

**THE WORLD BANK AND THE STERLING AREA**

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**Vice-President, International Bank for Reconstruction and Development**

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IN a period when severe limits have been placed on both public and private capital expenditure and Bank rate has stood at the highest level for a generation, special importance attaches to the contribution of every available source, whether old or new, of finance for development. In the eleven and a half years since it began operations, the International Bank for Reconstruction and Development (the World Bank) has been offered a significant part to play among the newer sources of finance, both in non-sterling countries and within the sterling area. It has so far lent a total, equivalent to approximately £1,250 million, in 46 countries and territories throughout the non-Soviet world, and lending during the past six months has risen to the record semi-annual rate of over £130 million. The Bank's lending has, moreover, provided reinforcements mainly in financing public utilities in the poorer countries—a field where traditional sources of funds have largely dried up, but where further investment is an indispensable condition of economic growth. Two-thirds of the Bank's lending has been for roads, railways, power and other basic services which, both in the last century and in this, have unlocked the door to rich, unused resources around the world.

The delegates of the Allied Nations who met at the Bretton Woods Conference in 1944 and who there laid the foundations of the Bank and the International Monetary Fund were convinced that one of the major problems of the post-war era would be a general lack of international liquidity leading to difficulty in restarting the flow of long-term capital across international frontiers. Certainly in the case of the traditional capital exporting countries of Europe this belief has been justified. While the value of world trade has risen to unexampled heights, even with the help of many new kinds of special transactions, the foreign exchange reserves available to meet the current and capital account transactions of these countries have, in general, lagged seriously behind. In these

circumstances, and in view of the strain imposed by the urgent need for domestic reconstruction and expansion, it is not surprising that the export of British capital outside—and even within—the sterling area and the Commonwealth has been severely curtailed. Other countries that are old-established sources of capital find themselves suffering from similar difficulty in sparing resources for investment abroad. There has been a corresponding increase in the need for the Bank to fill part of the gap.

For the sterling area the United Kingdom has remained the predominant source of capital, with London the undisputed financial hub of the system. In spite of the stringencies of recent years, the United Kingdom's exports of long-term capital to other countries in the area have been maintained at the very substantial rate of more than £150 million annually, accounting for nearly three-quarters of the total capital imports of those countries. But the World Bank has meanwhile been helping to supplement these resources and so to relieve part of the strain upon London by lending on an increasing scale in the area. By the end of 1957 the total committed—although so far only partly disbursed—in the area had risen to the equivalent of nearly £420 million, representing approximately one-third of all the loans made by the Bank; a total equivalent to £65 million has been lent in the last six months alone.

The largest sterling area borrower—and in fact the largest of all Bank borrowers—is India, where the total lent now amounts to £133 million. Next come Australia with £114 million, South Africa with £57 million and Pakistan with £40 million. Burma, Ceylon, Central Africa, East Africa, Iraq and Iceland have received smaller amounts. The lending in Central and East Africa, totalling £52 million, carries the British Government's guarantee; the remainder, being made in independent member countries of the Bank, carries the guarantee of the government concerned.

The Bank's loans are long-term, with a life



ranging from five to 25 years and with amortization payments spaced out in semi-annual instalments. Charges are geared to those of the world's capital markets, principally the New York market, and interest rates have varied from around 4 per cent. on some of the earlier loans to 5½ per cent. in the opening weeks of this year.

These loans have been one of the most important sources of outside finance available for investment in the overseas sterling area since the war. Additional sums have also been drawn from the United States and, in smaller amounts, from Canada, Germany and Switzerland. Reliance on outside resources such as these did not, of course, indicate that United Kingdom investors were being supplanted in their traditional fields. On the contrary, the postponements and the pruning-down required by the Capital Issues Committee made it clear that the limiting factor was the shortage of British savings available for investment abroad.

The Bank does not tie its loans to purchases in particular countries, and it can lend, according to the needs of its borrowers, any of the currencies used in international payments. In fact, in addition to United States and Canadian dollars, it has lent sterling, Australian pounds, South African pounds, and 15 other currencies. But, at the request of the borrowing countries, the greater part of the Bank's lending in the sterling area has been in United States dollars. These dollars have been mainly used for the import of essential American equipment and supplies that could only with difficulty be paid for out of existing dollar resources. Where, as in South Africa and East Africa, they have been used for imports from other sources (mainly from the United Kingdom) they have served the double purpose of meeting development needs in the borrowing country and of replenishing the sterling area's central reserves.

Since Bank loans have to be serviced in the currency lent, its lending has, of course, added appreciably to the future dollar obligations of the sterling area. Dollar service payments on these loans are at present running at between \$25 and \$30 million a year and will, of course, increase as disbursements grow. But it is reasonable to expect that the completion of projects financed by the Bank will yield a return in terms of increased economic strength and enlarged dollar resources that will amply cover these additional commitments.

### Expanding Productive Capacity

A few examples from the variety of sterling area projects supported by the Bank will serve to illustrate the contribution which these are making to the productive capacity of the borrowing countries and thereby to the foreign exchange potential of the area as a whole.

A loan of \$14 million for the Rhodesia Railways has provided a new route over which the copper, asbestos, tobacco and other exports of the land-locked Federation of Rhodesia and Nyasaland can reach the ocean. Since the completion in 1956 of the 200-mile South-east Connection, an increasing percentage of the foreign trade of the Federation has been passing through the Mozambique port of Lourenço Marques; the new line is now carrying half or more of some of the major export products and has relieved serious congestion at Beira, the main alternative outlet to world markets. The general efficiency of the network has also been increased by the purchase, with Bank assistance, of freight cars and diesel locomotives.

Large sums have also been lent for the railways in South Africa, which are playing a vital part in the expansion of mining and other exports as well as in the development of local industries. A total equivalent to \$100 million is being used to increase the fleet of steam locomotives, to introduce diesel traction, to buy new rolling-stock and to improve the permanent way.

Land clearance in India has increased grain output in a weed-infested district of Madhya Pradesh. With the help of ploughs and heavy tractors, financed by the Bank, deep cultivation began in 1950 to clear the land of a crop-strangling weed known as kans grass. Altogether, about one and a half million acres have now been deep-ploughed, and the additional output of wheat and other grain on the land so far treated has been estimated at about 200,000 tons a year. Although the tractors bought for this programme are now nearing the end of their useful life, clearance is still going forward at the rate of about 100,000 acres per year.

In Pakistan the Bank has lent \$58.2 million to help to adapt the railway networks both to the changed political pattern of the subcontinent and to the growing industrial activity. The first loan for this purpose, made in 1952, was mainly used for the import of diesel locomotives. Nearly one hundred of these are now in service in both East and West Pakistan; apart from their increased



speed and reliability, the new locomotives have a much higher fuel efficiency than those they replaced, with the result that Pakistan is saving the equivalent of approximately \$2 million annually in fuel imports for the railways. A further loan of \$31 million made in October last year will mainly be used for new goods wagons and for improvement of the track, most of which is no longer equal to the demands of today's heavy traffic.

The Bank's lending in Australia has paid for tractors and other agricultural equipment needed to increase farm productivity and to speed progress on important projects such as the reclamation of desert lands, the improvement of existing pasture and irrigation work such as that on the Goulburn River in New South Wales. It has also helped to improve road networks, and to pay for jet and piston-engine aircraft for QANTAS Empire Airways. The introduction, with Bank funds, of diesel locomotives on Australia's railways has brought remarkable reductions in operating costs on many important lines. On the Commonwealth Railway between Adelaide and Perth—on opposite sides of the continent and separated by the southern Australian desert—the percentage of the payload needed to carry fuel and water has been cut from about 30 per cent. to 8 per cent. The Bank's lending has also contributed machine tools and other equipment needed for industrial growth. Thus, one major locomotive manufacturer, formerly dependent on imports for about 80 per cent. of the components, now produces diesel locomotives that are almost entirely made in Australia. The large and growing market for motor cars is also being partly supplied by the first completely Australian-made car, produced in a plant on which work was only started in 1949 but which is now producing at the rate of 300 a day.

### **The Pattern of Lending**

These loans in the sterling area indicate the pattern of operations that has evolved since the Bank began to make loans. At the time of Bretton Woods there was a general belief that the resources available to it, together with other funds then in prospect, would be sufficient to cover the needs of the transition from war-time emergencies to normal peace-time production and trade. The Bank made a sizeable contribution toward solving some of the post-war reconstruction problems of Europe; within a little over a year of starting operations, it had lent \$497 million to prevent

breakdown in the supplies of food, fuel, raw materials and essential equipment in France, the Netherlands, Denmark and Luxembourg. But the scale of the reconstruction needs proved much greater than had been estimated and, after the enactment of the Marshall Plan by the United States Congress in 1948, the Bank felt free to devote itself exclusively to the longer-range task of stimulating new economic growth in its member countries.

Much the largest component in the Bank's lending for development is electric power; a total of \$869 million has been lent for this purpose—a third in Latin America and most of the remainder in Africa and Asia. Transport and communications have accounted for \$739 million, about half for railway improvement and the remainder chiefly for road construction and maintenance and for ports and inland waterways; the \$57 million lent for air transport has been almost entirely for long-distance passenger aircraft needed by the airlines of Australia and India. Agriculture and forestry have taken \$276 million, mainly for imports of farm machinery and for a number of large irrigation and flood-control projects. Loans made directly for industry and mining total \$439 million; these have financed major iron and steel investments in India and Japan, pulp and paper plants in Finland, Pakistan and Peru, fertilizer production in Iceland and Italy, and newly-established development banks in several countries. A total of \$205 million lent for all-round economic expansion has been principally for the development of Southern Italy, for the Ten-year Plan in the Belgian Congo, and for the Seven-year Plan in Iran.

The currencies in which a particular loan is to be disbursed are not normally determined in advance, but are decided upon as disbursements are actually made—which may not be until several years after a loan is granted. Of a total of \$2,415 million disbursed by the Bank up to September last year, more than three-quarters had in fact been in United States dollars. In the sterling area it is expected that, to meet the wishes and needs of individual borrowers, more than \$700 million out of the loan total equivalent to \$1,166 million will be disbursed in United States dollars.

The extensive use of dollars in the Bank's disbursements is in part a reflection of the post-war dollar shortage and of the urgent need of borrowers to increase their supply of that currency.



But it also reflects the readier access of the Bank to dollar sources of finance—particularly in the United States, where investible resources are larger than in any other country. The United States provided more than one-third of the Bank's subscribed capital; and four-fifths of the additional borrowings, although financed in large part by investors outside the United States, have been in United States dollars. Reflecting the increased demand for other currencies, however, there has in recent years been a marked increase in the Bank's non-dollar disbursements. In the fiscal year ending last June they amounted to the equivalent of \$165 million. This was almost as much as the total of United States dollar disbursements during that year, and contrasted sharply with the pattern in the Bank's earlier years, when practically the whole of the total disbursed consisted of dollars.

The ability of the Bank to lend in a variety of currencies has proved particularly valuable in situations where the borrower has been planning to make purchases in currencies other than dollars and where the assumption of additional dollar debt might have unduly strained repayment capacity. Disbursements in currencies other than United States dollars include approximately £35 million each in sterling and in Canadian dollars, and smaller sums in Netherlands guilders, Deutsche marks, French francs and other currencies. In addition, the equivalent of about £45 million has been disbursed in Swiss francs; the size of this sum reflects not only the general confidence of Swiss investors in Bank bonds but also the readiness with which the Swiss Government (although not a member of the Bank) has permitted Bank borrowing in Switzerland.

#### **Supplementing the Bank's Resources**

The main method whereby the Bank is adding to its resources to keep pace with the growth of these lending operations is by selling its bonds in the world's capital markets. The sums available from this source have increased continuously since it made its first bond issue ten and a half years ago. In 1957 alone, public issues totalled \$275 million, the largest annual figure yet reached, and by the end of the year the total of the Bank's bond issues and other borrowings outstanding had risen to the equivalent of \$1,270 million. The market for the Bank's bonds has expanded across the world. Bank bonds are now available in five currencies—

United States dollars, Canadian dollars, Netherlands guilders, Swiss francs and £9.6 million in sterling. Moreover, United States dollar bonds are extensively bought by investors in many countries. In fact, two issues of these bonds have in recent years been sold entirely outside the United States; the most recent of these, an amount of \$75 million issued in September 1956, was sold to investors in 22 countries.

Over the last 18 months the Bank has also tapped other sources of borrowed funds. In September 1956 the Swiss Government agreed to lend 200 million Swiss francs (about £16 million) to the Bank. Similar direct borrowings, totalling \$175 million, have recently been made from the central bank of Germany, thus helping to absorb part of the very large accumulation of foreign exchange in the hands of the Deutsche Bundesbank. These direct borrowings from official sources have been of relatively short life; the longest maturity was to 1965, whereas the Bank normally borrows at long term and at present has an average life of around 10 years on its total funded debt. But they illustrate another of the ways in which the Bank is fulfilling its purpose of providing a channel through which capital from many different sources can flow into foreign investment.

Meanwhile the Bank's resources have been enlarged by additional amounts made available from its subscribed capital. Of member countries' total subscriptions of \$9,333 million, 80 per cent. provides backing for the Bank's bond issues and may not be used in its lending. Only 2 per cent., amounting to \$184 million paid up by members in gold or United States dollars, is made available to the Bank without restriction. The remaining 18 per cent., totalling \$1,680 million, is paid up in each member country's own currency and may not be used for lending without its permission. In the early years, only the United States, later followed by Canada, made this part of its subscription freely available to the Bank. But the total made available by other countries has increased, at first slowly but in the last two years quite rapidly; releases have now been made by 34 countries, including not only those in the traditional capital exporting regions but also some in Latin America, Asia and Africa. In the fiscal year to June 1957 the additional amounts made available by such releases amounted to the equivalent of \$134 million, bringing the total released thus far to \$1,027 million.



The United Kingdom has made a notable contribution to substantial further progress that has been achieved in the last few months in making the Bank's capital available for lending. At the Annual Meeting in Washington last September, the United Kingdom announced that she would release a further £20 million of her 18 per cent. subscription for use under specified conditions within the Commonwealth countries of the sterling area. Together with a total of £63.6 million already made available, the new release, which is expected to be used within the next few years, frees the whole of the United Kingdom's 18 per cent. subscription (equivalent to \$234 million).

In addition to seeking ways of expanding the resources available for its own lending and thus increasing the total flow of capital across frontiers, the Bank is continually looking for ways in which it can encourage capital to flow abroad at its own risk. Such flow takes place, of course, whenever the Bank sells parts of its loans to other investors without its guarantee. The total of these sales is now running at more than \$50 million a year. In recent years the Bank has also found that, in some situations, a Bank loan can pave the way for borrowing in a foreign capital market by a member country. Instances of lending that served this purpose in 1957 are the railway loan in South Africa and the loan for Air India International; in both cases a credit was raised from commercial banks in New York simultaneously with the Bank's loan.

#### **Putting Loan Proceeds to Work**

The supplies required under Bank loans, like the funds with which they are sustained, are drawn from many countries. The Bank is precluded by its Articles of Agreement from "tying" the use of loan proceeds to individual member countries. In matters of procurement its main concern is that borrowers should receive good value for their money. This result can usually be best achieved if the borrower calls for international bids and thereby takes maximum advantage of competition between suppliers. The Bank therefore asks the borrowers to adopt this procedure in all cases where special factors, such as a desire to standardize equipment or to take advantage of other local circumstances, do not make it unsuitable. Apart from this general stipulation, the Bank leaves to the discretion of its borrowers all questions concerning the placing of orders.

Suppliers in 57 countries have now received orders under Bank loans. The extent to which the United Kingdom has won business in this keenly competitive field is indicated by the fact that, by June 1957, sums spent in the United Kingdom amounted to more than £80 million out of a cumulative total, for which relevant information was available, equivalent to £720 million. This has made the United Kingdom, after the United States, the largest supplier of equipment and services required by Bank borrowers. But the figures for the last fiscal year show the recent headway made by German exporters. Taking 1956-57 alone, German suppliers obtained nearly 19 per cent. of the business, compared with 44 per cent. for the United States and 11 per cent. for the United Kingdom.

As a result of the "shopping round" by borrowers through international bidding, the typical Bank project depends on a wide array of suppliers rather than on those of a single country. In the case of the Kariba Gorge project in Rhodesia, the consulting engineers are a group of one British and two French firms. The main construction contract was awarded on the basis of competitive bidding to an Italian group, most of the electrical equipment came from British suppliers, while other supplies are being provided from Italy, France, Germany and the United States. Orders for the expansion of the Tata Steel plant in India are being placed mainly with American, German, British and Japanese suppliers, with smaller amounts being spent in other countries. The natural gas pipeline from Sui to Karachi was built under supervision of the Burmah Oil Company using mainly British equipment but with contractor services provided by an American concern.

#### **Advisory Services**

It has been the Bank's experience that countries in the process of economic development usually require much more than the provision of capital. The outcome of investment enterprises is deeply coloured by the technical, social and political background against which they are carried out, and it is now generally recognized that improvements in this field, and in the detailed arrangements for a project, can play a vital part in ensuring success. For this reason, whenever the Bank makes a loan it stands ready to provide guidance to the borrower on the best way of carrying the project to fulfilment. But it goes farther in that it also offers to provide member countries



with advisory assistance, in fields in which it is qualified to do so, even where no lending operation is at stake.

Much of this advisory work—for which the Bank now budgets more than \$500,000 annually—has been concerned with answering calls to help governments in solving development problems in particular sectors. Thus it has collaborated in setting up an Institute of Scientific and Industrial Research to serve both government ventures and private industry in Ceylon, and has made available one of its senior staff members to serve as the first Director. It has given a staff member leave of absence to act as chief of a Technical Bureau in the Seven-year Plan Organization in Iran, and another as Economic Adviser to the Development Board in Iraq. It is collaborating with the Italian Government in a study of some of the economic and technical factors concerning a 150,000-kilowatt nuclear power station that the Government has decided to build in Southern Italy.

A number of member countries have asked the Bank to carry out a general survey of their economic potentialities and of the broad lines of policy that they should adopt in order to realize them more fully. In such cases the Bank gathers together a mission, consisting partly of Bank staff members and partly of outside experts, to conduct a first-hand study of the country concerned and to publish a report. These reports have been prepared on 15 countries, seven of them in the sterling area—British Guiana, Ceylon, Iraq, Jamaica, Jordan, Malaya and Nigeria.

A comparatively recent addition to the Bank's advisory work is the Economic Development Institute. The Institute was set up in Washington three years ago, with financial support from the Ford and Rockefeller Foundations, to provide a staff college to help in raising the standard of government economic management in the less developed countries. It pursues this objective through discussions and lectures on subjects directly connected with the problems of economic development, and through case studies of Bank-financed and other projects. The present six-month course is made up of 22 senior officials, 11 of whom come from countries in the sterling area—Burma, Ghana, Iraq, Malaya, Nigeria, Pakistan, the Sudan, Trinidad and Uganda. Initiated on an experimental basis, the Institute has recently been established as a permanent part of the Bank's activities.

### **The International Finance Corporation**

At quite an early stage in the Bank's history it became clear that there were certain types of useful project that fell somewhat outside its own sphere of activity and might better be handled by a new institution. In particular, the Bank's ability to finance young or comparatively small-scale ventures in industry was reduced by the fact that all Bank loans must receive a guarantee from the government of the country in which they are made and that they are all made at fixed interest rates. To help in filling this gap, the International Finance Corporation, an affiliate of the Bank, was set up in July 1956. Membership of the Corporation is open to any member government of the Bank and now numbers 53; subscribed capital amounts to \$93 million.

The Corporation, which is an investing rather than a lending institution, has so far made five commitments totalling the equivalent of slightly less than \$6 million but contributing to total investments of about \$34 million. Corporation funds have been committed for a German-owned electrical equipment concern operating in Brazil; a copper mining and smelting company owned by Latin-American and other interests in Chile; expansion of a lumber business and introduction of lumber impregnation in Australia; an engineering company in Mexico owned by Mexican and American stockholders; and an aircraft repair workshop set up in Mexico City by the Canadian affiliate of the Bristol Aeroplane Company. The Bristol investment provides a striking illustration of the way in which the Corporation can supply capital in dollars and also in other currencies at this time of acute capital shortage in the United Kingdom. The Corporation's investment of \$520,000 (half in United States dollars and half in Mexican pesos) helped the parent company to establish itself in a new dollar market in the face of extremely keen competition from other concerns.

The operations of the Corporation to date have carried interest at about 7 per cent. They have with one exception also included an option to acquire shares in the company, and the right to participate up to an agreed percentage in profits if these exceed a specified figure. Final maturities fall within a range of 9 to 15 years.

Although it is hoped that the International Finance Corporation will play a significant part in its own field, it is clear that neither it nor the Bank can provide more than a fraction of the



many-sided effort required to bring the benefits of modern production techniques and higher living standards within reach of the hungry and ill-clad masses that make up two-thirds of the world's population. In the last few years, with post-war shortages overcome and with increased awareness of the importance of economic factors in the rivalry between East and West, various suggestions have been put forward for new ways in which the flow of capital could be encouraged. Last year the scope of the United States' foreign aid programme was enlarged by the establishment, with an initial appropriation of \$300 million, of the Development Loan Fund. Within the last few weeks the setting up of a Special Fund, looking toward an increase in the amounts of grant aid from governments for technical assistance to underdeveloped regions, was unanimously recommended after extensive debate in the United Nations. Other proposals have been linked with smaller groupings of countries. These include the investment funds set up as part of the arrangements for the European Economic Community, and plans for funds to be provided by members of the proposed European Free Trade Area and by the four Scandinavian nations.

The Bank is, of course, in full sympathy with the broad objective of such initiatives. It is alive to the need, provided that adequate safeguards can be furnished against waste of scarce resources, to enlist the largest possible reserves of capital for the formidable tasks involved. For example, it believes that there are many purposes, such as the

improvement of health, sanitation, education and training services in less developed countries, for which additional grant funds from abroad could be used with marked effect both upon living standards and upon economic strength and borrowing capacity. Any contribution that the recent proposals could make to this end would be of great value. But the ability of the less developed countries to service loans repayable in foreign exchange is limited. Efforts to expand the amount of such borrowing, whether from new or existing institutions, must therefore always be so directed that they will have the effect of strengthening the borrower's service capacity.

#### **Maintaining the Momentum**

In view of recent changes in the economic climate, energetic action will clearly be required if the momentum of economic development, both in the overseas sterling area and in other less developed countries, is to be maintained. Such action includes, of course, all measures to increase productivity and the rate of investment in borrowing countries. It also includes, so as to open the gates to service payments on a larger volume of foreign investments, reduction by lending countries of barriers to imports. Recent steps in the direction of freer trade in various parts of the world—such as the present movement toward a European Free Trade Area—are therefore of great significance to the Bank in its present aim not only to maintain its recent scale of operations but to increase it substantially.



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