COMMENTS OF PRESIDENT OF BANK ON
DISCUSSION OF ANNUAL REPORT,
SEPTEMBER 15, 1955

On behalf of the Executive Directors and the Management of the Bank, I would like to express our sincere thanks to the Governors for their kind and sympathetic reception, during the discussion which we had, of the account of our stewardship of the Bank during the year under review. I am grateful, not only for the Governors' expressions of appreciation of what the Bank has been able to accomplish, but also for their indulgence and understanding of the difficulties and hazards which the Bank, which is still a young institution, must take into account in formulating its operational and financial policies and procedures.

I have been especially impressed by the acknowledgements that have been made of the value of the Bank's activities in the field of technical assistance. For a good many years now it has been my theme that in this enterprise of economic development, money—and especially money in the form of foreign capital—cannot do it all. Money is an indispensable ingredient. But money must have with it technical and, above all, managerial competence, if the fruits of financial investment are to ripen and to be plucked from the tree.

A considerable and increasing part of the Bank's annual budget is devoted to Special Services to Member Countries, outside the field of the normal lending operations of the Bank. I make no apology for this. I welcome the readiness of our members to avail themselves of these services. I look on the expansion of these services as an indispensable supplement to the lending operations of the Bank, and I want to take this opportunity of appealing to those of our member countries who possess resources of manpower in the economic, technical and managerial fields to do their utmost to spare men of the right calibre to help out those of our members who, in this respect, are less well endowed.

The support of the International Finance Corporation voiced by a number of Governors is highly gratifying. I particularly appreciate the fact that so many of you have expressed yourselves as believing that IFC's affiliation with the Bank is a reason for confidence in the new institution. As Mr. Garner has explained, IFC will not have an easy road to travel; it will be breaking new and difficult ground. I am personally convinced, however, that IFC can be an important new financial weapon in the widespread attack on underdevelopment in which we are all engaged. The evidence I have heard during this meeting indicates every likelihood that IFC will come into existence, we hope, by January 1, but certainly by the early part of next year. We will, therefore, be starting our preparations shortly so that IFC may be in a position to grapple with its problems promptly after its creation.

I want to say a few words now about the matter of the 1% commission rate. I sympathize with those Governors who have emphasized the importance of keeping charges on Bank loans at as low a level as possible, consistent with financial prudence. That is the objective of the Executive Directors and of the Management too; and in carrying out that objective we initially fixed the statutory commission at the lowest rate permitted by the Articles and have adjusted downward both commitment charge and interest rate when circumstances permitted. But financial prudence has its demands, too, particularly in the case of a still young institution operating in a difficult field where the extent of the risk we are taking is hard
to estimate. No one can say with assurance what the precise level of the Bank's reserves should be; but this very uncertainty emphasizes the need for caution. I am personally convinced that the conservatism shown by the Executive Directors in the matter of the 1% commission was wise and in the best long-term interests of our member countries.

During the Annual Report discussion on Tuesday, several of the Governors made reference to a proposal of mine for "a pool of 18% currencies." I would like to be able to give the Governors, as a body, an explanation of that proposal.

Several months ago, I addressed a letter to the Governors of the Bank for Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom, proposing a first step in the direction of a complete liberalization of the Bank's use of its 18% paid-in capital.

I proposed the establishment of a pool of 18% currencies in an amount of the equivalent of $50 million, to be subscribed by each of the member governments I have mentioned in proportion to their total capital subscriptions to the Bank. The funds in this pool were to be available to the Bank for lending to any borrower, and to be expendable anywhere within the EPU area.

A substantial majority of the member governments that I approached have informed me of their readiness to participate in this pool. I have, however, been unable to get unanimous consent, and, as my proposal and as the acceptance of every government was dependent on unanimity, I regret that I am not able to inform the Governors, as I hoped to do, that my proposal would be put into effect.

I have, however, been much encouraged by the attitude adopted by several of the Governors in their reference to the Bank's use of its 18% paid-in capital, especially with regard to the undesirability of "tjieing" the use of it to purchases in the releasing country, and to making it an instrument of commercial policy.

I intend to continue to lose no opportunity to press for more liberal releases of this part of our capital, and for the removal of any restrictions on the Bank's use of it. I am glad to have these indications that my efforts in the future may meet with increasing success.

Several of the Governors in their talks referred to the Bank's thorough appraisals of loan projects. They remarked that, although initial delays had sometimes given rise to impatience, subsequent events had usually proved that the time devoted to preliminary investigations had been well spent. It was gratifying to hear these understanding comments of the Governors. I feel strongly that these preliminary investigations and preparations, which are obviously important to the Bank as a prudent lender, are still more important in the interests of the borrowing country itself.

The Bank's business does not consist of small inconsequential transactions. Its loan projects involve large expenditures and long periods of repayment. The success of these projects will bring permanent benefits, but their failure would impose burdens extending over ten, twenty or thirty years or even longer. Therefore, transactions of this kind are not to be entered into casually or lightly. Time wisely invested at the outset will pay dividends over a quarter of a century or more. We in the Bank are convinced that hasty preparation of loan projects does not pay in the long run.

As a matter of fact, hasty and slipshod preparation is not worthwhile even in the short run. Our experience is, as one or two Governors remarked, that, on well prepared projects, loans can be quickly negotiated; and that the omission of necessary steps in the early stages only serves to postpone the time when the project will begin to produce benefits.

As a practical matter we have learned that usually the first loan or two loans in
any country takes much longer to conclude than subsequent loans. This is natural, as time is needed for the Bank and the borrower to get to know each other. Now that we have several years behind us we are learning more and more about the needs and problems of our members, and they are becoming better acquainted with our standards and procedures. The result is that projects are now coming to us in a more finished state, and in view of that we are able to deal with them more expeditiously. I think a large share of the credit for the Bank’s increased rate of lending, on which so many Governors have commented favorably, is due to member governments themselves because of their growing appreciation of the value of thorough preliminary preparation of loan projects.

The Bank is now entering the second decade of its operations. In the ten years behind us we have learnt many lessons—and acquired, I hope, much useful experience. Our task is not a simple one. While we must not overlook the lofty principles underlying our Charter, we must also not forget that we are enjoined by that same Charter to conduct our operations with prudence, and in the interests of all of our member countries, borrowers and non-borrowers alike.

In our efforts to discharge these responsibilities, we may sometimes frustrate hopes and disappoint expectations, even our own.

But the reception accorded to the Annual Report by the Governors will be a source of inspiration and encouragement to the Executive Directors, to the Management, and to the Staff of the Bank, to continue to apply their energies, their ingenuity and their imagination to the very worthwhile task that has been entrusted to us.

This will be the last opportunity which I shall have to address the Governors at this Annual Meeting, and it is a fitting occasion for me to express my thanks to the Government of Turkey for all that they have done to make our stay in this historic city so comfortable, so interesting and so entertaining. The arrangements for our meetings have worked smoothly, and the hospitality extended to us on every hand has, of course, been the traditional hospitality of the Turkish people.