1950

International bank for reconstruction and development

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THESIS

International Bank for Reconstruction and Development

by

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1950
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CHAPTER I
Foundation of the Bank

Nineteen fifty starts off the second half of the current century. What does it have in store for us? The fifty years that have just passed will long be remembered for its contributions made to mankind and to society as a whole. Some of our greatest inventions, namely, the automobile, radio, and television to mention just a few, will be remembered for the pleasure they have contributed to all. This period, however, will not only be remembered for its scientific advancements, but also for its two greatest struggles that have taken place in the history of the world. These by name, of course, are World War I and World War II.

The signing of the Armistice after World War I, resulting in the League of Nations, proposed as a standing monument to perpetual peace. The League of Nations, because of lack of support from its member nations and the laxity of its rules proved a failure as history has shown. World War II followed in a few short years. Immediately after World War II, as following World War I, the nations of the world were again trying to find some solution to the external problem of conflict which seems to be plaguing the world.
Background of economic instability.

The latter part of the 19th century and the beginning of the 20th found the nations of the world operating their monetary systems on the gold standard. When an unfavorable balance of trade took place, that is one country exporting more than it was importing or vice versa, it was necessary for actual gold shipments to be made in order to "balance the accounts." Nations that held on to this system for any length of time experienced deflation, unemployment, and impoverishment. The gold standard because of its impracticability was dropped. To return to such a system again today would merely provoke the same type of problems as were previously experienced.

The end of the war in 1918 found the majority of the nations in economic chaos. Much of their trade and ability for production was ruined during the war and was brought to a standstill. The great expense of the conflict that had just passed drained the national treasuries of the countries to the point where starvation, disease, and production for export was at a low level. Nations were finding it difficult to struggle with economic and social conditions during the depression that followed.

The United States, although it did not feel the direct effect of the destructive war as far as its
resources were concerned, it did feel an economic pinch. Its exports fell off greatly and a depression followed. In order to alleviate the situation as far as possible, President Roosevelt on February 2, 1934, asked that an Export-Import Bank be established, the funds being supplied by the Reconstruction Finance Corporation. Our foreign trade was in a precarious position due to our nationalism and tariff restrictions placed on imports by us and other nations. In the plans of the bank the president was given power to negotiate reciprocal tariff agreements. This bank was established for the purpose of allowing longer periods of credit on our export payments. As a protection to our exporters, and to encourage them toward more activity, the bank would bear the risk of collection of accounts due them. (By an act of Congress in 1945 the lending powers of the Export-Import Bank were increased from $700,000,000 to $3,500,000,000.)

Countries such as Germany and Japan were preparing themselves for a new war which they knew was coming and which in reality they were to precipitate. Preparation for a war on their part caused them to use every possible form of economic offensive and defensive powers at their command. Their currencies, their exports and imports, were all used as weapons of war. Other nations, as a form of protection, were forced to adopt similar methods of economic warfare. They also began manipulations of
their currencies, limited their imports and exports, and were striving to build a strong state. We now know what happened as a result of the defensive actions by the other nations. World War II in all its gruesome details ensued.

Economic Conditions after World War II

Nineteen Forty-five with the close of the war with Germany and the nearing of the close of the war with Japan placed us in the exact position in which the world found itself at the conclusion of World War I. We had two possible courses which we as a world could take. The first solution, of course, would be to do nothing about the problem. Let the nations solve their own troubles—try to lift themselves up by the "bootstraps" with the economic problems which presented themselves. What would be the result if this policy were followed? Countries again would find themselves on the defensive, building up as much as their war-torn economies permitted to a point of possible strength. We would again see manipulation of currency, barriers placed on imports and exports, and other methods which the nations of the world, through experiences of the past, were very familiar with. These methods at first would seem successful enough, but in the long run we would again see nations fall into economic misery. Would this solve the problem or would it merely bring into focus a third world war?
The other solution that we have to the problem is international cooperation. A type of international collective security not with each country standing on its own two feet, which they have found impossible to do because of their economic conditions, but with the idea of helping each other solve the present problems in a peaceful and advantageous way. To this Dean Acheson, present Secretary of State, has given the very appropriate name of "economic disarmament". What form of economic cooperation did this policy take?

**Bretton Woods Proposal**

As early as 1941 work was begun in an attempt to solve some of the many international monetary problems. For three years financial experts both in government and in private business consisting of members sent from many nations carried out plans and offered opinions which were later to be incorporated and known as the Bretton Woods Proposal. These members met at Bretton Woods, New Hampshire, for the sole purpose of digesting the plans and opinions which had been formulated in the process of three years and to present said plans, to their governments for approval. The Bretton Woods Proposal consists of two major institutions, the first being known as the International Monetary Fund and the second, the International Bank for Reconstruction and Development.

These proposals were presented as the result of
all countries agreeing that something must be done to rid the world of wildly fluctuating exchange rates, multiple currency practices, and arbitrary trade discriminations which have brought ruin to the economic standing of many countries. The International Monetary Fund was established to facilitate the correction of currency manipulation which had been so prevalent up to this time. The official purposes of the Fund clearly state what they hope the Fund would achieve. Upon the ratification by the governments of the foury-four nations $8.8 billions would be contributed in proportional amounts and used as a working fund. The United States' share to this fund was $2,750,000,000. An example would perhaps best serve to show how the Fund, in effect, would work. Nations will still carry on their export and import trade through bills of exchange as had previously been the practice.


2Official Purposes
a. To promote international monetary cooperation through a permanent institution.

b. To facilitate expansion of international trade and contribute thereby to high levels of employment and real income.
If at any time a nation finds that it lacks the currency of another country to pay for imports from that country, the importing country can buy the needed currency of the exporting country from the Fund. Because of necessity no one country will be allowed to purchase currency in excess of 25 per cent of its original contribution to the Fund. The Fund Directors have the jurisdiction to limit at any time the number of such transactions which can take place. This in effect will force the constant export nation to make adjustments of its affairs.\(^1\) As nations are quick to change the value of their currency

c. To promote exchange stability and avoid competitive exchange depreciation.

d. To assist in establishing multi-lateral clearing of current transactions and in eliminating foreign exchange restrictions.

e. To provide "under adequate safeguard" resources to member countries to aid them in correcting maladjustments in the balance of payments.


when necessity arises, certain requirements have been set up by the Fund which must be met to protect the other members in the Fund agreement.

The second new institution as presented by the Bretton Woods Proposal, as previously stated, was the International Bank for Reconstruction and Development. As the Fund was not established to provide long-term credit, some institution was necessary to carry on this work. World War II left countries with poor harbor facilities; their factories, railways and bridges had been bombed and completely destroyed. To provide funds for re-building

Requirements of members of the Fund

a. Members are asked to define their currency in terms of gold.

b. It should keep its currency within one per cent of that determined value.

c. No Fund member shall undertake to restrict current transactions in their currency or put restrictions on the purchase and sale of goods and the purchase and sale of services, so far as their currency is concerned.

d. If necessary for a country to change value of their currency, they must consult the other nations in the Fund about the change.

Dean Acheson, the Place of Bretton Woods in Economic Collective Security, Department of State Bulletin, March 25, 1945.
these destroyed and therefore worthless facilities, the Bank is provided with the power to authorize long-term credit and loans. Many countries in South America, Africa, and the Far East are greatly undeveloped and the Bretton Woods Proposal offers aid in the form of loans to these countries as well.

Purposes of the Bank

The purposes of the Bank are clearly set out in Article I of the Articles of Agreement as follows:

a. To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

b. To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

c. To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.
d. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

e. To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.¹

The United States became a participating member of the International Bank for Reconstruction and Development when on December 27, 1945, the Bretton Woods Agreement was signed by us in Washington, D. C.

CHAPTER II

Organization and Management

The organization and management of the Bank were set up in the Articles of Agreement as approved at the Bretton Woods Meeting and later as revised at the Savannah, Georgia meeting.

As all other institutions it contains a constitution and by-laws which numerate the rights and duties of the World Bank.

Membership

The article on membership states that the original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank before the specified date.\(^1\) When the first annual report was published in 1946 the membership stood at 38. Since that time more nations have been accepted into the folds of the Fund and Bank. As of June 30, 1949, 48 members were listed on the agenda as being active. (For a list of these nations, refer to appendix.) Each nation not comprising the original 38 were voted in, by this group, with a three-fourths vote.

Authorized Capital

The amount at which the Bank should be capitalized

\(^1\)Articles of Agreement -- Article II, Section 1
presented a problem. It was thereafter decided that the authorized capital stock should be $10,000,000,000 defined in terms of United States dollars as of July 1, 1944. One hundred thousand shares bearing a par value of $100,000 were made available for subscription only to members. If at any time this amount was found to be insufficient the capital stock of the Bank could be increased by a three-fourths majority of the total voting power. The United States' contribution to the Bank was $3,175,000,000 which represents a 38.03 percent of the total subscription.

Subscription of Shares

Schedule A which appears on the next page shows the minimum number of shares each nation was obliged to subscribe to. (This schedule is as of June 30, 1949.) The Bank laid down rules for conditions under which members may subscribe for additional shares. If it is necessary to issue more than the original authorized capital stock each member of the Bank will be given the opportunity to subscribe to an equivalent percentage of the new issue based on their original subscription.

Division and Calls of Subscribed Capital

Payment for the subscribed stock will take two forms—twenty percent of the subscription price was on the "immediate call basis"—of this twenty
Schedule A  Subscription  
as of June 30, 1949  
(in millions of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Subscription</th>
</tr>
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<tbody>
<tr>
<td>Australia</td>
<td>$200</td>
</tr>
<tr>
<td>Austria</td>
<td>$50</td>
</tr>
<tr>
<td>Belgium</td>
<td>$225</td>
</tr>
<tr>
<td>Bolivia</td>
<td>$7</td>
</tr>
<tr>
<td>Brazil</td>
<td>$105</td>
</tr>
<tr>
<td>Canada</td>
<td>$325</td>
</tr>
<tr>
<td>Chile</td>
<td>$35</td>
</tr>
<tr>
<td>China</td>
<td>$600</td>
</tr>
<tr>
<td>Columbia</td>
<td>$35</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>$2</td>
</tr>
<tr>
<td>Cuba</td>
<td>$35</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>$125</td>
</tr>
<tr>
<td>Denmark</td>
<td>$68</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>$2</td>
</tr>
<tr>
<td>Ecuador</td>
<td>$3.2</td>
</tr>
<tr>
<td>Egypt</td>
<td>$55.3</td>
</tr>
<tr>
<td>El Salvador</td>
<td>$1</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>$3</td>
</tr>
<tr>
<td>Finland</td>
<td>$38</td>
</tr>
<tr>
<td>France</td>
<td>$525</td>
</tr>
<tr>
<td>Greece</td>
<td>$25</td>
</tr>
<tr>
<td>Guatemala</td>
<td>$2</td>
</tr>
<tr>
<td>Honduras</td>
<td>$1</td>
</tr>
<tr>
<td>Iceland</td>
<td>$1</td>
</tr>
<tr>
<td>India</td>
<td>$400</td>
</tr>
<tr>
<td>Iran</td>
<td>$35.6</td>
</tr>
<tr>
<td>Iraq</td>
<td>$6</td>
</tr>
<tr>
<td>Italy</td>
<td>$180</td>
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<tr>
<td>Lebanon</td>
<td>$4.5</td>
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<tr>
<td>Luxembourg</td>
<td>$10</td>
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<tr>
<td>Luxembourg</td>
<td>$65</td>
</tr>
<tr>
<td>Mexico</td>
<td>$275</td>
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<tr>
<td>Netherlands</td>
<td>$8</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>$50</td>
</tr>
<tr>
<td>Panama</td>
<td>$2</td>
</tr>
<tr>
<td>Paraguay</td>
<td>$1.4</td>
</tr>
<tr>
<td>Peru</td>
<td>$17.5</td>
</tr>
<tr>
<td>Philippine Republic</td>
<td>$15</td>
</tr>
<tr>
<td>Poland</td>
<td>$125</td>
</tr>
<tr>
<td>Syria</td>
<td>$6.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>$12.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>$43</td>
</tr>
<tr>
<td>Union of South Africa</td>
<td>$100</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$1,300</td>
</tr>
<tr>
<td>United States</td>
<td>$3,175</td>
</tr>
<tr>
<td>Uruguay</td>
<td>$10</td>
</tr>
<tr>
<td>Venezuela</td>
<td>$10</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>$40</td>
</tr>
</tbody>
</table>

Total: $8,348.5
percent, two percent was payable in gold or United States dollars. The remaining eighteen percent was payable in the currency of the member nation when needed. Eighty percent is subject to call only when required to meet obligations of the Bank. The amount held by the member nations will act as a buttress to guarantee loans made by private investors through the usual investment channels.

As in most corporate stock dealings, the liability of the stockholders was limited to their unpaid balance. If at any time payment cannot be made, however, because of its gold reserve being immobilized as a result of the war, the Bank may postpone such payment due from its members.

The Bank was authorized to call up to ten percent of the subscription price of the stock in the first year but at no time can it call for more than five percent in any three months period.

**Maintenance of Value of Certain Currency Holding of the Bank**

The Articles of Agreement contain provisions as to how the problem of devalued or depreciated currency held by the Bank will be satisfied. Whenever the par value of the member’s currency is reduced or depreciates to a sufficient extent in their country, the member will be required to place
on deposit additional currency to bring the stock back to par value. This practice is the same as followed by brokers and stock dealers in their "purchase on margin accounts". Conversely, if the currency of the member country shall increase, the Bank will return a reasonable amount back to the member.

These stocks cannot be pledged as security and are only transferable to the Bank.

Loans and Guarantees

The primary purpose of the World Bank is to provide member nations with loans. It would be insufficient at this time to try to explain all the phases of the loan procedure. Chapter III therefore, which is entitled "Loan Procedure of the World Bank", will deal with this problem exclusively.

Miscellaneous Operations

To obtain working capital for the Bank it has the power to issue and sell securities. The Bank began its borrowing operations on July 15, 1947, when two bond issues totalling $250,000,000 were publicly sold on the United States market. Both were priced at par. One issue comprised $100,000,000, 2\% percent ten-year obligations maturing in 1957; the other $150,000,000 in 3 percent twenty-five year obligations maturing in 1972. Both issues were over-
If future issues are necessary, it is hoped that a world market will be available. A world market would provide a liquid reserve and price fluctuations could be held within margin.

As many nations are or will be debtors of this Bank, repayment of their loans could be facilitated by turning in bonds held by them. Bonds of the Bank should be attractive in that they can easily be used as collateral for loans because of their strong position.

Within the last two years or so, state legislatures have passed laws which now allow insurance companies, one of the largest purchasers of stocks and bonds, to participate in World Bank issues. Prior to this time, the primary sources of credit were banks, corporations, and private investors. Commercial banks which are members of the Federal Reserve System are permitted to purchase the bonds of any one issue in an amount not to exceed ten percent of their capital and surplus. Savings banks are another good source from which to obtain capital. In a speech given by Eugene R. Black, President of the Bank, on October 23, 1949, to the Annual Convention of the Savings Bank Association of the State of New York, he said:
"Your statewide organization is one of the major institutional investment groups in the United States, having assets of more than $10 billion. I find it a great tribute to the Bank as a sound institution that you have been increasing your holdings of the Bank's bonds since the beginning of this year and that now the members of your association in New York City and Westchester alone hold more than a third of its total outstanding obligations. On July 1 the figure stood at $89 million, which is a gain of $14 million over the previous 6 months."

The Structure of the Bank

The Bank shall have a Board of Governors, Executive Directors, a President, and such other officials and staff to promote such duties as the Bank may determine.1

The Board of Governors

The Board of Governors are elected for a period of five years by their respective governments and shall consist of one Governor and one alternate. The alternates do not have the power to vote except in the absence of their principals. The Board of Governors in turn elect their own chairman. The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board except the power to:

1. Admit new members and determine the

1Articles of Agreement -- Article V, Section 1
conditions of their admission.

2. Increase or decrease the capital stock.

3. Suspend a member.

4. Decide appeals from interpretations of this agreement given by the Executive Directors.

5. Make arrangements to cooperate with other international organizations.

6. Decide to suspend permanently the operations of the Bank and to distribute its assets.

7. To determine the distribution of any income of the Bank.¹

The Board of Governors as such do not receive any compensation from the Bank except for their travelling expenses which they incur, and have within their authority the power to determine the amount of compensation that shall be given to the Executive Directors.

Voting

Each nation was arbitrarily given two hundred and fifty votes. Each additional vote which they possess was based on the number of stocks the member nations held. As the stock has the stated par value of $100,000, one additional vote is given for each $100,000 of stock that they have purchased. The United States being the largest stockholder in the World Bank, has 32,000 votes which represents 33.51

¹Articles of Agreement -- Article V, Section 2
percent of the total. The second largest stockholder being the United Kingdom has 13,350 votes which represents 13.88 percent of the total. The total voting stock of the World Bank as of August 20, 1949, was 95,485 votes. Much thought was given as to the amount of votes each country should possess as the originators of the World Bank feared that any one country might, through its voting power, control the Bank.

**Executive Directors**

The Executive Directors, who do not necessarily have to be Governors, total twelve in number and are responsible for the conduct of the General operations of the Bank. Their powers are delegated to them by the Board of Governors. As in the Board of Governors, each Executive Director has an alternate who may participate in the meetings but lacks a vote unless his principal is not at the meeting. These men are in continuous session in Washington, D.C.

**President and his Staff**

The President of the World Bank is elected by the Executive Directors and cannot be either a Governor or an Executive Director. Although he is the chairman of the Executive Directors, he is not allowed to vote except in the case of an equal
division. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment, and dismissal of the officers and staff. The President of the World Bank as of August 20, 1949, is Eugene R. Black. His salary, which is tax free, is $30,000 a year.

As a result of force exerted by the member nations, the following provision was included as a power of the President. In appointing officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible. Member nations were skeptical as to some of the provisions of the Articles for they feared that the United States, being the strongest power in the Bank, would not only be able to dictate the dealings of the Bank, but "load" the Bank with Americans to make sure that these dictates were carried out.

Location of Offices

The Articles of Agreement state that the principal office of the Bank shall be located in the territory of the member holding the greatest

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1Articles of Agreement -- Article V, Section 5
2Ibid, Article V, Section 5d
number of shares. As the United States fits this description, the main office of the Bank is located at 1818 H Street, Washington, D.C. Branches of the Bank may be found in some of the larger cities such as New York and San Francisco.

Rights of Members to Withdraw

Any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date such notice is received.\textsuperscript{1} The Bank also has within its power the right to suspend any member which does not fulfill its obligations to the Bank. This suspension takes effect one year after the order is put through. As both the Fund and the Bank were established to work hand in hand, any member who withdraws from the Fund will automatically be removed from the membership of the Bank, unless a three-fourths vote allows them to remain as members. When a nation is no longer a member of the Bank for any of the reasons stated above, any contingent liability established by this member is still outstanding. The Bank, on the otherhand, will make arrangements whereby it will re-purchase the stock originally bought by the member.

\textsuperscript{1}Articles of Agreement -- Article VI, Section 1
Suspension of Operations and Settlement of Obligations

If at any time the Bank is unable to carry on its operations of loan making, it may suspend such operations until further action by the Board of Governors is taken. If difficulties incurred by the Bank cannot be overcome and operations must be suspended permanently, member nations will have a contingent liability for all uncalled subscriptions to the capital stock until all claims of creditors have been discharged. After creditors have been satisfied, the Bank will distribute in proportional shares the remaining assets to the member nations.

Immunities

In the Articles as set up at Bretton Woods, certain immunities and privileges of the law were extended to the Bank. The Bank has the power to contract, to acquire and dispose of moveable and immoveable property and to institute legal proceedings. The property and assets of the Bank shall be immune from all forms of seizure and attachment before any final judgment is rendered against the Bank. The members shall be immune from legal proceedings, with respect to acts performed by them in their official capacity except when the Bank waives this immunity. Tax immunities were also given to the Bank.

1Articles of Agreement -- Article VII, Section 8
Any of the directors or officials of the Bank who are not citizens of this country need not pay taxes on their salaries in this country. Securities issued or guaranteed or dividends paid thereon shall also be tax free.
CHAPTER III
The Loan Procedure

The most important phase of the Bank's function is the making of loans. It is because of the difficulty after World War II for countries to obtain money for reconstruction and development that this Bank has been established.

The Bank may make or facilitate loans in the following ways:

1. By making or participating in direct loans out of its own funds corresponding to its unimpaired paid-up capital and surplus.

2. By making or participating in direct loans with funds raised in the money market of a member or otherwise borrowed by the Bank.

3. By guaranteeing in whole or in part loans made by private investors through the usual investment channels.¹

Under the first procedure the Bank has at its command twenty percent of the original stock subscription which has been referred to in Chapter II.

If the Bank participates in loans with funds raised in the money market of a member, before any borrowing takes place, approval of the member nation

¹Bretton Woods Agreement -- Article IV, Section 1
must first be obtained. This currency may be then converted into currency of other nations and used for productive purposes.

On occasion the Bank will be called on to guarantee in whole or in part loans made by private investors. Regular investment channels will be reluctant to loan money to member countries if they figure these loans will be a bad risk. At this point the Bank, if it approves the loan, will attach its seal of guarantee to this loan. The guarantee power of the Bank will act as an added incentive to private investors to make loans to member nations.

Provisions of Currency for Direct Loans

It may be necessary at times for the Bank to give the borrowing nation currency other than their own. For example, if Finland asks for a loan to finance the purchase of equipment from England, the currency of this loan will be in English pounds. This will greatly facilitate the construction work for which the loan was granted. Of course, if the project under consideration is to be financed within the borrower’s country, the Bank will supply them with their own currency. Any dealings with currency of other nations must first be approved by that nation.
Payment Provisions for Direct Loans

Most of these direct loans made by the Bank carry terms and conditions of interest and methods of amortizing payment. The Bank also charges a commission fee which is set up in a special reserve to be analyzed later in this chapter. These commission fees will not be less than 1 percent and no greater than 1\(\frac{1}{4}\) percent of the loans, but after a ten-year period may be substantially reduced. The loan provisions also stipulate the currency in which payment shall be made to the Bank. The member country, however, may repay such loans in gold if they so desire. If a member country at any time finds that they are unable to meet interest payments they may apply to the Bank for extension of such payments and if conditions warrant, after careful investigation by the Bank, such extension will be allowed.

If the Bank is not asked to make a direct loan to a member nation but merely to guarantee its loan obtained through the regular financial channels, the Bank shall charge a guarantee commission on this loan. A very important stipulation under the procedure of guaranteeing loans is that the Bank at any time shall have power to determine the terms and conditions under which they will accept and guarantee loans.
Special Reserve Created by Commission Fees

As previously stated, all loans will carry a special commission fee. These monies when collected will be set aside in a special reserve and used to meet liabilities of the Bank in cases of default on loans made, Participated in, or guaranteed by the Bank.

Method of Treating Defaults

If member nations are not able to meet principal payments on the loans, the Bank will endeavor to arrange a new amortization program if at all possible. If the Bank finds that it must "make good" on loans participated in, or guaranteed, it shall first draw on the special reserve set up for this purpose. (Reserve created by commission fees.) However, if this reserve is not ample to meet payments, the Bank may at its discretion, use other reserves, surplus, and capital available to it. When the Bank feels that their funds are being depleted beyond a safe margin, they may find it necessary to call for additional payments on the unpaid subscriptions (which total eighty percent of the authorized capital stock.)

In order to make the loan procedure of the Bank more understandable, an actual loan will be traced in the following few pages from the first
receipt of the loan application by the Bank to the final loan agreement when such loan is granted. The Articles of Agreement of the Bank provide that before a loan is granted it must satisfy itself that the borrower has not been able to obtain a loan elsewhere on reasonable terms. This provision was necessary as the Bank was set up not so much from the point of accepting or making loans whenever nations need large amounts, but with the idea in mind that if a borrower, after careful study of the situation, is unable to obtain a loan through the regular financial channels, the Bank will then step in and either make or facilitate such a financial undertaking. The loan agreement under present discussion is the one made to the Republic of Finland on October 17, 1949. This loan was in the amount of $2,300,000 and was requested for the purpose of developing Finland's timber resources. After receipt of an application for a loan, the Bank assures itself that the loan is not only for a productive purpose but that the project for which the loan was requested is a necessary one. An investigating committee is formed and sent to the prospective borrower's nation. This investigating board consists of men in the banking, industrial, economic and engineering fields. This investigating body not only
checks on the above mentioned but also looks into the economic situation of the nation. Studies made include surveys of the country's agriculture, industry, mineral resources, its man power, production transport situation, its external trade, balance of payments and the condition of its internal finances, particularly its budget and currency positions. In the Finish loan for instance, certain internal and external policies were checked because of close association Finland has with Russia. When the report was finally compiled, however, the factors in favor of granting the loan were overwhelming, making it possible for the loan agreement to be signed.

Prior to the International Bank's lending operations, foreign loans were often placed at the borrower's disposal once the contract had become effective. Under the articles of the Bank, when a loan is granted, the Bank opens an account in the name of the borrower and the borrower is then permitted to draw on this account only to meet expenses of the project as they incur. This makes it possible for the Bank to supervise the use for which the funds loaned are used. The Bank has no authority to tell the member nation where such loaned funds may be spent but it can and does supervise the loan to see that
it is used for productive purposes. When the borrower shall desire to draw on a loan account a written application is submitted to the Bank stating the amount which the borrower wishes to withdraw while at the same time submitting invoices as proof of payment due. Money under certain conditions may be drawn in advance in order to meet obligations in connection with the purchase of goods, submitting proof of payment to creditors at a later date.

The disbursement operation of the Bank resembles that of a commercial bank, where certain payments are made under documentary letters of credit. For this very reason the International Bank has adopted a procedure whereby it takes advantage of the existing international letter of credit system and utilizes the documentary examinations made by the commercial banks. This eliminates to a great extent administrative burdens placed upon the Bank. Sample copies of letters of credit required by the Bank appear in the following pages. After a disbursement has been made, the Bank supervises the use to which the goods are put in the borrower’s country. In the Finnish Loan for development of timber resources, Schedules two and four of the loan agreement are submitted as an example of their close observance of the monies loaned.
BANK'S REPORT OF PAYMENT

Serial No. 31

(Date of payment)

License No.

Symbol

To: ..........................................................

(Name of Borrower's Representative in U.S.A.)

(Address)

We report having paid the sum of $ ................ to ........................................ ...

(Name of supplier)

(Address of supplier)

Under L/C No. ..........................................

(Name and address of correspondent bank)

for account of ...............................................

(Name and address of buyer)

Our payment commission amounts to $..............................

Payment was effected against delivery of the documents as specified and in accordance with the terms and conditions of the Letter of Credit mentioned above evidencing shipment of ..................................

(General description of the merchandise including the quantity, etc)

Per S. S. .............................................. or R. R.

from .................................................. to ..........................................

(Point of shipment) (Destination)

or storage or manufacture of the goods described at ..................................

The documents have been disposed of as follows:

Ocean documents have been forwarded to our above mentioned correspondent bank.

The Railroad bill of lading, warehouse receipt or certificate of manufacture have been ..................................

(Disposition made)

Copy of the supplier's invoice is attached.

Very truly yours,

Authorized Signature
BANK'S REPORT OF PAYMENT

To: ____________________________

We report having paid the sum of $________ to ____________________________ Under L/C No. ________

established by ____________________________

for account of ____________________________

Our payment commission amounts to $________.

Payment was effected against delivery of the documents as specified and in accordance with the terms and conditions of the Letter of Credit mentioned above evidencing shipment of ____________________________

Per S.S. ____________________________ or R.R. ____________________________

from ____________________________ to ____________________________

or storage or manufacture of the goods described at ____________________________

The documents have been disposed of as follows:

Ocean documents have been forwarded to our above mentioned correspondent bank.

The Railroad bill of lading, warehouse receipt or certificate of manufacture have been ____________________________

Copy of the supplier's invoice is attached.

Very truly yours,

Authorized Signature
TO REPORT PAYMENTS MADE OUT OF DEPOSITS OF COLLATERAL.

BANK’S REPORT OF PAYMENT

(Name of American Bank)

Date of payment
License No.
Symbol

To: (Name of Borrower's Representative in U.S.A.)

(Address)

We report having paid the sum of $ to (Name of supplier)

(Address of supplier)

Under L/C No.

established by (Name and address of correspondent bank)

for account of (Name and address of buyer)

Our payment commission amounts to $.

Payment was effected against delivery of the documents as specified and in accordance with the terms and conditions of the Letter of Credit mentioned above evidencing shipment of (General description of the merchandise including the quantity, etc)

Per S. S. or R. R.

from (Point of shipment) to (Destination)

or storage or manufacture of the goods described at

The documents have been disposed of as follows:

Ocean documents have been forwarded to our above mentioned correspondent bank.
The Railroad bill of lading, warehouse receipt or certificate of manufacture have been

(Disposition made)

Copy of the supplier's invoice is attached.

Very truly yours,

Authorized Signature
FORM 2

BANK'S REPORT OF ADVANCE OR
PROGRESS PAYMENT

Serial No.  
(Name of American Bank)  
(Not to be filled out by Commercial Bank)

To  
(Name of Borrower's Representative in U.S.A.)

Date of payment
License No.
Symbol

(Address)

We report having paid the sum of $ to  
(Name of supplier)

under L/C No. established

(Address of supplier)

by  
(Name and address of correspondent bank)

for account of  
(Name and address of buyer)

Our payment commission amounts to $.  
The sum paid is % of the amount due as per Delivery Schedule pertaining to  
(Describe merchandise)

The payment constitutes an advance/progress payment to the above named supplier in accordance with the terms and conditions of the Letter of Credit against delivery to us of the documents as specified therein.  

Final payment(s) are to be made in accordance with the Letter of Credit against delivery to us of the documents specified therein.

Copy of supplier's statement is attached.

Very truly yours,

Authorized Signature
BANK'S ADVICE OF REQUIREMENT
OF DEPOSIT OF COLLATERAL

Serial No. 35
(Not to be filled out by Commercial Bank)

To ________________________

(Name of Borrower's Representative in U.S.A.)

Date ______________________

License No. __________________

Symbol ____________________

(Address)

This is to advise you that our correspondent ______________________ has informed us that it has established a documentary Credit No. __________ for account of ___________________________ (Name and address of buyer) and has requested us to advise and confirm the Credit in the amount of $ __________ in favor of ___________________________ (Name and address of supplier) relating to _______________________________ (Description of merchandise)

Pursuant to arrangements made with said correspondent, we require a deposit for a like amount as collateral to secure said Credit before confirming it, and in consideration of the said sum being deposited with us as collateral for the said Credit including any subsequent amendments and extensions thereto, we agree, in accordance with instructions from said correspondent, that:

(a) Immediately upon receipt of said deposit we will advise and irrevocably confirm the said Credit.

(b) That the sum deposited as collateral will be held in a special Cash Collateral Account in the name of said correspondent as collateral to said Credit and against which charges will be made only for the purpose of reimbursing us for payments made pursuant to said Credit.

(c) Subject to our right to make such charges, any balance in such Cash Collateral Account, after expiration of the said Credit, will be paid only in accordance with instructions of the International Bank for Reconstruction and Development, Washington, D. C.

Very truly yours,

Authorized Signature
### SCHEDULE 2

List of Goods and Estimated Delivery Date Thereof in Territories of Borrower

<table>
<thead>
<tr>
<th>Description of Goods</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel tubes</td>
<td>$ 50,000.00</td>
</tr>
<tr>
<td>Motor trucks</td>
<td>100,000.00</td>
</tr>
<tr>
<td>Spare parts for motor trucks</td>
<td>500,000.00</td>
</tr>
<tr>
<td>Forklift trucks and straddle trucks and accessories therefor</td>
<td>348,000.00</td>
</tr>
<tr>
<td>Spare parts for forklift trucks and straddle trucks</td>
<td>162,000.00</td>
</tr>
<tr>
<td>Tractors and bulldozers</td>
<td>680,000.00</td>
</tr>
<tr>
<td>Spare parts for tractors</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Mobile cranes</td>
<td>400,000.00</td>
</tr>
<tr>
<td></td>
<td><strong>$2,300,000.00</strong></td>
</tr>
</tbody>
</table>

The estimated delivery date of each of the items set forth in this Schedule is six months, computed for each item from the date upon which an order is placed for the purchase of such item or the Effective Date, whichever shall be the later.
SCHEDULE 4

Export of Timber

The following Table shows for each of the periods therein set forth the types of timber and minimum aggregate quantities thereof which the Borrower will export or cause to be exported pursuant to Section 1 of Article V of this Agreement to countries included in the list following such table. The Borrower shall not be precluded from exporting other amounts of timber to countries not included in such list.

<table>
<thead>
<tr>
<th>Periods of Export Commitment</th>
<th>Types of Timber to be Exported</th>
<th>Minimum Aggregate Quantity of Timber to be Exported</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>Sawn softwood</td>
<td>420,000 standards</td>
</tr>
<tr>
<td>1950</td>
<td>Sawn softwood</td>
<td>420,000 standards</td>
</tr>
<tr>
<td>1951</td>
<td>Sawn softwood</td>
<td>420,000 standards</td>
</tr>
</tbody>
</table>

The term standard as used in such table means a quantity of sawn softwood equal to 165 cubic feet or 4,672 cubic meters.

List of Countries

- Belgium
- Denmark
- Eire
- Federal Republic of Germany
- France
- Greece
- Italy
- Luxembourg
- Netherlands
- Norway
- Portugal
- Sweden
- Switzerland
- United Kingdom

Loan Agreement #21 Fi 2
Republic of Finland
A definite schedule of repayment is set up, as per schedule I of the Finnish loan agreement, which appears on the following page. Many of these loans carry a certain element of risk and no loan agreement is made without provisions showing remedies that the Bank has at its disposal in case of default. Loan No. 21 Fi 2 Finnish Timber resources loan agreement provides for the following:

ARTICLE VI
Remedies of the Bank on Default

Section 1. If any of the following events (herein called Events of Default) shall happen, that is to say:

(a) If default shall be made in the payment of any instalment of interest or commission or commitment charge on the Loan, or in the repayment of any instalment of the principal thereof, when and as the same shall become payable and such default shall continue for a period of 30 days; or

(b) if default shall be made in the performance of any other covenant or agreement on the part of the Borrower in this Agreement and such default shall continue for a period of 60 days after written notice thereof shall have been given by the Bank to the Borrower;

then and in each such case during the continuance of such Event of Default the Bank, at its option, may declare the principal of the Loan then outstanding (if not already due) to be due and payable immediately, and upon such declaration such principal shall become and shall be due and payable immediately, anything in this Agreement contained to the contrary notwithstanding.
SCHEDULE 1

The following Schedule shows the amounts of the respective instalments of amortization for the $2,300,000 principal amount of the Loan and the respective dates on which such amounts, respectively, together with any amount of interest, commission, and commitment charges then accrued and unpaid on the principal amount of the Loan, shall be due and payable. If any part of the Loan shall be canceled pursuant to the provisions of this Agreement, the amount of each installment of amortization due and payable after the date of each cancellation shall be reduced proportionately.

<table>
<thead>
<tr>
<th>Date</th>
<th>Payment of Principal</th>
<th>Principal Amount Outstanding after Each Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 1950</td>
<td>$250,000</td>
<td>$2,050,000</td>
</tr>
<tr>
<td>September 30, 1950</td>
<td>550,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>December 31, 1950</td>
<td>500,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>June 30, 1951</td>
<td>250,000</td>
<td>750,000</td>
</tr>
<tr>
<td>September 30, 1951</td>
<td>750,000</td>
<td>----</td>
</tr>
</tbody>
</table>

Loan Agreement #21 Fl 2
Republic of Finland
Section 2. No delay in exercising nor omission to exercise any right or power accruing to the Bank under this Agreement upon any Event of Default shall impair any such right or power or be construed to be a waiver of any such Event of Default or any acquiescence therein; nor shall the action of the Bank in respect of any default, or in respect of the waiver of any default, affect or impair any right or power of the Bank in respect of any other or subsequent default on the part of the Borrower, and every right, power and remedy of the Bank hereunder may be exercised by it from time to time and as often as it may deem expedient.

The question has often been asked of the Bank Directors what type of loans if any are given priority. To this the Bank has replied "that the resources and facilities of the Bank shall be used exclusively for the benefit of members with equitable considerations to projects for development and projects for reconstruction alike. The Bank shall also pay particular attention to the financial burden and economic condition existing in the country of the borrower."

The only security as a general rule that the Bank requires on its loans is the obligation of the member government either as borrower or as guarantor. In certain cases, however, where security is available in the form of foreign exchange the Bank will require that such collateral be submitted.
CHAPTER IV
Accomplishments of the Bank

Since May 9, 1947 when the Bank signed its first loan agreement may loans have followed in quick succession. Some of these loans were made to governments directly but the majority were obtained by private companies within member countries.

The first part of this Chapter is devoted to an analysis of these loans, while the latter part will compare the financial condition of the Bank as it stands today with its financial condition of the 1945-1946 period.

Loans made to Latin America

Our neighbor to the South of us, Mexico, has received two loans from the Bank totaling $34.1 million. The first loan of $24 million was to purchase materials to construct new steam and hydro-electric generating stations to be established in various parts of Mexico. The loan was for a 25-year period, carrying an interest rate of 3\% plus a commission charge of 1\% per annum. Repayment of this loan is to start in 1954.

The second loan of $10 million was to finance the purchase of construction equipment for the Mexican Light and Power Company, Limited. This loan matured on December 31, 1949, and carried a 3\% interest
charge plus 1% commission charge. Although this loan was for the benefit of the Mexican Light, it was obtained from the Bank by the Mexican Federal Electricity Commission, because under the existing financial structure of the company any Bank loan would have been subordinate to a substantial prior indebtedness. If the company can reorganize its financial structure the Bank will consider the additional long-term loan of $26 million which was under discussion.

Mexico has asked for additional loans to develop irrigation, railroad and pipe lines but the Bank felt that these projects were in the too early stage and would not be able to give assistance at the present time.

Since Mexico is not developed to a high degree and her external credit is not too strong, this loan does carry a certain amount of risk. The Bank, however, feels that with this added power at her disposal she will be able to build up her production for export trade.

The second South American country to receive funds from the Bank was Brazil. This loan agreement signed on January 27, 1949, was for $75 million and was for the benefit of the Brazilian Traction, Light and Power Company, Limited. This company as well as the
Mexican Light and Power are Canadian Corporations. The $75 million will be used for a program of expansion for the hydro-electric power and telephone facilities of the country.

The loan is for a period of 25 years and carries an interest rate of 3\(\frac{1}{2}\)% plus 1% commission charge. Repayments are to begin in 1953. The Government of Brazil is acting as the guarantor for this loan. The original request was for $100 million, but was later revised to $75 million. With this loan as with the Mexican loan the economic conditions of the country had to be carefully investigated. The investigating committee found a heavy deficit spending policy and an acute inflation of prices. The government however had taken steps to curtail imports and stabilize their currency. The loan was held up for a time while the Bank and the Government agreed on the form of guarantee that Brazil would offer and the passage of necessary enabling legislation in the Brazilian Congress.

At the present time other projects are under surveillance by the Bank and investigating committees are checking on the feasibility of such projects.

On March 25, 1948, two loans agreements totaling $16 million were signed by Chile and the Bank. The first loan of $13.5 million was obtained by an
instrumentality of the Chilean Government for the purpose of developing its hydro-electric power. The loan was made for a 20-year period and carries an interest rate of 3½% plus an additional 1% commission charge. Amortization of the loan is to start in the sixth year. This project was of prime importance because of the high cost and relative insufficiency of coal in the country.

Funds for the purpose of purchasing agricultural machinery made up the second loan of $25 million. This loan is for a period of 6½ years and carries a 2 3/4% interest rate plus 1% commission charge. So that this equipment may be utilized to its fullest possibility, special attention was given to the training of personnel to work this equipment. The Government of Chile is acting as the guarantor of both loans.

Colombia asked for a $5 million loan and on August 19, 1949 this loan agreement was signed. This loan which was guaranteed by the Government, was given to the Colombian development bank in which the Government holds the controlling interest. Interest of 2½% plus the usual 1% commission charge are the terms agreed upon. Amortization will begin on May 15, 1952.

The Colombian Government has assured the Bank
that it will continue to provide sufficient foreign exchange to finance the maintenance and replacement of agricultural machinery already in the country, so that equipment to be purchased with the proceeds of the Bank's loan will represent a net addition to the equipment presently available.1

**Loan Investigations in Latin America**

Although the above loans were the only ones actually granted to Latin America, other applications were received and rejected for one reason or another.

Certain projects were under consideration in Ecuador when a new government was elected to office nullifying any progress made on these talks. The new government made advances to the Bank in April, 1949. A mission was sent to continue talks. It was decided that any projects that were undertaken should be of the type that would directly earn or save foreign exchange because of the countries balance of payment position. The two projects which proved satisfactory to the Bank were the mechanization of the farm program and the construction of new irrigation system. Rehabilitation of Ecuador's textile industries were also studied. The earthquake of August 5, 1949, was a second stumbling block, and to date no loans have been possible.

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Currently negotiations are in progress with Uruguay for loans to cover various development projects, including power, telephone, railways and port facilities. The Bank investigators have suggested that priority be given to electric power and telephone facilities. The economic conditions of Uruguay seem to be better than most Latin American countries and loan agreements should be signed shortly.

Costa Rica was visited by Bank investigators in September of 1948 and by the President of the Bank in December of the same year. The government has certain projects in mind and it was suggested that Costa Rica take steps to strengthen their economic conditions before any further action could be taken. The recommendations of the Bank were being carried out when in June of 1949 a new government was put into office. The Bank at the present time is awaiting the new proposal from Costa Rica.

A Bank mission also visited Bolivia, Peru, Guatemala, Paraguay, Venezuela, Honduras, Nicaragua, and Panama. In each case the governments were interested in developing hydro-electric power and irrigation facilities. The Bank made recommendations to them and asked that certain conditions be changed as a prerequisite to loan negotiations.
Loans Made to Europe

The loans made to South America were for the purpose of developing new projects to strengthen their economies. A great many of the loans given to European countries were for the purpose of reconstruction, building up their war torn economies.

Belgium was given a $16 million loan on March 1, 1949, for the purpose of providing United States dollars for imports of equipment for the construction of two steel mills and a power plant in the industrial district of Liege.¹ This 20-year loan carries an interest rate of 3 1/4% plus the 1% commission charge. The first repayment is due on March 1, 1954. The proceeds of this loan will be spent in the following way: $4.5 million to finance the cost of equipment for a cold rolling and tin plating mill; $5.8 million for equipment for a blooming mill; and $5.7 million for equipment to erect a power generating plant. By this allocation of funds, two of Belgium’s key industries will be able to increase their productivity. Other help to Belgium from the ERP and ECA projects make the prospect of repayment strong as rapid progress has been made toward recovery.

In addition to the Finnish loan of $2.3

million described in Chapter III, a second loan was made on August 1, 1949, in the amount of $2.5 million.

This loan which is for a period of 15 years, was made to the Bank of Finland and is guaranteed by the Government. It carries an interest rate of 3% plus 1% commission charges, and repayments will start on February 1, 1953.

These funds will be used to improve the electric power program, modernize the woodworking industries, and to increase production of limestone powder for agriculture.

These loans in part supplement an earlier loan of $10 million from the Export-Import Bank made for the purpose of modernization. The question of allowing these loans were raised on the grounds that Finland has a huge reparations debt to be paid to Russia. Prompt repayments of their international loans prior to World War II was a heavily weighted argument in favor of granting these loans.

The single largest loan of $250 million was made to Credit National, a semi-public French corporation. The loan carries the guarantee of the French Government. The original loan application asked for $500 million but the Bank felt it should limit its commitments to the needs of the immediate future. Annual re-
payments are to start in 1952 and for 25 years thereafter. These funds are to be used for industrial and transportation equipment, fuel, and industrial materials to build up the war-torn economy. Because of France's excellent external debt record the loan looked like a good risk.

On August 7, 1947, a loan of $195 million was granted to the Kingdom of the Netherlands. The money received from this loan is to be used to buy ships, industrial equipment, fuel, fertilizer and chemical equipment. It runs for a period of 25 years and annual repayments will start in 1954. This loan carries the provision that none of the currency can be used on any of their possessions or for military purposes. As the life line of the Dutch people is in their export trade, this loan will help them get on their feet again.

A supplemental loan agreement was entered into whereby $4 million was cancelled on the original loan and Swiss francs for the same amount, raised through the sale of Swiss Franc Serial Bonds, was substituted instead.

A loan of $12 million was also made to four Dutch shipping companies to finance the purchase of six vessels costing $2 million each.
Each of these loans was secured by a ship mortgage and bears an interest rate of 2\% per annum, 1\% commission charge and 1/16\% service charge. All principal, interest and commission charges are fully guaranteed by the Netherlands Government.

In July, 1949, a third loan application was approved for the Netherlands Government. This loan was for $15 million and the funds are to be distributed by the Finance Corporation for National Reconstruction to 24 Dutch corporations in various industries for imports of equipment or for modernization of plants. The largest portion of the loan, $9.5 million will be used in the chemical and textile industries. It is a 15-year loan with interest at 3\% plus 1\% commission charge per annum.

The Grand Duchy of Luxembourg was granted a $12 million loan, $2 million in Belgian francs for the purpose of purchasing equipment for steel industries and for rolling stock for its railway. The loan bears interest at 3 1/4\% per annum, the usual 1\% commission charge, and it runs for a period of 25 years. This loan should play an important part in rebuilding the economy of Luxembourg as iron and steel are their major industries.
Talks have taken place or are still in progress with Czechoslovakia, Italy, Norway, Poland, Turkey, and Yugoslavia concerning possible loans. Many of these countries immediate needs have been satisfied by the European Recovery Program. No agreement to date, as to conditions and terms of loans, has taken place to enable any loans to be made.

**Loans Made to Asia**

India is the only Asiatic country at the present time to have received a loan from the Bank. This loan, which was for the purpose of financing the purchase of locomotives, boilers, and locomotive spare parts, was in the amount of $34 million. The interest rate is 3% plus 1% commission charge and runs for a period of 15 years with amortization payments to begin in August of 1950. Railroad equipment was sorely needed as a result of inadequate war-time replacements. Talks at the present time are proceeding for loans for reclamation and irrigation works, to help supplement the primary problem of food shortages which is constantly plaguing India.

Other countries being studied at the present time include Egypt, Iran, Iraq, The Philippine Republic and Ethiopia.
The following page shows a summary of World Bank Loans as of October 21, 1949.

The Bank made a survey as to where the monies obtained by the countries was spend. This study was made as of June 30, 1948, when $470.1 million had been disbursed by the Bank.¹

<table>
<thead>
<tr>
<th>Area of Expenditure</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In millions of U.S. dollars)</td>
</tr>
<tr>
<td>United States</td>
<td>356.4</td>
</tr>
<tr>
<td>Canada</td>
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<td>Latin America</td>
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<td>Europe</td>
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<tr>
<td>Africa</td>
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<td>Far East</td>
<td>.1</td>
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<tr>
<td>Total</td>
<td>470.1</td>
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From the above it can plainly be seen that the United States has come in for the largest portion of the spending. This was of course expected in view of our great resources and productive capacity, and because of the fact that the resources of other countries were disrupted by the war.

The Bank's Financial Position

The financial position of the Bank has improved until today, they enjoy an enviable position.

### Status of World Bank Loans

**As of October 21, 1949**  
(Expressed in U.S. Currency)

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Loan Commitment</th>
<th>Disbursement</th>
<th>Unused Balance</th>
</tr>
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<tr>
<td>Credit National (France)</td>
<td>250,000,000</td>
<td>250,000,000</td>
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</tr>
<tr>
<td>Kingdom of the Netherlands</td>
<td>191,044,212</td>
<td>191,044,212</td>
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<tr>
<td>Kingdom of the Netherlands</td>
<td>3,955,788</td>
<td>3,955,788</td>
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<td>Kingdom of Denmark</td>
<td>40,000,000</td>
<td>40,000,000</td>
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<td>9,510,110</td>
<td>2,489,890</td>
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<tr>
<td>Comision Federal de Electricidad (Nacional Financiers of Mexico)</td>
<td>34,100,000</td>
<td>1,832,818</td>
<td>32,267,182</td>
</tr>
<tr>
<td>Four Dutch Steamship Companies (Netherlands guarantee)</td>
<td>12,000,000</td>
<td>12,000,000</td>
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<tr>
<td>Fomento (Chile)</td>
<td>216,000,000</td>
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<td>Brazilian Traction Light and Power Company</td>
<td>75,000,000</td>
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<td>Finance Corporation for National Reconstruction (Netherlands)</td>
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<td>Bank of Finland</td>
<td>12,500,000</td>
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<td>Caja de Credito Agrario Columbia</td>
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<td>Bank of India</td>
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<tr>
<td>Republic of Finland</td>
<td>2,300,000</td>
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<tr>
<td>Federal People's Republic of Yugoslavia</td>
<td>2,700,000</td>
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<td>2,700,000</td>
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<tr>
<td>Lempa River Hydro-electric Commission, El Salvador</td>
<td>12,545,000</td>
<td></td>
<td>12,545,000</td>
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</tbody>
</table>

**Totals** | **744,145,000** | **508,342,928** | **235,802,072**
From total assets of $385,157,513 in August of 1946, it has grown to the immense figure of $2,073,305,547 as of June 30, 1949.

Receivables from member countries comprises the largest part of the asset figure ($856,267,203), followed by loans outstanding held by the Bank ($622,100,000, this figure would be the equivalent of accounts receivable), and their investment account ($445,553,000).

Cash on deposit either in dollars or other foreign currency totals $135,545,938. The commission fee charge of 1% that is placed on all loans has contributed $8,074,141 to a Special Reserve, established in the Bank Agreement.

The net worth section of the balance sheet reveals bonds outstanding of $253,955,788 ($250,000,000 payable in United States Dollars and $3,955,788 payable in Swiss Francs).

As per agreement of most loans, the Bank will issue them currency only when proof of payment is present. The liabilities of the Bank therefore show an amount of $123,308,986 as Undistributed Balance of Loans.

The capital stock figure stands today at $1,669,700,000 which represents the largest part of
the net worth section. The excess of income over expenses (net profit) stands at $13,641,094. This figure is impressive in view of the fact that a deficit of $282,163 was recorded for the period of 1945-1946. This deficit could well be expected as expenses at the time were great with no offsetting income available.

**Expenses**

Expenses incurred in traveling (investigating committees) was great in 1949 as in 1948, and constituted the second largest expense, second only to salaries.

Increases in the personnel and staff of the Bank were responsible for a heavy personal services amount. After all expenses for the period were paid a net operating income of $10,610,247 was realized.

Now that the Bank is on a sound financial footing there seems to be no reason why they should not continue to be able to meet all expenses and still show a good excess for the period.
CHAPTER V

Defense of Criticisms on the Bank

All institutions that have been established on an international basis have at one time or another come under a heavy bombardment of criticism on its operations. The International Bank is of no exception.

The purpose of this chapter is to critically analyze these criticisms and to see if they are well-founded.

European Recovery Program vs. the International Bank

The major criticism that has been brought forth against the Bank occur along these lines. The Bank has been unable to tackle the problem for which they were set up, namely to help Europe in her time of need. To make these arguments feasible they state the fact that it was necessary for the United States to install the European Recovery Program rather than depend on the help of the Bank to bring Europe back on its "Economic feet".

The advocates of this criticism have not taken into consideration the important fact of, 1. The conditions at the time the Bank was established and 2. The major purpose for which the Bank was brought into existence.
Three years before the Bank was discussed at Bretton Woods, men were hard at work planning for this project with only an estimate of what Europe's actual needs would be. Even in 1945 when the Bretton Woods meetings took place the full impact of the war damage was not known. With the final results in, it was realized that the problem was greater than could be foreseen at the time the Bank was established. A program far in excess of what the Bank was capable of handling was necessary. It is for this reason that the European Recovery Program came into existence.

A further point might be added here in that funds given under the ERP are given without thought of direct repayment. The Bank is not a charitable organization as such and because of necessity must charge interest on their loans.

Item one under the purposes of the Bank reads as follows, "To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by the war-----." Also in item three, "To promote the long-range balance growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for
the development of the productive resources of members—".

The words "productive purposes" and "long-range" are all-important as they express the very essence of the purposes of the Bank.

The European Recovery Program came into existence to furnish immediate help to Europe in the form of food, clothing and shelter, and did not conflict with the operations of the Bank as they never intended to satisfy these needs. The Bank is not a relief agency and makes loans for "long-range productive purposes".

The help extended by the ERP will increase the productivity of the loans which the Bank will make to Europe. They are therefore not opposed to each other but on the contrary, the two are complementary.

"The European Recovery Program will be able to supply some of Europe's critical needs such as food, fuel, and raw materials, and the Bank within the limits of its resources can continue to make productive loans for other purposes."\(^1\)

"Thus the effectiveness of the European Recovery Program will have a definite bearing in the extent to which the leading potentialities of the Bank may be increased in the near future."\(^2\)

The above criticism, although sincerely advanced is not well founded as the purposes and scope of lending activities of the International Bank and the European Recovery Program differ in every respect.

\(^1\) Alderweld, Assistant to the Treasurer.---Address before the World Affairs Conference May 14, 1948.
\(^2\) Ibid.
There is no doubt that the European Recovery Program has stunted the growth of the Bank. The Bank prior to the Program was supreme in its activities as it was the only source (outside of direct loans by our government) from which money could be obtained for reconstruction and development. As the ERP began operating, a noticed decline in loan requests was apparent. The ERP along with providing funds for immediate relief (food, shelter, clothing) was in a position to get industry on its feet as much as possible.

With the ending in 1952 of the Program, the Bank will again receive the prominence it enjoyed before the Program was instituted. It is in this coming period that the true strength or weakness of the Bank will be noticed.

From all present indications it should prove successful in its undertaking of reconstruction and development.

**Loans Refused and Amounts of Loans Reduced**

A second criticism against the International Bank is that many countries although members are refused loans and when loans are granted the amount is substantially less than asked for.

The Bank admits the facts above are true, but also build up an excellent defense which
shows the arguments to be meaningless.

Many loans are refused by the Bank for the simple reason that countries are not ready to use these loans to their best advantage and will be granted when the Bank feels that capital could be used successfully.

There are many reasons why countries cannot use these funds for productive purposes at the present time.

A loan to be used successfully for productive purposes in a country must of necessity find in that country an intelligent and skilled population in technical lines. Our neighbors in Latin America are greatly lacking the technical knowledge necessary to use large loans to the best advantage. It is for this reason that the Bank feels that educational and health standards must first be raised before any loans are granted. The Bank has taken steps in this direction by recommending and helping to establish schools for training of this specialized personnel.

Although Europe possesses to a large extent the skilled personnel, their immediate problems, which are being taken care of by the ERP, must first be considered.

Political factors in many countries are
proving a handicap to the granting of loans. Development here is slowed down by economic and financial insecurity which results from the constant changing of governments. These newly formed governments have an eye on the short-run improvements and pay little or no attention to development on the long-range viewpoint of the country. (Most loans granted by the Bank are for this purpose.) External help can not be used advantageously for short-run developments.

The population of these underdeveloped countries must also be considered. A two-class social structure exists and any improvements are handicapped by strong opposition to possible change in their standing. Barriers of this type must first be lowered if loans of the Bank can be granted.

A further reason why many of the Bank loan applications are rejected can be stated as the countries inability to support such projects financially. In viewing this problem the Bank emphasises that their loans are only a minor part of the cost of development projects and the largest portion must be carried by the internal finances of the country.

The European nations as well as the underdeveloped countries of South America are in a great degree unable to assume this responsibility at the present time.
It would be better to extend outright grants or government subsidies as we are doing in the case of ERP rather than have the Bank burden themselves with doubtful uncollectible loans.

"If money were all that was required to bring those projects to fruition, the Bank's primary task would have been relatively simple one of allocating its resources over various claimant schemes. The principal limitations upon Bank financing in the development field has not been lack of money but lack of well-prepared and well-planned projects ready for immediate execution."

The Bank often in rejected loans was perfectly willing to advance these loans but while negotiations were taking place, terms of the loan agreement could not be arrived at to the satisfaction of both parties. Many of these loans are still under consideration and after ironing out certain difficulties, will be granted.

The second half of this criticism asks the question, Why does the Bank reduce the amount of funds asked for by member countries in their loan applications?

Many of the loan applications contain facts and figures on a great many projects that would take years to complete. It is the Bank's policy to grant loans not for the whole period of development but needs for a limited period and limited scope.

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When and if these projects are successfully carried out, further loan applications will be considered to include other developments the countries feel are necessary. This enables the Bank's fund to be more flexible as it does not tie itself down to development that would take years to accomplish and at the same time relieves the borrowing country of the strain of raising internal funds to carry out these projects.

The Bank is working with limited funds and must therefore utilize these funds to their utmost. Although a request for loans has been decreased from its original amount member countries may make further application for loans when the presently financed projects are nearing completion.

Time required to Process Loans

On May 1, 1947, the Brazilian government filed a loan application with the Bank. On January 27, 1949, this loan was approved and the necessary papers signed. The time between the original application and the final loan agreement was one and a half years. The waiting period on this loan does not seem to be an exception but rather a common occurence on loans granted by the Bank.

Exactly what takes so long in deciding if
a loan is to be allowed?

When the loan applications are first received the projects in mind are often only sketchily outlined. The Bank must determine if such a loan is necessary and practical at the time. This requires a great deal of research on their part. The investigating body that is sent to a country must check on many aspects of the economy. How will the project affect the financial structure of the country? Will the country be able to support such a project once completed? Will this project help the country in their productive activities or merely place a burden on the member nation? These investigations take months to complete. Then again conditions in a country may change abruptly necessitating further consultation and discussion.

After the project is approved terms must be arrived at. What type of materials are necessary and from where shall they be obtained? How long a period will be required to repay the loan and in what amount shall amortization of the loan consist of.

These and hundreds of other details must be checked in order to bring the loan and subsequent project to a successful conclusion.

What commercial bank would grand a loan
running into hundreds of millions of dollars without first making a careful and thorough check. All this takes time. Perhaps the Bank does not work as fast as it possibly could, but one must remember that many loans are being checked and investigated at the same time and the Bank must proceed with caution.

"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."

The following points although not criticisms as such have been advanced as factors in the International Bank’s operation.

The first idea is that countries or companies in member countries might be able to obtain loans through the commercial banks of this country with less red tape attached.

This factor is offered with very little thought as to the type of loans the commercial banks are capable of extending.

The commercial banks of this country deal in two types of loans. Current loans, where funds are given for a period of 90 days but not over one year. Term loans are the second type. These loans extend

over a period greater than one year but commercial banks are reluctant to make term loans any longer than a five-year period. Most loans accepted by the International Bank run anywhere from a period of ten to thirty years.

In loan dealings commercial banks are limited by legislature in that no one bank can grant a loan to any one company in excess of 10% of their capital and surplus. If a large loan, say $250,000,000 is needed, a group of commercial banks may get together and "participate" in the loan. That is to say each bank is capable of extending a certain portion of the loan up to their legal limit. Participating in a loan often takes a great deal of investigation and research as to the ability of the borrower to repay this loan.

Then again commercial banks are not willing to accept the risks of many of the loans as does the International Bank. The International Bank was set up with a particular purpose in mind, that of helping out in long-range productive projects, to build up undeveloped or war-torn countries. Commercial banks, because of their close relationship with the public, must be sure that their loans will be the safest possible investment.
This leads us directly into the question of interest rates. Commercial banks charge an interest rate of between 2 to 6% on prime loans. These rates are understandable when one considers that the motivating force for most banks is the "profit motive". Banks are out to make money so that they may meet their expenses and pay you and I a return on our deposited money. The International Bank, on the other hand, is not a profit-making institution. They, of course, must charge a certain rate of interest to meet their expenses and pay a return to their bond holders. It is for the simple reason that the International Bank is not under pressure to show a huge profit that interest rates on their loans can be substantially less than those of commercial bank loans.

The very idea of comparing the International Bank with commercial banks is fruitless as their purposes and responsibilities differ to a great degree.

The International Bank will have difficulty in selling their bonds when such bond obligations reach $3,175,000,000. This figure is of course the obligation of the United States to the Bank. This argument has been given by some who have little faith and confidence in the Bank's dealings. In
view of the fact that the outstanding bonds of the Bank after four years of operating only total $250,000,000 this argument is somewhat premature. As confidence is built up in the Bank and its member countries, I feel sure that no such difficulty will exist if and when it is necessary to sell bonds in excess of the United States contribution.

I think the following words of the Introduction of the Fourth Annual Report of the Bank best states the position of the Bank in reference to all the criticism that has been thrown their way.

"The Bank cannot and should not be expected to provide the answer to all or even a major part of the world's financial ills. It is beyond both the purpose and the power of the Bank, for example, to cure the "dollar shortage", or to assure the maintenance of full employment throughout the world, or to satisfy short-term budgetary and balance of payments requirements. While the operations of the Bank do contribute in some measure of the solution of these general problems, its essential objective is narrower and more precise; its basic mission is to assist its member countries to raise production levels and living standards by helping to finance long-term productive projects, by providing technical advice and by stimulating international investment from other sources. That is a broad enough field of activity for all the resources, vigor and imagination which the Bank can possibly bring to bear."

CHAPTER VI
Summary and Conclusions

The nearing of the end of World War II brought into focus the problems that have plagued the world after each major catastrophe, namely, economic insecurity.

The problem on hand was what could be done to bring about a healthy and peaceful world. Many of the remedies tried prior to this period had failed for one reason or another and brought with it only further misery. We were determined that this time the solution to the problem would work. In what form would this help be extended to needy economies?

The principle cause of disturbance seemed to be the countries inability, because of lack of funds, to rebuild their economies for productive enterprise.

The Bretton Woods Proposal which was presented to representatives of many countries at Bretton Woods, New Hampshire in 1945, was the key to this recovery program. Two institutions would be formulated, the International Monetary Fund and the International Bank for Reconstruction and Development. The Fund would act as a clearing house to aid in expansion of international trade and
international monetary cooperation and to promote exchange stability.

The Bank on the other hand would provide long-range loans for productive purposes to assist in reconstruction and development of territories and to promote private foreign investment by means of guaranteeing or participating in loans for private investors.

At the present time membership in the Bank totals 48 countries with application for membership pending on two or three more.

The authorized capital of the Bank is $10,000,000,000 with shares of $100,000 par value. Twenty percent of the subscription was callable immediately in gold or United States dollars with the remaining eighty percent acting as protection on loans guaranteed by member nations.

The International Bank in all respects resembles a commercial bank in that they have power to ask for additional currency to support the par value of their stock, if monies of a member country is devaluated, power to issue and sell securities, and power to grant and act as a guarantor of loans.

The voting power of the Bank was established wherein each country got 250 votes plus one vote for
each $100,000 par value stock they held. As the United States if the largest subscriber, it has therefore also the largest voting power.

The Bank has two ruling bodies, the Board of Governors and the Executive Directors. The Executive Directors have only such authority as granted them by the Board of Governors.

A member nation may withdraw from the Bank upon written notice but any liability incurred by it up to the time of withdrawal must be closed.

The Bank is capable of making or participating in three ways in allowing loans. They may make direct loans out of its own funds, or with funds raised in the money market or by guaranteeing in whole or in part loans made by private investors.

If direct loans are made they have at their command the twenty percent of callable subscriptions and may with consent of member nations grant loans in currency of that country.

The loan application upon receipt is checked and an investigating body is sent to observe the practicability of the project in mind. Economic conditions of the country are of prime concern in this investigation. Once a project is approved terms of the loans must be negotiated. This consists
of interest rates, period of the loan, and conditions of repayment to mention only a few.

An account is opened for the borrowing country and withdrawals may be made only upon proof of actual disbursements in the form of invoices, bills of lading, etc.

As collateral on these loans all the Bank requires is the guarantee of the member nation that payment will be made. The loan agreement also controls provisions as to the manner in which defaults will be handled.

The Bank in addition to making direct loans will act as guarantor on loans obtained from private sources.

As of October 21, 1949, the Bank had made loans in the amount of $744,145,000. These loans were well disbursed among countries in Latin America, Europe, and Asia. The loans to Latin American countries were to a large extent for the development of hydro-electric power as well as irrigation. Many projects at the present time are under consideration and when the necessary terms of negotiations are arranged these loans will be granted.

After a "stormy" first year, the financial condition of the Bank has improved until today they
are on an excellent basis. Bond issues of the Bank total $253,955,788 and enjoy as strong a position as most high-grade industrials.

The International Bank as most institutions of its type has come under a wave of criticism from many people. The main criticism was that because the International Bank was unable to tackle the problem the European Recovery Program was instituted. We have seen however that the purposes of the two are quite different and the ERP came into existence for immediate aid whereas the Bank looks at the long-run picture of things.

Although the International Bank was established as a political expedient it does serve a useful purpose. It enables countries to make loans at reasonable terms where otherwise such loans would be impossible. With the end of ERP in 1952 we will see more activity on the Bank's part.

Where the Bank is unable to assist financially they are doing all in their power to offer technical advice and assistance of various kinds. The Bank realizes that not only money but general assistance is necessary to bring a country out of their feeling of economic insecurity.

The Bank's true test of strength has yet
to come, but with confidence of its members and the investing public it will emerge successful in its undertakings. At the present time it is the only institution to which countries can look for needy held for reconstruction and development.
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