INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SECOND ANNUAL REPORT

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SECOND ANNUAL REPORT

TO THE BOARD OF GOVERNORS
FOR THE YEAR ENDED JUNE 30

(INCLUDING LENDING AND BORROWING OPERATIONS
TO AUGUST 10)

1947

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

WASHINGTON, D. C.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

September 11, 1947

My dear Mr. Chairman:

In accordance with Section 10 of the By-Laws of the International Bank for Reconstruction and Development, I have the honor to submit to the Board of Governors the Second Annual Report of the Bank, as approved by the Executive Directors. This report includes financial statements as of June 30, 1947, based on an audit of the accounts of the Bank made pursuant to Section 19 of the By-Laws. It also incorporates, pursuant to Section 19 of the By-Laws, an administrative budget for the fiscal year ending June 30, 1948, prepared by the President and approved by the Executive Directors.

While the financial statements cover the fiscal year ended June 30, 1947, the remainder of the report reflects the activities of the Bank for the period from the first annual meeting of the Board of Governors to August 10, 1947.

Sincerely yours,

JOHN J. McCLOY
President

THE RIGHT HONORABLE HUGH DALTON,
Chairman, Board of Governors,
International Bank for Reconstruction and Development.

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Introduction

DURING THE YEAR that has elapsed since the First Annual Report was presented, the International Bank has commenced its operations both as a lender and as a borrower; it has developed and clarified many of its basic policies and procedures; and it has strengthened its organizational structure. This Second Annual Report contains a record of what has been done in these three fields.

It is axiomatic that reconstruction and development, the twin purposes of the Bank, must move forward together. Creation of conditions of economic health throughout the world requires an increase in the present world levels of industrial and agricultural output and of international trade; this, in turn, requires both restoration of productivity in war-devastated countries and increase of productivity in underdeveloped nations.

To date the most pressing calls upon the Bank have been for purposes of reconstructing the war-damaged nations of Europe; in that field there is for the moment not only great urgency but also great opportunity for rapid improvement in the level of productivity and, with it, improvement in the level of trade among all the members of the Bank. But while European recovery has of necessity been stressed, plans for reconstruction and development elsewhere have also been given consideration, and at a later stage the emphasis will tend to be on the development phase of the Bank's activities.

It is not cause for despondency that, only two years after the conclusion of the war, economic stability has not yet been achieved and much still remains to be done in raising or restoring the standard of living. Reconstruction and development both take time. They require the efforts of millions of individuals to repair and build up normal life and activities. They require sound and detailed economic planning. They require the development of sound budgetary policies to ensure financial and monetary stability. They require the creation of fair and efficient government controls during the transition period. These things cannot be quickly achieved after political, economic and human dislocations of the magnitude experienced during the recent war.

Despite all obstacles, considerable progress toward increasing the level of production throughout the world has been made. Given continuance of the will to succeed by the peoples themselves, given willingness by their leaders to submerge individual differences, that progress can be continued and its pace increased. It is the design and purpose of the International Bank to contribute to this end.

ROLE OF THE BANK

Unanticipated Post-War Needs

When the Bank's charter was drafted at Bretton Woods in the summer of 1944, high hopes were held that the Bank would prove to be the principal instrument for restoring the war-torn nations of the world to economic life. The critical short-range relief needs were to be met through donations by UNRRA; the external financing needed for the more permanent recovery programs was to be supplied by loans from the Bank. Recovery was conceived of primarily in terms of the rebuilding of factories, mines, railroads and other specific productive facilities.

We now know that the problem is deeper and more difficult than was envisaged at Bretton Woods. The deadening effects of the utter and prolonged disruptions of trade have been more serious than was anticipated in 1944, delays in satisfying the most elemental needs for food and fuel have been greater, and the dislocations of the industrial mechanism, of governmental organizations and patterns, and of human resources, have been of more profound significance. Unforeseen political conflicts have accentuated the economic difficulties. As a result, the requirements of recovery today are not limited to the rebuilding of individual productive facilities. They include rehabilitation and reconstruction of entire national economies.

The resources of UNRRA did not prove sufficient fully to accomplish the purposes sought. Several countries made substantial additional amounts available in the form of credits and grants. Total post-war assistance extended by Canada has been more than $2,050 million. Swedish aid has been the equivalent of about $800 million and total credits and grants from the United States have aggregated approximately $15,000 million. In spite of its own heavy war damage, the United Kingdom has made credits and grants equivalent to approximately $3,300 million available to other war damaged countries. Other devastated areas have also extended credit to those in even worse plight, despite the immediate sacrifices involved.

All of this assistance, however, has not proved enough to meet the needs. Several countries, it is true, have proceeded rapidly with their recovery programs, often at the cost of seriously depleting their monetary reserves. Others still require a large measure of assistance to enable them to import the necessary food and fuel, fibres and fertilizers, to eradicate hunger and malnutrition and to achieve stability. These basic demands must be met; they necessarily aggravate the difficulties in the way of importing the equipment and materials needed for purposes of long-range reconstruction.

The problem is not confined to the areas which were directly devastated. The dislocating consequences of the war have likewise extended to many other countries, whose resources have been strained and whose plant and equipment have been impaired as a result of the heavy demands placed on their economies by the war.

Because the requirements are greater than anticipated, because the scope of activity and loanable resources of the Bank are limited, it is manifest that the Bank can provide only a part of the answer to the problems which confront the world today. There must be continued assistance from other sources, such as that contemplated for Europe by the so-called Marshall Plan, in fields which are either beyond the competence or beyond the resources of the Bank. For both political and economic reasons, such assistance must be of limited duration and on a diminishing scale. For the same reasons, the assistance must be large enough to enable the recipient nations to achieve stability—that is, to live without assistance—within a reasonably short period of time.

As of the time this report is written, the shape and content of the Marshall Plan are still in the process of formulation. The extent, the timing, even the form which United States assistance may take, are not yet known. Developments in this connection cannot help but greatly affect the role of the Bank in the process of European reconstruction.

Statistical and economic material concerning the extent of the dollar needs of the world is set forth in the Second Annual Report of the Inter-

national Monetary Fund; it will not be repeated here. But it does seem worth stressing that the need for American dollars shown by the Fund's report—the so-called "dollar problem"—is fundamentally a matter of production. The great need for American dollars today simply reflects the facts (1) that the rest of the world is not yet producing enough to enable it to obtain the necessary goods and services through domestic production and normal international trade channels, (2) that consequently these goods and services are being purchased in large part in the United States because, with its immense productive mechanism intact, the United States is one of the few countries, and certainly by far the most important one, able to supply such goods and services, and (3) that procurement in the United States requires dollars. The present "dollar problem" will be solved when, and only when, production in the other nations of the world is increased to such an extent that the necessary products can be obtained through the normal flow of international trade, with exports of goods and services available to pay for essential imports.

Underlying Concepts

Although the Bank cannot meet relief needs, although it cannot fulfill all pressing rehabilitation requirements, it can make a substantial contribution to both reconstruction and development. The special problems which presently exist in these fields are analyzed in the succeeding section of this report. In this section, there are set forth certain fundamental concepts concerning the Bank's functions which underlie its activities in both areas.

The first of these fundamental concepts is that the Bank cannot, and was never intended to, provide the external financing required for all meritorious projects of reconstruction and development. Rather, the Bank's function is to provide a catalyst by which production may be generally stimulated and private investment encouraged. The Bank believes that its funds must be used chiefly to finance programs or projects which will eliminate bottlenecks to production, or which will generate increases in production of related goods or in related areas, or which will otherwise serve effectively to stimulate the revival or development of industry and agriculture. The strategic use of comparatively modest sums can in this way have beneficial effects out of all proportion to the size of the investment.

In the second place, the Bank believes that it should encourage necessary action by its member governments to assure that the Bank's loans will actually prove productive. The promotion of sound financial programs, the removal of unnecessary trade barriers, and the regional integration of production plans, where appropriate, are some of the fields in which the Bank, as it acquires experience and builds up the confidence of the responsible officials of its members, may be able to exert a helpful influence.

Implicit in what has already been said is the third fundamental concept which has been developed, that the Bank must play an active rather than a passive role. The Executive Directors and the management are convinced that it is not enough simply to examine and pass judgment upon loan applications as they are presented. Rather the Bank must take advantage of its international cooperative character to initiate and develop plans to the end that the Bank's resources are used not only prudently from the standpoint of its investors but wisely from the standpoint of the world.

The Problems

General

The Bank's task is to help raise the level of the world's production as greatly and as rapidly as it can. It cannot accomplish this task simply by examining the need of individual countries for external assistance for their reconstruction or development. Rather, the Bank must emphasize the financing of those projects or programs, be they for reconstruction or development, which promise the greatest increase in productive output in the shortest possible time.

It is not always possible, nor does it serve any useful purpose, to draw a sharp line of distinction between reconstruction and development. Certainly the order of priority of claims upon the Bank's resources does not depend upon any such distinction. It is normally true that money spent on repairing a damaged source of production will effect greater results, and in a shorter time, than the same amount spent in

building an entirely new source of production. However, strategic new projects may make a similarly quick and essential contribution to productive output. It is the extent of the contribution which matters, and not whether it results from a development or reconstruction project. As the Bank's charter so wisely provides, it is "the more useful and urgent projects, large and small alike" which must be dealt with first, with "equitable consideration" to be given to both development and reconstruction.

Europe

On the basis of the tests set forth in the preceding paragraph, the Bank has up to now necessarily given particular emphasis to the problems of European recovery. In Europe the need for assistance in repairing the devastation caused by the war is urgent. There, too, the productive capacity and skills already exist; to put them to work by furnishing the necessary new machinery and replacement equipment, and the necessary stocks of fuel and materials, presents a great and immediate opportunity to raise the level of world output. Moreover, restoration of the productive capacity of Europe will have prompt and important consequences on the expansion of the economies of other regions. Europe will then be able not only to supply more of the goods and of the skilled technicians required for the expansion programs of countries in other areas, but also to purchase more of the products of such other countries and thus to contribute to their expansion.

The requirements of Europe are not limited to reconstruction; there are a number of European countries, some devastated by war and others not, which are underdeveloped. In so far as the requirements of such nations are for development, many of the same problems are presented as are discussed in the succeeding section of this report. To date, however, loan requests from European countries have been primarily for reconstruction programs and this section is accordingly limited to a discussion of the problems involved in such programs.

Much progress has already been made toward the reconstruction of the nations of Europe, due both to their own efforts and to foreign grants and credits. Vast areas of arable land have been cleared of mines and war wreckage and restored to the plow. Despite the unprecedented destruction of railroad bridges, marshalling yards, cars and locomotives, trackage and other facilities, remarkable strides have been made in the restoration of the railroad network. By the middle of 1947, in fact, reconstruction had proceeded so rapidly and the available equipment was being used with such intensity that, although less equipment was available than before the war, in many countries of Europe more passengers and more freight were being carried than in 1938.

In other fields, too, there has been encouraging improvement. Cotton textile production in Europe increased from about 500,000 net tons in 1945 to about 850,000 net tons in 1946 and is expected to reach 1,400,000 tons in 1947; this compares with about 1,600,000 tons average production in the immediate pre-war period. Consumption of raw rubber, both natural and synthetic, increased from about 140,000 long tons in 1945 to approximately 285,000 long tons in 1946 and will probably be about 310,000 tons in 1947, indicating the rate of increase in the production of rubber goods. Cement production for a selected group of European countries for which comparable data are available more than doubled from 1945 to 1946, from a monthly average of 650,000 tons in 1945 to about 1,500,000 in 1946. At the beginning of 1947 European shipyards had under construction about 3,165,000 gross tons of merchant vessels, almost 50% above the mid-1939 total; 1,540,000 gross tons were launched in 1946, as compared with 1,070,000 in 1945.

Progress has, however, by no means been uniform. Although in some countries total industrial production has reached or exceeded pre-war levels, in others it is still considerably below that level, and agricultural production is far below that of pre-war years. It should be emphasized, too, that restoration of production to pre-war levels by no means indicates that the pre-war standard of living has been attained. The extent of war devastation has been so great that a substantial portion of the gross national product of each of the countries concerned must be diverted from current consumption to reconstruction of the basic stocks of wealth—housing,

transport, plants, tools, machinery and raw materials.

The major bottlenecks remaining in the reconstruction of Europe are food, fuel, and manpower. It may be of value to examine each of these in turn.

FOOD. Much of the arable land of Europe served as a battleground in the war. Even after such land has been cleared of mines and rubble, it cannot be restored quickly to full productivity. Lack of scientific cultivation during the war requires now the intensive application of fertilizers, the world supply of which is considerably short of demand. Agricultural machinery, too, is in short supply in most European nations, and much of the existing machinery has been undermaintained and is run down.

It took eight years after World War I for European agriculture to recover in full. Recovery may proceed more rapidly this time, but even with increased production and improved harvesting, the requirements for imported foodstuffs will be on a large, if declining, scale for some time to come. The magnitude of the need is indicated by the estimate that, in 1947, Europe will import approximately 13.3 million tons of bread grains as compared with pre-war imports averaging 9.4 million tons a year. Because of rising prices and the necessity for securing imports from the high-priced dollar area, it is estimated that expenditures in 1947 for imported grain and grain products from the United States and Argentina alone will amount to $1,200 million, or six times the cost of such products from these areas in 1939.

Europe's need for food does not present merely a problem of subsistence. That need is also part and parcel of the basic problem of restoring Europe's capacity to turn out industrial products. For adequate food to supply and maintain vitality is as essential as adequate machinery to enable workers to achieve their full productivity.

FUEL. The importance of energy resources, of coal in particular, in the reconstruction of Europe is so fundamental that it neither needs emphasis nor is capable of overemphasis. If European coal production could be increased to pre-war levels, a large part of Europe's production problem would be on its way to solution, and an unnecessary drain upon its dollar resources would be removed.

Before the war European coal requirements were met primarily by production within Europe itself. Germany and the United Kingdom provided almost three-fourths of the import needs of other European countries and Poland an additional 9%. Exports of United States coal to Europe were inconsiderable. In 1946, however, total coal imports by all European countries fell to about one-half of their pre-war level, and Germany and the United Kingdom met only about 36% of the reduced total. Poland contributed a larger percentage share but less actual tonnage. To the limited extent to which they were met, import requirements were satisfied primarily by shipments of United States coal. Despite the high cost, the huge shipping expenses, and the lack of the qualities and types of coal desired, United States coal exports to Europe have soared. In 1946 these exports were 16.1 million long tons. For the first half of 1947, they were 14.8 million and for the entire year will probably be about 37 million. Including the cost of shipping the coal in United States vessels (which equals or exceeds the cost of the coal itself in the United States), Europe spent about $250 million in 1946 and will probably spend about $535 million in 1947 for American coal.

Examination of all the loan applications which have been received from European members of the Bank reveals that the basic need is fuel. It is of primary interest to the Bank, therefore, that the production of fuel, and particularly coal, be increased. To this end, the Bank sent a technical group to survey the Silesian and Ruhr coal fields, and has been investigating the possibilities open to it to contribute to a solution of the problem. The Bank desires to do everything within its power to assist in this matter, for without sufficient fuel even the existing capital equipment of Europe cannot be fully used and the pace of effective reconstruction will at best be slow.

MANPOWER. The manpower deficiencies of Europe are not so easy to analyze quantitatively as the needs for food and fuel. They are, however, equally important. Tremendous dislocations of people occurred as a result of the war. Great

armies were recruited; war casualties, both military and civilian, were heavy, and included many of the most skilled technicians; a large segment of the labor force was shifted from production for the civilian economy to the production of war materiel; millions of workers were moved by force or persuasion away from their homelands. Though great strides have been taken toward the reintegration into the economy of the labor forces thus dislocated, much remains to be done.

There are still large pools of manpower which are either employed in non-productive pursuits or are not employed at all. The most striking example consists of the hundreds of thousands of displaced persons who have been kept in idleness in camps in Germany and Austria, where they drain rather than contribute to the world's productive output. There has also been, as a result of unsettled political conditions, an uneconomic diversion of labor to the continued maintenance of large armed forces and to the military production necessary to supply them. Administrative staffs, particularly in government service, have tended to remain swollen in many countries, at the expense of the labor force engaged in directly productive work. All of these pools represent potential sources of manpower for production. Fruitful results might be obtained, too, by further exploration of the possibilities of permitting the voluntary immigration of German and Italian labor, not capable of being employed with full effectiveness within Germany and Italy themselves.

EUROPE ITSELF must make the major contribution to the solution of all of these problems. The future of every economic unit, whether it be a local region, a nation, or an integrated continent, must depend primarily upon its willingness and ability to utilize to the full and for productive purposes its own resources.

Before pointing out some of the fundamental measures which are generally accepted as essential to continued European recovery, the Bank wishes again to draw attention to the notable extent of progress already made by many countries. By hard work and austerity much has been accomplished. Furthermore, all of the national recovery programs with which the Bank is familiar provide that by far the largest part of the funds and materials required are to come from within the country itself. Outside assistance is vital, but it represents a small percentage of the total effort.

However, there are undoubtedly further constructive and essential steps which the European nations, acting both individually and collectively, can take. Largely these are not dependent upon external aid. No objective analysis of conditions as they exist today can avoid facing them frankly.

One of the most important is the restoration of financial stability within the various countries, to the extent that such stability can be achieved through a balanced budget of current expenditures, a sound and equitable tax system, and the curtailment so far as possible of unproductive governmental expenditures. With confidence in his money, the laborer is more willing to work, the farmer more willing to sell the food he produces. The incentive to hoard food and other products, as well as gold and foreign exchange, is removed. There is once more a stimulus to save, without which the domestic investment required for reconstruction is unavailable. The drain of labor towards the black market is eliminated; so too is the waste of manpower involved in the operation of the barter economy which inevitably arises when the money system deteriorates. These results can be accelerated by foreign assistance, but they depend primarily upon a willingness on the part of the peoples of the countries involved to pay the costs and make the necessary sacrifices.

The need for financial reforms in many countries of Europe is generally recognized. But adoption of the measures necessary to achieve such reforms is a difficult matter, particularly in nations whose energies have already been severely strained. Since, however, the alternative to remedial action is only greater distress, this problem must be squarely and promptly met. The deliberations now under way with respect to the Marshall Plan, or discussions conducted within the framework of the Economic Commission for Europe, may provide the opportunity for the European nations to work out together some mechanism to facilitate the desired result, perhaps through establishment of an international panel of skilled and impartial technicians to investigate and make recommendations, perhaps

through some other device. The Bank would be pleased to give any possible assistance.

Another important step which the European countries can take without external assistance is the integration of their reconstruction and production programs on a regional basis. Even before the war, such integration would have obviated many difficulties. Certainly now, with the fundamental change in trade patterns which has taken place, with the progress which has been made in technological knowledge, it cannot be regarded as sufficient simply to restore the productive mechanism of Europe as it was in 1939. The restoration of production must be so planned as to take full advantage of the economies of the specialization of labor; Europe is too impoverished to afford the uneconomic luxury of productive programs which overlap, for reasons of autarchy or otherwise.

In this connection much can be accomplished by the gradual removal or lowering of the trade barriers which now hinder the free international flow of goods. While some restrictions are necessary during the transitional period, the eventual goal must be to eliminate such restrictions to the greatest practicable extent. Success in the establishment of an effective International Trade Organization would be a step forward in this direction.

Finally, the productive facilities of Germany must promptly be utilized for the benefit of the over-all European economy. This report is not the place to discuss the necessary security precautions to guard against the possible renewal of German aggression. It is appropriate, however, to point out that security precautions will be self-defeating if the countries intended to be safeguarded are deprived of their economic well-being because, in the absence of agreement on the form and content of such precautions, German production is left to stagnate. The nations of Europe and of the world need the potential exportable output of Germany, particularly of the Ruhr and its coal mines.

The role of the Bank in helping to solve the problems which have been sketched will become clearer once the nature and scope of any aid to be given under the Marshall Plan become known. But it is apparent already that the Bank's part will not be limited to assistance in financing the importation of machinery and equipment. Just as important as the restoration of capital facilities is the restoration to normal levels of Europe's depleted stocks of industrial raw materials. A normal inventory of such materials is essentially part of capital; the rebuilding of such inventories is an integral part of reconstruction.

If the European nations themselves take the necessary steps to lay a firm foundation for reconstruction, if adequate aid is given by the United States to enable those nations to surmount the immediate obstacles, the loans of the Bank should prove of invaluable aid in revitalizing Europe's productive mechanism. If this can be accomplished, the effects will be felt throughout the world and the economies of all the Bank's members will benefit accordingly.

Latin America, Asia, Africa and the Middle East

The urgency of the recovery of Europe does not detract from the importance of the prompt reconstruction and development of the other areas of the world needing assistance, Latin America, Asia, Africa and the Middle East. Indeed, it should not be very long before the financing of development projects in those areas will tend to become the primary concern of the Bank.

To achieve an expanding world economy, to raise standards of living by increasing international trade, requires more effective utilization of the vast resources, both material and human, of these generally less highly developed regions. The development of the productive potentialities of these areas presents at once a challenge and a great opportunity.

Such development is necessarily a long process, but it is one which needs to be initiated without delay. The Bank now has underway various investigations and negotiations which it hopes will result in substantial assistance in this connection. The Bank's resources, applied in the proper places and under proper conditions, should serve as a powerful stimulating agent.

The Bank cannot, of course, do the whole job; it cannot by itself do even a substantial portion of the job. Development on the scale that is within the range of practicability needs financial

assistance in amounts which only established credit and the consequent free flow of private capital can provide.

Some of the nations within the areas here under discussion have well developed industrial or agricultural economies. But the economies of most of the nations in these areas are either young and immature or old but underdeveloped. The expansion of every such country has always required the assistance of foreign private capital and technical skills. This has been true of many European countries, of North America, and of economically developed nations elsewhere as well. The reasons are obvious. An underdeveloped economy does not have a sufficiently high national income to provide savings of the magnitude required for investment in large-scale development programs; external financial assistance is therefore essential. The labor force of such a country, too, is for the most part unskilled in advanced industrial and agricultural techniques; to provide the technicians necessary for the operation of a more highly developed economy requires in many instances the importation of foreign experts to guide and train the local workers. The same is true of the requisite managerial and administrative skills.

There exist today a number of deterrents to the free flow of private capital, and with it of foreign technical, managerial and administrative skills, to the underdeveloped nations. If the Bank, by use of its resources, its influence and the technical specialists on its staff, can help to remove some of these deterrents, it will have achieved an important task in the development field.

The first step is the improvement of the credit position of many of the countries concerned. There are several things which those underdeveloped nations with a poor credit standing can do to improve their position. Perhaps the most effective would be for them to clear up their external debt records. It is not suggested that every underdeveloped country with outstanding foreign bonds in default should or could resume payment on its bonds in accordance with their original terms. As in the case of many corporate obligations, adjustments are sometimes the only practicable solution for difficulties which have been encountered. Furthermore, the original terms of some loans provide conditions which are presently so onerous that they cannot form the basis of a realistic settlement. On the other hand, it is important for the countries concerned to give clear evidence of their desire to do their utmost to reach fair and equitable agreements with their creditors. It may be worthwhile, therefore, to explore the possibility of setting up, with the cooperation both of the debtor nations and their foreign bondholders, an impartial body of technical experts who, after investigation, would make recommendations for just settlements of the debts due. With the implementation of such settlements, a great deterrent to the renewed flow of private capital for development purposes would be eliminated.

The Bank would be willing and anxious to contribute, whether by the provision of personnel from its staff or otherwise, toward the success of any project such as the one suggested.

Existing defaults are the most obvious obstacle to the restoration of credit. In some cases, the basic causes for default were beyond the control of the borrowing country. In others, however, they were the result of unsound financial and economic policies. In such cases, agreement with creditors would inspire more confidence and go further toward reestablishing credit if undertaken as part of an integral program of financial reform. A sound budgetary system and a sound monetary system are necessary to the development countries in their efforts to maximize production and to halt the strong inflationary forces which have in many cases already become apparent. Certainly the Bank could grant financial assistance with much greater assurance that its loans would prove productive and sound if the development plans it may be asked to help finance were, where necessary, accompanied by a program for financial reforms of this type. And clearly, where such remedial measures are called for, private capital will be deterred from moving into the areas involved unless the reforms are undertaken.

As in the case of the debt record, so too in the case of the budgetary and monetary situation, it may prove practicable to utilize the services of an international panel of experts to make investigations and to recommend remedial ac-

tion. In this field, again, the Bank would be glad to render assistance.

Another step which would encourage the free flow of private capital from abroad for development purposes would be assurance that such capital will not be subject to inequitable and restrictive legislation. Foreign private investments are properly subject to such regulation and control of private capital, foreign and domestic alike, as the country concerned deems necessary to carry out its national policies. It is also right and proper that the underdeveloped nations should protect themselves against economic or political exploitation as a result of the influx of foreign capital, for in the past exploitation and abuses not infrequently accompanied investments made in underdeveloped countries. But the need for protection against exploitation does not either require or justify the inequitable treatment of foreign capital. Risk capital, whether in the form of direct or equity investment, is even more essential to development than loan capital; such investment cannot be attracted without assurance of fair and equitable treatment and of continued opportunity to earn a reasonable return.

In pointing out some of the steps which the Bank believes would be of assistance in encouraging the flow of foreign capital to the less well developed areas, there is no suggestion that all remedial measures which may appear necessary in the case of any given country must be completed before that country may qualify for a loan from the Bank. To the contrary, financial assistance from the Bank may form part of an integral plan involving both long-range financial reform and long-range development of productive facilities. But while the Bank is willing to consider making a loan concurrently with the adoption by the borrowing country of whatever program for financial and monetary stability and the reestablishment of credit may appear necessary in the particular case, the Bank cannot assist a country which neither has such stability or credit nor a willingness to take action to achieve them. Such lending would be neither prudent nor productive. Furthermore, it would cause the Bank to lose the confidence of the investment community, and, with it, the very source of the major portion of its loanable funds.

The less well developed nations need international assistance for full realization of their potentialities. They need not only financial assistance but technical assistance. Because they lack the advanced technology and skills which characterize the more highly developed nations, the Bank may well be requested to exercise more initiative in considering their problems and to participate more actively in the formulation of their plans. While the Bank cannot undertake to furnish technical assistance from its own staff on any large scale, it can help its member nations to select and procure the necessary private technicians. The Bank stands ready at any time to consult with member governments on this matter.

The Bank hopes that, as a result of the efforts of its less well developed members themselves, stimulated and assisted by the efforts of the Bank to the extent desired by those members, rapid progress will be possible. For in the very magnitude of the development potentialities of these nations lies the best hope of the world for greater economic well-being in the future.

Restoration of Investor Confidence

Confidence in international investment was severely shaken by the depression of the 1930's. It is the Bank's hope that, by its activities in the fields of reconstruction and development, it can help to restore that confidence. The thoroughness with which applications for loans are investigated and the responsibilities which the Bank accepts, not only for the proper application of the loan proceeds but also for following economic developments in the borrowing country during the entire period during which the loan is outstanding, are means to that end.

It must not be forgotten that if there was bad borrowing in the inter-war years, there was also bad lending. As a result of reckless competition, encouragement was sometimes given to borrowers and lenders alike without sufficient understanding of what was involved; loans were often made for unproductive purposes; sufficient care was not always exercised to see that a loan was used for the purpose for which it was granted; and high interest rates, instead of encouraging investors to inquire into the likelihood that the borrower could meet its obligations, failed to do anything but encourage them to invest their

money. It is important that there should be in the future a greater sense of responsibility both in borrowing and lending than has frequently been the case in the past.

Funds Available for Loans

Sound lending by the Bank is important, not only that its loans may prove productive, not only that confidence in private international investment may be restored, but also that the Bank may be able to borrow from the financial community the funds necessary for the Bank's own lending operations. For it cannot be too often emphasized that the Bank must rely on private investment funds rather than on its paid-in capital for the main portion of its loanable resources.

The capital funds of the Bank required to be paid in by member governments amount to only 20% of the Bank's total subscribed capital; as of August 10, 1947, this paid-in capital aggregated $1,599,985,000, not including $4,915,000 authorized deferments. The remaining 80% of the subscription of each member is subject to call only if needed to meet the obligations of the Bank. It is not available for lending purposes; it is there essentially only for the protection of those who invest in the Bank's securities.

Of the $1,599,985,000 paid-in capital, only $727,075,000 is represented by United States dollars; the remainder is represented by the local currencies of the various members of the Bank other than the United States. The Bank has received permission from the United States Government to use for lending purposes the entire amount of the capital paid in by the United States. It has also received from the Belgian Government permission to lend Belgian francs, up to the equivalent of $2,000,000, out of the Belgian paid-in capital. The Bank hopes and expects that its few other members which are now in a position to do so will in like manner, when the occasion arises, permit their paid-in capital to be used for loans. As economic recovery proceeds in other nations, they too will be expected to make available their paid-in capital.

At present, however, the demand is primarily for United States dollars and the availability for lending purposes of the Bank's capital funds is practically limited to the approximately $725,000,000 represented by such dollars. For loanable resources in excess of this amount, the Bank must look to the sale of its securities in the private investment market, for the time being predominantly the United States market.

The Bank can secure the funds it needs from private investors only if it can convince them that its loans will be sound business risks. To be sure, investors in the Bank's securities have the guarantee afforded by the uncalled 80% of the capital subscriptions of the Bank's members. By reason of this guarantee, the Bank is enabled to make loans of a size which the investment market is unwilling to undertake, and in some cases for projects for which, though constituting prudent business risks, private financing is not yet available. However, despite this guarantee, it will not be possible for the Bank to sell its securities in the market in the amounts needed to carry out its objectives unless investors have confidence that their funds will be used only for economically sound and productive purposes.

LOAN PRINCIPLES, PROCEDURE AND OPERATIONS

Provisional Principles

The basic character of the Bank's lending operations is prescribed by its Articles of Agreement. Loans may not be for relief purposes or for political purposes; they must be for either reconstruction or development. There are also certain conditions which under the Articles must be met: there must be reasonable prospects of repayment, the project or program to be financed must be recommended by a competent committee after a careful study of the merits of the proposal, and the borrower must be unable to obtain the loan elsewhere under conditions considered by the Bank to be reasonable.

But the Articles of Agreement tell only a part of the story. Out of the examination of loan applications, the study of the problems raised by those applications and the discussions which have taken place with the representatives of prospective borrowers, there have emerged a number

of principles which have been adopted by the Bank as a provisional guide to the use of its charter powers. Some of these principles have been alluded to in earlier sections of this report. For convenience of reference, however, they are summarized below.

ACCEPTANCE OF RISK. Since one of the primary purposes of the Bank is the revival of private foreign investment, it is obvious that the Bank must not refrain from making loans simply by reason of the general economic and political uncertainties which at present obstruct the free flow of private capital; indeed, an essential objective of the Bank's loans is to help to remove these general uncertainties and to establish conditions in which private capital will be able once more to play its part. Nevertheless, the Bank cannot make imprudent loans. It must act with care and wisdom in building up its portfolio, for on that portfolio, and on the confidence which it will inspire in the investing public, the Bank must ultimately rely for its capacity to raise funds.

STRATEGIC USE OF FUNDS. This principle has been explained, and its importance stressed, in earlier portions of the report. To reiterate in general terms, the Bank believes that, in the present state of the world, its funds should be so used as to result in the greatest possible increase in productivity in the shortest possible time. The Bank is primarily a cooperative rather than a profit-making institution. It exists for the benefit of its members. Its chief concern is that its loans shall be used for purposes which are constructive and practical and which will be beneficial both to the borrower and to the world.

SELF-HELP. The Bank's resources must not be used simply to relieve the borrowing nation of tasks which that country could justifiably be required to perform itself. The major effort in the reconstruction or development of any nation must be made by the peoples of that nation themselves.

LIMITED COMMITMENTS. A single loan application may relate to a reconstruction or development plan which will take several years to complete. It is not the Bank's policy to grant loans in such cases for the whole period of the plan, but to lend in the first instance sufficient to cover the needs of a limited period. At the end of that period a further application may be made, which will be considered in the light of the progress made with the assistance of the first loan and of the position as it then appears. This policy has the advantage that the Bank does not commit itself to long-range forecasts of conditions either in the borrowing country or in the market in which it will have to raise the necessary funds; moreover, it enables the Bank to discharge more effectively its continuing responsibility for the proper utilization of loans. This principle is subject to some modification in exceptional cases of projects requiring a long period of time to complete.

CONTROL OVER USE OF PROCEEDS. When a loan has been made, the proceeds are made available to the borrower only against evidence that the goods or services to be paid for with those proceeds are within the purposes of the loan as set forth in the loan agreement. Arrangements are also made, by observation within the borrowing country, to assure that the goods so purchased are in fact put to their intended use.

INFORMATION AND CONSULTATION. The Bank needs to know not only that its funds are being used for the purposes for which they were intended, but also the extent to which achievement of those purposes contributes as anticipated to the reconstruction or development plan of the borrower. The Bank is also directly interested in the general economy of the borrower, since this affects the security of the loan. The Bank, therefore, requires that the borrower keep it fully informed, through the regular submission of statistical and other information and through consultation, with respect to all significant economic and financial developments. This calls for a much closer relation between the Bank and its borrowers than has been usual between creditor and debtor in the international field. Such a relation is possible because the Bank is fundamentally a cooperative international institution which lends only to its member countries or upon their guarantee; since the borrower or guarantor is a

member of the institution, it has an interest in the Bank's success and, indeed, participates in the framing of its lending policy.

RATE OF INTEREST AND COMMISSION. The interest rate charged by the Bank must be such as to enable the Bank to meet the cost of borrowing and still leave a sufficient margin to cover operating expenses and to build up appropriate reserves. In the case of the French and Dutch loans, this rate was determined to be 3¼% per annum. Current policy is to charge interest only from the date of disbursement and on the amount disbursed, and to charge in addition a commitment fee at the rate of 1½% per annum from the date on which the Bank undertakes a firm commitment to make the loan up to the time of disbursement.

The Articles of Agreement require that the Bank charge a commission at least during the first ten years of its operation of not less than 1% and not more than 1½% per annum on all guarantees and on all loans made out of borrowed funds. This so-called "statutory commission" is to be set aside in a special reserve available to meet the obligations of the Bank in the event of default on its loans. Current policy is to charge a uniform commission of 1% on the outstanding amounts of loans, regardless of the source of the funds.

REDEMPTION PROVISIONS. The Bank desires to encourage borrowers, wherever possible, to redeem loans prior to maturity. Provision is accordingly made in loan agreements for redemption at any time prior to maturity, subject to the payment of an appropriate premium, and for waiver of this premium by the Bank in cases where it can use the amount so repaid in its current operations.

Loan Procedure

During the early stages of the Bank's development, consideration of a loan to any particular member country was normally initiated by the filing with the Bank of a formal request for funds. In some cases a fully documented loan application was lodged, setting forth in detail the purposes for which the loan was requested and comprehensive information with respect to the economic and financial situation of the prospective borrower. In other cases, the loan application consisted of little more than a request for financial assistance, with no implementing program or supporting documentation.

As a result of its experience, the Bank prefers to hold informal exploratory discussions with prospective borrowers before any formal loan application is filed. Where such discussions have been held, they have enabled the applicant to frame its plans and program, and to shape its application, in conformity with the policies and requirements of the Bank. Such preliminary discussions, too, serve to avoid applications of a type which the Bank cannot finance.

The investigation which the Bank makes of each loan application covers not only the program or project for which the funds are sought, but as well all important aspects of the borrower's economic position. The studies made include surveys of the borrowing country's agriculture, industry and mineral resources; of its manpower, production and transport situation; of the state of its external trade and balance of payments; and of the condition of its internal finances, particularly its budget and currency position. The debt record of the prospective borrower is also studied and, if it has defaulted on its obligations, investigation is made of the causes of the default, of the efforts made to reach a settlement with creditors, and of the borrower's attitude towards a possible resumption of debt service. In the normal case, representatives of the Bank investigate conditions in the borrowing country on the spot. Where necessary, the plans and estimated costs of engineering projects are examined with the assistance of such technical experts as may be required for a proper appraisal.

Though the Bank is precluded from making or denying loans to achieve political objectives, there is an obvious and necessary interrelation and inter-action between political events and conditions and economic events and conditions in any country. The soundness of any loan depends fundamentally on the financial and economic prospects of the borrower. In so far as those prospects may be affected by conditions of political instability or uncertainty in the borrowing country, those political conditions must be taken into consideration. In considering the

merits of any loan application, therefore, the Bank must give due weight to political conditions in the borrowing country to the extent they might affect the financial and economic prospects of that country.

Loan Operations

FRENCH LOAN. On May 9, 1947 an agreement was signed granting a loan of $250 million to the Credit National, a semi-public French corporation created in 1919 to assist in financing reconstruction and development of the French economy. The loan is guaranteed by the French Government. The application had been made originally for an amount of $500 million, but the Bank considered it necessary to limit its commitment to the needs of the immediate future, stating that it would be willing to consider an additional application from France later in the year and that the decision on any such application would be made in the light of conditions then prevailing, with particular reference to the progress made in carrying out the reconstruction program.

The importance of France in the economic position of Europe made it particularly fitting that France should be the first country in whose reconstruction the Bank should play an active part. France is vital to Western Europe because of her size and her productive capacity and the problem of her recovery cannot be divorced from the recovery of Western Europe as a whole.

By the end of 1946, France had made remarkable progress in erasing the effects of the war and of enemy occupation. The volume of production had been restored to approximately 90% of the 1938 level and the volume of exports to 75%. But this expansion in production and in exports had involved heavy imports necessitating a depletion of gold and foreign assets by over $1,600 million and the incurring of debt abroad to the extent of $2,600 million.

The Bank is fully aware of the uncertainties and difficulties facing France. Leaders of the French Government themselves have stated that they realize that unless France's budgetary difficulties are overcome, the ensuing fiscal instability will endanger the entire reconstruction program. Some of the factors impeding recovery are beyond the control of France. But to the extent that France has been able to speed her own recovery considerable success has been achieved. Her external debt record has been excellent. The Bank believes that its loan will hasten the process of reconstruction, that it will result in raising the level of France's production, and that the risks involved are of the type which the Bank was designed to accept.

DUTCH LOAN. On August 7, 1947, a loan of $195,000,000 was granted to the Kingdom of the Netherlands. The loan proceeds are to be devoted exclusively to the reconstruction of productive facilities in the Netherlands homeland. None of the proceeds are to be applied to the Netherlands East Indies or for military purposes.

Application was originally made for an amount of $535,000,000 to cover a reconstruction program from 1947 through 1949, but the Bank limited its commitment to needs arising from the 1947 portion of the program. The Bank will be prepared to consider requests that may be made for further credits for 1948 and 1949 in the light of the progress made as a result of the present loan and of such needs as may then exist.

The abnormally heavy imports necessary to make good war damage and losses, taken in conjunction with the loss of Germany as the principal source of imports and as an important market, and with the decline of supplies and revenue from the Dutch East Indies, have placed a heavy strain on Dutch foreign exchange resources. Thirty-five per cent of essential imports in 1947 will have to come from the United States; in 1938 the United States supplied only 11% of Dutch imports while Germany provided more than 20%.

In granting the loan, the Bank has taken into account the importance of the recovery of the Netherlands to the economic well-being of Europe and of the world as a whole. It has also given due weight to the qualities of determination and energy which the Dutch people have displayed in the past, and which have been well exemplified in the remarkable progress already made in restoring output and in combating inflation. The excellent debt record of the Netherlands and its long tradition as an important creditor nation make it a good credit risk.

The progress already made gives promise that the 1947 goals can be reached. As regards the future, the Netherlands, which has always been highly dependent on international trade, is bound to remain sensitive to international political and economic factors, among which the speed with which free convertibility of European currencies can be restored is of prime importance. This sensitivity calls for enterprise and adaptability on the part of the Dutch people. There clearly exists a stern necessity, not only for further increase of industrial output, but also for a reorientation of trading relationships in the light of the changed situation in Germany and in the Dutch East Indies.

OTHER LOAN APPLICATIONS. At the time this report is written, the French and Dutch loans are the only ones which have been made by the Bank. Other applications which have been received are in various stages of consideration and processing, from the most preliminary steps in obtaining information to an advanced stage of negotiation. Should any additional loans be made before the time of the second annual meeting of the Board of Governors, descriptive material concerning them will be made available to the Governors.

Apart from France and the Netherlands, applications have been received from the following countries for the purposes indicated.

	Millions of Dollars	
CHILE	40	Hydro-electric, forestry, harbor, urban and suburban transport, and railway projects.
CZECHOSLOVAKIA	350	Reconstruction of war damage and losses. Restocking of raw materials. Rehabilitation projects.
DENMARK	50	Reconstruction and modernization of agriculture and industry.
IRAN	250	Modernization and development of industry, agriculture and transport.
LUXEMBOURG	20	Reconstruction and modernization purposes.
MEXICO	209	Irrigation, hydro-electric, pipeline, highway, railroad and harbor projects.
POLAND	600	Equipment and materials for reconstruction of coal mining, iron and steel, textiles, electricity and transport.

BORROWING OPERATIONS

EARLY in the spring it became apparent that an informational campaign should be inaugurated to acquaint the American public with the organization and purposes of the Bank and the basic facts regarding its powers and operations. To that end the officers of the Bank accepted many invitations to speak before interested groups throughout the United States. The Bank also issued pamphlets describing its organization and functions. Representatives of commercial banks, savings banks, insurance companies, securities dealers and investment services were invited to visit the Bank and talk at first hand with its principal officers and its Executive Directors. Moreover an intensive effort was made to obtain the enactment in several states of the United States of legislation permitting insurance companies, commercial banks and savings banks to invest in securities issued by the Bank. Favorable laws were adopted, or favorable administrative rulings made, in many states.

On July 15, 1947 the Bank made the first public offering of its bonds. This consisted of $100,000,000 Ten Year 2¼% Bonds due July 15, 1957

and $150,000,000 Twenty-Five Year 3% Bonds due July 15, 1972. Both issues of bonds were priced at par. The offering was made through more than 1,700 securities dealers throughout the United States, more than twice the largest number of dealers who had ever before participated in a single security distribution.

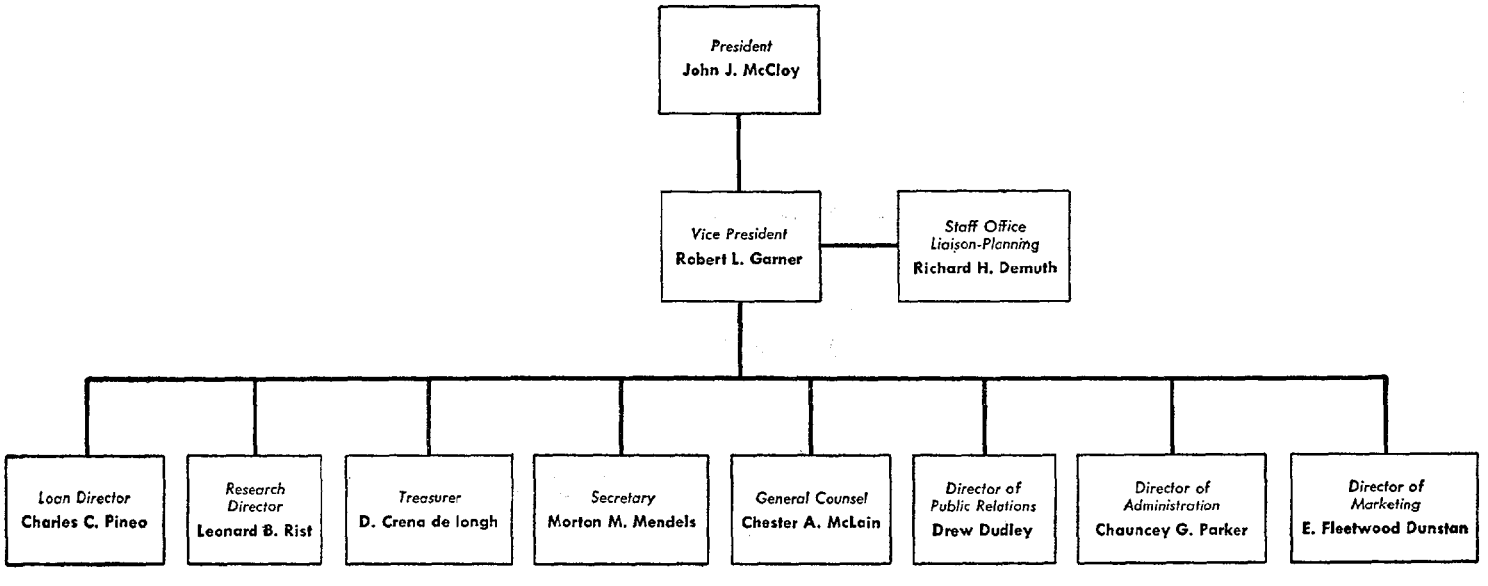
The offering was substantially over-subscribed and the bonds immediately sold at a premium over the public offering price, facts which are hopeful indications for the future. But it must be remembered that a major factor contributing to the success of the offering was the importance attached by American investors to the guarantee afforded by the 80% uncalled portion of the United States subscription to the capital of the Bank. As the operations of the Bank become much more substantial, the Bank's portfolio of loans will be of increasing significance in the investor's judgment as to the worth of the bonds. Fundamentally, it is the character of this portfolio which determines the Bank's ability to borrow, and therefore to lend, in the sizeable amounts contemplated by the draftsmen at Bretton Woods.

At present, the United States is the only market available in which the Bank's securities can be sold in large amounts. Furthermore, as has been pointed out, the present demand for loans is almost exclusively a demand for dollars, to make purchases in the dollar area. But these should not be continuing conditions; as production and available supplies increase in other areas of the world, other currencies will be available for the purchase of the goods required for reconstruction and development and nations other than the United States will be in a position to permit the export of capital. It may be reasonably anticipated, therefore, that in the future, as conditions improve, non-American capital may be tapped by the Bank's borrowing operations.

MANAGEMENT AND ORGANIZATION

THE YEAR covered by this report has been marked by important changes in the management and organization of the Bank.

On December 4, 1946, Mr. Eugene Meyer submitted his resignation as President, effective December 18. In doing so, Mr. Meyer explained that he had accepted the position initially on the understanding that he would remain only until the Bank had been organized and that he felt that the basic organization had been completed and the time had come for the selection of a permanent head. Mr. Harold D. Smith, Vice President of the Bank, died suddenly on January 23, 1947.



On February 23, 1947, the Executive Directors elected Mr. John J. McCloy as President of the Bank. On the same day, they approved the appointment of Mr. Robert L. Garner as Vice President. Mr. McCloy and Mr. Garner both took office on March 17.

Since that time, the organizational structure of the Bank has been further developed and strengthened. A chart showing this structure, together with the names of the principal officers of the Bank, appears on the opposite page.

The President is the chief executive officer of the Bank. Under him, the Vice President acts as general manager with responsibility for assuring the effective operation of the other offices and departments. It is the Vice President, too, who directs the formulation of policy recommendations for the President.

The functions of the other principal units of the Bank may be summarized as follows:

LOAN DEPARTMENT. The Loan Department is responsible for discussions with potential borrowers and for handling all loan applications, including analysis of the application, investigation of conditions within the applicant country, and negotiation of the terms of the loan agreement. It is also responsible for maintaining continuous contact with all important developments in the borrowing country and for consultations with representatives of the borrower which may be necessary during the life of the loan. The Loan Department also develops recommendations for policies and procedures relating to loan operations.

RESEARCH DEPARTMENT. The Research Department is responsible for obtaining information and preparing studies and analyses for the use of the management and the Executive Directors in their determination of economic and financial policy, for preparing specific studies of an economic and financial character as requested by other departments of the Bank, and for maintaining liaison on economic matters with other appropriate organizations.

TREASURER'S DEPARTMENT. The Treasurer's Department is responsible for management of the Bank's funds and securities and for developing and maintaining a program of fiscal operations, an accounting system, and a program of budgeting and budgetary control. It is also responsible for controlling the disbursement of the proceeds of loans and for checking the end use of the goods purchased with such proceeds.

SECRETARY'S DEPARTMENT. The Secretary's Department is responsible for providing secretariat services to the Board of Governors, the Executive Directors and the management, for the custody and authentication of official documents, for the processing of applications for membership, and for transmitting general communications and information to member countries and their representatives.

LEGAL DEPARTMENT. The Legal Department, under the General Counsel, advises with regard to questions concerning the application of any laws and regulations affecting the operations of the Bank, prepares or reviews legal documents for use in such operations and is generally responsible for all legal work in connection with the Bank's activities.

PUBLIC RELATIONS DEPARTMENT. The Public Relations Department is responsible for keeping the public, including investors in the Bank's securities, informed with respect to the purposes, organization and activities of the Bank, and to this end for developing and maintaining appropriate information and publicity programs.

DEPARTMENT OF ADMINISTRATION. The Department of Administration is responsible for the internal administration of the Bank, including personnel, office management, organization and methods planning, and internal auditing.

MARKETING DEPARTMENT. The Marketing Department has its headquarters at the Bank's office in New York City. It is responsible for the sale of securities issued by the Bank and the various operations in connection therewith. It maintains contact with the investment markets, continuously studies market conditions

and trends and advises with regard to the timing of offerings of securities by the Bank and the terms and conditions of the securities to be offered.

STAFF OFFICE. The Staff Office, under the Assistant to the Vice President, is responsible for the development of liaison policy and the coordination of liaison activities with other international organizations, and for developing policy recommendations with respect to matters not falling within the jurisdiction of any of the other departments.

As of August 10, 1947, the operating staff of the Bank consisted of 341 persons, representing 19 different nationalities.

MISCELLANEOUS

Relationship with Other International Organizations

The close working relationship which has existed from the beginning between the Bank and the International Monetary Fund has been developed increasingly during the past year and has proved of great value. Frequent meetings are held between the President of the Bank and the Managing Director of the Fund, and between the heads of the comparable departments of the two organizations; on occasion, joint meetings of the Executive Directors and of their committees have been held. The result has been that each institution has been kept fully informed of the activities and policies of the other, and it has been possible to avoid both conflict of decision and unnecessary duplication of effort. In certain administrative fields, such as the maintenance of facilities used by both organizations and the establishment of staff pension and health programs, it has been possible to arrange for joint action by the Bank and the Fund.

Relations with the United Nations have also been further developed during the past year. The proposed agreement setting out the relations between the Bank and the United Nations is the subject of a separate report and accordingly will not be discussed here. Even in the absence of such an agreement, it has been possible to maintain close and effective liaison with the various organs of the United Nations which have responsibilities in fields related to those of the Bank. Bank representatives attended as observers all meetings of the Economic and Social Council, its Economic and Employment Commission and its Economic Commissions for Europe and for Asia and the Far East. Bank representatives also maintained close contact with the United Nations Secretariat, particularly with the Economic Affairs Department, in order to avoid unnecessary duplication in the collection of statistics or overlapping in research studies. Through participation in the work of the Coordination Committee and its various subsidiary Consultative Committees, the Bank was enabled to exchange views with the United Nations Secretariat and with the other specialized international organizations on such matters as employment and personnel policies, public information activities, the use of common administrative services and the provision of expert advice and assistance to member governments.

The Bank has also sought to collaborate with other specialized international organizations, particularly with the Food and Agriculture Organization of the United Nations. Informal arrangements have been made with the FAO Secretariat for the exchange of views and of information; in addition, Bank representatives have participated in several international conferences convened by the FAO. The Bank has also taken an active part in the work of the Preparatory Committee responsible for drafting a charter for the proposed International Trade Organization.

Invitations were accepted for Bank representatives to attend meetings of the International Chamber of Commerce and of the Board of Governors of the Bank for International Settlements. Contact has also been had with the Pan-American Union and it is expected that a Bank representative will attend the Ninth Conference of American Republics which convenes in Bogota, Colombia, on January 15, 1948.

Increases in Membership and Subscribed Capital

Membership in the Bank has increased from 38 to 45 since the First Annual Meeting of the Board of Governors. The countries admitted to membership during the past year, listed in the order in which they joined the Bank, are Colombia, Venezuela, Turkey, Italy, Syria, Lebanon and Australia. An application for membership has been received from Finland; this is the subject of a separate report to the Board of Governors.

Through the access of new members and through an increase in the capital subscription of France by $75 million, the Bank's total subscribed capital increased from $7,670 million as of September 1, 1946 to $8,224.5 million, as of August 10, 1947.

Subscriptions and Voting Power of Member Countries

In accordance with Resolution XII adopted by the Board of Governors at the First Annual Meeting, the subscription of France to the capital stock has been increased from 4,500 shares to 5,250 shares.

By Resolution XIII adopted at the First Annual Meeting, the Board of Governors also authorized an increase in the subscription of Paraguay to the capital stock of the Bank from 8 shares to 14.

Election of Additional Executive Director

Resolution No. 10 adopted at the Inaugural Meeting of the Board of Governors provided for the election of an additional Executive Director under certain conditions of increased membership. On August 6, 1947 the Executive Directors, having determined that these conditions had been fulfilled, ordered the election of an additional Executive Director, and determined that the member countries eligible to vote were Denmark, Colombia, Venezuela, Turkey and Italy. The election is expected to be completed by the time of the Second Annual Meeting.

Financial Statements and Reports

Attached as Appendices A to F, inclusive, are a Balance Sheet showing the financial position of the Bank as of June 30, 1947, a Statement of Income and Expenses, an Auditors' Report, and a number of schedules giving further details concerning the assets and liabilities, capital and financial operations of the Bank.

Administrative Budget

There is attached as Appendix G the administrative budget of the Bank for the fiscal year ending June 30, 1948. This budget has been prepared by the President and approved by the Executive Directors in accordance with Section 19 of the By-Laws of the Bank.

The budget as presented represents the best estimate by the management and Executive Directors of the minimum cost of effective administration for the current fiscal year. It must be pointed out, however, that it is not possible to foresee all contingencies which may arise. If, therefore, unanticipated conditions develop which necessitate changes in programs, appropriate adjustments in the estimates will be required.

Additional Reports to Board of Governors

In addition to this Annual Report, the following reports are being submitted for the consideration of the Board of Governors at the Second Annual Meeting:

(1) Report and recommendations on the application of the Republic of Finland for membership in the Bank;

(2) Report and recommendations regarding increases in the subscriptions of Iran and Egypt to the capital stock of the Bank;

(3) Report and recommendations on selection of the Advisory Council of the Bank;

(4) Report and recommendations on liaison agreement with United Nations;

(5) Report regarding site of future annual meetings.

(6) Report on Loan Regulations No. 1.

Appendices

In addition to the appendices to which reference has already been made, there are included in this report for the information of the Board of Governors the following appendices:

(1) Governors and Alternates as of August 10, 1947 (Appendix H).

(2) Voting Power and Subscriptions of Member Countries as of August 10, 1947 (Appendix I).

(3) Executive Directors and Alternates and Their Voting Power as of August 10, 1947 (Appendix J).

(4) Standing Committees of the Executive Directors (Appendix K).

(5) Decisions of Executive Directors Interpreting Articles of Agreement and Resolutions of Board of Governors (Appendix L).

Balance Sheet—June 30, 1947

EXPRESSED IN UNITED STATES CURRENCY

(*See Notes to Financial Statements*)

ASSETS

Due from Banks and Other Depositories			
Member currency—United States		$ 61,829,306.54	
Member currencies—other than United States—Note A		108,220,798.86	$ 170,050,105.40
Investment Securities			
United States Treasury Certificates of Indebtedness ($155,700,000 face amount, at cost less amortization of premium)		$ 155,710,195.61	
Accrued interest		556,622.11	156,266,817.72
Receivable from Members			
Non-negotiable, non-interest-bearing, demand notes —Note B			
Payable in member currency—United States	$ 415,785,000.00		
Payable in member currencies—other than United States—Note A	764,123,446.11	$1,179,908,446.11	
Calls on subscriptions to capital stock			
Due prior to June 30, 1947—Note C	$ 525,400.00		
Due on or before June 25, 1951—Note D	4,915,000.00	5,440,400.00	1,185,348,846.11
Loan Outstanding			
Loan commitment—Note E	$ 250,000,000.00		
Less—Unused portion of commitment	158,000,000.00		
Principal outstanding		$ 92,000,000.00	
Accrued interest and commissions		318,020.51	92,318,020.51
Miscellaneous Receivables and Other Assets			147,364.51
Total Assets			**$1,604,131,154.25**

LIABILITIES, RESERVES AND CAPITAL

Liabilities			
Accounts payable and accrued expenses			$ 261,507.57
Special Reserve—Note F			33,452.05
Capital			
Capital Stock			
Authorized 100,000 shares of $100,000 par value each			
Subscribed 80,245 shares	$8,024,500,000.00		
Less: Uncalled portion of subscriptions—Note G	6,419,600,000.00	$1,604,900,000.00	
Deduct—Excess of expenses over income:			
At June 30, 1946	$ 125,158.36		
Twelve months ended June 30, 1947	938,647.01	1,063,805.37	
Net Capital			1,603,836,194.63
Total Liabilities, Reserves and Capital			**$1,604,131,154.25**

APPENDIX B

Statement of Income and Expenses

For the Twelve Months Ended June 30, 1947

EXPRESSED IN UNITED STATES CURRENCY

(*See Notes to Financial Statements*)

Income			
Interest earned on investment securities		$ 919,060.88	
Income from loans:			
Interest		108,719.16	
Commitment charge		175,849.30	
Commission		33,452.05	
		$1,237,081.39	
Deduct—Amount equivalent to commission appropriated to Special Reserve (Note F)		33,452.05	$1,203,629.34
Expenses			
Salaries:			
Executive Directors and Alternates	$ 239,178.11		
Officers and others	804,110.77	$1,043,288.88	
Expense allowances—Executive Directors and Alternates		9,693.63	
Provision for taxes on salaries and expense allowances		183,654.43	
Travel:			
Transportation and moving to and from seat of Bank—Executive Directors and Alternates	$ 12,732.51		
Officers and others	51,277.63		
Board of Governors and Alternates	41,263.42		
Executive Directors and Alternates	14,674.96		
Officers and others	44,259.69	164,208.21	
Rental of office quarters		98,579.86	
Furniture and equipment purchased		205,093.70	
Stationery, printing and supplies		139,712.46	
Cable charges		11,290.76	
Repairs, maintenance and alterations, rented quarters		63,943.73	
Handling charges and storage of gold		44,844.12	
Expenses (other than travel) annual meeting Board of Governors		10,569.92	
Miscellaneous expenses		106,592.59	
Bond issue expense (Note H)		60,804.06	2,142,276.35
Excess of Expenses Over Income			**$ 938,647.01**

Statement of Members' Currencies Held by the Bank

June 30, 1947

(*See Notes to Financial Statements*)

NAME OF MEMBER	UNIT OF CURRENCY	AMOUNT EXPRESSED IN MEMBER CURRENCY (RESTRICTED)	RATE OF EXCHANGE (NOTE A)	TOTAL EXPRESSED IN U. S. DOLLARS
Belgium	Franc	17,605,453.60	$ = 43.8275	$ 401,698.80
Bolivia	Boliviano	529,200.00	$ = 42.00	12,600.00
Brazil	Cruzeiros	349,650,000.00	$ = 18.50	18,900,000.00
Canada	Dollar	584,948.50	$ = 1.00	584,948.50
Chile	Peso	195,299,070.00	$ = 31.00	6,299,970.00
China	Dollar	12,960,000,000.00	$ = 12,000.00	1,080,000.00
Colombia	Peso	11,024,937.00	$ = 1.74999	6,300,000.00
Costa Rica	Colon	2,021,400.00	$ = 5.615	360,000.00
Cuba	Peso	63,000.00	$ = 1.00	63,000.00
Czechoslovakia	Koruna	11,218,500.00	$ = 50.00	224,370.00
Denmark	Krone	560,396.07	Krone = $.2083764219	116,773.34
Dominican Republic	Dom. Dollar	3,600.00	$ = 1.00	3,600.00
Ecuador	Sucre	7,776,000.00	$ = 13.50	576,000.00
Egypt	Pound	774,256.00	Eg. Pound = $4.133	3,200,000.00
El Salvador	Colon	450,000.00	$ = 2.50	180,000.00
Ethiopia	Dollar	1,341,589.72	Eth. $ = $.4025	539,989.86
France	Franc	115,165,268.50	$ = 119.10669	966,908.51
Greece	Drachma	22,500,000,000.00	$ = 5,000.00	4,500,000.00
Guatemala	Quetzal	357,361.82	$ = 1.00	357,361.82
Honduras	Lempira	3,600.00	$ = 2.00	1,800.00
Iceland	Krona	1,167,947.50	$ = 6.488597	180,000.00
India	Rupee	2,378,152.17	Rupee = $.30225	718,796.50
Iran	Rial	1,393,200.00	$ = 32.25	43,200.00
Iraq	Dinar	267,990.074	Dinar = $4.03	1,080,000.00
Italy	Lira	7,290,000,000.00	$ = 225.00	32,400,000.00
Lebanon	Pound	1,786,050.00	$ = 2.205	810,000.00
Luxembourg	Franc	726,649.59	$ = 43.8275	16,579.77
Mexico	Peso	56,803,500.00	$ = 4.855	11,700,000.00
Netherlands	Guilder	1,315,492.00	$ = 2.65285	495,878.77
Nicaragua	Cordoba	720,000.00	$ = 5.00	144,000.00
Norway	Krone	438,901.12	$ = 4.96278	88,438.56
Panama	Balboa	36,000.00	$ = 1.00	36,000.00
Paraguay	Guarani	441,599.78	$ = 3.09	142,912.55
Peru	Sol	204,750.00	$ = 6.50	31,500.00
Philippines	Peso	2,400,000.00	$ = 2.00	1,200,000.00
Poland	Zloty	21,885,000.00	$ = 100.00	218,850.00
Syria	Pound	2,579,850.00	$ = 2.205	1,170,000.00
Turkey	Lira	216,720.00	Lira = $.357143	77,400.00
Union of South Africa	Pound	44,647.3/5	S.A. £ = $4.03	179,928.10
United Kingdom	Pound	586,455.—/7	£ = $4.03	2,363,413.78
United States	U. S. Dollar	61,709,873.55	U. S. $ =	61,709,873.55
Uruguay	Peso	2,871,003.60	$ = 1.519049523	1,890,000.00
Venezuela	Bolivar	4,572,750.00	$ = 3.35	1,365,000.00
Yugoslavia	Dinar	360,186,000.00	$ = 50.0266	7,199,880.00
	Restricted Currencies (*Note J*)			$169,930,672.41
	Unrestricted Currency (all held in United States Dollars)			119,432.99
	Total (*Note I*)			**$170,050,105.40**

APPENDIX D

Statement of Subscriptions to Capital Stock and

(See Notes to Financial Statements)

	Member	Number of Shares Subscribed	Subscription Price (Note K)	Amounts Paid In (Note A) U. S. Dollars	Amounts Paid In (Note A) In Currency of Member Other Than U. S. Dollars
1	Belgium	2,250	$ 225,000,000	$ 4,500,000	$ 405,000
2	Bolivia	70	7,000,000	140,000	12,600
3	Brazil	1,050	105,000,000	2,100,000	18,900,000
4	Canada	3,250	325,000,000	6,500,000	585,000
5	Chile	350	35,000,000	700,000	6,300,000
6	China	6,000	600,000,000	9,000,000	1,080,000
7	Colombia	350	35,000,000	700,000	6,300,000
8	Costa Rica	20	2,000,000	40,000	360,000
9	Cuba	350	35,000,000	700,000	63,000
10	Czechoslovakia	1,250	125,000,000	1,875,000	225,000
11	Denmark	680	68,000,000	1,020,000	122,400
12	Dominican Republic	20	2,000,000	40,000	3,600
13	Ecuador	32	3,200,000	64,000	576,000
14	Egypt	400	40,000,000	800,000	3,200,000
15	El Salvador	10	1,000,000	20,000	180,000
16	Ethiopia	30	3,000,000	60,000	540,000
17	France	5,250	525,000,000	10,500,000	970,409
18	Greece	250	25,000,000	375,000	4,500,000
19	Guatemala	20	2,000,000	40,000	360,000
20	Honduras	10	1,000,000	20,000	1,800
21	Iceland	10	1,000,000	20,000	180,000
22	India	4,000	400,000,000	8,000,000	720,383
23	Iran	240	24,000,000	480,000	43,200
24	Iraq	60	6,000,000	120,000	1,080,000
25	Italy	1,800	180,000,000	3,600,000	32,400,000
26	Lebanon	45	4,500,000	90,000	810,000
27	Luxembourg	100	10,000,000	200,000	18,014
28	Mexico	650	65,000,000	1,300,000	11,700,000
29	Netherlands	2,750	275,000,000	5,500,000	496,098
30	Nicaragua	8	800,000	16,000	144,000
31	Norway	500	50,000,000	1,000,000	90,000
32	Panama	2	200,000	4,000	36,000
33	Paraguay (Note L)	8	800,000	16,000	144,000
34	Peru	175	17,500,000	350,000	31,500
35	Philippines	150	15,000,000	300,000	1,200,000
36	Poland	1,250	125,000,000	1,875,000	225,000
37	Syria	65	6,500,000	130,000	1,170,000
38	Turkey	430	43,000,000	860,000	77,400
39	Union of South Africa	1,000	100,000,000	2,000,000	180,000
40	United Kingdom	13,000	1,300,000,000	26,000,000	2,375,750
41	United States	31,750	3,175,000,000	219,215,000	—
42	Uruguay	105	10,500,000	210,000	1,890,000
43	Venezuela	105	10,500,000	210,000	1,365,000
44	Yugoslavia	400	40,000,000	600,000	7,200,000
		80,245	**$8,024,500,000**	**$311,290,000**	**$108,261,154**

Voting Power of Members as of June 30, 1947

(See Notes to Financial Statements)

Amounts Paid In (Note A)					
Non-Interest-Bearing, Non-Negotiable Demand Notes (Notes B and I)	*Amounts Payment of Which is Postponed (Note D)*	*Amounts Unpaid Called for Payment on or Before June 30, 1947 (Note C)*	*Subject to Call to Meet Obligations of Bank (Note G)*	*Number of Votes*	
$ 40,095,000	$ —	$ —	$ 180,000,000	2,500	1
1,247,000	—	400	5,600,000	320	2
—	—	—	84,000,000	1,300	3
57,915,000	—	—	260,000,000	3,500	4
—	—	—	28,000,000	600	5
106,920,000	3,000,000	—	480,000,000	6,250	6
—	—	—	28,000,000	600	7
—	—	—	1,600,000	270	8
6,237,000	—	—	28,000,000	600	9
22,275,000	625,000	—	100,000,000	1,500	10
12,117,600	340,000	—	54,400,000	930	11
356,400	—	—	1,600,000	270	12
—	—	—	2,560,000	282	13
4,000,000	—	—	32,000,000	650	14
—	—	—	800,000	260	15
—	—	—	2,400,000	280	16
93,529,591	—	—	420,000,000	5,500	17
—	125,000	—	20,000,000	500	18
—	—	—	1,600,000	270	19
178,200	—	—	800,000	260	20
—	—	—	800,000	260	21
71,279,617	—	—	320,000,000	4,250	22
4,276,800	—	—	19,200,000	490	23
—	—	—	4,800,000	310	24
—	—	—	144,000,000	2,050	25
—	—	—	3,600,000	295	26
1,781,986	—	—	8,000,000	350	27
—	—	—	52,000,000	900	28
49,003,902	—	—	220,000,000	3,000	29
—	—	—	640,000	258	30
8,910,000	—	—	40,000,000	750	31
—	—	—	160,000	252	32
—	—	—	640,000	258	33
3,118,500	—	—	14,000,000	425	34
1,500,000	—	—	12,000,000	400	35
22,275,000	625,000	—	100,000,000	1,500	36
—	—	—	5,200,000	315	37
7,662,600	—	—	34,400,000	680	38
17,820,000	—	—	80,000,000	1,250	39
231,624,250	—	—	1,040,000,000	13,250	40
415,785,000	—	—	2,540,000,000	32,000	41
—	—	—	8,400,000	355	42
—	—	525,000	8,400,000	355	43
—	200,000	—	32,000,000	650	44
$1,179,908,446	**$4,915,000**	**$525,400**	**$6,419,600,000**	**91,245**	

Notes to Financial Statements

NOTE A

Amounts in currencies other than United States dollars have been translated into United States dollars at the rates recognized in making capital payments by member countries. In the cases of thirty-four members these rates are the established par values under the International Monetary Fund Agreement. In the cases of ten members (Brazil, China, Dominican Republic, Greece, Italy, Lebanon, Poland, Syria, Uruguay and Yugoslavia), the par values of their currencies have not yet been so established.

No representation is made that any of such currencies is convertible into any other of such currencies at any rate or rates.

Article II, Section 9, of the Bank Articles of Agreement contains the following provisions with regard to maintenance of value of certain currency holdings of the Bank:

(a) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within that member's territories, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value, as of the time of initial subscription, of the amount of the currency of such member which is held by the Bank and derived from currency originally paid in to the Bank by the member under Article II, Section 7 (i), from currency referred to in Article IV, Section 2 (b), or from any additional currency furnished under the provisions of the present paragraph, and which has not been repurchased by the member for gold or for the currency of any member which is acceptable to the Bank.

(b) Whenever the par value of a member's currency is increased, the Bank shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency described in (a) above.

(c) The provisions of the preceding paragraphs may be waived by the Bank when a uniform proportionate change in the par values of the currencies of all its members is made by the International Monetary Fund.

NOTE B

Demand notes delivered to the Bank in substitution for currency of member, in accordance with Section 12 of Article V.

NOTE C

As of June 30, 1947, the Governments of Venezuela and Bolivia had not completed payment in their currencies of calls on stock subscriptions which were due on or before May 26, 1947. At June 30, 1947, the equivalent of $525,000 was due from Venezuela and the equivalent of $400 was due from Bolivia. Both of these members have subsequently paid the amounts due by delivering demand notes as provided in Section 12 of Article V.

NOTE D

Payments postponed until June 25, 1951, in accordance with the provisions of Article II, Section 8 (a) (i). These amounts are payable in gold or United States dollars.

NOTE E

On May 9, 1947, the Bank entered into a loan agreement with Credit National pour faciliter la reparation des dommages causes par la guerre providing for a loan to Credit National in the amount of $250,000,000, or the equivalent thereof in other currencies, and a guarantee agreement relating thereto with the Republic of France. Such agreements became effective on June 9, 1947. Unless otherwise agreed, the loan commitment expires as to any unused portion at December 31, 1947.

NOTE F

The amount of commissions received by the Bank on loans made or guaranteed by it is required under Section 6, Article IV, to be set aside as a special reserve to be kept available for meeting obligations of the Bank created by borrowing or guaranteeing loans.

NOTE G

Subject to call by the Bank only when required to meet the obligations of the Bank created by borrowing or guaranteeing loans.

NOTE H

On July 15, 1947 through a public offering in the United States the Bank sold $100,000,000 aggregate principal amount of its Ten Year 2¼% Bonds due July 15, 1957, and $150,000,000 aggregate principal

amount of its Twenty-Five Year 3% Bonds due July 15, 1972. The public offering price of each issue was 100% plus accrued interest. Selling concessions were allowed to dealers at the rates of ¼ of 1% for the Ten Year Bonds and ½ of 1% for the Twenty-Five Year Bonds sold to them.

NOTE I

The currencies of the several members and the notes substituted for any part of such currencies are held on deposit with designated depositories in the territories of the respective members.

NOTE J

These currencies are derived from the 18% of the subscriptions to the capital stock of the Bank which is payable in the currencies of the respective members. Such 18% may be loaned by the Bank, and funds received by the Bank on account of principal of loans made by the Bank out of such currencies may be exchanged for other currencies or reloaned, only with the approval in each case of the member whose currency is involved; provided, however, that, if necessary, after the Bank's subscribed capital is entirely called, such currencies may, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings or to meet the Bank's liabilities with respect to contractual payments on loans guaranteed by it. The United States has approved the use by the Bank in the making of loans of such 18% of the subscription of the United States to the capital stock of the Bank. (Article IV, Section 2(a) and (b).)

NOTE K

In terms of United States dollars of the weight and fineness in effect on July 1, 1944.

NOTE L

Resolution XIII adopted by the Board of Governors at its First Annual Meeting authorized an increase in the subscription of Paraguay to $1,400,000.

APPENDIX F

Auditors' Report

PRICE, WATERHOUSE & CO.

AMERICAN SECURITY BUILDING
WASHINGTON 5, D. C.
August 6, 1947

To INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT,
Washington, D. C.

We have examined the financial statements listed below of International Bank for Reconstruction and Development as of June 30, 1947. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, such financial statements, with the notes thereto, present fairly the position of the Bank at June 30, 1947, expressed in United States currency, and the results of its operations for the twelve months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price, Waterhouse & Co.

PRICE, WATERHOUSE & CO.

Financial Statements
Covered by the Foregoing Opinion

Balance Sheet as of June 30, 1947
Statement of Income and Expenses for the twelve months ended June 30, 1947
Statement of Members' Currencies held by the Bank at June 30, 1947
Statement of Subscriptions to Capital Stock of the Bank and Voting Power of Members, June 30, 1947
Notes to the Financial Statements

Administrative Budget

FOR THE FISCAL YEAR ENDING JUNE 30, 1948

There is outlined below the Administrative Budget for the Fiscal Year ending June 30, 1948 as prepared by the President and approved by the Executive Directors in accordance with Section 19 of the By-Laws:

Personal Services		$2,383,500
Travel		205,400
Rent, Utility Service, and Building Alterations		307,200
Supplies and Equipment		155,400
Books and Printing		97,000
Communication Service		48,000
Contribution to Staff Benefits		251,000
Miscellaneous (Reporting Service, Regional Offices and contingencies)		400,000
Other Expenses		15,000
Total Administrative Expenses		**$3,862,500**
Offices of Executive Directors	333,500	
Annual Meeting, Board of Governors	165,000	498,500
Total Operating Expenses		**$4,361,000**

In addition, it is estimated that bond registration and issuance expenditures will aggregate $3,987,000, making the total estimated expenditures $8,348,000.

Administrative Budget

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APPENDIX H

Governors and Alternates

(As of August 10, 1947)

COUNTRY	GOVERNOR	ALTERNATE
AUSTRALIA *(became member on August 5, 1947)*		
BELGIUM	Gaston Eyskens	Maurice Frere
BOLIVIA	Rene Ballivian-Calderon	Jaime Gutierrez-Guerra
BRAZIL	Francisco Alves dos Santos-Filho	Edgard de Mello
CANADA	D. C. Abbott	Graham F. Towers
CHILE	Arturo Maschke	Fernando Illanes
CHINA	O. K. Yui	T. L. Soong
COLOMBIA	Emilio Toro	Diego Mejia
COSTA RICA	Julio Pena Morua	Angel Coronas-Guardia
CUBA	Guillermo Belt	Miguel A. Riva
CZECHOSLOVAKIA	Alois Kral	Joseph Hanc
DENMARK	Carl Valdemar Bramsnaes	Hakon Jespersen
DOMINICAN REPUBLIC	Jesus Maria Troncoso	Jose Ramon Rodriguez
ECUADOR	Leonardo Stagg	Sixto E. Duran-Ballen
EGYPT	Ahmed Zaki Bey Saad	Ahmed Selim
EL SALVADOR	Catalino Herrera	Manuel Melendez-Valle
ETHIOPIA	George A. Blowers	
FRANCE	Robert Schuman	Pierre Mendes-France
GREECE	A. J. Sbarounis	Grigorios Zarifopoulos
GUATEMALA	Manuel Noriega Morales	Leonidas Acevedo
HONDURAS	Julian R. Caceres	Jorge Fidel Duron
ICELAND	Magnus Sigurdsson	Thor Thors
INDIA	Sir Chintaman Deshmukh	N. Sundaresan
IRAN	A. H. Ebtehaj	Mocharraf Naficy
IRAQ	Ali Jawdat	A. M. Gailani
ITALY	Donato Menichella	George Cigliana
LEBANON	Charles Malik	George Hakim
LUXEMBOURG	Pierre Dupong	Hugues Le Gallais
MEXICO	Antonio Espinosa de los Monteros	Luciano Wiechers
NETHERLANDS	P. Lieftinck	M. W. Holtrop
NICARAGUA	Guillermo Sevilla Sacasa	Rafael A. Huezo
NORWAY	Gunnar Jahn	Ole Colbjoernsen
PANAMA	J. J. Vallarino	Roberto Heurtematte
PARAGUAY	Harmodio Gonzalez	Ruben Benitez
PERU	Carlos Montero Bernales	Jose Barreda Moller
PHILIPPINE REPUBLIC	Joaquin M. Elizalde	Narciso Ramos
POLAND	Konstanty Dabrowski	Janusz Zoltowski
SYRIA	Faiz el Khoury	Husni A. Sawwaf
TURKEY	Nurullah Esat Sumer	Nahit Alpar
UNION OF SOUTH AFRICA	Jan Hendrik Hofmeyr	M. H. de Kock
UNITED KINGDOM	Hugh Dalton	Sir Gordon Munro
UNITED STATES	John W. Snyder	William L. Clayton
URUGUAY		Hugo Garcia
VENEZUELA	Carlos A. D'Ascoli	Hector Santaella
YUGOSLAVIA	Stane Krasovec	Vaso Srzentic

Voting Power and Subscriptions of Member Countries

(As of August 10, 1947) [a]

	Voting Power of Member Countries		*Required Subscriptions to International Bank*			
	International Bank		*Total Subscription*		*Amount Which May Be Used (In Millions of Dollars)*	
	Number of Votes	*Percent of Total*	*Amount (In Millions of Dollars)*	*Percent of Total*	*For Bank's Own Loans*	*Only to Meet Bank's Obligations*
Australia	2,250	2.41	$ 200.0	2.43	$ 40.00	$ 160.00
Belgium	2,500	2.67	225.0	2.74	45.00	180.00
Bolivia	320	.34	7.0	.09	1.40	5.60
Brazil	1,300	1.39	105.0	1.28	21.00	84.00
Canada	3,500	3.74	325.0	3.95	65.00	260.00
Chile	600	.64	35.0	.43	7.00	28.00
China	6,250	6.68	600.0	7.30	120.00	480.00
Colombia	600	.64	35.0	.43	7.00	28.00
Costa Rica	270	.29	2.0	.02	.40	1.60
Cuba	600	.64	35.0	.43	7.00	28.00
Czechoslovakia	1,500	1.60	125.0	1.52	25.00	100.00
Denmark	930	.99	68.0	.83	13.60	54.40
Dominican Republic	270	.29	2.0	.02	.40	1.60
Ecuador	282	.30	3.2	.04	.64	2.56
Egypt	650	.70	40.0	.49	8.00	32.00
El Salvador	260	.28	1.0	.01	.20	.80
Ethiopia	280	.30	3.0	.04	.60	2.40
France	5,500	5.88	525.0	6.38	105.00	420.00
Greece	500	.53	25.0	.30	5.00	20.00
Guatemala	270	.29	2.0	.02	.40	1.60
Honduras	260	.28	1.0	.01	.20	.80
Iceland	260	.28	1.0	.01	.20	.80
India	4,250	4.55	400.0	4.86	80.00	320.00
Iran	490	.52	24.0	.29	4.80	19.20
Iraq	310	.33	6.0	.07	1.20	4.80
Italy	2,050	2.19	180.0	2.19	36.00	144.00
Lebanon	295	.32	4.5	.05	.90	3.60
Luxembourg	350	.37	10.0	.12	2.00	8.00
Mexico	900	.96	65.0	.79	13.00	52.00
Netherlands	3,000	3.21	275.0	3.34	55.00	220.00
Nicaragua	258	.28	.8	.01	.16	.64
Norway	750	.80	50.0	.61	10.00	40.00
Panama	252	.27	.2	[b]	.04	.16
Paraguay	258	.28	.8	.01	.16	.64
Peru	425	.45	17.5	.21	3.50	14.00
Philippine Republic	400	.43	15.0	.18	3.00	12.00
Poland	1,500	1.60	125.0	1.52	25.00	100.00
Syria	315	.34	6.5	.08	1.30	5.20
Turkey	680	.73	43.0	.52	8.60	34.40
Union of South Africa	1,250	1.34	100.0	1.22	20.00	80.00
United Kingdom	13,250	14.17	1,300.0	15.81	260.00	1,040.00
United States	32,000	34.23	3,175.0	38.60	635.00	2,540.00
Uruguay	355	.38	10.5	.13	2.10	8.40
Venezuela	355	.38	10.5	.13	2.10	8.40
Yugoslavia	650	.70	40.0	.49	8.00	32.00
Total	**93,495**	**100.00** [c]	**$8,224.5**	**100.00**	**$1,644.90**	**$6,579.60**

[a] On August 5, 1947, Australia was admitted to membership. The total of subscriptions and total of votes shown in this Appendix differ, therefore, from those as of June 30 shown in Appendix "D".

[b] Less than .005 per cent.

[c] The figures shown in the table do not add to 100.00 because of rounding.

Executive Directors and Alternates and Their Voting Power as of August 10, 1947

DIRECTORS	ALTERNATES	CASTING VOTES OF	VOTES BY COUNTRY	TOTAL VOTES	PERCENT OF TOTAL*
APPOINTED					
Eugene R. Black	John S. Hooker	United States	32,000	32,000	37.20
Sir Gordon Munro	Maurice H. Parsons	United Kingdom	13,250	13,250	15.40
Yuen-Ting Shen	Y. L. Chang (*Temp.*)	China	6,250	6,250	7.27
Pierre Mendes-France	Guy de Carmoy	France	5,500	5,500	6.39
N. Sundaresan	B. K. Madan	India	4,250	4,250	4.94
ELECTED					
J. W. Beyen (*Netherlands*)	W. Koster (*Netherlands*)	Netherlands	3,000	4,250	4.94
		Union of South Africa	1,250		
Franz De Voghel (*Belgium*).	Thomas Basyn (*Belgium*)	Belgium	2,500	3,860	4.49
		Norway	750		
		Luxembourg	350		
		Iceland	260		
Victor Moller (*Chile*)	Fernando Illanes (*Chile*)	Brazil	1,300	3,670	4.27
		Chile	600		
		Philippine Republic	400		
		Bolivia	320		
		Costa Rica	270		
		Guatemala	270		
		Paraguay	258		
		Panama	252		
Leon Baranski (*Poland*)	Stefan Michalski (*Temp.*) (*Poland*)	Czechoslovakia	1,500	3,650	4.24
		Poland	1,500		
		Yugoslavia	650		
Luis Machado (*Cuba*)	Joaquin Meyer (*Cuba*)	Mexico	900	3,610	4.20
		Cuba	600		
		Peru	425		
		Uruguay	355		
		Ecuador	282		
		Dominican Republic	270		
		El Salvador	260		
		Honduras	260		
		Nicaragua	258		
Graham F. Towers (*Canada*)	J. F. Parkinson (*Canada*)	Canada	3,500	3,500	4.07
Kyriakos Varvaressos (*Greece*)	F. Noury-Esfandiary (*Iran*)	Egypt	650	2,230	2.59
		Greece	500		
		Iran	490		
		Iraq	310		
		Ethiopia	280		

* The percentages of voting power shown in this Appendix differ from the percentages shown in Appendix I because, as of August 10, 1947, there were several members not represented by an Executive Director.

Since the First Annual Meeting, the following changes have taken place in the membership of the Executive Directors and Alternates:

Executive Directors

Resigned	*Appointed or Elected*	*Date of Appointment or Election*
Hubert Ansiaux (*Belgium*)	Franz de Voghel (*Belgium*)	November 1, 1946
R. B. Bryce (*Canada*)	Graham F. Towers (*Canada*)	March 7, 1947
Emilio G. Collado (*US*)	Eugene R. Black (*US*)	March 14, 1947
Sir James Grigg (*UK*)	Sir Gordon Munro (*UK*)	May 19, 1947

Alternates

Resigned	*Appointed*	*Date of Appointment*
	Y. L. Chang (*China*) (*Temp.*)	December 11, 1946
D. Crena de Iongh (*Netherlands*)	W. Koster (*Netherlands*)	January 8, 1947
J. V. Joshi (*India*)	B. K. Madan (*India*)	February 14, 1947
M. Naficy (*Iran*)	M. Nemazee (*Iran*) (*Temp.*)	March 20, 1947
Aramis Alvarez (*Cuba*)	Joaquin Meyer (*Cuba*)	April 7, 1947
Maurice I. Hutton (*UK*)	Maurice H. Parsons (*UK*)	June 1, 1947
M. Nemazee (*Iran*)	F. Noury-Esfandiary (*Iran*)	July 15, 1947
Alois Kral (*Czechoslovakia*)	Stefan Michalski (*Poland*) (*Temp.*)	August 6, 1947

APPENDIX K

Standing Committees of the Executive Directors

COMMITTEE ON FINANCIAL POLICY

J. W. BEYEN, *Chairman*
LEON BARANSKI, *Vice Chairman*
EUGENE R. BLACK
VICTOR MOLLER
SIR GORDON MUNRO
GRAHAM F. TOWERS

COMMITTEE ON INTERPRETATION

KYRIAKOS VARVARESSOS, *Chairman*
LUIS MACHADO, *Vice Chairman*
FRANZ DE VOGHEL
PIERRE MENDES-FRANCE
YUEN-TING SHEN

COMMITTEE ON LIAISON

PIERRE MENDES-FRANCE, *Chairman*
N. SUNDARESAN, *Vice Chairman*
VICTOR MOLLER
SIR GORDON MUNRO
KYRIAKOS VARVARESSOS

Decisions of Executive Directors Interpreting Articles of Agreement and Resolutions of Board of Governors

The following decisions in respect of the interpretation of the Articles of Agreement and of resolutions of the Board of Governors have been made by the Executive Directors during the period covered by this report:

I. *Decisions regarding calls on the 80% of capital subscriptions of members subject to call only to meet obligations of Bank*

WHEREAS, in connection with the preparations of the Bank to borrow funds in accordance with the provisions of Section 1 of Article IV of the Articles of Agreement of the Bank and to use the funds so borrowed in the making of loans, certain questions have arisen with regard to the interpretation of the provisions of said Articles; and

WHEREAS the Executive Director for the United States has requested that, before the United States shall be asked to approve the borrowing of such funds in the United States, the Executive Directors, in accordance with Article IX of said Articles, decide such questions; and

WHEREAS the Executive Directors, having considered such questions, are of opinion that it is advisable that such questions be decided before the Bank shall proceed to borrow funds to be used in the making of loans by the Bank;

NOW, THEREFORE, the Executive Directors hereby decide as follows:

QUESTION NO. 1

If the Bank calls a part of the 80% of the subscriptions to its capital stock which is subject to call to meet obligations of the Bank created under Sections 1 (a) (ii) and (iii) of Article IV of its Articles of Agreement and one or more members of the Bank fail to make payment of the amount called in respect of the subscription of such member or members, does the failure of such member or members to make such payment excuse any other member of the Bank from making payment of the amount of such call in respect of the subscription of such other member or from making payment of the amount of any further call which shall be made by the Bank in respect of the subscription of such other member?

DECISION ON QUESTION NO. 1

The obligations of the respective members of the Bank to make payment of their subscriptions to the capital stock of the Bank are not dependent on each other, and the failure of one or more members of the Bank to make payment of a call on such subscriptions does not excuse any other member of the Bank from its obligation to make payment of such call or of any other call on its subscription to the capital stock of the Bank.

QUESTION NO. 2

If the Bank calls a part of the 80% of the subscriptions to its capital stock which is subject to call to meet obligations of the Bank created under Sections 1 (a) (ii) and (iii) of Article IV of its Articles of Agreement and the aggregate of the payments received by the Bank pursuant to such call is for any reason insufficient to meet such obligations then matured or about to mature, does the Bank have the right to make further successive calls on such 80% (not exceeding in the aggregate the amount remaining unpaid of such 80%) until the aggregate of the payments received by it on such calls shall be sufficient to meet such obligations?

DECISION ON QUESTION NO. 2

If the Bank shall call a part of the 80% of the subscriptions to its capital stock which is subject to call to meet obligations of the Bank created under Sections 1 (a) (ii) and (iii) of Article IV of its Articles of Agreement and the amount received by the Bank

on such call shall be insufficient to meet such obligations matured or about to mature, the Bank has the right under its Articles of Agreement to make further successive calls on such 80% (not exceeding in the aggregate the amount then remaining unpaid of such 80%) until the aggregate amount received by it shall be sufficient to meet such obligations then matured or about to mature.

QUESTION NO. 3

If the Bank has maturing obligations created under Sections 1 (a) (ii) and (iii) and, because of a default on loans made, participated in or guaranteed by the Bank or for any other reason, the Bank does not have funds available to meet such maturing obligations, does the Bank have the right, in anticipation of the maturity of such obligations, to call all or part of the 80% of the subscriptions to its capital stock which is subject to call to meet such obligations and which then remains unpaid, or must the Bank defer such a call until such obligations actually mature?

DECISION ON QUESTION NO. 3

The Bank need not defer a call of all or part of the 80% of the subscriptions to its capital stock which is subject to call to meet obligations of the Bank created under Sections 1 (a) (ii) and (iii) of Article IV of its Articles of Agreement until such obligations have actually matured. If for any reason the Bank will not have available funds sufficient to meet such obligations as they mature, it has the right under its Articles of Agreement to make calls on such 80% sufficiently in advance of the maturity of such obligations in order to meet them as they mature.

QUESTION NO. 4

Is the Bank under any obligation to make calls on the 80% of the subscriptions to its capital stock which is subject to call to meet obligations of the Bank created under Sections 1 (a) (ii) and (iii) of Article IV of its Articles of Agreement?

DECISION ON QUESTION NO. 4

The 80% of the subscriptions to the capital stock which is subject to call to meet obligations of the Bank created under Sections 1 (a) (ii) and (iii) of Article IV of the Articles of Agreement of the Bank is a part of the assets of the Bank of which it is bound to avail itself when and to the extent necessary in order to meet such obligations. The duty of the Bank in that regard is implicit in any obligation which it creates under such Sections.

(Decisions of the Executive Directors at their meeting on April 2, 1947.)

II. *Decision regarding use of currencies received by Bank on account of principal of loans made out of borrowed funds*

WHEREAS, in connection with the determination of the terms and conditions of bonds or other obligations which the Bank may issue, a question has been raised as to whether or not, under the provisions of Section 2(c) of Article IV of the Articles of Agreement of the Bank, it is authorized to use in the making of loans currencies received by the Bank from borrowers or guarantors in payment on account of the principal of direct loans made by the Bank out of funds borrowed by it as provided in Section 1 of said Article IV; and

WHEREAS the Executive Director for the United States has requested that, before the United States shall be asked to approve the borrowing of funds in the United States, the Executive Directors, in accordance with Article IX of said Articles, decide such question; and

WHEREAS the Executive Directors, having considered such question, are of the opinion that it is advisable that such question be decided before the Bank shall proceed to borrow funds to be used in the making of loans by the Bank;

NOW, THEREFORE, the Executive Directors hereby decide as follows:

The provisions of Section 2(c) of Article IV of the Articles of Agreement of the Bank do not limit the use by the Bank of currencies received by it on account of the principal of loans made by it out of funds borrowed by it as provided in Section 1 of said Article IV. Such provisions are intended to make it clear that currencies so received can be used by the Bank, without restriction by its members, for the purpose of making amortization payments on, or of anticipating payment of, or repurchasing, all or part of the obligations of the Bank. Such provisions do not prohibit the Bank from using any currencies so received for any purpose for which the funds so borrowed by it could have been used, including the making of loans.

(Decision of the Executive Directors at their meeting on June 18, 1947.)

III. *Decisions pursuant to Resolution No. VI of the First Annual Meeting regarding election under Resolution No. 10 of the Inaugural Meeting*

A member admitted to membership in the Bank subsequent to the election of the Executive Directors held at the Inaugural Meeting, but prior to the election to be held under Resolution No. 10 cannot cast its votes for an Executive Director holding office at the time the election pursuant to Resolution No. 10 takes place.

If such member abstains from voting in the election held under Resolution No. 10, the votes which such member might have cast at such election are votes which count toward the election of the Executive Director elected at such election and are included in the number of votes which such elected Executive Director shall be entitled to cast.

(Decisions of the Executive Directors at their meeting on August 6, 1947.)

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