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President: Mr. George DAVIDSON (Canada).

Present:

The representatives of the following States: Brazil, Canada, Chile, China, Costa Rica, Finland, France, Greece, Indonesia, Mexico, Netherlands, Pakistan, Poland, Sudan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers from the following States: Albania, Argentina, Bulgaria, Czechoslovakia, Ireland, Israel, New Zealand, Philippines, Spain.

The representatives of the following specialized agencies: International Labour Organisation; International Bank for Reconstruction and Development; World Health Organization.

AGENDA ITEM 4

Reports of the International Bank for Reconstruction and Development and the International Finance Corporation (E/3059 and Add.1, E/3061 and Add.1) (concluded)

1. Mr. FLERE (Yugoslavia) notes with satisfaction that the lending operations of the International Bank for Reconstruction and Development had increased to a record level during the period under review, in accordance with the Council's desire that the Bank should expand its loans, particularly to the under-developed areas. It was also gratifying that in the past year a number of States had become members of the Bank, most of them States which had recently gained their independence.

2. The Council was primarily concerned with the Bank's role in financing the economic development of under-developed countries. The Bank was one of several basic channels for the transfer of capital to the under-developed areas. In view of the unsatisfactory volume of international financing as a whole, which was at present inadequate to meet the urgent requirements of the under-developed areas, the Bank's role took on added importance and its responsibilities were correspondingly heavier. However, the Bank was limited to certain types of projects and applied criteria and conditions governing the so-called bankable or commercial loans, including the requirement that they must be repaid in the currencies in which they were made, mostly in hard currencies.

3. In view of the fact that the under-developed countries were, in many cases, unable to satisfy the

conditions set by the Bank, other types of financing in the form of grants and loans on non-commercial terms were required. If such grants and loans were made available to the under-developed countries, the latter would be in a better position to satisfy the Bank's conditions governing loans. In that connexion, the Bank's lending operations would be further expanded, particularly with respect to the many countries still in the early stages of economic development, if an international agency such as the Special United Nations Fund for Economic Development (SUNFED) were established.

4. In the existing situation, characterized by a slackening of economic activity in many industrialized countries and by the serious drop in the export revenues of most of the under-developed countries, a further increase in the number of loans made by the Bank was particularly important. As a matter of policy, international financial institutions should strengthen their efforts during periods of recession. While it was true that, under its Articles of Agreement,^{1/} the Bank could not be considered an instrument of anti-cyclical policy, it would no doubt wish to do its utmost to meet the challenge presented by current world economic conditions.

5. Mr. LYCHOWSKI (Poland) observed that the activities of the International Monetary Fund and the Bank had been impeded because, since their inception, the two institutions had been considered a symbol of certain policies either defended or criticized by various member States on the basis of the positions which those States had taken during the "cold war" years. The time had come to consider their activities in a different light.

6. Comparing the achievements of the Fund and the Bank with the purposes for which they had been established, he pointed out that international monetary co-operation on a world-wide scale was still lacking. There were instead several regional "currency areas". While international trade had certainly grown during the years after the Second World War, the rate of growth in the highly industrialized countries had far outstripped that in the less developed areas. A multilateral system of payments in respect of current transactions had not been restored and the vast majority of countries maintained their exchange restrictions. Lastly, there was no international capital market. International investments depended upon the capital market of a single country and the development of productive facilities in the less developed countries lagged sadly behind the rate at which domestic investment in the highly industrialized countries had been made during the past ten years.

7. The Fund and the Bank could hardly be blamed for that state of affairs. World exports had increased from some \$60,000 million in 1948 to over \$100,000 million in 1956. The Fund, with only some \$2,400 million in

^{1/} United Nations, Treaty Series, vol. 2, 1947, No. 20 (b).

convertible currencies and about \$4,000 million in non-convertible currencies at its disposal, could scarcely have been expected to influence international monetary co-operation, facilitate the balanced growth of world trade, promote exchange stability and help to establish a multilateral, restriction-free, system of payments. In the absence of an international capital market that could serve as a source from which to replenish its funds, the Bank had had to conform itself to the conditions prevailing in the single national market which could serve that purpose. In the circumstances, the Fund and the Bank had understandably taken pride in the development of their activities during 1956 and 1957, as reflected in their reports (E/3060 and Add.1^{2/} and E/3059 and Add.1^{3/}).

8. In view of the formidable task with which the two agencies had been confronted after the Second World War, a task which had been made still more difficult by the troubled political situation in the post-war years, it was only natural that some of their policies were deemed unacceptable by a number of members. Poland was a case in point. It had withdrawn from the Fund and the Bank eight years previously because of its inability to obtain assistance for the development of its coal industry, which it had considered, with reason, to be beneficial not only to itself but to Europe as a whole. In view of the increasing shortage of energy with which Europe would be faced within the next twenty years, Poland believed that if credit policies in respect of its coal industry had been different ten years previously, that shortage might have been more easily remedied.

9. The Fund and the Bank were the only financial institutions of a universal character in a world moving towards increased compartmentalization. If existing temporary regional arrangements became permanent, all hope of a new world economic system would end. The current trend towards compartmentalization was detrimental to the solution of the two major problems confronting the world economy today: the balanced growth of the industrialized non-socialist countries, and of the less developed socialist countries, and the relationship between national economies belonging to the two different social systems existing in the world. While the past policies of the Fund and the Bank had often failed to reflect fully the purposes for which they had been established, those purposes remained unchanged. Poland was prepared to contribute to their future work as they still had a substantial role to play in the reintegration of the world economy.

10. Mr. CAMPABADAL (Costa Rica) observed that the Bank had referred in its report to "increasing economic activity in most member countries". While that was true for the period covered by the report, world economic conditions had, unfortunately, undergone a drastic change since then. Unless preventive

^{2/} International Monetary Fund, *Annual Report, 1957* (Washington, D.C.), transmitted to the Council by a note of the Secretary-General (E/3060); and "Summary of activities of the Fund from 1 May 1957 to 31 January 1958", transmitted to the Council by a note of the Secretary-General (E/3060/Add.1).

^{3/} International Bank for Reconstruction and Development, *Twelfth Annual Report, 1956-1957* (Washington, D.C.), transmitted to the Council by a note of the Secretary-General (E/3059); and "Supplement to the twelfth annual report: A summary of developments in the Bank from July 1, 1957, to January 31, 1958", transmitted to the Council by a note of the Secretary-General (E/3059/Add.1).

measures were adopted, new situations would soon arise which would decisively influence the Bank's lending operations. If that happened, the countries primarily affected would be those which produced raw materials and agricultural commodities. The downward trend in world market prices would, if it persisted, have a serious effect on their economy. The Bank should increase its assistance to the countries concerned in order to enable them at least to maintain their present standard of living. If it did so, it would achieve the purposes for which it had been established.

11. He expressed his delegation's appreciation of the assistance which Costa Rica had received from the Bank during the period covered by the report.

12. Mr. CARANICAS (Greece) noted with satisfaction that during the year under review the Bank's activities had increased substantially as regards both the volume of loans and the areas of interest. It was gratifying to see that a large part of the loans was used for the development of economically under-developed countries. The Bank was becoming increasingly sensitive to the general economic trends and requirements throughout the world and the recent increase in its membership was tangible proof of its high international standing.

13. Since the Bank was operating under strict constitutional limitations and with relatively small funds, its work could be usefully supplemented by other existing or proposed international agencies such as the international development association and it was encouraging that the Bank's President himself took that view. The experience it had acquired and in particular its knowledge of economic conditions in various countries should enable the Bank to offer guidance to other international institutions pursuing aims similar to its own. That would require a certain flexibility on its part and a readiness to adjust to new conditions in a world whose economy was becoming increasingly unified. The capital which the Bank handled consisted, in the final analysis, of savings derived from work, and it should not be forgotten that the greatest part of it came from the United States.

14. He associated himself with those representatives who had commended the Bank for the technical assistance it provided; lack of trained personnel was one of the main handicaps of under-developed countries. General survey missions, advisory missions, and loans of technicians should be multiplied as far as practicable. He agreed with the President of the Bank that the Special Fund should be of substantial help in remedying the lack of factual data and of technical skill in those countries.

15. Mr. SERRANO (Chile) said that the figures cited in the Bank's report showed that the Bank had extended many loans to under-developed countries; nevertheless, while the African quota showed a marked and merited increase, Latin America accounted for a smaller percentage of loans than in the preceding years, and had therefore not had its fair share of the increase in the Bank's volume of operations. Yet nowhere in the world was there a wider gap between the economic and the cultural level of the people than in Latin America; the great difference between the two was a serious social phenomenon, since it bred frustration and discontent.

16. The technical assistance offered by the Bank and

by the new Economic Development Institute merited warm approval. He welcomed Mr. Black's statement that the Bank was much more than a financial institution. That was as it should be. The Bank was the most important depository of economic knowledge concerning the under-developed countries and he was sure that it would rise to its great responsibilities. It had been able to extend its operations by raising two-thirds of its own funds through loans from non-governmental sources. It should not, however, for that reason, allow itself to be guided in its operations by purely commercial considerations. He agreed with the Netherlands and French representatives that the Bank should consider the possibility of other international institutions which would supplement its own work. He hoped that the Bank would collaborate closely with the Special Fund.

17. Turning to the first annual report of the International Finance Corporation (E/3061 and Add.1),^{4/} he remarked that in the first year of its existence, IFC had already done some practical work. While five of the six loans it had made had gone to Latin American countries, their total volume was quite small. He hoped that it would change its policy of limiting its loans to corporations wholly financed by private capital; in under-developed countries, where funds were scarce, many private firms were to some extent supported by government funds without being in any way government-controlled.

18. Mr. OMPI (Indonesia) expressed appreciation of the contribution which the Bank was making to the economic development of the less developed countries. It was particularly gratifying that over the past two years the Bank's lending in the Far East had more than doubled and that its advisory services in the area had increased correspondingly. He was also happy to note that the representative of the Bank considered that the establishment of the Special Fund would make the Bank's task an easier one.

19. Referring to the report of IFC, he said that it was encouraging to note that IFC had before it a considerable number of requests for assistance. He hoped that in making its investments IFC would pay due attention to the question of geographical distribution.

20. Private initiative was making an important contribution to the economic development of Indonesia. More and more Indonesians were engaging in international trade, banking, insurance, shipping, mining and industry, and the Government was doing everything possible to improve technical knowledge and managerial skills as well as financial facilities. He looked forward to the time when private enterprise in Indonesia would be assisted by the Corporation. He felt however that, unless certain of the conditions relating to eligibility for assistance from IFC were relaxed, private enterprises in countries such as his own would find it difficult to take advantage of the financial facilities offered. He referred particularly to the provision that IFC would invest only in companies whose assets, after financing, amounted to at least \$500,000 and the

^{4/} International Finance Corporation, *First Annual Report, 1956-1957* (Washington, D.C.), transmitted to the Council by a note of the Secretary-General (E/3061); and "Supplement to the First Annual Report, covering developments in the Corporation from 11 September 1957 to 28 February 1958", transmitted to the Council by a note of the Secretary-General (E/3061/Add.1).

somewhat stringent requirement that selected projects should be well-conceived, well-executed and well-managed. He hoped that IFC would not insist on a rigid adherence to those conditions.

21. Mr. PENTEADO (Brazil) said that, in the past, his delegation had criticized the Bank for adhering too closely to commercial standards and departing from the ideals of the Bretton Woods Conference. It therefore took a great pleasure in noting that the Bank's policy was now evolving in the right direction.

22. The reserves both of the Bank and of IFC were discouragingly, and indeed alarmingly, inadequate. Nevertheless, they were being put to the best possible use. He was pleased to note that there had been a rapid increase in the membership of IFC, and that the new organization had already begun to operate in a satisfactory manner. It was a matter of satisfaction that the first loan to Brazil was for the manufacture of much needed heavy electrical equipment. In extending loans, IFC should give priority to projects most likely to further a country's economic development. He was pleased that the Bank's volume of operations had increased and that a larger proportion of its loans had been to under-developed countries.

23. The inadequacy of the Bank's resources made it difficult to assess the advisability of certain types of assistance, such as loans intended to enable countries which had already attained a certain level of economic development to manufacture goods they at present imported. The problem was a complex one and should perhaps be considered in a larger context.

24. Mr. FARUQI (Pakistan) expressed appreciation of the assistance granted by the Bank to the city of Karachi and to communications and power projects in Pakistan.

25. By creating an atmosphere of confidence and laying down principles of sound financial policy, the Bank had played an important part in the promotion of the increased international investment of the past ten years, as in the progress which had occurred in the liquidation of international debts previously incurred and the expansion of world trade to a new high level.

26. The importance of the Bank's role in financing the development of under-developed areas could not be over-emphasized. The pace of economic development in those countries had been much slower than in the more developed countries and the export earnings of the industrial countries had been expanding much more rapidly than those of primary producing countries, against whom the terms of trade had turned. As a consequence, the amount which the latter could set aside for investment was very limited. The gross investment rate in some industrialized countries was four times as high as in the more favourably placed of the less-developed countries. For all those reasons, he was gratified to learn that the Bank had recognized the urgent needs of Asia by making generous development loans to it.

27. The development plans of most under-developed countries had reached a stage where the burden on available resources was increasing and, although most of those countries, including his own, had stepped up taxation, the additional funds which could be raised from that source were limited because of low per caput incomes. He expressed the hope that the Bank

would be able to assist the under-developed countries further by diverting a greater part of its resources to their development.

28. The continuing increase in the rates of interest on international loans to under-developed countries for development purposes was placing an intolerable burden on their economies, for their financial difficulties were not confined to the finding of foreign exchange; it was as difficult for them to raise the necessary financial resources in their own currencies. While the fact that the Bank had continued to maintain a high rate of lending when money was otherwise scarce was much appreciated, it was to be regretted that interest rates were so high. He hoped that the Bank would exercise a salutary influence in that respect.

29. The under-developed countries welcomed the establishment of IFC, which would fill a serious gap in their investment requirements. It was to be hoped that its resources and activities would be expanded so that it could become one of the most important institutions providing international finance for private enterprise. He had the impression that the terms on which IFC made its investments were somewhat rigid. Doubts had also been expressed as to whether it should participate in the profits of undertakings which it assisted. He hoped that it would keep its lending terms under constant review.

30. Mr. BLACK (President of the International Bank for Reconstruction and Development) said that the Bank would give careful consideration to the points raised during the debate.

31. He wished to assure the representative of Mexico, who had raised (1002nd meeting) the question of loans from the Bank to finance local currency expenditure in cases where the borrowing country could itself produce the capital equipment which it required at competitive prices, that the Bank would consider each case on its merits. It had, in fact, financed such local currency expenditure on several occasions.

32. The representative of the Netherlands had asked him (1002nd meeting) to comment on the resolution relating to the establishment of an international development association which had recently been introduced in the United States Senate. He thought that the suggestion deserved very careful study, since there were a number of countries which would be unable to maintain a reasonable rate of development unless they were able to obtain more capital than was likely to be available to them on a hard loan basis, and, in his view, international administration of development financing, if soundly organized and operated, had many advantages over bilateral programmes. But the establishment of any such agency to provide long-term loans at low interest rates would involve many complex problems

and was not likely to occur in the near future. Meanwhile it was of the utmost importance that national loan programmes should continue at their currently planned levels.

33. Replying to a further question by the representative of the Netherlands, he said that the increase in the volume of loans for agriculture and forestry did not reflect a new trend in the Bank's policy. Developments in those fields usually called for the expenditure of local rather than international currency. There was therefore no great demand for assistance from the Bank but its loans for the development of transport, communications and power projects indirectly benefited agriculture and forestry.

34. He assured the representatives of the Sudan and Chile that the Bank was well aware of the great opportunities for productive investment in Africa and Latin America. He was convinced that the volume of its loans to both areas would continue to grow.

35. Referring to the question of high interest rates which had been raised by the representative of Pakistan, he wished to assure the Council that the Bank was making every effort to keep its charges low and had in fact recently reduced them, but its rate was dependent on the rate it had to pay on its own borrowings.

36. Turning to the observations which had been made on the International Finance Corporation, he said that IFC was breaking new ground and that its policies were kept under constant review.

37. The representatives of the Netherlands and Indonesia had both suggested that it might be well to reconsider the decision to make investments only in companies whose assets, after financing, would equal at least \$500,000. That was not a rigid floor; IFC was in fact considering requests for assistance from somewhat smaller concerns. It would however be unfortunate if a global institution, such as IFC, were to scatter its resources too widely or become an investment institution for very small ventures, which could more appropriately be financed by local development corporations.

38. He agreed with the view expressed by the representative of the Sudan (1002nd meeting) that IFC should not concentrate its activities too much in any one region and that its rules and regulations should be flexible.

39. The PRESIDENT suggested that the Council should take note of the reports of the International Bank for Reconstruction and Development and the International Finance Corporation in the customary manner.

It was so agreed.

The meeting rose at 4.35 p.m.