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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

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Policy Issues of Importance - Correspondence 05

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FROM: The President

Date: 11/15/2010 STB

July 6, 1953

STATEMENT ON INTRA-EUROPEAN INVESTMENT

1. The problem of intra-European investment, together with the proposal to create a European investment bank, has been under study by the OEEC for some time through a special group, Working Party No. 7, created by the OEEC Council. Prior to the Bank's Annual Meeting last September, in Mexico City, I advised the Board that I intended to discuss this subject with the Governors of the European countries concerned and, after the Meeting, a summary of the discussion was circulated to the Board (Secretary's Memorandum No. 845). A few months later, Mr. Hoar, speaking to the Executive Directors on January 13, 1953, referred to the current status of the OEEC consideration of the proposed European investment bank and mentioned that Mr. Hill had answered a number of broad questions on the activities of the Bank which had been put to him by Working Party No. 7. These answers are attached to the present memorandum.

2. Working Party No. 7 concluded its report to the Council of the OEEC in April. The report is now being considered by various OEEC committees and will probably be taken up by the Council at ministerial level next September or October. The report itself is a fairly brief document. It has three annexes, two of which deal with the suggestions and proposals of the Italian, French and Belgian experts, while the third contains Mr. Hill's replies to the questionnaire addressed to him by the Working Party.

3. The Working Party devoted its attention mainly to the new mechanisms through which investment of available funds could be facilitated. The experts reached no agreement on the French proposal for setting up a European investment bank with a capital subscribed by the governments. On the other hand, exclusive reliance on expanded Bank activity in Europe, advocated by the British expert, did not command unanimous support. Some experts thought that new institutional arrangements, based on Italian and French suggestions, were necessary to facilitate the expansion of Bank activity in Europe. In his capacity as an observer, Mr. Hill has consistently taken the position that intra-European investment depends more on the ability and willingness of European countries to make capital available than on institutional solutions. The Working Party recognized the scarcity of European resources for investment but offered no constructive proposals to mitigate it.

4. The report states explicitly that the conclusions of the Working Party represent a compromise. They propose that, in the field of investment financing, the cooperation of the member countries of the OEEC among themselves and with the Bank should be strengthened, by establishing within the OEEC an Advisory Investment Board in which the

Bank would participate. The Board would examine investment projects submitted by governments (possibly after a scrutiny by banking syndicates formed on a national basis), evolve appropriate methods for financing them and endeavor to secure means of financing. No element of compulsion would be attached to the scheme and the member governments would remain free to negotiate with the Bank without passing through the Board.

5. To my mind, the conclusions of the Working Party do not call for any action on the part of the Bank. In the absence of any indication that the European governments concerned intend to endorse the recommendations made by the experts in their personal capacity, I do not propose to pursue the matter further. The Bank's interest in lending for European investment, and its readiness to explore ways and means by which it can best operate in Europe, have long been on record.

Eugene R. Black

Washington, D. C.
July 6, 1953

REPLIES TO QUESTIONNAIRE ADDRESSED TO MR. HILL
BY MR. J. F. CAHAN, ON BEHALF OF WORKING PARTY NO. 7

Question 1

Does the I.B.R.D. feel that, as a principle of banking practice, there is a global limit on the total of its borrowing and lending operations year by year? Does it proceed in accordance with the same principles, and in particular to ensure a good spread for its loans, with regard to the total amount that may be lent to any one borrowing country, either absolutely or, for instance, as a fixed percentage of what it considers is the creditworthiness of a borrower?

Answer

The Bank stands ready to finance all bankable projects within the scope of its operations presented to it by creditworthy borrowers and/or guarantors. The Bank does not fix annual quotas for its overall lending operations; nor does it establish limits for loans to any particular country except on grounds of creditworthiness. The volume of the Bank's borrowing operations at any given time is determined by market conditions and the Bank's need for loanable funds.

As only a small part of the Bank's capital is available to it for lending purposes, the Bank must obtain the bulk of its loanable funds by means of borrowing. It is therefore true to say that in the end the Bank's lending ability is dependent on its ability to borrow. The Bank's credit is, however, firmly established and the availability of funds has not been, and is not expected to be, a limiting factor in the Bank's lending operations.

The foregoing is subject to one qualification. The bulk of the Bank's loanable funds consists of United States dollars and some of the Bank's members have only a limited capacity to service dollar debt, whereas they could more easily assume obligations in European currencies. The availability of European currencies (whether resulting from releases of 18% payments or from borrowing operations by the Bank) will therefore greatly affect the amount of the Bank's lending to those members.

Question 2

Are decisions of the Board of the I.B.R.D. required to be unanimous? And if Board decisions can be taken by majority, what majority is required and what, in fact, is the practice in this regard?

Answer

Subject to a few exceptions which are not relevant in this connection, all matters before the Bank are decided by a simple majority of the votes cast in a meeting at which a quorum is present. Each Executive Director is entitled to cast the number of votes of the Member Government or Governments by which he was appointed or elected. Each member of the

Bank is entitled to 250 votes plus 1 vote for each share of \$100,000 of the capital stock of the Bank held by it.

In practice, the Executive Directors (the Board) have nearly always acted unanimously.

Question 3

Is the I.B.R.D. required by its Statutes - or is it in fact the usual practice of the Bank (thus reflecting normal United States banking policy and practice) - to grant only loans which are tied to specific investment projects or commodity purchases or intended to meet specific balance of payments problems? To what extent can and does the Bank make "local currency" loans?

Answer

It is the purpose of the Bank to facilitate and encourage the investment of capital for the reconstruction and development of the productive resources of its members. In pursuance of this objective the Bank has made loans which have differed considerably in form, ranging from loans to enable individual enterprises to carry out specific capital investments to loans based on a broad programme of national development. At one end of the scale there is, for example, the loan made directly to Brazilian Traction Light and Power Company for the expansion of its generating capacity. Less direct were the loans made to the Government of Iceland to provide part of the cost of imported equipment needed for two hydro-electric plants and to the Bank of Finland for the modernization and expansion of the productive capacity of a number of companies operating in the wood-working industries. In these last two cases the borrowers relent the proceeds of the loans to the companies who were actually carrying out the projects. At the other end of the scale are the loans made to Denmark, France and the Netherlands in 1947 which enabled these countries to issue import licences for a wide variety of goods and equipment needed for general reconstruction. Another example of a general loan is the loan of \$10 million made in 1951 to Italy to cover part of the import needs arising indirectly from expenditures on the Ten Year Plan for the development of the South of Italy. Any loan which provides a borrowing country with foreign currency with which it is to pay for some of its essential import needs obviously assists its current balance of payments position. More fundamental, however, is the policy of the Bank in favoring those projects which help the borrowing country to improve its long-term balance of payments position. The Bank is, in fact, prepared to consider any loans which fall within the scope of its general purposes.

The Bank is empowered to make loans for local currency purposes only in exceptional circumstances. The Bank has, in fact, made several loans which have had the effect of providing foreign exchange to meet the impact of local expenditures occasioned by a broad programme of development in the country concerned, as, for example, the loan to Italy cited above. There may also be other situations of a different kind in which the Bank would feel justified in making loans for local currency purposes.

Question 4a

Are the studies in connection with loan requests and investment projects carried out exclusively by the Bank's own staff? Or does the I.B.R.D. consult with and call on the services of bankers in the borrowing country? And, if so, to what extent?

Answer

The Bank makes it a practice, as part of its study of possible lending operations in a given country, to consult with members of the financial and business community of the country in question. Furthermore, bankers in the borrowing country or elsewhere have on occasion suggested or recommended projects to the Bank for financing. Finally, some of the Bank's borrowers have at the Bank's suggestion or on their own initiative engaged the services of banking advisers to assist them in the preparation and handling of loan requests.

In the usual case the investigation and study of loan requests is handled by the Bank's regular staff or by consultants (mostly in technical fields) hired by the Bank for the purpose. There is, however, one type of loan made by the Bank in which a different method is followed. The Bank has made loans to various credit institutions (the Herstelbank of the Netherlands, Industrial Development Banks in Turkey and Ethiopia, and a consortium of Mexican commercial banks) to finance foreign exchange needs in connection with industrial projects. These loans are essentially lines of credit against which these institutions draw for the purpose of making loans to their clients for projects approved by the Bank. In this type of loan the projects are examined and recommended for financing by the credit institution concerned, and the Bank bases its decision principally on the information gathered by the credit institution.

Question 4b

Does the I.B.R.D. enter into any commission sharing arrangements with local bankers, e.g., in connection with the granting of loans, the issuance of bonds, disbursements under the loan or in connection with interest and repayment instalments?

Answer

The following can be said with respect to dealings between the Bank and local banks:

(i) Granting of loans

In a few instances, private banks have agreed with the Bank in advance to take a participation in a loan to be granted by the Bank. For example, in March 1952 the Chase National Bank of the City of New York took a 50% participation in the Bank's \$7,000,000 loan to K.L.M. (Royal Dutch Airlines). No participations in the Bank's loans have been taken by bankers in the borrowing country, although frequently a loan by the Bank supplements a local currency loan raised by the borrower from local banks. Reference is also made to the loans made by the Bank to credit institutions, described in the answer to Question 4a.

Promotion of private foreign investment being one of the Bank's major aims, the Bank has welcomed recent discussions with bankers in Europe and elsewhere of the possibility of joint action in financing suitable projects. It will continue to explore the possibilities of effective collaboration with interested institutions.

(ii) Portfolio sales

While there have as yet been only a few instances in which private banks participated directly with the Bank in a loan to be granted, the Bank has had a large number of dealings with various financial institutions, both public and private, under which these institutions purchased from the Bank, with or without the Bank's guarantee, portions of loans made by the Bank. The Bank has made such portfolio sales in the United States, Canada and a number of countries in Europe and Asia, some of whom are borrowers from the Bank. With one exception, however, no portion of any loan was sold to a financial institution in the borrowing country.

(iii) Disbursement

Another field in which the Bank enters into contact with the banking community is that of the disbursement of the Bank's loans. In many cases borrowers open letters of credit in favor of suppliers through commercial banks in the supplying country. Sometimes these letters of credit are issued on the basis of an agreement by the Bank to reimburse the commercial banks for payments made thereunder.

The letter of credit procedure is a convenience to the Bank and its borrowers because the examination by the commercial banks in the ordinary course of their operations of the documents against which payment is made greatly simplifies the Bank's disbursement supervision.

(iv) Bond issues

The Bank has made public offerings of its securities in the United States, Canada, the United Kingdom and Switzerland. In all cases these offerings were made through the intermediary of local financial institutions who either acted as the Bank's agents or purchased the securities from the Bank for resale to the public. In addition, several of the Bank's dollar issues were introduced on the stock exchanges of Paris, Brussels and Amsterdam through the intermediary of leading banking institutions in the respective financial markets. The Bank has appointed paying agents in all markets where it has issued securities or introduced its outstanding securities on the stock exchange. In some instances the central banks of the countries concerned act as the Bank's paying agents; in others, commercial or investment banking institutions have been appointed paying agents.

Question 5

Would the Bank be able to commit itself in advance, and enter into legal agreements with its European Member Countries, or with other countries associated with them, regarding the following matters:

- (i) that certain funds raised by the Bank in Europe - including drawings on the 18% subscription of European countries - would be used exclusively for the granting of loans in the E.P.U. currency area;
- (ii) that, when making a loan out of such funds, the Bank would consult with and in general follow the advice of a European body, such as the Managing Board of the E.P.U., the Council of O.E.E.C., or the Council of the proposed E.I.C.;
- (iii) that bonds issued by the Bank in Europe (whether previous or new issues) would have the same privileges regarding transferability as would be enjoyed by the loans issued through the proposed E.I.C., it being understood that such privileges might be suspended either wholly or partly in an emergency without the concurrence of the Bank in the decision;
- (iv) if such agreements are legally possible, would they, in fact, be politically acceptable or desirable?

Answer

(i) Under its Articles of Agreement the Bank has certain legal rights with respect to the transferability and use of its currency resources, including 18% currencies and borrowed funds. These provisions leave unaffected, however, the freedom of the Bank to allocate its loanable funds. The Bank could appropriately decide in advance that certain funds to be raised by it would be loaned only in a particular area or for particular purposes. The Bank could also raise funds for the specific purpose of carrying out a single lending operation.

In practice, the Bank is already proceeding along these lines. Being very much aware of the limited creditworthiness in dollars of many European and sterling area countries, the Bank is rationing its European currency resources for use in loans to these countries. The Bank also recognizes the possible impact on a member's reserves of a release of 18% currency and understands that in many cases such a release will have to be restricted to the use of the currency for payments within the territory of the member concerned.

(ii) If an existing or new organization were to be charged with responsibilities in the field of European investment, it would be entirely in accordance with the Bank's policy to consult with such an organization. The Bank would also hope to be able to give great weight to the recommendations and advice of such a body. It should be clear, nevertheless, that the Bank would have to reserve full freedom as to its final decision, which must remain the responsibility of its Executive Directors.

(iii) and (iv) Once a security had been issued by the Bank, the Bank would undoubtedly wish to adhere strictly to its terms and conditions and the Bank could not, without injuring its credit, agree to any arrangement which would envisage the variation of such terms and conditions. On the other hand, if the members were willing to extend to issues of the Bank special privileges (which would not form part of the terms and conditions of those

issues and would be in addition to any undertakings assumed by the Bank therein), the Bank might find such assistance helpful even if the members were to reserve the right to discontinue such privileges in an emergency.

Question 6

Do the Statutes of the I.B.R.D. permit it to make loans to international bodies, e.g., the Schuman Pool or the European Defence Community, without the specific guarantees of their Member Governments as debtors? And if the granting of such loans is legally possible, would they, in fact, be politically acceptable or desirable?

Answer

The Bank could not make loans to an international organization without the guarantee of one or several or all the members of the organization.

Under the Bank's Articles of Agreement the Bank may accept guarantees of central banks or comparable agencies of members in lieu of government guarantees but it has never yet done so in practice.

Question 7

To what extent and under what conditions do the Statutes of the I.B.R.D. permit it to make a loan to a country which is a member of the E.P.U. solely for the purpose of alleviating that country's position in E.P.U.? Could the I.B.R.D., for example, borrow in an E.P.U. creditor country and lend to an E.P.U. debtor country without tying the transaction to any specific investment project? And, if legally possible, would such a transaction be politically possible or desirable in practice?

Answer

While it would not be within the proper scope of the Bank's activities for it to undertake a short-term operation merely to alleviate unbalanced E.P.U. positions, the Bank can help make the E.P.U. payments mechanism operate more smoothly by financing investment projects to correct present intra-European unbalance. Moreover, the Bank is prepared to take E.P.U. positions into account in determining currencies to be disbursed, in an effort to assist in meeting immediate E.P.U. problems. For example, if the Bank has available several E.P.U. currencies which could be used to finance a particular disbursement and it is immaterial to the borrower in which of the available currencies he is indebted, the Bank would normally disburse the currency of an E.P.U. creditor rather than of a debtor, thus reducing E.P.U. creditor positions. Similarly, the Bank stands ready to consider borrowing operations in countries which are normally E.P.U. creditors with the proceeds to be used for disbursement in other E.P.U. countries, provided, of course, that the borrowing operations can be accomplished on reasonable terms.

Question 8

Would the I.B.R.D. be prepared to issue bonds - denominated either in dollars or in European currencies - carrying a fixed gold or exchange clause?

Answer

There is no statutory objection to the issuance by the Bank of bonds carrying a gold or fixed exchange clause. Whether the Bank would be prepared to issue a loan with such a clause would depend on a number of factors to be considered at the time a specific proposal were presented. Among these would be the existence of favorable market conditions for such an operation, the support of the government in whose country the issue was to be made and the possibilities for the Bank to lend the proceeds quickly. In that connection, it should be borne in mind that in order to protect itself, the Bank in lending the proceeds of such an issue would have to cover itself by requiring its borrowers to make repayment of capital and to pay interest on the basis of a similar clause. Therefore, the position of the borrower should be such as would justify his assuming an obligation of this sort.

Question 9

Would the Bank be able - and if so, would it be prepared - to delegate to its representatives in Europe the power to make binding decisions concerning European loan proposals? Or would all negotiations have to be carried on wholly or partly in Washington and be subject to approval by Washington? Does the Bank still consider that the establishment of an office in Europe, with executive powers, is unnecessary or undesirable?

Answer

Loans require the approval of the Executive Directors who function at the Bank's headquarters in Washington. In fact, however, a great deal of the work of the Bank is carried on in various Member Countries, sometimes including important negotiations. The Bank has constantly under review the need for adapting its organization to meet changing conditions, and the recent formation of geographical Departments of Operations, including one specially concerned with Europe, is evidence of the Bank's desire to promote the closest possible collaboration on a regional basis. The Bank's organization is sufficiently flexible to make possible whatever changes are needed to handle the Bank's activities expeditiously in accordance with the needs of its Member Countries.

Question 10

If the Franco-Italian proposals are put into operation, could the I.B.R.D. be represented on the Council of the E.I.C., and, if so, in what capacity? Further, in this event, could the I.B.R.D.:

- (i) undertake an engagement guaranteeing automatic participation, up to a fixed lump-sum amount and for a certain defined percentage, in business approved by the Council of the E.I.C.? And, in general, could it agree to participate in such business on the same basis as Member Governments?
- (ii) agree to make a subscription itself to such loans or to take a share in the placing of bonds or in general to enter into "stand-by" agreements with regard to individual loan projects approved by the Council, so as to facilitate subscription of the bonds agreed to?

Answer

The Bank is ready to cooperate actively with any agency which can play a useful role in furthering productive intra-European investment. If the E.I.C. were to be established on a basis which would permit it to play such a role, the Bank could participate either as an observer or in any other capacity appropriate to the organization which may be created.

(i) The Bank could not commit itself to make loans or to participate in loans on the judgment of some other body. It might be possible, however, to work out an arrangement somewhat analogous to that followed by the Bank when it makes loans to development banks. These banks examine projects from a technical, financial and economic point of view and send brief particulars to the Bank. The Bank has been able to rely increasingly upon the recommendations of the development banks in deciding whether to approve submitted projects.

(ii) The Bank could participate in loans for projects by the E.I.C., provided the Bank found that their purposes and terms fell within the general pattern of its lending operations and that they were otherwise satisfactory. Guaranteeing loans made by private investors is one of the ways in which the Bank was intended to operate, although so far no suitable propositions of this sort have come up. There is thus no reason in principle why the Bank could not guarantee all or a portion of a bond issue sponsored by E.I.C. In cases where the Bank would be prepared to make or participate in a loan, there is equally no reason in principle why the Bank could not undertake a stand-by commitment.

Question 11

Are there any comments on the merits - in theory or in practice - of the Franco-Italian proposals?

Answer

The answers to the preceding questions suggest that virtually all of the suggestions contained in the Franco-Italian proposals are compatible with the Articles of Agreement of the International Bank, and with the procedures and methods used in the Bank's operations. Moreover, it emerges from the answer to Question 10 that the Bank is ready to cooperate actively with any agency that can play a useful role in furthering productive intra-European investment.

The extent to which the Bank or the Franco-Italian proposal could promote desirable capital movements within the E.P.U. area, however, would not seem to depend on the technical competence or willingness of the Bank, or on the erection of a new mechanism, but on the willingness and ability of Member Countries to make available capital in one form or another and to sponsor suitable loan projects.

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Date: 11/15/2010 STB

January 6, 1953

UNITED STATES-INTERNATIONAL BANK RELATIONS

The International Bank was originally conceived by, and organized under the leadership of the United States; support of the Bank has ever since been an integral part of United States foreign economic policy. As a major source of loan funds for international investment, the Bank's operations are obviously closely related to the policies and activities of United States agencies concerned with foreign economic aid.

The purpose of this memorandum is to describe briefly the nature of the Bank and its operations, to explain the relationships between the Bank and United States programs in the foreign economic field as they have developed over the years, and to set forth some policy problems affecting the Bank which remain to be resolved.

I. Organization and Operations of the International Bank

The Articles of Agreement of the Bank were drafted at Bretton Woods in July 1944, and the Bank actually commenced operations in June 1946. Under the Articles the Bank operates as an autonomous intergovernmental corporation, with all of the capital stock held by its 54 member governments. The subscribed capital amounts to the equivalent of slightly more than \$9 billion, of which the equivalent of \$1.8 billion has been paid in. The United States has subscribed to capital shares aggregating \$3,175 million, or slightly more than 35% of the total subscribed capital, and it has paid in \$635 million on its subscription.

All important policy decisions of the Bank are subject to approval by

a Board of 16 Executive Directors, each of whom represents one or more of the stockholding governments; the voting power of each Director is roughly proportional to the amount of stock held by the government or governments he represents. The Executive Directors function much like the Board of Directors of any private corporation. Subject to the policy decisions of the Board, actual conduct of the Bank's operations is the responsibility of the President and an international staff appointed by him.

Since the start of operations, the Bank has made 75 loans aggregating about \$1.5 billion. These loans were made to help finance more than 250 projects in 28 countries, the projects consisting primarily of the construction or extension of such basic productive facilities as electric power, transportation, irrigation and flood control. The Bank's charter requires that all loans must be either to a member government or one of its agencies, or else must be guaranteed by the government or central bank of the country in which the project is located. Although this requirement limits Bank lending in the private field, the Bank has made several government-guaranteed loans to private enterprises, chiefly public utilities.

All payments of principal and interest have been received from borrowers as due. The Bank has accumulated reserves of around \$95 million. For the last fiscal year its net income was in excess of \$15 million and for the current fiscal year is expected to be around \$20 million.

Most of the Bank's lending has been in United States dollars, but particularly in the last two years a number of other currencies have become available for lending. In addition to United States dollars, the Bank has made loans utilizing the currencies of Belgium, Canada, Denmark, France, Italy, the Netherlands, Norway, South Africa, Sweden, Switzerland and the United

Kingdom; however, only modest amounts of some of these currencies have been made available. The Bank's loan funds are derived primarily from two sources - payments on capital subscriptions to the Bank,* and the sale of the Bank's own obligations to private investors. The Bank has issued its bonds in the United States, British, Canadian and Swiss markets; the total amount of the Bank's securities now outstanding is the equivalent of \$567.5 million, of which all but \$57.5 million are U. S. dollar obligations. The Bank also replenishes its funds through the sale to investors, both in the United States and other countries, of securities it receives from its borrowers in connection with loans; some of these portfolio sales have been made with the Bank's guarantee and some without.

At the end of the fiscal year ended June 30, 1952, the funds disbursed by the Bank or immediately available for disbursement amounted to the equivalent of nearly \$1.5 billion. Of this, the equivalent of \$375 million - or about 25% - was received from, or borrowed in, countries outside the United States.

In addition to lending operations, the Bank has provided a substantial amount of technical assistance to member countries at their request. It has organized a number of general survey missions which have analyzed the economies of various member countries and have made recommendations for

*Under the Bank's charter, each member government pays 2% of its subscription in gold and dollars, which is freely available for lending. An additional 18% of the subscription of each member is payable in its own local currency, but is available for lending only with its consent. The remaining 80% of each member's subscription is not available for lending but is subject to call, if and as needed, to meet the Bank's own obligations.

long-term development programs including programs of public investment. In addition, the Bank has provided individual experts to advise on various important development problems, in particular on the mobilization of local capital through the creation of local financing institutions or the marketing of domestic securities.

II. Relations with U. S. Foreign Economic Agencies

(a) The Export-Import Bank

In the immediate postwar years, reconstruction of Europe was the first concern of the International Bank. It shortly became apparent, however, that the magnitude of the task was far beyond the scope of the Bank's resources and required a type of extraordinary financing not appropriate for an investment institution. With the launching of the Marshall Plan, the Bank's lending for postwar reconstruction purposes ceased and it has since devoted its attention to development financing.

During the period while the International Bank was being organized and getting into operation, the Export-Import Bank (Eximbank), in response to calls from a number of underdeveloped countries, entered the field of development financing. As the International Bank's operations grew, and in the absence of any clear delineation of the respective roles of the International Bank and the Eximbank, conflicts inevitably occurred. Some of the underdeveloped countries tried to play the two institutions off against each other and thus to undermine the influence of each. Moreover, the International Bank was concerned that any lending program which it might pursue in any particular country, based on its assessment of that country's debt servicing capacity, might be upset by subsequent loans by the Eximbank,

perhaps motivated by other than strictly economic considerations.

In discussions which took place early in 1951 between United States and International Bank officials on this matter, the United States reaffirmed that it regarded the International Bank as the primary source of development financing. The International Bank management suggested that this principle should be expressly defined to restrict Eximbank developmental loans to: (a) loans to nonmembers of the International Bank; and (b) in the case of member countries, those few situations where Eximbank lending was recognized by all concerned as more appropriate than International Bank lending as, for example, financing the completion of a project initially financed by the Eximbank, or financing a project of strategic interest to the United States which special considerations might make inappropriate for International Bank financing. The International Bank management further suggested that, should there be any other exceptional situations in which unusually urgent political considerations impelled the United States to make loans which would normally be appropriate for the International Bank, the United States should recognize a responsibility to carry out the transaction in a way which would not impair any development program the Bank was financing or the financial basis on which it rested. Finally, the Bank's management proposed that, as a matter of procedure to implement the foregoing principle, all applications for development loans for projects in member countries of the International Bank should normally be first considered by the International Bank.

Although there was no formal acceptance of this proposal by the United States, it represents, with some exceptions, the general pattern that has since been followed in specific situations as they have arisen. Nonetheless,

there have been recurrent difficulties in countries in which both banks have been operating, indicating that a further definition of functions is needed. Even in countries not members of the International Bank, it has become clear that Eximbank lending, to the extent that it is on more favorable terms than the International Bank can provide, places a premium on nonmembership in the Bank and in the International Monetary Fund.

A new look at the whole question of relationships between the International Bank and the Eximbank seems plainly desirable. The management of the International Bank would welcome an opportunity to discuss this matter with the new administration.

(b) MSA and TCA

While to date much of the activity of MSA and TCA has been outside the scope of the Bank's operations, both agencies are engaged in financing development projects in some underdeveloped countries in which the Bank is also operating. Coordination of MSA and TCA development financing with Bank financing is clearly necessary, not only to avoid the possibility of working at inconsistent or cross purposes, but also to assure that aid from both Bank and United States sources is used with real effectiveness.

This is particularly true in the many countries where the greatest development need is not external capital, but domestic action, whether in connection with the amount or direction of public investment, the determination of fiscal policy, the adoption of administrative reforms, or other similar matters. In such countries, external aid is apt to be of most effect if it is used as an inducement to secure adoption of the necessary local measures; it is therefore important that all external aid to such countries be conditioned on the same standards of domestic performance.

To date, no specific criteria have been established to differentiate the development role of TCA or MSA, on the one hand, and the Bank on the other, nor has any formal mechanism been created to secure coordination. Nevertheless, it has been possible in most cases for the Bank and MSA or TCA to reach agreement on the general objectives to which economic assistance in a particular country should be directed, and to work out a satisfactory division of projects within that broad program. It must be recognized, however, that up to now the development financing done by MSA and TCA in most underdeveloped member countries of the Bank has been limited in amount. **If** substantially greater funds should be made available for development investment by the United States, the question discussed below of the relative desirability of international as against national administration of such aid would be sharply raised. To the extent that the administration remained national, the need for coordination would be greatly intensified and, at the same time, the task of achieving it would become more difficult.

III. The International Finance Corporation

In April 1951, in its report, Partners in Progress, the U. S. International Development Advisory Board under the chairmanship of Mr. Nelson Rockefeller proposed, after consultation with the Bank's management, establishment of an International Finance Corporation (IFC) to be organized as an affiliate of the International Bank. The objective of IFC would be to promote development of the private sector of the economies of underdeveloped countries through making equity investments in, and loans without government guaranty to, private productive undertakings - functions which the International Bank does not and, under its charter, cannot appropriately perform. The IFC would be a financing, not a management, agency; as a matter of policy,

it would not acquire a controlling equity interest in the undertakings in which it invested, nor would it undertake other management functions.

The capital of the IFC would have to be provided by governments. The Rockefeller report suggested that the authorized capital should be \$400 million, and that the United States subscription should be \$150 million. It suggested further that only one third of the capital should be initially paid in, the remainder being subject to call as needed.

Since the proposal for an IFC was first made, interest in it has grown steadily. In a preliminary report on the matter to the UN Economic and Social Council last April, a copy of which is attached to this memorandum, the Bank's management outlined the main reasons for believing that the IFC would be able to give a substantial stimulus to private international investment.

In discussions of the report at the Bank's recent annual meeting and at meetings of various United Nations organs, virtually all the underdeveloped countries and some of the more developed countries strongly endorsed the proposal. The Economic and Social Council has requested the Bank to explore the matter further and to report at the Council's next meeting on the results of its consultations with member governments and the action proposed to be taken.

As yet the United States has taken no final decision on the proposal. The matter was considered by the Congress at its last session in connection with the Mutual Security Act of 1952. The bill as it passed the House contained a provision authorizing up to \$100 million to be used for a capital subscription to the IFC. The House-Senate Conference Committee, although it eliminated this authorization from the final version of the bill on the ground that it was "premature", expressly stated in its report that it regarded the provision as "desirable". In public debate at the United Nations and at the annual meeting of the Bank, the United States' position has been

that further study and investigation are required before any decision can be made. This position has been dictated primarily by the sharp divergence of views which has existed within the executive branch of the government, as well as within the U. S. investment community, on the proposal. Opponents of IFC, centering on the equity investment feature, have urged that it is wrong in principle to use public monies to participate in ownership of private undertakings. Proponents of IFC, on the other hand, have pointed to the undoubted advantages of an increase in private international investment and have stated their view that IFC would succeed in stimulating such an increase. Since United States participation is essential to the successful organization and operation of the proposed IFC, the Bank has held off any further action with regard to the proposal pending an opportunity to consult with the new administration.

The management of the Bank regards an early decision on the proposal as a matter of some urgency. Unless some way is found to attract additional private capital into the less advanced countries, the governments of those countries will find it increasingly necessary to establish and operate productive enterprises themselves. In view of the support the proposal has generated among the underdeveloped countries, the IFC might offer one means of reversing this trend. Although the reaction of representatives of business and investment communities is mixed, such investigation as the Bank has been able to conduct has led the Bank's management to believe that IFC would be sufficiently attractive to private investors to warrant its establishment. The management hopes, therefore, that it will have an opportunity in the near future to review the matter in detail with the appropriate United States officials.

IV. Other Policy Questions

Recurrently during the past few years, almost always when U. S. foreign aid programs were under executive or congressional review, two questions have been raised which are of vital importance to the Bank. The first has been whether additional aid, instead of being in the form of grants, should be in the form of long-term, low-interest rate loans, as a means of possibly realizing for the United States some eventual return on the aid provided. The second has been whether international or national channels should be utilized in carrying out various phases of U. S. foreign economic policy. The management of the Bank has, on a number of occasions, stated its view on each of these questions.

(a) Long-Term, Low-Interest Loans

The Bank's management has expressed strong opposition to the proposal for extending aid in the form of long-term, low-interest rate loans. It has pointed out that such loans are only pseudo-loans - in substance, they are part loan, part grant. They have the basic disadvantage that they are not normally regarded as serious debt obligations; as a consequence, they tend to impair the integrity of all international credit operations and involve the risk of embittering rather than cementing intergovernmental relationships. And they accomplish nothing that cannot be equally well accomplished by a judicious combination of grants and real loans. The management of the Bank believes that development loans should be limited to serious debt transactions, on terms which have come to be regarded as appropriate for such transactions, and that if any additional development financing is to be made available, it should be frankly labeled as grant assistance.

(b) National vs International Action

The second question is the choice by the United States government of the vehicle for carrying out such programs of economic assistance to underdeveloped countries as it may decide upon. Reference has already been made to the importance of coordination of the Bank's activities with United States development financing, whether through TCA, MSA, or the Eximbank. The problem, however, is not merely one of coordination with United States agencies, since there are other similar economic assistance programs financed by other countries. The outstanding example is the Colombo Plan for South-east Asia, to which contributions are made by the United Kingdom, Canada, Australia and New Zealand.

Experience has demonstrated that the effectiveness of economic assistance for the development of underdeveloped areas is dependent in substantial part on the establishment of proper conditions and criteria for the granting of that assistance. Experience has also shown that it is very difficult for a national administration, subject to the stresses of political pressure, to impose and to maintain rigorous conditions.

On the other hand, there have been a number of cases in which the Bank, because of its character as an international cooperative institution, has been able to make its assistance to underdeveloped areas effective through the imposition of conditions of a type which no national government providing aid to another government could easily have imposed. Accusations of infringement of sovereignty, of "imperialistic" motives for recommending particular kinds of action, of friction between one nation and another - questions which have been very troublesome in the administration of United States programs of economic assistance - have rarely arisen in the

Bank's relations with its member countries. In Iraq, for example, the Bank has been able to require the earmarking of oil royalties for local development needs; in Yugoslavia the Bank has required a basic change in the investment program; in India it has required the hiring of foreign technicians for the operation of complex projects; in Colombia it has induced the government to inaugurate a much-needed reorganization of the railroad system; and in several countries it has helped to accelerate the settlement of defaulted foreign debts. Conditions such as these have tended to become routine matters in the relations between the Bank and its member countries whereas, if similar conditions were to be imposed by the United States (or the United Kingdom) as a part of the price for assistance under Point 4 (or the Colombo Plan), they would call forth immediate shouts of infringement of national sovereignty. Similarly, the selection of projects to which priority should be given and the exclusion of certain projects as being economically or technically unsound are readily recognized as proper functions for the Bank. Similar action on a national level, particularly if agricultural projects are given priority over grandiose industrial projects, is often resisted as an attempt to "delay development" or "maintain colonialism".

It is certainly not true that international agencies are always to be preferred to national agencies in the administration of foreign assistance programs. There will be many cases in which national security interests and similar non-economic considerations are of paramount importance in determining the kind of program to be adopted. In such cases, national administration may often be the only alternative. Wherever, however, the basic purpose of economic assistance is economic development, and economic

rather than political criteria are to be the principal guideposts of action, the Bank's management believes that consideration should be given to the administration of the program on an international, rather than a national, basis, provided, of course, that an appropriately organized and effective international agency would be available for the purpose.

The advantages of international action in this sphere motivated establishment of the International Bank in the first instance. The same advantages motivated the recommendations of the U. S. International Development Advisory Board, in its report, "Partners in Progress", that the International Bank should be asked to administer a substantial portion of the development funds which it proposed should be made available by the United States. And similar motivations underlay the recent decision of the United Kingdom Government, announced at the conclusion of the Commonwealth Conference, that it would help to finance projects designed to improve the sterling area's balance of payments through making sterling available for Bank lending for those projects.

The new United States administration may, for the same reasons, wish to consider the extent to which it could usefully channel through the International Bank whatever economic development aid it may decide to provide.

Policy staff - Dec 1952
DeW's draft

Draft Memorandum on
UNITED STATES-INTERNATIONAL BANK RELATIONS

The International Bank was originally conceived by, and organized under the leadership of the United States; support of the Bank has ever since been an integral part of United States foreign economic policy. As the principal source of loan funds for development purposes, the International Bank's operations are closely related to the policies and activities of U. S. agencies concerned with foreign economic aid. The purpose of this memorandum is to explain the relationships between the International Bank and United States programs in the foreign economic field as they have developed over the years, and to set forth briefly some policy problems affecting the International Bank which remain to be resolved.

1. Relations with the Export-Import Bank

In the immediate postwar years, reconstruction of Europe was the first concern of the International Bank. It shortly became apparent, however, that the magnitude of the task was beyond the scope of the Bank's resources. With the launching of the Marshall Plan, the Bank's operations in Europe became of minor importance and it has since devoted most of its attention to development financing.

During the period while the International Bank was being organized and getting into operation, the Export-Import Bank (Eximbank) had been increasingly called upon to provide development capital. As the International Bank's operations grew, and in the absence of any clear delineation of the respective roles of the International Bank and the Eximbank, conflicts inevitably occurred. Some of the underdeveloped countries tried to play the two institutions off against each other and thus to undermine the

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for reconstruction purposes

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wider
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Finland
Turkey
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Belgium*

influence of each. Moreover, the International Bank was faced with the threat that any lending program which it might pursue in a particular country, based on its assessment of that country's debt-servicing capacity, might be upset by subsequent loans by the Eximbank, perhaps motivated by other than strictly economic considerations.

In discussions between U. S. and International Bank officials on this matter, the United States reaffirmed its view that the International Bank should be regarded as the primary source of development financing. The International Bank suggested that, in order to assure implementation of this principle, the procedure should be as follows: As the bank of first recourse for its member nations, the International Bank should be the agency to which requests for development loans should normally go for first consideration. The Eximbank operations in the development field should normally be limited to special cases involving political and strategic considerations, loans for purposes outside the scope of International Bank lending, loans to non-members of the International Bank and loans for the extension of projects or programs previously financed by the Eximbank. These functions would be, of course, in addition to the short-term export and import financing of the Eximbank.

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Although there was no formal acceptance of this proposal by the United States, it represents, in general, the pattern that has been followed in specific situations as they have arisen. Proceeding on this basis, the International Bank and the Eximbank have maintained close relations, primarily through frequent consultation and exchange of information on the operating level.

The International Bank would welcome assurance by the new administration that it is in agreement with the delineation of functions between the International Bank and the Eximbank as suggested above.

2. Relations with MSA and TCA

While much of the activity to date of MSA and TCA has been outside the range of the Bank's operations, both agencies have engaged in some development financing in countries in which the Bank has also been operating. In such cases, coordination of activities is essential, the more so because adequate formulation of development objectives by the recipient country is frequently lacking. Thus far, agreement has been reached on a country-by-country basis on the general objectives to which economic assistance will be directed and a satisfactory division of projects within the broad program has been worked out.

Until now, MSA has been the principal United States agency concerned. The same need for coordination, however, arises in connection with many TCA operations, particularly where TCA is in a position to make capital available. Recently TCA ventures of this nature have begun to assume larger proportions in several countries where the Bank is actively engaged (primarily India and Pakistan), and it will be necessary to utilize the pattern of field and headquarters cooperation earlier evolved with MSA to provide a coordinated approach in each country.

3. Low-Interest, Long-Term Loans

In recent years there has been growing agitation, especially among some of the underdeveloped countries, for a program of grants and long-term, low-interest rate loans to finance so-called "nonself-liquidating projects". *unfair*
The inclusion of long-term, low-interest rate loans in proposals of this type is usually justified on the theory that economic assistance in this form would be politically more palatable than grants to the legislatures of the donor countries (meaning primarily the U. S. Congress).

The Bank has on various occasions expressed strong opposition to

this view. It has pointed out that long-term, low-interest loans are, in essence, part loan, part grant. They accomplish nothing that cannot be equally well accomplished by a judicious combination of grants and real loans. And they have the basic disadvantage that they are not normally regarded as serious debt obligations by either the lending or borrowing country, and thus tend to impair the integrity of all international credit operations. The Bank believes that development loans should be limited to serious debt transactions, on terms which have come to be regarded as appropriate for such transactions, and that any additional development financing which may be made available should be frankly labeled as grant assistance.

4. International Finance Corporation

The proposal for an International Finance Corporation (IFC) was first advanced by the United States International Development Advisory Board (headed by Mr. Nelson Rockefeller) after consultation with the Bank management, in its report Partners in Progress. The report proposed the establishment of a corporation to be organized as an affiliate of the International Bank to promote economic development through the stimulation of private investment. The Corporation would seek to perform this function by bringing together investment opportunities, capital (both domestic and foreign) and experienced management and by helping to finance private productive undertakings through equity investments and loans without government guarantee. As a matter of general policy, the Corporation would not accept responsibility for management or a controlling equity interest in the undertakings in which it invested. Nor would any special immunities or status attach to these undertakings solely by reason of the Corporation's participation.

Although it would be under the general policy direction of the International Bank and would utilize the administrative and technical staff

of the Bank to the fullest possible extent, the Corporation and the Bank would be financially separate. The capital of the Corporation would be provided by its member governments. The Rockefeller report suggested that the authorized capital of the Corporation should be \$400 million, and that the U. S. subscription should be \$150 million. It suggested further that only one-third of the capital should be initially paid in, the remainder being subject to call as needed.

In the past two years the IFC proposal has received growing attention. In a preliminary report on the matter to the U. N. Economic and Social Council last April, a copy of which is attached to this memorandum, the Bank's management indicated its belief that such an institution would fill an important gap in the existing international machinery for financing economic development. In discussions of the report at the Bank's recent annual meeting and at meetings of various U. N. organizations, virtually all the underdeveloped countries and some of the more developed countries have strongly endorsed the proposal. The Economic and Social Council has requested the Bank to explore the matter further and to report at the Council's next meeting on the results of its consultation with member governments and the action proposed to be taken. As yet, the United States has taken no position on the proposal. Since U. S. participation is essential to the successful organization and operation of the proposed Corporation, the Bank has held off any further action with regard to the proposal pending an opportunity to consult with the new administration.

The Bank regards an early decision on the proposal as a matter of some urgency. The need for increased private investment abroad is undoubted. Unless some way is found to attract additional private capital into the less advanced countries, the governments of those countries will find it increasingly necessary to establish and operate productive enterprises themselves. In view of the support the proposal has generated among the underdeveloped countries, the Corporation might offer one means of reversing this trend. Although the reaction of representatives of business and investment communities is mixed, in the United States especially, the Corporation appears to be sufficiently attractive to private investors to warrant its establishment. The Bank hopes, therefore, that it will have an opportunity in the near future to review the matter in detail with the appropriate U.S. officials.

5. Bilateral vs. International Action

In recent years, United States programs of technical and financial assistance have grown steadily in scope and size. Wholly apart from the merits of any particular program, it needs to be recognized that this expansion of national activities in the foreign economic field has not been accomplished without cost to similar international programs. In many situations the issue has to be faced whether the primary emphasis of United States policy should be on national programs conducted by United States agencies or on multilateral programs conducted by international agencies.

In certain situations, bilateral action has clear advantages. It lends itself to the achievement of immediate political objectives. It can serve other purposes, such as military support, outside the usual scope of inter-

national agencies. And sometimes the relative operational effectiveness of national and international agencies in a particular field may dictate the use of the national agency in the interest of efficiency.

There are at least equally strong arguments, however, in favor of emphasizing the international approach in connection with development aid. First is the obvious desirability of having other nations share the responsibility and, in proportion to their resources, the risks involved in promoting development. Secondly, the channeling of aid through international channels provides some protection to the nation or nations providing that aid against the friction ~~and ill will~~ that are, in some degree, an inevitable concomitant of foreign assistance. By the same token, the recipient countries normally favor international administration of aid because it mitigates real or imagined fear of political or economic exploitation. Finally, and perhaps most important, is the fact that foreign assistance for development is apt/^{frequently} to be wasted, or to be less than fully effective, unless conditioned on reasonable standards of performance by the recipient country. This often means insistence on hard and politically unpopular reforms as the price of economic aid. The Bank's experience suggests that an international agency may often be better placed to insist on domestic action in such matters as fiscal policy and public administration than a national agency whose intervention may be regarded as political interference and an infringement on sovereignty.

Considerations of this type prompted the establishment of the Bank in the first place. In a world of rising nationalism and increasing demands upon the United States, they apply today with even greater force.

Support of an international approach to development does not constitute a choice between mutually exclusive instruments. But it does involve utilization of international channels, to the extent feasible, in the implementation of foreign economic policy. The policy adopted by the United States in this regard will be of determining importance to the whole international development effort.

Messrs: Iliff, Demuth, Knapp, Rist,
Rosen and Sommers
Frances Henderson & John H. Adler

File
"policy"

November 24, 1952

U.S. FOREIGN AID PROGRAM.

In preparation for the next meeting of the Committee which will be held at 7.30 p.m. on Tuesday, November 25, there is attached a draft outline of briefs for Mr. Black together with a summary tabulation of U.S. foreign aid and loans of the IBRD and the Eximbank in the fiscal years 1951/52 and 1952/53.

Monday 4³⁰ -

DRAFT OUTLINE OF BRIEFS ON U.S. FOREIGN AID CAMPAIGN

1. Framework of U.S. foreign Aid

The postwar aid programs of the United States have obtained the first objective of U.S. foreign economic policy ~~and~~ they have assisted in the reconstruction of Western Europe to the point where the fundamental economic and political structure is no longer in immediate danger. But the wider objectives of a system of world-wide trade and payments on a non-discriminatory basis, and the assurance of gradual improvement of the economic conditions in underdeveloped countries have not as yet been attained. To discontinue or sharply curtail economic assistance to Europe would probably mean the postponement of the re-creation of a system of ^{multilateral} non-discriminatory trade and payments; the diminution of technical and financial assistance to underdeveloped areas would ^{and make more difficult} slow/their economic advancement.

The decisions of the U.S. Government with respect to the scope, the direction and the form of economic assistance must be based on political and strategic, as well as economic, considerations. They are also closely interrelated with policy formulation on tariff, stock piling, offshore purchases and similar problems.

prospects of future supply

In a broad sense all aspects of the foreign economic policy of the United States have an important bearing on the work of the Bank. The purpose of these briefs is, however, to single out those narrower aspects of U.S. policy which affect the Bank's operation in a direct way and to present in outline form the Bank's views upon them.

11. Specific Problems Affecting the Bank

1. Coordination of Bank Operations with U.S. Financial and Technical Assistance

Although there has been close contact on the operating level between the IBRD and the various U.S. agencies concerned with foreign aid, coordination on the policy formulation level could be improved. Coordination is particularly

desirable in the case of development assistance since, in many instances, adequate formulation of policy objectives by the recipient country is lacking. The Bank believes that both U.S. technical and financial assistance and its own operations would achieve greater effectiveness if there were agreement to make assistance through whatever agency contingent on (a) formulation of a comprehensive and internally consistent program by the authorities in the recipient country, with or without technical assistance from abroad; and (b) agreement among the various U.S. and international agencies providing financial and technical assistance on the general objectives and priorities of such a program and on the respective roles which the various agencies are best suited to play in its implementation.

2. Loans versus Grants

It has been reported that the foreign aid program will consist to a large extent of loans to underdeveloped areas. These loans would be designed to provide financial assistance for the development of mineral and agricultural resources, partly to provide new sources of dollar earnings, but primarily to create substitute sources for dollar imports. From the Bank's point of view the objectives of such a program are desirable since they improve the balance of payments ^{of} projects of its borrowers and thereby their credit-worthiness for Bank loans. lowte

The Bank is concerned, however, about two aspects of such a loan program. First, the additional debt burden of these loans is bound to have adverse effects on the credit-worthiness of the borrowing countries. In devising a loan program to underdeveloped areas it must also be kept in mind that the debt burden given to dependent overseas territories ultimately falls on the metropolitan countries. The result in many instances might be to restrict both the Bank's lending activities and private investment.

Second, the Bank feels that to provide grants in the disguise of loans at unusually low terms and unusually low rates of interest would not only interfere

with the Bank's operations but would be detrimental to the interest of potential private investors. So-called loans of this type would discourage reliance by recipient countries on private investment as a primary source of foreign capital. Finally, it should be noted that, since a certain proportion of this loan assistance would be substituted for loans from the Bank and other public and private sources, the net addition to the financial assistance available to underdeveloped countries might be considerably less than the amount of funds appropriated for the purpose.

In the opinion of the Bank, the existing institutions, i.e. the IBRD and the Export-Import Bank can, given effective coordination of their lending operations, provide all the foreign capital in the foreseeable future which is not forthcoming from private sources and which can be readily absorbed by the recipient country on a sound loan basis.

/3. Relations with the
Export-Import Bank

3. Relations with the Export-Import Bank

Working relations between the IBRD and the Export-Import Bank have been good. Nevertheless, a clarification of the respective role of each institution in the field of international lending is desirable. In the Bank's view, the roles are complementary, not competing. As to those countries which ^{are} ~~the~~ members of the IBRD, the Bank believes it should be considered the bank of first recourse for long-term financial assistance. Non-members of the IBRD must, of course, look to the Export-Import Bank. In addition, the Export-Import Bank makes loans for purposes which the Bank does not normally finance, for example, operations of U.S. or foreign mining companies for U.S. stock piling purposes, or purchases of U.S. commodity exports on short-term credit.

In the case of loan operations of this character, coordination and agreement between the Export-Import Bank and the IBRD on the policy objectives of the borrowing country is most desirable; it becomes even more important if the Export-Import Bank engages in long-term loan operations in member countries of the IBRD.

4. The International Finance Corporation and the Special Development Fund

As stated in the Bank report to ECOSOC on the proposed International Finance Corporation, the management of the Bank has felt that the IFC might serve as a useful addition to the existing national and international institutions operating in the field of international finance. Virtually all of the underdeveloped countries have endorsed the proposal either at the UN or at the recent annual meeting of the Bank. Opinion in private investment and business circles is mixed. Opposition, in U.S. business circles especially, has been raised on two main grounds: (1) The IFC, instead of fostering a larger flow of private direct investment, may actually tend to discourage it by lessening the incentive of recipient countries to improve the climate for private investment; and (2) Public funds should not be used for equity investment.

On the other hand, the proponents of the IFG argue that its operations, if successful, will assist in overcoming the obstacles, institutional and psychological which now hold back private international investment. In the absence of actual experience, this conflict of opinion cannot be resolved.

An International Finance Corporation without the authority to make equity investment might somewhat broaden the scope of international capital movements. But such arrangements would not contribute to the solution of the shortage of international venture capital.

The Bank is gathering further reaction to the proposal, both among representatives of financial and investment communities in the developed countries and among its member governments, in accordance with the request of ECOSOC for a further report at its next meeting. The attitude of the U.S. Government is, of course, of primary importance to a decision on the proposal.

On the proposed Special Development Fund which would make grants to underdeveloped countries, the Bank has taken the position that, if properly coordinated with the lending operations of the Bank, the operations of such a fund would not conflict with the Bank's activities. The Bank has also stated that the creditworthiness of some countries for financial assistance on a loan basis would be enhanced by grant assistance.

5. U.S. Attitude Toward the IERD (and IMF?) -
National versus International Action

In the opinion of the Bank, there is no conflict between cooperation in international economic and financial matters on a bilateral basis and through international agencies. To some extent the choice between the use of national and international agencies must be based on political considerations and considerations of operating efficiency. For certain types of operations national action is clearly preferable. The Bank has found, however, that many of its member countries prefer, particularly in matters of financial assistance, to deal with international

organizations.

In addition, operations of international institutions have the advantage of financial support from countries other than the United States and benefit from the diversified experience of an international staff.

The position of the United States in the Bank and the Fund is such as to exclude the possibility of real conflict between these organizations and the U.S. Government.

TABLE 1

MSA, IBRD AND EXIMBANK OPERATIONS

	<u>1951/52</u>	<u>1952/53</u>
	(millions of dollars)	
MSA - Military	5310	4220
Economic	2019	1782
IBRD - Loans	299	300 (estimated)
EXIMBANK - Loans	551	550 (estimated)
	<hr/>	<hr/>
	8179	6852
	<hr/>	<hr/>

TABLE 2

MSA Appropriations, by Area

	<u>Military Aid</u>		<u>Defense Support, Economic & Tech- nical Assistance</u>		<u>Total Aid</u>	
	<u>1951/52</u>	<u>1952/53</u>	<u>1951/52</u>	<u>1952/53</u>	<u>1951/52</u>	<u>1952/53</u>
<u>Europe 1/</u>	4818.9		1122.0			
Transfer of military aid to economic aid	-478.2		478.2			
Transfer to Asia and Pacific	-153.2					
	<u>4187.5</u>	<u>3128.2</u>	<u>1600.2</u>	<u>1282.4</u>	<u>5787.7</u>	<u>4410.6</u>
<u>Near East and Africa 2/</u>	396.2	499.1	160.0	181.1	556.2	680.2
<u>Asia and Pacific 3/</u>	535.2					
Transfer from Europe	153.2					
	<u>688.4</u>	<u>540.8</u>	<u>237.2</u>	<u>270.6</u>	<u>925.6</u>	<u>811.4</u>
<u>American Republics</u>	38.2	51.7	21.2	20.3	59.4	72.0
<u>Special Programs 4/</u>						
Contribution to UN and Inter- American Technical Assistance Program				9.2		9.2
Contribution to UNICEF				6.7		6.7
Contribution to Inter-government Committee for Migration				9.2		9.2
Ocean freight payments for vol- untary relief packages				2.6		2.6
	<u> </u>	<u> </u>	<u> </u>	<u>27.7</u>	<u> </u>	<u>27.7</u>
<u>Total</u>	<u>5310.3</u>	<u>4219.8</u>	<u>2018.6</u>	<u>1782.1</u>	<u>7328.9</u>	<u>6001.9</u>

1/ OEEC countries, Yugoslavia and Spain, but excluding military aid to Greece and Turkey.

2/ Greece and Turkey (military aid only), Iran, Israel, Arab countries, Ethiopia, Libya and Liberia.

3/ India, Pakistan, Afghanistan, Ceylon, Nepal, Formosa, Indochina, the Philippines, Thailand, Burma and Indonesia.

4/ Appropriations for previous years appeared in separate legislation.

POLICY ISSUES OF IMPORTANCE

1. Purchases and Sales of Sterling - Memo Crena de Iongh to Black -
January 22, 1952
2. Local Currency Loans to Colonies - June 1952

*Mr. Rod
file - IBRD
policy*

November 3, 1952

The Honorable John W. Snyder
Chairman, National Advisory Council on
International Monetary and Financial Problems
Washington, D. C.

My dear Mr. Chairman:

I have been informed that the United States Government now has under consideration an enlarged program of economic aid for Asia. I understand that the program contemplates expanding the Point IV Program to cover expenditures for capital equipment imports from the United States and other countries.

Since a program of the kind mentioned would be a matter of obvious interest to the International Bank, I should like to bring to your attention some considerations which I think should be taken into account if an expanded aid program is to be studied.

Such a program would increase the need for coordination of the activities of the several national and international agencies concerned with development aid. If loans, grants and technical assistance are administered without common agreement on objectives, scale and timing, they will fall short of full effectiveness. What is needed is that each recipient country should formulate, with whatever outside assistance may be required, a comprehensive development plan. This should include an investment program, based on a realistic appraisal of the domestic and foreign resources likely to be available, and a program of supporting fiscal and monetary measures. Such a plan would provide a basis for coordination among interested international and foreign agencies.

I therefore suggest that whenever the scope of any proposed development aid is being considered, the planning should cover two additional problems; first, how the interested agencies should cooperate in encouraging the formulation of development programs; second, how they should cooperate in supporting the development programs once they have been adopted.

There is a further danger which I hope can be avoided in any expanded aid program. In the past programs originally conceived of as grant programs have, for one reason or another, turned into programs consisting of part loans and part grants. In the case of Asia this would cause complications, as it has done in the case of Western Europe. The ability of many Asiatic

countries, particularly the poorer ones, to service loans in dollars is limited. I believe that existing lending facilities are sufficient to meet, for the foreseeable future at least, all the demands from Asia that should properly be met on a repayable loan basis. The provision of further funds on a normal loan basis would reduce the ability of other lending agencies to operate and would at best merely replace existing sources of loan funds without increasing the overall amount available for development lending in those countries. And allowing abnormally low service charges would have the additional disadvantage of confusing the distinction between loans and grants and making more remote than ever the possibility that private investors may some day re-enter the field.

On the other hand, grants would not, if effectively administered and coordinated with loans, impair the recipient country's ability to attract foreign loans from existing sources; on the contrary, to the extent that they resulted in increased productivity, they would improve the country's debt-servicing capacity and tend to increase the total amount of foreign loans which the country might reasonably expect to receive.

I hope that in any consideration which the United States Government may give to expanded aid programs for Asia these two problems will be given careful attention.

Sincerely yours,

(Signed) Eugene R. Black

Eugene R. Black

DSommers/km/al
10/31/52

cc: Mr. Adler ✓

LOCAL CURRENCY LOANS
TO COLONIES

Mr. Martin M. Rosen

June 21, 1952

Harold Larsen

Paper on "Local Currency Loans"

1. The argument suggests but does not show that there is another approach better than the "impact technique". What is meant, I think, is that under certain conditions, the impact technique need not be fully worked out to determine the scale of lending appropriate to a colonial program.

2. The paper seems to lack either a theoretical or a practical conclusion. The thought of paragraph 12 is not developed; the rest is anti-climax. Paragraph 15, apparently the writer's conclusions, does not seem supported by the rest of the paper.

3. If the paper is for the use of the management, I don't think they will know what they are being asked to do or why.

HLarsen/mas

cc: Mr. Rist; Files (209)

Mr. A.S.G. Hoar

June 24, 1952

Martin M. Rosen

Local Currency Loans to Colonies

As I have already mentioned to you, Mr. King will be the Economic Department representative on the special Working Party to consider the problem of the economic justification for local currency loans to colonial areas. The documents prepared for consideration in connection with this subject were circulated to you with my memorandum of June 20, 1952.

cc - Mr. Cope
Mr. King

MMRosen:dbs

Mr. S. R. Cope

June 24, 1952

Martin M. Rosen

Local Currency Loans to Colonies

These are the documents the Economic Department has prepared for discussion by the Staff Loan Committee after consideration by the special Working Party created in accordance with Mr. Hoar's memorandum of June 12. Mr. King has been designated as Economic Department representative on this committee.

Enclosures

Memo from Rosen of 6/20/52
Memo from Rosen of 6/20/52 to SLC
Memo "Local Currency Loans" of 6/18/52

MMRosen:dbs

Messrs. Hoar, Somers, Crena de Lough

June 20, 1952

Martin N. Rosen

Local Currency Loans to Colonies

As agreed in the recent Bank staff meeting, the Economic Department has prepared a memorandum for consideration by the Staff Loan Committee on the issue of the economic justification for local currency loans to colonial areas. The Loan Director, in a memorandum dated June 12, 1952, suggested the creation of a special Working Party, under the chairmanship of Mr. Cope, to consider these documents prior to Staff Loan Committee discussion.

Attached are copies of the documents prepared by the Economic Department for consideration by the Working Party.

MMRosen: dba

STAFF LOAN COMMITTEE
ECONOMIC DEPARTMENT MEMORANDUM

Loans to Colonies

1. A Bank mission is scheduled to leave for Central Africa early in July for discussions with the Governments of both Southern Rhodesia and Northern Rhodesia on possible loan proposals. Another mission will probably visit the East African colonies of the U.K. towards the end of the summer. The loan proposals which are likely to emerge from these missions will probably be "local currency" loans in the sense of the Bank being requested to finance imports into the colonies from the U.K., with the necessary sterling to be purchased against dollars.
2. In view of the fact that several local currency loan proposals are likely to be before the Management in the next few months, the Economic Department has prepared the attached memorandum reviewing the economic justification for local currency loans.
3. The memorandum reviews the operations in Italy, Belgian Congo and Belgium, and Southern Rhodesia - the three local currency operations of the Bank to date. In these loans, local currency lending was justified on the basis of the "impact" of the development program expenditure on the foreign exchange reserves of the country.
4. The memorandum analyzes some of the difficulties involved - particularly for colonial loans - in justifying local currency loans on the basis of the "impact" theory. As an alternative, in the case of colonial loans, it is proposed that the Bank be willing to adopt the technique of directly financing

part of the capital cost of the development program being undertaken. It is recommended that the proportion of the total cost of the program to be financed should be limited to a small part of the total cost, with the actual amount determined on the basis of the circumstances of the particular development program in question and the general economic position of the colony and the mother country rather than on a finely calculated theoretical foreign exchange impact of the development program.

Martin M. Rosen
Assistant to the Director
Economic Department

June 20, 1952

June 18, 1952

LOCAL CURRENCY LOANS

I

1. The normal pattern of the Bank's loan operations is that of paying foreign exchange costs of imported goods and services directly related to the completion of the loan project or program. Local currency loans, as contrasted with loans to pay for direct imports, were restricted by the provision in the Articles of Agreement (Article IV, Sec. 3 (c)) that:

"The Bank, if the project gives rise indirectly to an increased need for foreign exchange by the member in whose territories the project is located, may in exceptional circumstances provide the borrower as part of the loan with an appropriate amount of gold or foreign exchange not in excess of the borrower's local expenditure in connection with the purposes of the loan."

2. In its Fifth Annual Report, published in September 1950, the Bank made a statement of its policy on local currency loans, which was summed up as follows:

"Local expenditures may be financed if the following conditions are satisfied: (a) if the project to be financed is of such economic urgency that the country's ability to undertake foreign borrowing - which is more or less limited in all cases - is better utilized in financing this project than in financing the direct foreign exchange costs of alternative projects; (b) if the local currency costs of the project cannot reasonably be met out of available domestic resources; and (c) if it is apparent that, unless foreign exchange is made available to the borrowing country to be employed for the import of either consumer goods or raw materials, the local currency expenditures involved in the project will lead to inflationary pressures."

3. The Fifth Annual Report mentioned a 10-year program for the development of Southern Italy, which the Bank was then discussing with the Italian Government, as an example of a local currency loan fulfilling these requirements. A loan of \$10 million to Italy was subsequently made to cover the dollar impact of the first year's expenditure on the program. Total expenditure on the program during the first year was estimated at 100 billion lire (\$160 million).

4. The purpose of the program determined the nature of the loan. The Italian Government wished to undertake a program for the development of the poverty-stricken South which would in turn provide employment for idle men and machines in the North. As a large part of the income generated by this program would be spent within the country, much of it would be saved or taxed and the impact in foreign exchange would be comparatively small. As Italy, at the time, had adequate sterling but was short of dollars, it only needed to finance dollar imports. The Bank's loan was made for this purpose.

5. Subsequently, the Bank was asked to help finance two years' expenditure on the Belgian Congo Ten-Year Plan. The total expenditure involved during the two years was estimated at 11 billion Belgian francs (\$220 million). The Bank's mission reported that the Congo would probably be able to obtain the necessary financing except for \$40 million to be spent on imports from countries other than Belgium and \$30 million to be spent on purchases in Belgium.

6. To cover the financial needs of the Congo, the Bank made two loans totalling \$70 million. A loan of \$40 million was extended directly to the Congo to finance imports from non-Belgian sources. A loan of \$30 million was granted to Belgium itself on condition that the counterpart in Belgian francs be re-lent by Belgium to the Congo to finance imports from Belgium.

7. The justification for the loan to Belgium was that the impact on the Belgian foreign exchange reserves of total exports to the Congo during the two-year period required by the Congo Development Program would be the equivalent of \$30 million in hard currencies.

8. Recently, a loan was made to Southern Rhodesia to finance a four-year development program costing about £100 million (\$280 million). In this case, most of the finance required seemed to be in sight except for about £10 million (\$28 million). The Bank's loan was for \$28 million with the proceeds to be used primarily for imports from the sterling area. Again, as a justification, it was stated that the impact of the whole Southern Rhodesian program on the central reserves of the sterling area would at least equal the amount of the loan.

II

9. The combined Belgian Congo-Belgian loans and the Southern Rhodesian loan were somewhat different operations from the Italian loan. In the case of Italy, the loan was not requested by the Cassa because it needed more lire but by the Italian Government because it needed dollars to offset the foreign exchange impact in hard currencies of the lire expenditure by the Cassa. The Belgian Congo and Southern Rhodesian loans, on the other hand, were requested because the colonies needed more Congo francs and Rhodesian pounds. Each colony had a development program for which it had secured or had in prospect most of the necessary finance. The Bank was asked to make a loan for the difference, the currency of the loan being immaterial to the colony as long as the loan resulted in supplying the needed additional capital. In each case the loan resulted in the payment of dollars (or other hard currencies) to the mother country, directly out of the loan account in the case of the \$30 million loan to Belgium and indirectly to the U.K. by the purchase of pounds sterling against dollars to finance imports into Rhodesia from the U.K. The Bank felt that loans to the Congo and to Southern Rhodesia were sound, productive, and desirable operations and it justified the payment of dollars to the mother countries by the same general impact technique used in the loan to Italy.

10. In view of the increasing activity by the Bank in colonial areas in which it will be engaging in local currency operations in the sense of financing imports into the colony from the mother country, the question arises whether the impact technique as such is appropriate for all of the different circumstances likely to arise or whether some other justification for local currency operations might not be preferable for those cases where the circumstances are substantially different from the Italian situation. There are several arguments in favor of using a more direct approach than the impact technique, particularly for colonial operations.

11. In the first place, the real reason for the Belgian Congo-Belgian loans and the Southern Rhodesian loan was that the Bank was satisfied that the development programs were sound and it was willing to help finance them. The impact of the programs on Belgium and on the U.K. is a justification for the payment of dollars to the mother countries, not for the making of the loans themselves. The same circumstances will undoubtedly be true for future colonial operations by the Bank.

12. Secondly, colonial development programs are not a satisfactory basis for calculating the impact on the whole monetary area, which includes the mother country and all its colonies. The amount of capital transferred from one part of the area to another is irrelevant unless this increases total expenditure of the whole monetary area. The crucial question is whether the monetary unit as a whole is spending (on both consumption and investment) more than it produces. If so, it is bound to require foreign capital if it is not to use up its reserves of foreign exchange. To single out a particular program or a part of a program in a particular colony as precisely that addition which tips the balance would only be justified if this expenditure were a marginal program which would not otherwise be undertaken. This argument is particularly valid for operations in the British colonies since total investment expenditure in the U.K. and all colonies is so much larger than the development program of any one colony that the calculation of the foreign exchange impact of a program in a single colony on the central reserves of the sterling area is an exercise in precision without much meaning. The most one can say is that with full employment it is bound to be very large. If, for example, equipment used in Southern Rhodesia would otherwise have been sold to Canada or to South Africa against gold, the "impact" would be 100% in gold and dollars. The case is quite different from that of Italy where there is widespread unemployment.

13. Thirdly, the notion that the Bank should necessarily confine itself to the "dollar impact" because it is lending dollars does not bear close examination. What the borrower requires is capital - or resources - and in a fully convertible world the currency would be quite immaterial. In fact, of course, we have inconvertibility, but the difference in this context is more apparent than real. If the U.K. incurs a debt in currencies other than dollars, it may very well have to pay it off, directly or indirectly, in dollars. In any event, the Bank has virtually no other currency to lend.

14. Finally, the impact technique is one which causes a good deal of confusion. For example, the Minister of Finance of Southern Rhodesia referred to it in a speech in the Legislature as "curious economic jargon." This does the Bank no good.

15. Is there any sound argument against the Bank acknowledging precisely what it is doing in making colonial loans such as those for Southern Rhodesia and the Congo; namely, providing the capital needed to finance the resources required to complete the development program being undertaken? The Articles of Agreement do not preclude the Bank from making a loan entirely in foreign exchange for a project on which the initial expenditure is to be made in local currency, nor do they preclude it from making the loan in dollars. Provided that the colonies' programs are sound and that there are no reasonable grounds for supposing that the necessary finance could be obtained in any other way, the Bank could reasonably claim that the necessary conditions are fulfilled without recourse to the impact argument in detail.

NO. 545-13 U.S.A.

PURCHASES AND SALES
OF STERLING

Mr. List

Copy No. _____
SLC/
CONFIDENTIAL

STAFF LOAN COMMITTEE

(This document is for the use of the President, Vice President and members of the Staff Loan Committee only. Its contents should not be communicated to other persons except in the course of duty.)

DECLASSIFIED

Date: 11/15/2010 STB

MEMORANDUM TO THE STAFF LOAN COMMITTEE

Attached for the consideration of the Committee are the following documents:

1. Memorandum dated February 4, "Yugoslavia - Loan of \$25 Million Equivalent"
2. SIC/O/A36 dated February 6, memorandum from the Treasurer to the members of the Staff Loan Committee on the subject of Purchases and Sales of Sterling

The date at which these documents will be discussed will be announced later.

George Gondicas

George Gondicas
Secretary

February 6, 1952

February 6, 1952

MEMORANDUM

To Members of Staff Loan Committee

From D. Crena de Iongh

I am sending you herewith a copy of my memorandum dated January 22 to Mr. Black as well as copies of a cable I sent to the Bank of England and their reply. I also attach a copy of a letter dated January 30 from Sir George Bolton to me.

It is my opinion that the arrangements existing between the Bank of England and Central Banks would not fit well in the relationship between us and the Bank of England. As Sir George writes, the parity rate used with Central Banks is based on transactions under monetary agreements and, secondly, it is used for settlements arising under E.P.U. at a pre-determined rate of exchange. Our relationship with the Bank of England, and for that matter with other Central Banks, is a very different one. We act for account of our borrowers and I think our borrowers might very well reproach us for buying foreign exchange at a higher rate than the market rate. On the other hand, they could never reproach us for buying at a market rate higher than parity.

Although I think this is a matter of principle and not so much of amount, I would like to mention that a difference of 1% as mentioned by Sir George would make a difference of \$500,000 in the case of the South African loans and a difference of \$250,000 in the case of the Rhodesian loan. Apart from these, we have expended \$1,780,000 to buy sterling during the last 12 months, 1% of which would be \$17,800. Besides, if we were to buy up sterling through the Bank of England at the market rate, such a procedure would be in line with our method of working with Belgium, Canada, France, Italy and Switzerland.

I would therefore recommend that we write the Bank of England that from now on we will work with them on the basis of market rates.

DC/mct

COPY

BANK OF ENGLAND

30th January 1952.

My dear Crena,

Among the subjects discussed with Mr. Black yesterday was the question of transactions in sterling raised in your Office Memorandum dated 22nd January, which I return herewith.

When we were dealing with the consequence of the recent change in our foreign exchange policy we assumed - perhaps too readily - that our dollar transactions with the I.B.R.D. would continue to be effected at the parity rate of \$2.80 = £1. This, of course, fitted into our usual arrangements with Central Banks in connection with transactions under Monetary Agreements whereby we used the official parity to avoid any question regarding profit and loss. This system still prevails with settlements arising under E.P.U. as these are automatically, and have to be, effected by the agent (the B.I.S.) at a pre-determined rate of exchange.

We would be quite happy to continue the present arrangements with you and, indeed, we thought it was your wish that we should do so, particularly as it has been your practice even as late as 22nd January (your cable No.10) to specify our parity rate when requesting us to sell you sterling.

I find it difficult to advise you other than to say that, if it is your general practice to put all your transactions on to a commercial basis, you should in future deal in sterling against U.S. dollars at market rates current in the centre where the deal is being done, i.e., New York or London. As you are aware, the spot rate can move within limits of nearly 1% either side of the parity; the variation in forward quotations, however, is not limited as we no longer quote forward rates of exchange - the determination of such quotations being left entirely to the Market.

Perhaps you will let me know what arrangements you eventually decide upon.

Yours sincerely,

(s) George Bolton

Mr. D. Crena de Iongh.

COPY

OFFICE MEMORANDUM

To Mr. Black

From D. Crena de Iongh

Subject Purchases and Sales of Sterling

January 22, 1952

I am attaching a copy of a wire sent to the Bank of England and a copy of their reply concerning purchase of Sterling on the free market. As you know, the Bank of England has recently amended its regulations to permit authorized banks to buy and sell Sterling within a range of 1% on either side of the par value of \$2.80.

In the past all purchases of Sterling by the Bank had been made through the Bank of England at the par value existing at the time of purchase. This same policy has been followed with all our member countries where no free market exists. However, as free markets were permitted from time to time we have made our purchases at free market rates through the Central Banks. Some of these have been Belgium, Canada, France and Italy.* Such shifts into the free markets have been made on the theory that our transactions are of a commercial nature and should be conducted on commercial lines. Consequently, as soon as we learned of the change in policy in the U.K. (December 1, 1951) we anticipated a shift to the free market rate. We expected that from that date, even though the purchases were made through the Bank of England, they would be transacted at the free market rate, as occurred with other Central Banks. As we received no advice from the Bank of England concerning this and they continued on the \$2.80 basis, we sent them the cable attached hereto to obtain their opinion, after clearing it with Mr. Christelow.

Our main desire, in wishing to make these transactions at the free market rate, is to supply currencies to our borrowers at rates they could themselves obtain if purchasing the currencies with dollars. Also, as in other cases of legal free market rates, we will have to take the consequences that if we would sell Sterling to obtain other foreign currencies we would have to sell Sterling at a free market rate which might well be below par, so that in such a case our borrower would be getting smaller amounts of the other currency required.

We therefore will have to make up our mind whether to continue the par basis or start using the market.

As the Bank of England, after they changed their method of allowing a certain fluctuation in the rate, did not approach us and, unlike the other Central Banks, continued to work with us on the same basis which existed before they changed their system, we are somewhat at a loss about the meaning of the free Sterling market.

As you expect to be in England shortly perhaps you can discuss the matter with them. We will continue to purchase Sterling through the Bank of England at par unless you or the Bank of England advise us to the contrary.

* This policy has also been followed in Switzerland

cc Mr. Garner
Mr. Iliff
Mr. Hoar

COPY OF CABLE

January 17, 1952

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FROM LONDON

Action Copy to
Mr. Crena de Iongh

NO. 16

REFERRING TO YOUR NO 7 WE HAVE HITHERTO BEEN HAPPY TO SUPPLY
YOUR STERLING REQUIREMENT AGAINST DOLLAR AT OUR PARITY RATE
INSTEAD AT OUR BUYING RATE FOR DOLLARS PARAGRAPHS 1 and 2
WE SHOULD HAVE NO OBJECTION YOUR PROPOSAL ON THE UNDERSTANDING
THAT IN FUTURE ALL YOUR TRANSACTIONS EITHER WAY IN STERLING
AGAINST DOLLAR WOULD BE EXECUTED IN MARKET AT WHATEVER RATE
WAS PREVAILING AT THE TIME. 463

INGOTISM
(Bank of England)

COPY OF CABLE

January 15, 1952

INGCTISM
LONDON

NO. 7

WE ARE CONSIDERING PURCHASING STERLING THROUGH FEDERAL RESERVE
BANK NEW YORK IN ORDER TO ALLOW OUR BORROWERS BENEFIT FROM
PREVAILING MARKET RATES WHICH ARE AT PRESENT BELOW OFFICIAL
PARITY. WOULD GREATLY APPRECIATE YOUR COMMENTS.

CRENA DE IONGH

INTBAFRAD

cc: Mr. Allan Christelow

D. Crena de Iongh

Treasurer's

NO. 545-13  U.S.A.