual they sum up quite well major arguments that have been leveled at its policies and activities. Let me interject here that not all delegates to the conference were unfavorably critical of the Bank, many of them in fact expressed very favorable views on our operations.

It is all very well for these individuals to snipe at the Bank for failing to finance any scheme they can dream up. They are not the ones, who will have to answer to forty-seven stockholder countries, or to irate holders of millions of bonds, if our money is thrown away on grandiose and often pointless projects. It is we who are responsible for management, whose reputations and integrity will be subject to attack if the Bank fails in its mission. Whether we like it or not, the charter and our form of capital structure force us to act in a business like manner and to operate the Bank on sound business principles.

Remember, if the Bank is to loan more than a small percentage of its capital

potential, it must go to the private investment market to do so. So long as that market continues to be free we must adopt policies, and conduct operations in such a manner, that our securities will be acceptable to it. This market demands, at a minimum, reasonably conservative policies, and possibilities for loan repayments that are more than tenuous hopes. I am afraid that most of our critics forget that some day our borrowers are required to pay us back.

As to the charge that our loans were wasted on consumer goods; the Bank can point to acquisitions by borrowers of millions of dollars worth of locomotives, airplanes, rolling stock, steel mill equipment, agricultural equipment, machine tools and other production and transportation equipment. Where fuel and raw materials were included, they were essential to reconstruction, and to assist industry to resume production.

The Bank does recognize that \$650 million is only a small sum when compared with the enormous need for reconstruction and development in the world. It cannot, however, loan money because some country or corporation indicates that it is in need of financing. Some form of investigation must be made as to the reason for the loan and of what its effects would be on the economic and financial structure of the borrower and of neighboring countries. This is a most difficult task, which can consume a great deal of time, particularly on development loans, where prospective borrowers lack experience.

Often a country realizes that it needs foreign investment if industry and agriculture are to be improved both as to the amount of production and in respect to quality. These aspirations are valid ones and quite natural. Yet, they usually are not supported by any clear ideas of what actually should be done and of how to do it. In addition little or no consideration generally has been given to the amount of labor and money likely to be involved. For the Bank to make loans under such circumstances would be, literally, pouring money down the drain. Dollars, pounds

or any other form of foreign investment will serve no good purpose unless there is long and meticulous planning done, prior to making and disbursing loans.

A sound and detailed plan must be drawn of what is to be accomplished and this requires the services of specialists such as engineers, economists, financial experts, agricultural experts, etc. When completed the plan should be submitted to the Bank, which then studies the feasibility of the program described and perhaps decides what project or projects in the overall program it may finance. A group is sent out by the Bank, which is called a field mission. Normally it would be comprised of one member each of the loan and economic departments. They may be accompanied by whatever technical personnel appear to be required, and these latter aids may be members of the Bank's staff or assistants hired for the occasion.

The mission checks on the plan and makes whatever surveys considered desirable. The minimum range of information the Bank seeks to learn through its missions are: Availability and quality of raw materials, labor, fuel, power transportation, current market and possible future market trends. Prospects for profits are also considered, since if the project cannot support itself it may well be a drain on other resources of the borrower. Missions, also, may make general economic surveys, and through their reports and recommendations suggest necessary reforms to correct weaknesses in nation's economic and fiscal structure. Perhaps it may even show that the program or project should not be undertaken, for example; because the impact of an influx of foreign capital might result in serious inflationary conditions. In addition the mission can set up the proper order of priority for a development program, that is what part should be undertaken first. This is extremely important, because it is obvious that a general development program cannot be undertaken all at once. Without transport, industry and agriculture may be entirely wasted, or without power and fuel or other raw material industry may not run at all.

Requests for studies by members of the Bank's staff are being constantly received, as countries realize the need for proper drafting and implementation of development programs. Often this advice is far more important than dollars. These requests and the locale of operations of recent missions, indicate that the Bank's interests in development are not confined to Latin America. In January one group left for India to make a first hand survey of the economic and financial situation there. It studied an overall development program with special reference to railway and agricultural problems. A specialist on railways was engaged by the Bank to assist in the investigation.

Another mission went to Turkey in the same month. It consulted with the Turkish Government about a development program and assisted in selection of projects, within the program, which might be suitable for Bank financing. Later, in March, a mission went to Egypt. It is examining the possibility of Bank participation in economic development plans of the Government. A close study is being made of a proposed irrigation project to provide year-round irrigation for 250 thousand acres of farm land in the Quena area, about 300 miles south of Cairo. A hydro-electric and irrigation engineer accompanied the group. At the present time Robert Garner, vice-president of the Bank is winding up a tour of the Near-East and of Northern Africa, during which he discussed development plans and programs of the various countries in those areas.

Accomplishments of World Bank missions and the growing demand for their services, indicates the vital need for sound and impartial advice to make development programs realities. The requirements for such assistance, however, are so great and varied, the Bank with its limited staff can only meet a fraction of the needs. Even then it must concentrate its energies on programs connected with possible loans. As a result the Bank is deeply interested in Point 4 of President Truman's inaugural address.

Mr. Truman called on the United States and other countries "to embark on a bold new program for making the benefits of our scientific advances and industrial progress available for improvement and growth of under-developed areas." Later the United States asked the United Nations to explore the feasibility of a program along lines described in Mr. Truman's remarks. It is too early to predict what course will be adopted by either the United Nations or the United States, or what the Bank's position in such a program might be.

The Bank, which is a specialized agency of the United Nations, will give all support possible, within the limitations of its charter and staff to realization of whatever plans may be developed. Of vital importance to the Bank is the training of laborers in trades like carpentry, plumbing, electrician, etc. Dearth of personnel of this type is one of the greatest bars to development. No matter how fine a project is constructed or how productive machinery may be, they are valueless if skilled labor to operate and maintain them is not available. Thus, development is a training problem as much as it is an engineering or financial one.

More than a score of developments programs are under study by the Bank. How many will result in loans, I am not in a position to indicate. The Bank is also being approached constantly with tentative plans, many of which will undoubtedly be brought to the point of a request for financing.

In conclusion, I should like to point out, that no matter how excellent the plan for development, the Bank cannot and will not do all the work and supply all the money. The best we can do is give good advice and make available the necessary exchange to make capital equipment purchases abroad. Most of the energy, money and will to improve the economy and raise living standards must come from the borrower.

The Bank does all it can within reason and the limits of its charter to help its borrowers. Interest rates charged are not based on risks as is the usual procedure. Instead, they are computed according to what equivalent funds under similar

terms would cost the Bank if it borrowed in the private money market. In addition the Bank adds $1/4$ of 1 percent to this rate to defray own expenses of operation. On long-term loans the rate is generally $3 \frac{1}{4}$ to $3 \frac{1}{2}$ per cent. Added to this is a commission charge of 1 per cent a year, to be credited to a special reserve to protect obligations of the Bank arising from its own borrowings or from guarantees of the obligations of others. Even with the addition of the commission few if any borrowers could acquire funds on the international capital market at comparably low interest rates. All loans are amortizable at such a rate that the last payment completely discharges the debt. This rate is computed so that such payments are not a heavy burden on the foreign exchange resources of the borrower and no large terminal payment is included.

In return for the assistance the Bank stands ready to give to its members or to corporations located in their territories, it asks that the membership, and especially those who borrow, give all the co-operation necessary. Without such co-operation it is well-nigh impossible to make a loan since information and actions required to make the loan bankable cannot be obtained save with full assistance from the prospective borrower.

Lead for Rev. Nassir's talk (Subject Pt #4)

THE INTERNATIONAL BANK AND UNDERDEVELOPED ECONOMIES

IRAN'S SEVEN YEAR PLAN

Few remarks by a leading political figure have aroused such interest as those included in President Truman's inaugural address under the heading "Point 4." On all sides Point 4 is the major subject of discussion, and no where more so than in the so-called under-developed areas and in countries interested in the future of those sections of the globe. The United Nations, its specialized agencies and its membership also have shown a keen awareness of the importance of Mr. Truman's statement.

Summed up Point 4 declares that: "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of under-developed areas. . . . Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens."

Mr. Truman also called for an international pooling of skills when he said: "We invite other countries to pool their technological resources in this undertaking. Their contribution will be warmly welcomed. This should be a co-operative enterprise in which all nations work together, through the United Nations and its specialized agencies wherever practicable." Co-operation on the part of "business, private capital, agriculture, and labor in the United States, so that this program can greatly increase industrial activity in other nations and raise living standards substantially", was also asked by the President.

On January 26, 1949, the day following Mr. Truman's inauguration, Ernest Bevin, Foreign Secretary for the United Kingdom, stated that: "We welcome Mr. Truman's statement, that we shall join with them, that we will throw into the pool

all the knowledge, ability and resources we have at our command." In a discussion of the importance of the program called for Mr. Bevin pointed out; "the Western World's achievements have not been adequately reflected in the lives of the people of Asia and Africa." In this regard, he remarked, "argument is not the answer to Communism. A good standard of life and happiness in association with Western Civilization is probably the greatest contribution we can make."

Certainly no one familiar with the trend of world affairs or the difficulties of establishing a development program, such as that outlined in Point 4, expected it to be followed immediately by adoption of radical measures. Overnight, Point 4, or any other idea cannot make a paradise of all the swamps and deserts of Africa and Asia. Nor to the millions of starving people in the old hemisphere can it provide three full meals a day or the other items of comfort so familiar to citizens of this happy country.

It would be most unwise to expect sudden miracles from any plan drawn to implement Point 4. The actual job, which is expected to cost about \$100 million, will take years before it shows material results. It is a long and arduous task of educating and training people in both the exacting and simple skills required for a well balanced technical working population.

The United States Government has requested the United Nations to explore the feasibility of a program along the lines described in the President's address. An initial meeting was held at Lake Success on March 18. In attendance were Mr. Trygve Lie, Secretary General, and representatives of such specialized agencies as the World Bank, the International Monetary Fund, the Food and Agriculture Organization and others. Further meetings have since been held in Washington with representatives of the United States Government.

A report on the matter is to be presented to the Economic and Social Council of the United Nations at its next session commencing July 5 at Geneva, Switzerland. What this report will find and recommend it is much too early for me or any other observer to predict at this time.

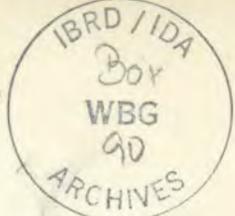
I should like to point out that Point 4 is not the first evidence that those in high positions recognize the urgent need for finding a sound approach to the problems of developing the economies of the less-developed countries of the World. Long before the close of the last war distinguished authorities came to the conclusion that some organization would be required to assist in postwar reconstruction. They also realized that the same organization should have development as an equally important function. The results of this thinking were the Bretton Woods Conference in the early summer of 1944, which in turn brought forth the International Bank for Reconstruction and Development.

Taghi Naer

Dr. Naer

December 8, 1949

Radi address



As our Government is seeking assistance from the International Bank for the execution of some of the projects included in the Seven-Year Plan, I believe it is appropriate for us to become a little more familiar with the Bank's organization, aims and methods.

I shall begin by bringing to your attention that the International Bank, or as its full title stands, the International Bank for Reconstruction and Development, neither belongs to any individual country nor is run by any single government. To date, 48 nations have contributed to the Bank's capital and all of these 48 nations are participating in its administration. As a result of this international character, the International Bank does not interfere in any way in the political affairs of a member country.

largest stockholder

The Bank's authorized capital is fixed at \$10 billion, divided into shares of \$100,000 each. So far, more than \$8 billion of this capital has been subscribed to by the 48 member countries. Participation in the Bank's capital varies from one country to another. For instance, the United States ^{the Bank's} has committed itself to the largest part of the capital, namely, to over \$3 billion, while Panama's share is only \$200,000. Iran's participation amounts to \$33,600,000. Every member country has been called to pay 20 percent of its capital subscription but the remaining 80 percent cannot be called except when all or some part of it is needed to meet the Bank's own obligations. In reality, that 80 percent forms a reserve which gives the Bank an extra protection.

As its capital, the Bank's organization is also of international character. All powers of the Bank are vested in a Board of Governors, composed of one representative from each country. All decisions of the Board are taken by a majority vote. Every country has a minimum of 250 votes, plus a vote for each share it has subscribed to the capital stock of the Bank. Thus, Iran has a total of 586 votes.

The Board of Governors normally meets once a year, but may call more meetings if necessary. These meetings could be compared to those of the general assemblies of stockholders of a private company. The Board of Governors has delegated the largest part of its authority to a Board of Directors composed of 14 members. Five of these Directors are appointed by the five largest stockholders of the Bank, consisting of the United States, the United Kingdom, France, China and India. The other nine are elected by the composite votes of 2 or more countries. Thus, 7 countries of the Middle East - namely, our country, Egypt, Ethiopia, Iraq, Lebanon, Syria, and Turkey - have combined their votes to elect one Director to represent all of them together.

One may now ask, "What was the real motive which brought such a large number of countries to create the International Bank?" This is a pertinent question, but we do not have to look too far for its answer. The miraculous technical progress which has been achieved since the invention of the steam engine and most specially during the life of the present generation, has increased immensely the production facilities of the leading countries. We can almost say that today there is no limit to the amount of merchandise of all kinds that can be produced by the well developed industrial countries of the World.

However, this gigantic capacity to produce can be used only as long and as much as there are people with possibilities to buy what is being produced. In other words, the dominant problem in the minds of the directors of the hugh steel mills, automobile factories, chemical plants, etc., is the same that occupies the minds of our own producers of cotton goods, carpets, or fruits. That problem is where to find a customer who may afford to buy their products.

Learning their lessons by the bitter experiences of the economic crises preceding World War II, the advanced countries of the World have reached the conclusion that in today's world, the economic well-being and progress of each single country is related to the economic well-being and progress of all other parts of the World. The richer the World, the better each country can find a customer for its surplus production. Or, as an eminent American put it, it has been proved that "the World cannot exist half skyscraper and half rubble".

Once having agreed upon this general principal, the question was to find ways and means to help towards the reconstruction of the war-devastated areas of the World and to help towards economic development of countries which are not taking full advantage of their natural resources. The creation of the International Bank is one of the solutions, and so far, the most important solution found to this question. The function of the Bank is to guide and facilitate the flow of investment for productive purposes on a worldwide basis. The Bank promotes private foreign investment by means of guarantees or participation in loans and other investments made by private investors. When private capital is not available on reasonable terms, the Bank finances the productive projects of its member countries out of its own capital or with funds that it borrows itself. That is why the Bank can be of great assistance to countries like ours, which are in need of long term capital to develop their natural resources.

This short explanation leads to two principal conclusions. The first conclusion is that the International Bank is not at all a relief agency. As a matter of fact, in its current operations, it works as an ordinary banking organization. It lends money only when it has been assured that it is going to be able to get it back, capital and interest -- and that is not all. The Bank wants also to be sure that the money loaned is going to be spent on specific projects with definite economic advantages, such as, projects to raise the country's agricultural or industrial output, to improve its power and transportation facilities, and so forth. That is why the Bank, before making its decision, sends its own missions to every country which is applying for a loan. But if a project satisfies the Bank's requirements, it does not matter if the loan is asked for by a government or a private concern. Only if a private concern receives the loan, the respective government of the member country has to guarantee the execution of the terms of the loan agreement.

The second conclusion is that the Bank comes into the picture where the member country cannot obtain private capital on reasonable terms. In its own financing, the Bank is not limited in the amount of its loans to its capital. To procure additional resources, the Bank issues bonds which the private investors, aware of the sound business-like operations of the Bank, are now buying at premiums.

Up to December 1, 1949, the International Bank has granted loans totaling about \$731 million, has borrowed about \$254 million from private investors, and shows a profit of about \$18 million.

Up to almost a year ago, most loans granted by the Bank were intended for reconstruction of areas devastated by the War -- mainly, countries on the continent of Europe. Since then, the Bank's attention has been directed mostly toward the under-developed areas of the World. A few loans have been granted already for the development of natural resources in some of the countries in South America and Asia. Other loans of the same type are being processed in the Bank right now. We Iranians, considering the large natural resources of our country, cannot but hope that the International Bank will continue on its present trend and, if possible, extend still further its helping hand towards the under-developed areas.

Radio Address by Dr. Taghi Nasr,
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