INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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PRESS RELEASE—Summary of Fifth Annual Report

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The following summary of the FIFTH ANNUAL REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT is sent to you in advance of release to facilitate the preparation of press material. It must be held in strict confidence and no portion, synopsis or reference may be published or given out until the report is presented in Paris, France, at the Fifth Annual Meeting of the Board of Governors, at 10 A.M. Paris Time, Friday, September 8, 1950. The same release time applies to radio announcers and news commentators.

The Fifth Annual Report of the International Bank for Reconstruction and Devolopment, as approved by its Executive Directors, was presented to the Board of Governors at their annual meeting in Paris today by the Bank's President, Eugene R. Black. Its financial statements cover the fiscal year ended June 30, 1950, and the Report as a whole describes the expanding activities of the Bank for the period, August 20, 1949, to August 1, 1950.

The Report also sets forth the major operational policies and procedures which the Bank has developed as a result of its experience to date.

ACTIVITIES OF THE BANK

The Bank granted twelve loans totaling $166,345,000 during the fiscal year ended June 30, 1950, for projects in Brazil, Colombia, El Salvador, Finland, India, Iraq, Mexico, The Netherlands and Yugoslavia; two other loans totalling $16,400,000, were granted to the Government of Turkey in July of this year. This brings the total of loans which the Bank has granted to date to $832,845,000.

The past year also witnessed a marked increase in activities of Bank field missions and in the amount and scope of technical aid furnished by the Bank to its member countries. The Report gives a country-by-country account of the Bank's operations during the past year in the two complementary fields of financial and technical assistance. A summary of these activities, by major geographic areas, follows.

Latin America

The Bank granted a loan of $26,000,000 to the Mexican Light and Power Company Limited, for electric power development; $10,000,000 of this loan was used to refund a short-term loan which the Bank had made early in 1949 through the intermediary of agencies of the Mexican Government pending a satisfactory reorganization of the Company's financial structure. The new long-term loan, made to the Company directly, is guaranteed by the Mexican Government. The loan will assist the Company in carrying out its share of a long-range program, undertaken jointly by the Company and by Mexico's Federal Electricity Commission, to increase the supply of electric power in Mexico City and surrounding districts. This area has undergone rapid industrial and agricultural development, and expanded power facilities will therefore fulfill an urgent need.

In addition, the Mexican Government has recently approached the Bank with a proposal for a loan of moderate size to finance small projects undertaken by private enterprises. The Bank has expressed its interest in principle in this proposal and is now awaiting submission by the Mexican Government of detailed plans.

A loan of $15,000,000 was granted to the Companhia Hidro Electrica do Sao Francisco, a semi-autonomous agency controlled by the Brazilian Government, for the development of hydroelectric power at Paulo Afonso Falls on the Sao Francisco River in northeast Brazil. The loan is guaranteed by the Government of Brazil. It will finance foreign

exchange costs of a project which is situated in an area where lack of power has been a major obstacle to development. The new power plant and transmission lines will serve the important ports of Recife and Salvador, and some 40 small cities and towns. Electric power will also be available for the development of the hinterland of these ports and of the area around Paulo Afonso Falls, which at present are almost entirely undeveloped.

The Bank sent a mission to Brazil to study the country's capacity to assume additional external debt, the policies being followed to promote development, and the priorities of various development projects including the one at Paulo Afonso. As a result of this mission's findings, the Bank is also investigating the electrification program of the State of Rio Grande do Sul.

The Bank made a loan of $5,000,000 to the Caja de Credito Agrario, Industrial y Minero, a developmental institution in Colombia, in August, 1949, for the purchase of agricultural machinery. During the past year most of the equipment financed by this loan has been distributed through normal business channels and is already in operation. The Bank is also discussing proposed additional loans totaling about $8,000,000 to finance part of the foreign exchange costs of three hydroelectric projects to serve the cities of Manizales, Bucaramanga and Cali. It is hoped that these loan discussions can be brought to an early conclusion.

The consideration of other development projects in Colombia has awaited the submission to the Bank and to the Colombian Government of the report of the comprehensive survey mission headed by Dr. Lauchlin Currie, which made a broad study of Colombia's economy and development potentialities. The report has just recently been completed, and the Colombian Government is appointing a non-partisan commission to formulate a development program based on the report's analyses and recommendations. This technical assistance mission was the first of its kind sponsored by the Bank at the request of a member government. Apart from its usefulness to Colombia, this type of comprehensive approach will serve as a valuable pattern in the conduct of future Bank operations.

Active negotiations are in progress with Uruguayan authorities for a loan amounting to the equivalent of about $33,000,000 to cover foreign exchange costs of a project for augmenting electric power facilities and for expanding telephone services. The borrower would be the Administracion General de las Usinas Electricas y los Telefonos del Estado, an autonomous Government agency. The loan would be guaranteed by the Government of Uruguay.

Peru has under study a number of agricultural and industrial development projects which may be presented to the Bank for financing. In July a Bank mission visited Peru to obtain first hand information on the general economic situation and to make preliminary examinations of these projects.

Bank representatives made several visits to Chile. The Bank has discussed the possibility of financing a number of projects in Chile, in addition to the loans already made to that country, when the present program for stabilization of the Chilean economy shows satisfactory progress. These include a pulp mill and newsprint plant, the modernization and re-equipping of the coal mines south of Concepcion, and several irrigation and agricultural projects.

The Bank granted a loan of $12,545,000 to the Comisión Ejecutiva Hidro-Eléctrica del Rio Lempa, an autonomous governmental agency of El Salvador, for development of electric power resources on the Lempa River. The loan will finance the foreign exchange costs of a hydroelectric plant which will benefit many sectors of the country's economy. The loan is guaranteed by the Salvadorean Government and has been ratified by El Salvador's newly-elected National Constituent Assembly. Moreover, the Government set up an ad hoc committee of Government representatives and independent business and professional men who reviewed all aspects of the plan and gave it their unanimous approval.

An interesting feature of this project is the manner in which its local currency costs were financed by a local bond issue. Since virtually no capital market had existed in that country up to this time, the Bank, at the request of the Salvadorean authorities, sent its Director of Marketing to El Salvador to advise on the local financing. The local bond issue, amounting to 13,100,000 colones, equivalent to about $5,240,000, was fully subscribed.

A comprehensive survey mission organized by the Bank at the request of the Guatemalan Government arrived in Guatemala in June of this year. It will make recommendations as to the general directions in which development can be most fruitfully undertaken and the conditions required for the success of a development program. This mission is headed by Dr. George E. Britnell, of Saskatchewan University, Canada. On the recommendation of the Food and Agriculture Organization of the United Nations, the agricultural part of the mission's study is being undertaken by the Inter-American Institute of Agricultural Sciences, of Turrialba, Costa Rica.

At the request of the Cuban Government, an economic mission organized by the Bank is now in Cuba to study development potentialities. It will examine in particular how present obstacles to domestic or foreign private investment can be overcome. This mission is under the direction of Mr. Francis Adams Truslow, a prominent lawyer and

President of the New York Curb Exchange. Technicians for the mission have been furnished by the Armour Research Foundation, the Southwest Research Institute, and the Stanford Research Institute.

Bank representatives made a preliminary survey of development possibilities in Nicaragua and concluded that the most effective results were likely to be obtained from the expansion and improvement of agricultural production, animal husbandry and transportation facilities. The Nicaraguan Government has indicated its intention of seeking technical assistance in carrying through remedial financial and fiscal measures necessary to the success of a development program.

Other Latin American countries with which the Bank has held discussions during the past year concerning technical assistance or possible Bank financing are: Costa Rica, Ecuador, Honduras, and the Dominican Republic.

Asia, Africa and the Middle East

The Bank granted two further loans to India during the past year. One loan, of $10,000,000, is financing the importation of heavy agricultural equipment needed to reclaim some three million acres of land infested with a weed known as kans grass, and to clear a small area of jungle land. An increase in grain production, which land reclamation will make possible, is of primary importance to the Indian economy.

The other loan, of $18,500,000, will finance part of the cost of the first stage of a long-range plan to develop the resources of the Damodar Valley, which lies in India's richest mineral and industrial region. The Bank's loan will be used to purchase equipment for construction of the Bokaro steam power plant and the Konar dam. Completion of the entire Bokaro-Konar project will provide urgently needed electric power for the expansion of industry, and also supply water for irrigation in the lower valley.

Meanwhile deficiencies in the Indian railway system have been largely overcome, partly with the help of the loan of $34,000,000 for railway equipment which the Bank made to India in August, 1949. A Bank mission visited India in the spring of 1950 to review general economic and financial developments.

The Bank sent a mission to Thailand to study general economic conditions and specific projects proposed for Bank financing, including railway rehabilitation, improvement of the port of Bangkok, rice irrigation, and hydroelectric power development. The Bank has informed the Thai Government of its willingness to start at once to negotiate loans for these four projects.

A Bank mission visited the Philippines to study the difficult economic position of that country. The Philippine Government agreed with the Bank that consideration of a loan application for hydroelectric projects on the island of Luzon should be deferred pending formulation of a development program. The Government has not yet submitted such a program and accordingly the Bank has not been in a position to take action on the loan application.

The Bank granted a loan of $12,800,000 to Iraq to finance the foreign exchange costs of a flood control project. This project calls for construction of a dam across the Tigris River which will direct excess flood waters into an unpopulated and barren depression, known as the Wadi Tharthar, situated between the Tigris and Euphrates rivers. The project is expected to prevent recurring flooding of large arear of cultivated land, improve health and sanitation conditions, and increase agricultural production. The Wadi Tharthar project is part of a more comprehensive plan which will eventually provide, in addition to flood control, the regulation of water supply and irrigation. The Bank's loan is secured by an assignment of oil royalties, and the Government of Iraq will set aside from these royalties sufficient funds to meet the domestic costs of the project.

The Government of Iraq recently presented additional projects for Bank financing, including irrigation, grain storage, tobacco storage and agricultural machinery. The Bank has agreed to send technicians to Iraq this fall to investigate these projects.

A Bank mission visited Iran to examine general economic conditions, fiscal policies and the progress made in the initial period of Iran's Seven-Year Plan. The mission also investigated three projects with a view to possible Bank financing—two cement plants, and a plan for expansion of the port of Khorramshahr and its report is now under consideration.

The Bank sent a mission to Ethiopia to survey the economy of the country and examine a variety of projects which the Ethiopian Government has requested the Bank to finance. The mission concluded that Ethiopian economic development would best be served at this stage by a program of highway improvement, the development of telecommunications, and the establishment of an industrial and agricultural bank. The Bank has advised Ethiopia of its willingness in principle to assist in financing these three projects provided suitable arrangements are made to ensure competent management and subject, in the case of the telecommunications project, to a detailed examination of its technical features.

A Bank mission is at present in the Union of South Africa to study its general economy and development plans. Previously the Vice President of the Bank visited South Africa to obtain first-hand information about conditions in that area, particularly with regard to the needs and oppor-

tunities for capital investment. His party also visited Northern Rhodesia and Southern Rhodesia.

Negotiations regarding a possible Bank loan of about $5,000,000 to the Colonial Development Corporation of the United Kingdom were not consummated. Although expressing appreciation that the Bank had exerted every effort to meet the Corporation's point of view, the Corporation informed the Bank that the Bank's requirements, especially the non-financial covenants, were not reconcilable with the Corporation's methods.

The Bank has informed the Government of Lebanon of its readiness to discuss a loan of modest size, preferably for an agricultural project. Pakistan has presented particulars of sixteen projects for consideration by the Bank.

Europe

The Bank granted two loans to Turkey totaling $16,400,000. One loan, of $12,500,000, will finance the foreign costs of a broad program of port development which provides for improvement of major Turkish ports, and for construction of a new port at Samsun on the Black Sea. Up to now, Turkish foreign and coastal trade has been impeded by the inadequacy of its ports. The other loan, of $3,900,000, will cover foreign exchange costs of a project for construction and mechanization of grain storage facilities throughout Turkey. This project is designed to provide adequate storage capacity, to improve handling facilities and reduce unnecessary losses. Some of the new grain elevators will be built at the reconditioned ports.

The Bank has also actively assisted in the formation of Turkey's new Industrial Development Bank. A Bank consultant visited Turkey twice to discuss with Turkish businessmen and Government officials means to encourage private enterprise, and as a result the Industrial Development Bank of Turkey was formed last April. It will grant assistance in the establishment of new private enterprises and the modernization of existing ones; encourage private capital investment, both domestic and foreign, in Turkish industry; and promote a securities market in Turkey. The International Bank has indicated its willingness to work out a loan to the Industrial Development Bank of up to $9,000,000 provided its organization and management are established along satisfactory lines.

At the request of the Turkish Government, the Bank has also sent a comprehensive survey mission to the country. It is headed by Mr. James M. Barker, Chairman of the Board of the All-States Insurance Company, and includes members of the Bank's staff, a staff member of the Food and Agriculture Organization, an expert nominated by the World Health Organization, and various other specialists. This mission will make recommendations concerning: 1) the directions in which investment may best be channeled in the Turkish economy; 2) other means of increasing Turkey's agricultural and industrial production and improving its system of distribution: 3) desirable changes in economic and financial policies and public administration to accelerate Turkey's development.

Loans of $2,300,000 and $2,700,000 were made to the Republic of Finland and the Federal People's Republic of Yugoslavia, respectively, for the purchase of equipment for timber production. The loans were part of a cooperative project in which a number of timber exporting and importing countries in Europe participated, and which was worked out with the aid of representatives of the Bank, the Economic Commission for Europe, and the Food and Agriculture Organization.

The machinery being obtained by Finland and Yugoslavia as a result of the Bank's loans, and by purchases of other equipment from European suppliers, should enable those two countries to increase considerably their annual production and exports of timber. The timber importing countries of Europe will likewise benefit, both from the availability of increased supplies of much needed timber and also from their reduced dependence upon imports of timber which must be paid for in hard currency.

In July 1949, the Bank made a loan of $15,000,000 to the Netherland Herstelbank for 24 industrial projects in various private industries. The loan was guaranteed by the Netherlands Government. At the request of the borrower, the Bank canceled $6,200,000 of this loan in March, 1950. The cancellation reflected the development of Holland's trade relations. Some of the projects to be financed under this loan were eliminated, but the cancellation did not affect the loan's basic character.

The Bank has maintained close contact throughout the year with the French Government. Members of the Bank's engineering staff visited France to observe the progress of two steel projects partly financed by the loan of $250,000,000 which the Bank had made in 1947 to Credit National. The construction of the continuous cold rolling mill at Montataire has been completed. The continuous hot strip mill at Denain is expected to be finished at the beginning of 1951. While there has been marked improvement in the economic position of France generally during the past year, the Bank is fully aware of the implications of the continuing dollar gap and is carefully following all economic and political developments which affect the solution of this problem.

Bank engineers visited Belgium to observe the work on steel and power projects financed under the $16,000,000 loan made to Belgium in March, 1949. The steel project at Ougrée, including construction of a new blooming mill, has been completed. The cold rolling and tin plating mills at

Tilleur are being completed and the entire plant should be ready for operation at the beginning of 1951. Erection of a thermal power plant at Awirs is expected to be completed by the middle of next year.

Luxembourg was visited by Bank engineers for a survey of projects financed by a Bank loan of $12,000,000 made in 1947. The major part of the loan was used for the construction of steel mills at Dudelange. The hot rolling mill is expected to be completed in November, 1950, and the cold mill in March, 1951. A smaller part of the loan was utilized for equipment for the Luxembourg Railways.

Representatives of the Bank went to Italy to examine various aspects of the Italian Government's program of economic development for Southern Italy, involving mainly irrigation, land reclamation and improvement. The Bank's President also visited Rome. As a result of these preliminary examinations, the Bank is prepared to discuss possible Bank assistance when the formation of the necessary Italian administrative agency has been completed.

The Bank made a loan of 12,500,000 to the Bank of Finland in August, 1949, for development of electric power, woodworking industries, and limestone powder production. A Bank mission visited Finland during the past year to review the progress of these projects. Electric power production is now above pre-war levels and there have been increases in output of the woodworking industries and of limestone powder for use in agriculture.

Loan discussions are proceeding with the Yugoslav Government. Progress has been made in examining Yugoslavia's economic position and prospects, in appraising the requirements of the principal sectors of the economy in which a loan from the Bank might be spent, and in working out tentative plans for a loan, partly in United States dollars and partly in European currencies.

Results of Operations and Use of Loan Proceeds

The Bank's operations for the twelve months ended June 30, 1950, resulted in a net income amounting to $13,698,398, exclusive of loan commissions credited to the Special Reserve. The total net income for the entire period of the Bank's operations up to June 30, 1950, amounted to $27,339,492. In addition to this net income, $5,663,064 was set aside in the Special Reserve during the year ended June 30, 1950; the total amount in the Special Reserve was thereby increased to $13,737,205.

The Executive Directors on July 27, 1950 established a reserve against losses on loans and guarantees made by the Bank and allocated to such reserve the net income of the Bank for the fiscal year ended June 30, 1950 (after making provision for any amount payable in respect thereof on repurchase of Poland's shares) and the net income accruing thereafter until further action by the Executive Directors or the Board of Governors. The Executive Directors are presenting a separate report to the Board of Governors regarding the establishment of such reserve and the disposition of the Bank's surplus as of June 30, 1949.

Total disbursements made on the Bank's loans up to June 30, 1950, amounted to the equivalent of $614,162,160. Of the disbursements made during the fiscal year ended June 30, 1950, approximately 40% was spent outside the United States against approximately 20% in the previous year. The geographical distribution of total expenditures financed by the Bank up to June 30, 1950, in round numbers by groups of countries, follows: United States, $452.3 million; Canada, $34.8 million; Latin America, $55.5 million; Europe $66.7 million; Africa, Near East and Far East $4.8 million.

Increase in Currencies Available for Lending

The Bank has had a gratifying degree of success during the past year in efforts to obtain the release by member nations, for use in lending operations, of all or part of the 18% portion of their capital subscriptions which are paid in local currencies. Eleven additional member countries—Colombia, Costa Rica, Ecuador, El Salvador, Finland, France, Honduras, Italy, Mexico, The Netherlands and Paraguay—have taken action along this line.

As a result of the actions of various member governments the situation with regard to the 18% subscriptions of member countries is now as follows: The United States and El Salvador have consented to the use in Bank lending of all their 18%; Belgium, Canada, Denmark, Mexico, Paraguay and the United Kingdom have released portions of their subscriptions aggregating the equivalent of $16.2 million; Ecuador has agreed to the use of the full amount of its 18% subscription except for the export of a few specific items; Honduras has agreed to the use of its full 18% after January 1, 1951; Costa Rica, Finland, France, Italy and The Netherlands have agreed in principle, subject to discussion in each case, to the use of their 18%; Colombia has similarly consented in principle to the use of one-half of its 18% subscription. In addition to the sums included above, the United Kingdom has also agreed in principle to the use of a further part of its 18% subscription subject to approval in each case.

The Bank realizes that many of its member countries remain unable to give unconditional consent at this time to large quantities of unrequited exports. It feels, however, that most members can make at least small amounts of their 18% subscriptions available for loans. The Bank has been greatly encouraged by the increasing amounts of such funds that have been made available during

the past year, and by the evidence that there are likely to be substantial further additions to its loanable resources as a result of additional consents in the future.

Marketing Activities

The Bank made its second public offering of a new bond issue in the United States market on January 25, 1950, when it sold $100,000,000 2% Serial Bonds of 1950 due 1953-62. This issue replaced $100,000,000 of the Bank's Ten Year 2¼% Bonds which were redeemed on February 17, 1950, at 101% of their principal amount and accrued interest. This was the first time that an issue of Bank bonds was sold by competitive bidding to underwriters, and the method proved successful. The winning bid was submitted by a syndicate which included 37 banks and 99 investment banking firms located in 25 states and the District of Columbia. As a result of their bid the net interest cost of the issue to the Bank is 1.93% per annum, thus effecting a substantial net interest saving.

On March 1, 1950, the Bank also sold, to a group of leading Swiss banks and the Bank for International Settlements, a new issue of 2½% Swiss franc Serial Bonds of 1950 in aggregate principal amount of 28,500,000 Swiss francs, equivalent to approximately $6,600,000. The bonds were sold at 100 and accrued interest and mature in semi-annual installments from March 1, 1953 to March 1, 1956.

The Bank's obligations are now generally considered seasoned investment media in the United States but it continues its efforts to broaden their market in that country. At the same time, the Bank is giving increasing attention to the development of markets for its bonds outside the United States, and some encouraging progress along this line has been made. The instances, known to the Bank, in which its member governments have taken action during the past year to broaden the market for the Bank's securities include the following:

The Netherlands Government has facilitated the introduction of the Bank's bonds in the Amsterdam market by granting freedom from requisitioning, to a total of $5,000,000 principal amount of Netherlands Trustee Certificates which have been issued against the Bank's 25-Year 3% Bonds. These have been listed on the Amsterdam Stock Exchange, and purchases of the Bank's bonds have been made in the American market for the account of Netherlands clients, who exchange the bonds for Trustee Certificates.

The Central Bank of Mexico has authorized domestic and foreign banks operating in Mexico to utilize part of their foreign exchange reserve deposits maintained with the Central Bank for the acquisition of International Bank bonds. The Central Bank has purchased International Bank bonds in the open market for resale to banks in Mexico. The Bank's outstanding dollar obligations are also listed on the Mexico City Stock Exchange, and have been ruled eligible as investments for banks, insurance companies and other credit institutions. The Chilean Government has ruled that foreign and domestic banks in Chile may invest up to 25% of their capital and surplus in bonds delivered to the Bank pursuant to Chilean loan agreements with the Bank. And the Central Bank of Cuba has ruled that the obligations of the International Bank payable in dollars or in any currency convertible into gold are eligible investments for banks in Cuba.

POLICIES OF THE BANK

While the Bank is by most standards a young institution, the Report states, its experience in international investment has now been sufficient to permit the statement of certain general conclusions about the problems it faces and the policies it has adopted to meet them. These policies cannot be regarded as fixed but are constantly subject to evolution in the light of further experience. The chief characteristics of the period in which the Bank has been in active operation have been the great stress and rapid change in economic and political conditions throughout the world. The Bank was conceived in the expectation of quite different circumstances. It has kept its policies flexible in order that it might meet the needs of the present without prejudicing its long-range function. A summary of the Bank's major operational policies, as they have developed to date, follows.

The Character of Bank Lending

The basic character of Bank lending is governed by its Articles of Agreement, particularly the three provisions requiring: 1) that, except in special circumstances, Bank loans be for specific projects of reconstruction or development; 2) that the projects initially selected for financing be those most useful and urgent for increasing the productive resources of its member countries; and 3) that, again except in special circumstances, Bank financing be designed to meet foreign exchange rather than local currency expenditures. Each of these general provisions, which the Bank must apply to specific situations as they arise, is discussed below.

The Specific Project Provision. The Bank's Articles of Agreement require that "loans made or guaranteed by the Bank shall, except in special

circumstances, be for the purpose of specific projects of reconstruction or development." The objective of this provision is simply to assure that Bank loans will be used for productive purposes. In effect, the only requirement which it imposes is that, before a loan is granted, there shall be a clear agreement both as to the types of goods and services for which the loan is to be expended and the uses to which those goods and services are to be put.

Criticism of the specific project approach has almost always been based on the assumption that the Bank examines the merits of particular projects in isolation, without reference to their relation to the over-all development needs of the borrowing country. In fact, the Bank does precisely the opposite. It seeks, in the case of each borrowing country, to determine what the appropriate investment priorities are, and then to adapt its financial assistance to meet the priority needs. For this reason the Bank encourages its member countries to formulate long-term development programs and is assisting several of them in this respect.

If the Bank were to make loans for unspecified purposes or for vague development programs which have not been worked out in terms of specific projects, there would be danger that the Bank's resources would be used either for projects which are economically or technically unsound or are of a low priority nature, or for economically unjustified consumer goods imports. Experience of projects presented to the Bank has shown that this danger is by no means hypothetical.

There are special cases, of course, where detailed project investigations are neither necessary or feasible, as in the case of the early reconstruction loans which were made to meet emergency needs. The Bank does not interpret the specific project provision as committing it to a single inflexible lending technique to be applied without regard to the actual needs of a given situation. It is rather a lending policy which, in the opinion of the Bank, is desirable in the vast majority of cases to assure that member countries use their limited capacity for foreign indebtedness to the best advantage.

The proposal has sometimes been advanced that the Bank should make loans for "general development purposes." It is difficult to discuss the merits of this proposal without a more precise definition of "general development purposes." If all that is meant is that the Bank should not confine its assistance to individual projects but should seek to finance groups of inter-related projects, the proposal merely reflects existing Bank policy. Indeed the Bank prefers to go further and base its financing on a national development program, provided this is properly worked out in terms of the projects by which the objectives of the program are to be attained.

But the proposal has a different aspect if it is intended to urge that loans should be made for programs consisting only of general aspirations. In the experience of the Bank, such programs provide no adequate basis for judging whether financial investment will in fact be translated effectively into the concrete substance of development.

Determination of Projects to be Financed. Since the available resources of every country, including its capacity to borrow abroad, are limited, Bank financing must be devoted to those undertakings which will contribute most to strengthening the economy of the borrowing country. The Bank therefore investigates the over-all economic position of the borrowing country in order, first, to determine what are or should be the important goals of a proper investment program and then to gauge the relative productivity of the various projects by the extent of their contribution to those goals.

The Bank has found that there is no single test by which the relative urgency and productivity of various alternative projects can be judged. The situation in each country must be considered on its own merits. Where the project under consideration is one which is intended to be self-liquidating in terms of local currency, the Bank will of course wish to satisfy itself, before granting a loan, that the enterprise is soundly conceived to achieve that objective. But the relative profitability of different projects will rarely be a proper test of their relative contribution to a country's development. In many cases, certain basic investments in public utilities, transport and ports, reclamation and irrigation, workers' housing and similar projects will be required before other investments in more immediately profitable activities can be undertaken. The indirect benefits attributable to these basic investments may be very great even though the direct earnings of the activities, at least in the short run, are not high or may even be non-existent.

The Bank recognizes that by financing one particular investment project it may release resources already available to the borrower for some other investment activity, but it does not regard this fact as in any way relieving it from the obligation of satisfying itself that the projects it finances are technically sound and are of a high priority nature. Indeed, it may reasonably be hoped that underdeveloped countries may thereby become more familiar with the Bank's methods and criteria and so tend gradually to apply the same standards to investment projects financed from their own resources. This may well prove in the long run to be a most valuable by-product of the Bank's lending technique.

Loans for Local Currency Expenditures. The Bank's Articles of Agreement make a distinction between two types of foreign exchange expenditure which may be incurred in the execution of an in-

vestment project; one, the direct cost of imported equipment or services used on the project; the other, the indirect foreign exchange expenditure resulting from the fact that local expenditure on labor or domestically produced equipment will usually give rise to an increased demand for imported consumer goods or raw materials. The Articles contemplate that the Bank should normally make loans to meet the first type of foreign expenditure; they permit loans for the latter type "in exceptional circumstances." This second type of loan is often referred to as a loan to meet local currency expenditures although, strictly speaking, it is a loan in foreign exchange needed because of foreign exchange requirements indirectly resulting from expenditure in local currency.

It has often been argued that, to the extent that local expenditure on investment projects gives rise to additional demand for imports of consumer goods or raw materials, there can be no logical reason for making this expenditure less eligible for loans than the direct foreign expenditure required for the import of capital equipment. But the Bank is in agreement with the view that many countries, particularly the less developed ones, need to take more effective measures to channel their limited domestic savings into the most productive investment projects. It accordingly feels that it should first assist these countries in taking the necessary measures to defray the local currency part of their investment programs from their own resources where this is reasonably possible without inflationary effects. It has, for example, recently assisted the Government of El Salvador in the flotation of domestic bonds by the Rio Lempa Commission in connection with the Bank's loan to the Commission.

However, a country may be in a position where its domestic savings are reasonably fully employed in productive investment and where the most advantageous kind of additional investment for it to make would be in such projects as roads, irrigation or housing which call principally for expenditure in domestic currency. Provided such investment is in line with the natural growth of the country, the Bank believes that a loan for local expenditures to tide the country over a period of expansion without inflation would generally be justifiable.

In other words, the Bank regards the local currency provision of its charter not as an encumbrance but as a signal of the need for inquiry and justification whenever an application is made for a local currency loan, but there is nothing in the provision to prevent such an application being approved if the circumstances warrant it. It should be noted, however, that it is the general policy of the Bank not to finance the whole cost of any undertaking, because it believes that its borrowers' best interests are served if they have a tangible financial stake in the preparation and execution of their investment projects.

In general, the Bank's policy in this regard may be summarized by saying that local expenditures may be financed if the following conditions are satisfied: 1) the project being financed is of such economic urgency that the country's ability to undertake foreign borrowing is better utilized in financing this project than in financing the direct foreign exchange costs of alternate projects; 2) the local currency costs of the project cannot reasonably be met out of available domestic resources; and 3) 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.

It should be noted that the term "local currency loan" is sometimes used to mean a loan pursuant to which the currency of the borrower is provided to cover the local expenses of a project, regardless of their effect upon foreign exchange requirements. The Bank's Articles of Agreement permit this type of loan in exceptional circumstances when the local currency cannot be raised by the borrower on reasonable terms. However, the Bank has not been presented with a case where financing of this nature would be appropriate.

The Character of Bank Investigations

Although the procedures followed necessarily vary considerably from case to case, the Bank has developed a general pattern of handling loan requests. Normally, it prefers to hold informal exploratory discussions with prospective borrowers before any formal loan request is filed. These discussions enable the Bank to determine whether the projects to be financed are, in principle, of a type which the Bank can consider and what kinds of information it will need. If the prospective borrower is not a member government the Bank requires at this stage an appropriate indication by the Government that it will guarantee a loan for the project.

The actual process of investigation usually falls into two general stages, which in some cases may proceed more or less concurrently. The first stage is a general examination of the economy of the borrowing country with a view to determining: 1) the appropriate amount of additional external debt the country can afford to service and the rate at which it can effectively absorb such debt; 2) the general order of priority of the projects under consideration from the standpoint of their contribution to the country's development; and 3) the appropriateness of the government's economic and financial policies to further the development process.

This first stage frequently requires intensive study of the country's agricultural, industrial and mineral resources; its manpower, transport and

power situation; the state of its external trade and balance of payments; and the condition of its internal finances, particularly its budget and currency position. If such an investigation has already been made by the Bank, the inquiry will normally be confined to developments occurring in the interim. After studying the information available at its home office, the Bank almost always dispatches a mission to examine conditions in the country itself.

On the basis of the mission's report the Bank is usually able to form at least a provisional judgement as to the amount of additional foreign debt the country can safely assume and effectively use and also as to the project or projects most suitable for financing. The Bank then proceeds in the second phase of its investigation with a detailed examination of these projects. Staff engineers or outside engineering consultants make a thorough technical examination of any important technical problems involved. Similarly, it often proves necessary to examine such factors as market surveys, and financial and administrative arrangements proposed by the borrower to carry out the project. Again, at least part of the technical investigation must usually be conducted in the field.

If the investigations result in a favorable report on the project, formal negotiations for a loan are begun. As the Bank's member countries have gained greater familiarity with the provisions of the Bank's loan and guarantee agreements, it has often been possible to complete the formal negotiations quite quickly.

These lending procedures are subject to certain qualifications. Not infrequently, the Bank's examination of general economic conditions in the borrowing country reveals the existence of economic or financial practices which so adversely affect the financial and monetary stability of the country that, if continued, they would endanger both the productive purposes and the repayment prospects of any Bank loan. In such cases, the Bank requires, as a condition of Bank financing, that the borrowing country institute measures designed to restore stability to its economy. The Bank does not insist that all remedial measures which may appear necessary be completed before a country may qualify for a loan, but it does require concrete evidence that the government is actually taking the necessary steps. Once given such evidence, it is usually willing to make a loan concurrently with the execution of the measures adopted.

Another qualification applies in the case of those few remaining member countries whose credit is impaired by a still unsettled default on their outstanding foreign obligations. The mere existence of a default will not deter the Bank from granting a loan if it is convinced that there are no reasonable grounds for regarding the debtor's attitude as unsatisfactory. But the Bank considers it important that the countries concerned should give clear evidence of their willingness to reach a fair and equitable settlement of their debts. In the absence of such evidence, the granting of a bank loan might properly be regarded as, in the long run, hindering rather than promoting the flow of international capital.

Loan Charges

In establishing its system of loan charges, the Bank considers equally the interests of all its members. The Bank therefore lends at the lowest rates that it considers consistent with reasonable prudence to safeguard those who supply its funds and those who guarantee their repayment. The Bank has made efforts to effect a progressive reduction of these charges. Its policy is to make no distinction among its member countries in determining the charges on loans.

The two principal charges are interest and commission. The main element in the interest rate is the cost at which the Bank can borrow in the market for a comparable period. The Bank's interest rate is calculated to exceed this cost by a small margin sufficient, together with the income from its capital, to cover the Bank's operating expenses and to yield a modest amount that can be put to reserve against future contingencies. In accordance with the Articles of Agreement it also charges a commission, the proceeds of which are allocated to a special reserve for the purpose of meeting the liabilities of the Bank on its borrowings and guarantees. Currently, a uniform commission of 1% is charged on all outstanding loans.

The Bank does not normally charge the full interest rate on its loans until the proceeds are actually disbursed. Beginning on the effective date of the loan, however, a commitment charge is made on the undisbursed portion of the loan calculated to compensate the Bank, at least in part, for the cost of holding funds at the borrower's disposal.

Currency Problems

The Bank's charter precludes it from making "tied" loans—that is, from imposing any condition that the loan must be spent in the territories of any particular member countries. A mistaken impression has gained some acceptance that, although the Bank may impose no contractual conditions which cause its loans to be "tied", its policy and procedures tend to have this result.

As of June 30, 1950, the Bank had disbursed the equivalent of $614.1 million under its loans. Of this sum, the equivalent of $17.9 million was drawn from the Bank's resources of currencies other than United States dollars, specifically the 18% subscriptions of certain member countries and the proceeds of Bank bond issues in Switzerland. The remainder was drawn from the Bank's dollar assets and of this sum about one quarter was spent out-

side the United States. In view of the types of goods required by the Bank's borrowers and the supply situation of such goods during the past few years, and in view of the fact that most of the Bank's borrowers have confined their loan requests primarily to dollar needs, the fact that so large a proportion was spent outside the United States is clear indication that the Bank's loans have not been tied either in form or in substance.

The Bank, however, cannot be indifferent to the currencies in which its member countries incur obligations. When a borrowing country's total dollar debt is already near the prudent limit that it can be expected to bear, the Bank advises it to explore all practical means of avoiding an addition to that dollar debt. The Bank has made efforts to increase its available lending resources in currencies other than United States dollars by obtaining the permission of its members for the use for loans of part or all of the 18% portion of their capital subscriptions. In view of the increasing availability of goods in Western Europe at prices competitive with comparable United States products, this matter is becoming progressively more important. Indeed, so long as conditions of non-convertibility continue, the extent to which the Bank is enabled to utilize its non-dollar capital or the proceeds of non-dollar bond issues for lending purposes will inevitably have a substantial effect upon the volume of Bank lending.

Loans to Private Enterprise

Loans to borrowers other than member governments must, according to the Bank's charter, be guaranteed by "the member or the central bank or some comparable agency of the member which is acceptable to the Bank." This provision is a principal reason why a majority of the Bank's loans to date have been to governments or governmental agencies and why loans to private enterprises have been infrequent. For entirely understandable political reasons, governments may be reluctant to guarantee loans to private enterprises, since it may thereby lay itself open to charges of favoring a particular private company over its competitors, or over various public projects.

The requirement of a government guarantee also tends to discourage private enterprises from seeking Bank financing, because they fear that it may lead to demands for government participation in or control over management. Whether or not these fears are justified, the significant fact is that they exist. The Bank has tried various techniques to overcome these difficulties, for it is convinced that in many situations it can make an effective contribution to the development of its member countries through financing private undertakings.

One type of solution is exemplified by the Bank's loan to the Netherlands Herstelbank. The purpose of this loan was to enable the Herstelbank to extend credits to more than 20 private enterprises in a variety of Dutch industries. By having a government guarantee a loan made to a responsible intermediary such as the Herstelbank, it is possible to avoid to a large extent the difficulties which confront both the government and the private enterprises ultimately benefitting from the loan. Another technique is illustrated by the Bank's decision to assist in the establishment of the new Turkish Industrial Development Bank, which is described in the operational section of the Report. The International Bank has agreed to work out a loan to the Development Bank, with an understanding that the use of the loan for particular private projects is to be subject to International Bank review.

The Bank is continuing to study this problem in relation to various member countries. One further possibility is the acceptance by the Bank in suitable circumstances of the guarantee of the local central bank or comparable institution; this technique would appear appropriate for small loans to private enterprises up to a limited amount. Another is the enactment by member countries of legislation enabling officials or institutions to give the guarantee of the government for Bank loans not exceeding a certain size.

Continuing Relationship with Borrowers

The Bank maintains a close relationship with its borrowers throughout the life of each loan for two main purposes. First, the Bank checks to assure that loans are expended only for authorized goods or services and keeps itself informed of the uses to which the goods are put. Second, the Bank keeps in touch with general economic and financial developments in the borrowing country.

Disbursements are, in general, controlled by procedures similar to those applied by commercial banks. In addition, the Bank arranges to receive a flow of information about the progress of the execution of the project. The information requested by the Bank is usually much less than that required by the borrower itself for the efficient control of its own operations. Field visits are also made to the borrowing country. The objective of this procedure is to bring to light at the earliest possible moment any difficulties, either technical or financial, which hinder the successful accomplishment of a project, and by early discussion with the borrower to overcome them.

In giving continuing attention to general economic developments in the borrowing country, one of the Bank's objectives is, of course, to ensure that the maintenance of service on its loans is not jeopardized by the emergence of conditions which might reasonably be prevented. But the Bank also has a broader objective in view. By keeping in touch with the progress of its members, the Bank hopes that it may be able to be of some assistance

to them in meeting important economic problems. The member countries, in turn, are able to discuss their plans for investment well in advance and to obtain an early indication of the Bank's opinion. On both sides this tends to facilitate subsequent financing from the Bank or, in the long run, from any other source.

Technical Assistance

In the normal course of its loan operations, as noted in the operational section of the Report, the Bank renders a wide variety of technical assistance to its member countries. The essential purpose of this type of technical assistance is to ensure that the Bank's resources will be used with maximum effectiveness. There have also been an increasing number of cases where member countries have asked the Bank for advice on particular projects or industries without reference to any financing operation. The Bank either provides such advice from its own staff or, more generally, recommends the employment of outside consultants. The Bank is steadily building up a roster of experts in various fields in which technical advice is likely to be required.

In addition to advice on particular projects, the Bank is convinced that many of its less developed member countries need assistance of a broader nature. Several countries have already asked the Bank to organize a mission to make a comprehensive survey of their economies. One mission of this type visited Colombia in 1949 and three are now in Turkey, Guatemala and Cuba. The precise terms of reference of these missions vary in each case, but broadly their objective is to help the country formulate a program of investment which will indicate priorities among the important sectors of the economy and among types of undertakings within each sector; to suggest methods, other than investment, to improve productive efficiency in existing enterprises; and to recommend improvements in the government's economic and financial policies and organization to facilitate further development. These missions are staffed primarily with consultants recruited from outside the Bank on an international basis, but they include members of the Bank's staff. The expenses of such missions are shared by the Bank and the country concerned.

It is too early to draw definite conclusions as to this aspect of the Bank's work. It is clear, however, that the need for technical assistance of this type is very real and that the fulfillment of that need up to the point of implementation of the advice given is far from a simple task. While there will normally be a number of recommendations of a non-controversial nature which have a ready chance of adoption, at least some of the mission's recommendations are likely to be unpalatable to certain groups. They may call for changes in taxation, for far-reaching land reforms, or for the postponement of projects likely to benefit some particular district. For this reason it is a prerequisite to the success of a comprehensive advisory mission that the country concerned should sincerely desire its advice and arrange for serious, non-partisan consideration of the recommendations made.

The Bank believes it is appropriate that it should provide this type of assistance to its member countries for several reasons. It can do so without suspicion of being influenced by political or commercial motives or of sponsoring unrealistic recommendations. Moreover, in view of the Bank's relations with its member countries, it is able to provide continuity and to follow up the recommendations of a mission with advice on subsequent steps. The Bank is also in a position to help countries which formulate well-balanced development programs by financing appropriate projects.

These broad activities in the field of technical assistance may thus form a useful working basis for the Bank's financing activities although that is not their main objective. In the long run their impact is likely to be more profound, since they should contribute to the formation of a climate conducive to productive investment from all sources.

The Bank's Lending Standards

The Bank has set high standards for its lending operations. That does not mean that its loans are without risk; the very essence of the Bank's task is to take risks that private investors are unwilling to assume. Nor does it mean that the selection of projects to be financed is dictated by commercial considerations. It means rather that the Bank will lend only on the basis of an informed judgement as to the productivity of the proposed investment. This judgement rests on the answers to two basic questions: first, whether the purposes for which the loan is granted can be accomplished efficiently by the means selected and with the funds at the borrower's disposal; and second, whether the accomplishment of those purposes will make a significant contribution to the country's economy in relation to the resources invested.

The gathering of information necessary to form such a judgement takes time, particularly when it involves a series of inquiries. The Bank hopes and expects that, as more information about the economies of its members is assembled, as well-conceived development programs take shape and as the technique of planning individual projects becomes more generally understood, the pace of the Bank's financing will accelerate and it will be able to grant a considerably larger annual volume of loans.

The Bank is convinced, however, that an increase in the volume of loans achieved at a sacrifice

of the productive character of these loans would be of no real benefit to its members. Nothing can be more harmful to a country's economic future than a faulty assessment of its real opportunities. Nor can anything make the burden of a debt so difficult to bear as waste and inefficiency in the use of borrowed funds.

It is the Bank's firm intention, therefore, to continue its efforts to choose the right projects for investment and to help bring those projects to a high pitch of technical proficiency. Only by so doing can the Bank discharge its responsibility to assure effective use of its resources in raising the standard of living in its member countries.