THE WORLD BANK, IDA AND IFC

POLICIES

AND

OPERATIONS

JUNE 1969

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The data in this edition reflect, in most cases, the situation as at December 31, 1968.

ORIGIN, NATURE AND FUNCTIONS

The World Bank Group consists of three international financial institutions, the World Bank itself (formally the International Bank for Reconstruction and Development) and two affiliates, the International Development Association and the International Finance Corporation. Each has its own special function, but all are devoted to the same general objective – the promotion of economic development. The World Bank, the senior institution of the three, makes loans to governments, or with a government guarantee, at conventional rates of interest for high-priority projects designed to increase the output of useful goods and services and to raise standards of living. By December 31, 1968, the Bank had 110 members and had lent a total of nearly $11,800 million[1] to 85 countries.

The International Development Association (IDA), with 102 members, finances the same general type of projects as the Bank, selected according to the same standards, but on terms which place a much lighter burden on the balance of payments of the borrowing country. Its assistance, in the main, has been confined to countries where per capita incomes are exceptionally low and which cannot meet all their external capital requirements on the basis of borrowing on conventional terms. At the end of December 1968, credits amounting to about $1,960 million[1] had been extended by IDA to 45 countries.

The International Finance Corporation (IFC) supplements the activities of the Bank by making and encouraging investments on commercial terms in productive private enterprises in developing member countries. By December 31, 1968, IFC had 90 members and had made net commitments totaling $289 million to private companies in 39 countries.

The formation of IFC in 1956 and of IDA in 1960 as affiliates of the Bank have been two major landmarks in the World Bank Group's development. Other important features have been the intensive and continuous efforts by the Bank to raise funds in the world's capital markets; the provision of technical assistance in a variety of forms to enable the developing countries to make more effective use of the resources at their disposal; action to coordinate external development assistance from various donor countries and multilateral organizations; and an increasing emphasis on economic and other studies to improve the knowledge, both inside the Group and outside, of factors relating to the development process.

In addition, and as part of its aim of encouraging and facilitating the flow of capital from the developed to the developing countries, the Bank sponsored the establishment of the International Centre for Settlement of Investment Disputes (ICSID). The Centre, which came into being in 1966, provides facilities for the settlement of international investment disputes between private investors and governments.

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[1]Net of cancellations, refundings and terminations.

THE WORLD BANK

Early in World War II the economic and financial experts of the Allied Nations began to consider what plans could be made to help meet the economic problems of the postwar period. They recognized that attention would have to be given not only to the immediate relief and physical reconstruction of economies disrupted by the war but also to "the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods which are the material foundations of the liberty and welfare of all peoples . . .". [2] Discussions were held on a variety of proposals that were intended to help realize these goals.

From deliberations on these plans, the outlines of two complementary financial institutions emerged. The first – to become the International Monetary Fund (IMF) – was to promote international currency stability by helping to finance temporary balance of payments deficits and by providing for the progressive elimination of exchange restrictions and the observance of accepted rules of international financial conduct. The second institution – to become the International Bank for Reconstruction and Development (World Bank) – was, as its name implies, to help finance the reconstruction and development of its member countries.

By the spring of 1944, after prolonged discussions between representatives of the United States and the United Kingdom and consultations with representatives of other countries, the proposals for these two organizations had reached an advanced stage. A United Nations Monetary and Financial Conference was accordingly convened. Following preliminary meetings at Atlantic City, the representatives of 44 nations assembled at Bretton Woods, New Hampshire, U.S.A., on July 1, 1944, and, three weeks later, completed final drafts of Articles of Agreement for the Fund and the Bank for submission to the participating governments.

The Articles of Agreement of the Bank were formally accepted by a majority of the participants by December 27, 1945; representatives of 29 governments had signed the Articles in Washington on that date. Six months later, on June 25, 1946, the Bank opened for business and proceeded to call up capital from its member governments. All the nations which participated in the Bretton Woods Conference except the Soviet Union eventually joined the Bank, although Cuba, Czechoslovakia and Poland subsequently ceased to be members.

The Bank's Underlying Purpose

The participants at Bretton Woods realized that at the end of the war there would be a pressing need for international capital to finance both the reconstruction of productive facilities destroyed by the war, principally in Western Europe, and an increase in productivity and living standards, especially in the underdeveloped areas of the world. The requirements were recognized as being so great, and the risks of such a nature, that private capital would be unable to fulfill them without some form of governmental guarantee. The Bretton Woods Conference felt that the problem could best be solved by the creation of a new type of international investment institution which would be authorized to make or guarantee loans for productive reconstruction and

[2] Article VII, Mutual Aid Agreement between the United States and Great Britain.

development projects, both with its own capital funds and through the mobilization of private capital, and which would be provided with a financial structure under which the risk of such investment would be shared by all member governments roughly in accordance with their economic strength. This is the solution which was embodied in the Bank's Articles of Agreement.

The Articles establish the Bank as an intergovernmental institution, corporate in form, all its capital stock being owned by its member governments. The Bank's authorized capital is now the equivalent of $24,000 million, of which the equivalent of approximately $22,990 million had been subscribed as of December 31, 1968.[3] Only one-tenth of this, however, is paid in. The remaining nine-tenths of the Bank's capital is not paid in, but may be called by the Bank if required to meet its obligations arising out of borrowings or guaranteeing loans.

This capital structure provides the Bank both with substantial loan resources from its own paid-in capital and with guarantees enabling it to borrow even more sizeable resources, mainly through the sale of Bank obligations to private investors. Capital markets are the largest single source of funds employed by the Bank to finance its lending operations. To December 31, 1968, the Bank had raised the equivalent of $7,230 million by the sale of bonds and notes to investors. Issues totaling $3,803 million were outstanding at that date, of which an estimated 58 per cent was held outside the United States; there were important holdings of the Bank's obligations in about 60 countries. By December 31, 1968, the Bank had also sold, or arranged to sell, to investors the equivalent of $2,173 million of its loans to borrowers, of which $700 million was outstanding.

As the records of the Bretton Woods deliberations indicate, the emphasis from the beginning was not so much on what the Bank could lend directly out of its paid-in capital as on the concept of the Bank as a safe bridge over which private capital could move into the international field. Indeed, it is one of the unique features of the Bank that, although it is an inter-governmental organization, it relies mainly upon private investors for its financial resources.

The provision of guarantees to international lenders was not new; in the early inter-war period, for example, several loans to European governments carried the guarantee of other European governments. The new feature written into the Bank's Articles was the sharing of the risk on an international basis, with each of the Bank's members responsible up to the amount of the unpaid balance of its capital subscription for the Bank's outstanding obligations. The amount of the risk thus guaranteed was limited by the requirement that the total outstanding amount of the loans made or guaranteed by the Bank was not to exceed the total of its unimpaired subscribed capital, reserves and surplus.

In drafting the provisions of the Articles of Agreement governing the use of the Bank's funds, the founders were acutely aware of the need to avoid the errors which had characterized much of the international lending of the past, and particularly of the inter-war period. Capital raised through sales of securities in foreign capital markets had frequently made little or no contribution

[3] Initially the authorized capital was $10,000 million. An account of subsequent increases in the Bank's capital, as well as a more detailed description of its capital structure, is given on pages 21–23.

to the productive capacity of the borrowers. Many of the loans had been made without reference to the ability of the borrowers to service new, or even existing, foreign debt. These lending practices undoubtedly contributed to the widespread defaults in the 1930s.

To avoid these errors, the Bank's Articles contain a number of protective provisions. The Bank's loans must be for high-priority productive purposes and, except in special circumstances, must be used to meet the foreign exchange requirements of specific projects of reconstruction or development. The borrower may be a member government, a political subdivision thereof, or a business enterprise in the territories of a member, but if the borrower is other than a government, the loan must be guaranteed by the member government in whose territory the project is located, or by its central bank or some comparable agency. (In practice, the Bank has always obtained a government, as distinct from a central bank, guarantee.) The Articles of Agreement enjoin the Bank to act "prudently" in making loans, paying "due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in a position to meet its obligations under the loan..." The Bank is also specifically required to make arrangements to ensure that the proceeds of each loan are used only for the purposes for which the loan was granted and to pay attention to economy and efficiency.

The Articles contain three other important provisions governing the Bank's operations. The first is that the Bank must be satisfied, before making any loan, that the borrower would be unable to obtain the loan from other sources on conditions reasonable for the borrower. Secondly, the Bank is prohibited from making "tied" loans; that is, it must not impose any conditions requiring the proceeds of its loans to be spent in any particular member country or countries. Thirdly, only economic considerations shall be relevant to the Bank's decisions; it must not be influenced by the political character of the member or members concerned. Nor must the Bank and its officers interfere in the political affairs of any member.

The Course of Bank Lending

The Articles require the Bank to give equitable consideration to development and reconstruction projects, but it was contemplated at Bretton Woods that the initial emphasis would necessarily be on the urgent problems of reconstruction. And, in fact, the first loans of the Bank, made in 1947 and totaling $497 million, were in the nature of emergency assistance to four Western European countries to prevent threatened interruptions in the flow of essential imports.

By 1947, however, it had become clear that the physical devastation, disruption of trade and industrial and governmental dislocations caused by the war were far greater than had been envisaged. The requirements for European recovery involved much more than the reconstruction or modernization of specific productive facilities; there was also urgent need for financial aid to continue imports of food, fuel and raw materials which, for the time being, could come only from the dollar area. Despite substantial credits from the United States and Canada, European resources of dollar exchange had fallen to dangerously low levels by the end of 1946.

When it made its reconstruction loans in 1947, therefore, the Bank recognized that, important as this financing was to fill urgent immediate needs, the long-term requirements for

European recovery were far too large to be met with the resources at its command and, in fact, were far greater than the amount which the countries of Western Europe could afford to borrow with any reasonable prospect of being able to repay. At that time, the Marshall Plan proposals which led to the European Recovery Program (ERP) were already under consideration by the United States Government.

When the ERP came into operation in 1948, the Bank turned its attention to its other major responsibility – the financing of development – and this has remained its chief preoccupation. A large proportion of the loans which the Bank has made since 1948 have been for basic services urgently required by the developing countries to facilitate development, such as power, roads and railways. While the bulk of its lending has continued to be for such requirements, increasing emphasis has been placed over the past few years on assistance to other sectors, particularly agriculture and education.

INTERNATIONAL FINANCE CORPORATION

The first affiliate to be added to the World Bank was the International Finance Corporation (IFC). It grew out of a realization in the early 1950s that there were gaps in the international financial structure in regard to private enterprise and private investment which the World Bank could not itself fill. The Bank's Articles require it to obtain a government guarantee for a loan to a private enterprise. But many governments are unwilling or unable to provide such a guarantee, and many businessmen are reluctant to accept one. In addition, the Bank makes fixed-interest loans; it is not authorized to subscribe to equity shares or provide other kinds of risk capital. The Bank can only meet the varied needs of a wide range of private enterprises indirectly, through the agency of local private development finance companies.

A suggestion that an international finance corporation might be formed which could extend loans to private enterprises without government guarantee, and undertake equity investments in participation with private investors, was made in 1951 in "Partners in Progress," a report by the United States International Development Advisory Board. In the summer of that same year the Economic and Social Council of the United Nations (ECOSOC) requested the Bank to investigate and report on the possibility of such an agency.

In response to this request, a Bank staff report was submitted to the Secretary General of the UN in April 1952. It stated that an international finance corporation could "fill an important gap in the existing machinery for financing economic development." In late 1954, support for an IFC was announced by various governments, and the General Assembly of the United Nations requested the Bank to draw up a charter. The following April, the Bank formally submitted a proposed charter for the consideration of its members. The Corporation came into being in July 1956 when the Articles of Agreement had been accepted by 31 governments representing a sufficient percentage of total capital subscriptions.

IFC's objective is to further economic development by encouraging the growth of productive private enterprise in developing member countries. It provides equity and loan capital for private

enterprises in association with private investors and management, encourages the development of local capital markets, and stimulates the international flow of private capital. In particular, it supports joint ventures which provide opportunities to combine domestic knowledge of market and other conditions with the technical and managerial experience available in the industrialized nations.

During the discussions leading up to the Corporation's formation, opinions were divided on the kind of institution needed to supplement the Bank's activities. As a result, although intended to be an investment institution and permitted to make loans with equity features, IFC came into existence without the power to invest in equities (see page 71). This prohibition hampered its initial years of operations and was removed by an amendment to its Articles in 1961. The scope of its operations was further enlarged in 1965 by amendments to its Articles and those of the Bank enabling the Bank to lend IFC, without the guarantee of member governments, up to four times the Corporation's unimpaired subscribed capital and surplus, or approximately $400 million at that time, for re-lending to private companies.

This second major change makes it possible for IFC to use its entire share capital and reserves, which totaled $147.5 million at December 31, 1968, for making equity investments. The two changes together have placed the Corporation in a position to quicken the pace of its activities considerably. The aggregate scale of its investments, their average size and diversity have all increased.

Market operations have played a vital part in the development of IFC. The growth in the Corporation's investments has been based to a large extent on its ability to turn over its funds through the sale to other investors of securities covered by investment, standby or underwriting commitments. By December 31, 1968 approximately $87.9 million of funds, over 30 per cent of IFC's total commitments, had been revolved in this way, thus becoming available to IFC for entering into new commitments. Through its security sales the Corporation has demonstrated the possibilities of opening up channels for portfolio investment in private industry in the developing countries.

The same objectives have been achieved by IFC's support of development finance companies. Like IFC, these finance companies have assisted the development of capital markets in the developing countries by the sale to other investors of securities from their own portfolio and by underwriting and standby activities.

Although legally and financially, IFC and the Bank are separate institutions, they are interlinked in various ways. Membership in the Bank is a prerequisite for membership in the Corporation. The President of the Bank is ex-officio Chairman of IFC's Board of Directors. Governors and Executive Directors of the Bank also serve ex-officio as Governors and Directors of IFC if the countries which they represent are members of both institutions. The Corporation has its own operating and legal staff, but draws upon the Bank for administrative and other services.

INTERNATIONAL DEVELOPMENT ASSOCIATION

In the late 1940s, there was already some discussion in the United Nations of the desirability of establishing an international agency which would finance development on terms exceptionally favorable to the less developed countries. This possibility was also touched on by the U.S. International Development Advisory Board in "Partners in Progress" in 1951. The idea became more topical during the 1950s, when the developing countries as a whole were rapidly adding to their external debt, in many cases by the acceptance of short-term, high-interest suppliers' credits. At the same time as the debt burden of the developing countries grew, their ability to make effective use of outside capital was tending to increase. The achievement of satisfactory rates of economic development, in many cases, began to require more external borrowing than could safely be provided by loans made on conventional financial terms.

The first formal proposal for the establishment of the International Development Association (IDA) took the form of a resolution introduced in the United States Senate in February 1958 by Senator Monroney of Oklahoma. In July 1958 the Senate adopted a resolution calling for the U.S. National Advisory Council on International Monetary and Financial Affairs (NAC) to study the feasibility of establishing an International Development Association to make multilateral development loans on terms more liberal than those then available. The resolution further proposed that IDA should be an affiliate of the World Bank. The NAC reported favorably on the proposal in August 1959.

At the Annual Meeting of the Board of Governors of the World Bank in October 1959 the Board of Governors adopted a resolution proposed by the U.S. Governor, Secretary of the Treasury Anderson, requesting the Bank's Executive Directors to formulate Articles of Agreement for IDA. In January 1960, Articles of Agreement were approved by the Executive Directors for submission to the member governments of the Bank. By September 1960, countries representing a sufficient percentage of total subscriptions had accepted the Agreement for it to come into force. IDA then had 15 members.

The need for an organization like IDA was further underlined after its creation by the emergence in the early 1960s of a large number of newly independent countries in Africa, many of which needed finance for development on concessionary terms. These states were not able to rely to the same extent as before on the financial support of the metropolitan powers with which they had been associated. Nor had they developed a credit standing of their own sufficient to enable them to borrow on the scale they required. Many newly independent states became members of IDA during the first years of its operations.

Development credits extended by IDA to date have been for a term of 50 years, with a 10-year initial grace period and no interest charge, only a service charge of 3/4 of 1 per cent. Because it is impracticable for IDA to raise funds from private investors, the Association relies primarily on the governments of its richer member countries for its resources. By December 31, 1968, the cumulative total of usable funds made available to IDA amounted to $2,024 million, the bulk of which was accounted for by the initial subscriptions of member countries and the first general replenishment of the Association's resources in 1964. The total included an aggregate of

$285 million transferred to IDA by the Bank, representing that amount of the Bank's net income for the fiscal years 1964-68, after provision for reserves, which might otherwise have been distributed as dividends.

Although its source of funds is different and the terms of its finance are easier, IDA follows generally the same principles as the Bank in administering its resources. The bulk have been extended for the development of power and transportation and for industrial production (mainly through credits to India for industrial imports), with a growing emphasis in recent years on agriculture and education.

Like IFC, IDA is legally and financially distinct from the Bank. Its Articles of Agreement, however, provide that countries must be members of the Bank to be eligible for membership in the Association. In addition, the President of the Bank serves ex-officio as IDA's President and as Chairman of its Board of Directors. Similarly, Governors and Executive Directors of the Bank are ex-officio Governors and Executive Directors of IDA if the countries which they represent are members of both institutions. The Bank and IDA also have the same staff.

RELATIONSHIP WITH OTHER INTERNATIONAL ORGANIZATIONS

Formal relationships between the Bank and the United Nations are governed by an agreement approved by the Bank's Board of Governors in September 1947, and by the United Nations General Assembly in November 1947. The Bank is a specialized agency within the meaning of Article 57 of the Charter of the United Nations. The agreement between the Bank and the United Nations recognizes that "by reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Bank is, and is required to function as, an independent international organization." The United Nations recognizes that "the action to be taken by the Bank on any loan is a matter to be determined by the independent exercise of the Bank's own judgment" and that "it would be sound policy (for the United Nations) to refrain from making recommendations to the Bank with respect to particular loans or with respect to terms or conditions of financing by the Bank." The Agreement contains provisions governing such matters as reciprocal representation, consultation and exchange of other than confidential information. It provides that no formal recommendation will be made by either organization to the other without reasonable prior consultation.

Agreements subsequently negotiated between the UN and the Bank's affiliates, IFC and IDA, are governed by the terms of the Bank/UN Agreement; to the extent practicable, the relations between the affiliates and the UN are conducted through the Bank.

For many years, the Bank and UN exchanged information and coordinated their technical assistance and other development activities through an informal Liaison Committee. By a provision of the relationship agreement between the UN and IDA, this Committee was given formal status in 1961 and the Bank agreed to participate in it. The Liaison Committee is composed of the Secretary General of the UN, the President of the Bank and IDA, and the Administrator of the UN Development Programme (UNDP), or their representatives. The Committee meets periodically for

informal consultations and an exchange of information on current programs and future plans in areas of common interest and concern. The Bank Group works closely with the UNDP. The President of the Bank is a member of the Inter-Agency Consultative Board of the UNDP, which advises the Administrator on the UNDP program; and the Bank has acted as Executing Agency for a number of pre-investment studies financed by the UNDP.

Bank Group representatives also attend and participate in meetings of various UN organs when matters of interest to the Group are under discussion, including meetings of the General Assembly, the UN Economic and Social Council (ECOSOC), the Governing Council of the UNDP, the UN Conference on Trade and Development (UNCTAD), the recently established UN Industrial Development Organisation (UNIDO), the regional economic commissions, and their subsidiary bodies. The President of the Bank is a member of the UN Administrative Committee on Coordination, composed of the Secretary General and the heads of all specialized agencies, and staff members participate in the work of subsidiary bodies of that Committee.

All three institutions in the World Bank Group have also established constructive relationships with other international organizations. The Group and the International Monetary Fund coordinate their activities where appropriate, and frequent consultation takes place between them.

Between the two institutions, the Bank is recognized as having primary responsibility for questions relating to the composition and appropriateness of development programs and project evaluation, including development priorities. The IMF is recognized as having primary responsibility for matters concerning exchange rates and restrictive systems, the adjustment of temporary balance of payments disequilibria, and the working out and evaluation of stabilization programs as a sound basis for economic advance. Between these two clear-cut areas of primary responsibility there is a broad range of matters of interest to both institutions, in connection with which efforts are made to avoid conflicting views and judgments through continuing close working relations.

Arrangements have been made by the Bank with the Food and Agriculture Organization of the United Nations (FAO) and with the UN Educational, Scientific and Cultural Organisation (Unesco) for cooperation in helping governments to identify and prepare projects in the fields of agriculture and education to the point where they can be considered for Bank or IDA financing. Ad hoc working relationships have been worked out with other UN specialized agencies such as the World Health Organisation (WHO) and the International Labour Office (ILO). The Bank works closely with the African Development Bank, the Asian Development Bank, the Inter-American Development Bank (IDB), the Alliance for Progress (CIAP), and other regional development organizations on matters of common interest. It maintains close contact with the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD).

LEGAL STATUS, PRIVILEGES AND IMMUNITIES

The Articles of Agreement of the Bank, IDA and IFC contain provisions which accord legal status and certain privileges and immunities [4] to the three institutions in the territories of each of their members. Each member government is required to take whatever action is necessary in its territories to make these provisions effective under its own law. The more important of these provisions of the Articles of Agreement may be summarized as follows:

a. LEGAL STATUS. The three institutions have full juridical personality with capacity to make contracts, to acquire and dispose of property, and to sue and be sued.

b. JUDICIAL PROCESS. Actions may be brought against any of the three institutions in the territories of any member in which it has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities, but no actions against it may be brought by its members or persons acting for or deriving claims from its members.

c. PRIVILEGES AND IMMUNITIES. The Governors and Executive Directors, their Alternates, and the officers and employees of the three institutions are immune from legal process for acts performed by them in their official capacity, except when the institution waived such immunity. Unless they are local nationals, they are to be accorded by each member government the same immunities from immigration restrictions, alien registration requirements and national service obligations, the same facilities as regards exchange restrictions and the same treatment in respect of traveling facilities, as are accorded to representatives, officials and employees of comparable rank of other member governments.

The archives of the three institutions are inviolable. Their assets are immune from seizure, attachment or execution prior to delivery of final judgment against them. Their official communications are to be accorded by each member the same treatment accorded to official communications of other members.

The three institutions, their assets, property, income and authorized operations and transactions are immune from all taxation and from all customs duties. They are also immune from liability for the collection or payment of any tax or duty. No tax may be levied on any security issued by any of the institutions which discriminates against that security solely because it is issued by the institution, nor may any such tax be levied if its sole jurisdictional basis is the place or currency in which the security is issued, made payable or paid, or the location of any office of the institution.

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[4] Although not a member of any of the institutions, Switzerland has entered into an agreement which recognizes the three institutions' international personality and legal capacity (including status in respect of suits by and against them) and grants privileges and immunities which correspond in large part to those which the Group enjoys in the territories of its members.

THE BANK AND IDA

MEMBERSHIP AND ORGANIZATION

MEMBERSHIP AND VOTING RIGHTS

Under the Articles of Agreement, only member countries of the International Monetary Fund may be considered for membership in the Bank. As of December 31, 1968, the Bank had 110 member countries and IDA 102. Membership in the Bank is a prerequisite for membership in IDA.

Subscriptions by member countries to the capital stock of the Bank are based on each member's quota in IMF, which is designed to reflect the country's relative economic strength. Voting rights are related to shareholdings. Each member of the Bank has 250 votes plus one additional vote for each $100,000 of capital stock subscribed by it. The Articles of Agreement provide that, with certain exceptions, all matters before the Bank are to be decided by a majority of votes cast.

This is also stipulated by the Articles of Agreement of IDA, in which voting rights are related to the amount of each country's initial subscription to the Association. Each member of IDA has 500 votes, plus one for each $5,000 of its initial subscription. The subscriptions and voting power of members in the two institutions are shown in Appendix A and B.

If a government ceases to be a member of IMF, its Bank membership is terminated automatically after three months unless Governors exercising three-fourths of the total voting power decide otherwise. A government may withdraw from the Bank or IDA at any time, or it may be suspended if it fails to fulfill any of its obligations to the respective organization. Suspension is by majority vote of Governors exercising a majority of the voting power in the organization concerned; after one year, suspension results in automatic termination of membership unless the member is reinstated by a similar vote. If a government belonging to IDA ceases to be a member of the Bank, or if its membership in the Bank is suspended, its membership in IDA is automatically terminated or suspended as well.

Of the Bank's original members, Poland withdrew in 1950; Czechoslovakia failed to pay its full subscription and was expelled from membership in 1954; and Cuba and the Dominican Republic withdrew in 1960. The Dominican Republic rejoined in 1961. Indonesia, which first joined the Bank in 1954, withdrew in 1965. It was readmitted to membership in April 1967.

Termination of membership in the Bank or IDA does not relieve a government of any direct or contingent obligations to the organization assumed before it ceased to be a member. Specifically in the case of the Bank, the former member remains liable for calls on the 90 per cent unpaid portion of its subscription, with respect to Bank loans or guarantees contracted before the membership ceased. Repurchase of the member's shares in the Bank, or repayment of amounts paid on its subscription in the case of IDA, is contingent upon satisfactory fulfillment of its direct financial obligations to the organization.

POLICY DIRECTION

All the financial institutions in the World Bank Group have essentially the same organizational structure for policy formulation and executive supervision, as specified in their respective Articles of Agreement.

Board of Governors

All powers in each institution are vested in a Board of Governors, which consists of one Governor appointed by each member country. Typically, a Governor is his country's Finance Minister, central bank Governor, or an official of comparable rank. Governors of the Bank whose countries are also members of IDA serve ex-officio as Governors of IDA as well. Each member has the right to designate an Alternate Governor.

While the Boards of Governors may delegate most of their authority, certain powers are specifically reserved to them by the Articles of Agreement. These are the powers to admit or suspend members; to increase or decrease the capital stock of the Bank, or, in the case of IDA, to authorize and fix the terms and conditions of additional subscriptions; to decide appeals resulting from interpretations of the Articles of Agreement given by the Executive Directors; to conclude formal cooperative arrangements with other international organizations; to suspend operations and distribute the organization's assets; to determine the distribution of Bank or IDA net income; and to approve proposed amendments to the Articles of Agreement.

Governments often apppoint the same individuals to serve on the Boards of Governors of both the Bank and IMF. The Bank Group Boards of Governors are required to hold an Annual Meeting, which by custom is held in conjunction with that of the IMF. The practice has developed of alternating two successive Annual Meetings in Washington with one in a member country away from headquarters, usually in September. Of the first 23 Annual Meetings, 15 were in Washington, the others in London (1948), Paris (1950), Mexico City (1952), Istanbul (1955), New Delhi (1958), Vienna (1961), Tokyo (1964), and Rio de Janeiro (1967). A majority of Governors exercising at least two-thirds of the total voting power constitutes a quorum. At each Annual Meeting, the Governors elect the Chairman and Vice-Chairmen for the Meeting of the following year. Between Annual Meetings, the Governors are polled by mail or cable on issues requiring their votes.

Executive Directors

Most of the authority of the Board of Governors for each institution in the World Bank Group has been delegated by the Governors to the Executive Directors (in the case of IFC called the Board of Directors). The President of the Bank serves as Chairman of the Executive Directors, but may vote only in the case of an equal division. The Articles of Agreement give the Directors responsibility for interpretation of the provisions of the Articles, subject to appeal to the Boards of Governors, and for "conduct of the general operations" of the institutions. Proposals for loans or other financing, major technical assistance operations, budgets, reports and recommendations to the Boards of Governors, and other matters involving policy issues are submitted to the Directors for their consideration and decision.

There are now 20 Executive Directors of the Bank. Each of the five largest shareholders (France, the Federal Republic of Germany, India, the United Kingdom and the United States) appoints a single Executive Director. The remaining 15 Executive Directors are elected for two-year terms by the Governors for other members, each Governor casting the number of votes to which his country is entitled. Each Director appoints his own Alternate. An Executive Director of the Bank serves ex-officio as a Director of IDA if the member country which appointed him or one or more of the member countries whose votes counted toward his election is also an IDA member.

A majority of Directors exercising not less than one-half of the total voting power constitutes a quorum. Each appointed Director casts the number of votes to which the country which appointed him is entitled, and each elected Director the total of the votes of the members whose votes counted toward his election, which he must cast as a unit.

Chairman and President

The combined effect of various provisions of the Articles of Agreement and current practice is to make the President of the Bank, who is selected by the Executive Directors, the Chairman of the Directors and President of all the institutions in the World Bank Group.

The only statutory requirement concerning eligibility for President of the Bank is that the President may not be a Governor, Director or Alternate. The duty of the President, officers and staff of the Bank and its affiliates, is solely to the respective organizations and not to any other authority. Each member country undertakes to respect the international character of this duty and to refrain from all attempts to influence any employee in discharging his official responsibilities.

Subject to the direction of the Executive Directors on questions of policy, the President is responsible for the conduct of the ordinary business of the Bank and for the organization, appointment and dismissal of its officers and staff.

Mr. Robert S. McNamara became the Bank's fifth President on April 1, 1968. The first four Presidents were: Mr. Eugene Meyer, June 18 to December 18, 1946; Mr. John McCloy, March 17, 1947 to June 30, 1949; Mr. Eugene R. Black, July 1, 1949 to December 31, 1962; and Mr. George D. Woods, January 1, 1963 to March 31, 1968.

ORGANIZATION

Since the Bank and IDA differ chiefly only in the source of their funds and the terms of their lending, the officers and staff of the Bank (with the exception of the New York Office) serve IDA as well. They also perform certain common services for IFC. IFC has its own operating staff, which in turn is responsible for various assigned functions for the entire Group. The Group seeks to recruit personnel on as wide a geographical basis as possible, but experience and professional qualifications are the controlling criteria for appointment. The total staff of the Group at March 1, 1969, amounted to about 1850 comprising nationals of over 73 countries.

The Bank has 23 departments, six of which have primary responsibility for Bank and IDA operations in major geographical areas, while the others are organized on functional lines. The Bank also has a New York Office and a European Office (Paris), permanent missions in Nairobi (Kenya) and Abidjan (Ivory Coast), and a resident staff in Indonesia.

Six of the Bank's functional departments – Administration, Information and Public Affairs, Secretary's, Treasurer's and Controller's Departments, and the Department of Programming and Budgeting – and the Bank's European and New York Offices also serve IFC.

President's Council

The President is assisted in his work as the directing head of the Bank and IDA by the members of the President's Council. Members of the Council are given responsibilities for the supervision of the operations of one or more Departments or offices, nominated to the chairmanship or membership of various committees, and assigned special functions on which they report directly to the President.

Loan Committee

All proposals for Bank or IDA lending and for major technical assistance are reviewed by the Loan Committee before submission to the President with recommendations for action. The Committee also determines standards and criteria for lending and technical assistance.

At the end of 1968, the Chairman of the Committee was the Vice-President having responsibility for the supervision of the operations of the Area Departments. Other members were: the Deputy Chairman, Loan Committee, the Vice-President assigned responsibility for supervising the work of the Projects, Treasurer's and Programming and Budgeting Departments, the General Counsel, the Directors of Area Departments, the Deputy Director and the Associate Director, Projects, the Treasurer, and the Directors of the Development Services and Economics Departments. The Directors of the Projects Departments, the Director of the Development Finance Companies Department, and the Directors of Departments of IFC rank as members and attend meetings of the Committee when a subject within their area of responsibility is to be discussed.

Operational Coordination under the Loan Committee

The staff member responsible at the working level for guiding and coordinating the work of the various departments of the Bank and IDA concerned with a lending operation or a technical assistance project is the Bank's Area Department loan officer, who has continuing responsibility for activities in the country concerned. For lending operations the departments involved normally include the Projects, Legal and Controller's Departments as well as the Area Department concerned. Other Bank departments, and departments of IFC, become involved as and when questions within their functional responsibilities are to be considered.

Economic Committee

The Economic Committee makes recommendations to the President on economic policy and on Bank and IDA economic operations and activities. It makes recommendations to the Loan Committee on economic questions arising from proposals for loans and credits. The Committee reviews all economic reports and studies undertaken by the Bank, both of individual countries and of broad problems affecting development. In addition to providing the basis for recommendations to the President and the Loan Committee, these reviews help to assure uniform treatment and standards in the economic work of the Bank.

The Economic Adviser to the President is Chairman of the Committee. Other members are the Director of the Economics Department; the Special Adviser to the President; the Director of the Economic Development Institute; the Chief Economist from each of the Area Departments; and the Economic Adviser to the Director, Projects.

Area Departments

Area Departments take the lead in operational relationships with member countries. These areas are: Eastern Africa; Western Africa; Europe, the Middle East and North Africa; East Asia and the Pacific; South Asia; and the Western Hemisphere.

Their functions include the planning, negotiation, administration and coordination of Bank and IDA lending operations, subject to appropriate guidance by the Loan Committee and the Economic Committee. In consultation with the Development Services Department, they have the same responsibilities with respect to technical assistance provided by the Bank. They are chiefly responsible for the effective operation of consortia and consultative groups organized by the Bank to coordinate assistance to countries in their areas, and for the Bank's participation in such groups formed under other auspices.

The Area Departments maintain current information on countries in their areas. They take primary responsibility for country economic studies and missions, the appraisal of development programs, the assessment of development policies, economic performance and creditworthiness of borrowers, and the identification of projects for possible Bank and IDA financing. They are responsible for negotiations with member countries on all operational questions, including such matters as the adoption of or adherence to policies considered important to development and to creditworthiness for Bank or IDA financing. They also assist or advise IFC, as required, in connection with its operations in their areas.

Projects Departments

Five of the Bank's seven Projects Departments are now operational: Agriculture, Education, Public Utilities, Transportation and Tourism. The other two exist in an embryonic state at the

moment. They are the Population Projects Department, conceived in response to Mr. McNamara's recent initiative to get the Bank actively into the population explosion problem, and the Special Projects Department, which is designed to handle projects that are very large or intersectorial or possess other characteristics requiring a special approach.

The Projects Departments are responsible for appraising, each in its own sector, projects submitted to the Bank for financing, and for exercising such supervision as the Bank deems appropriate over the construction and operation of those projects for which finance has been provided. Exceptions are the industrial and mining fields where the responsibility lies with IFC, and that of development finance companies for which the Bank department of that name is responsible.

The Projects Departments supervise sector and feasibility studies carried out by the Bank by way of technical assistance or as executing agency for the United Nations Development Programme (see pages 44–46), and advise and assist the Area Departments in the identification of projects and in the determination of priorities of projects within sectors.

They are responsible for the approval of consultants selected by borrowers for employment and projects, and help prepare terms of reference. They have the responsibility, in consultation with the Administration Department, for selecting consultants engaged by the Bank.

They also make recommendations on amounts and terms of finance to be provided by the Bank or IDA (so far as these rest on project considerations), and contractual arrangements to ensure the successful construction and operation of projects, and on methods of disbursement of finance. They ensure that the procurement of goods and services is in accordance with loan or credit agreements, and advise and assist borrowers to eliminate any delays.

In addition to those primary functions, they follow developments in their respective fields of economic activity, and prepare studies as required.

Development Finance Companies Department

This department provides information and advice to the Bank Group generally on all matters concerning development finance companies. More specifically, it makes recommendations to the appropriate Bank Area Department or Corporation Investment Department on the suitability, amount and conditions of proposed Bank loans to or Corporation investments in development finance companies, and participates in negotiations for these loans or investments.

The Department keeps in close touch with all development finance companies assisted by the Bank Group, so it may identify these companies' problems as they arise, help them with their senior management personnel requirements and with programs designed to improve their performance. It also reviews appraisals and approves, as necessary, projects submitted by development finance companies for financing under loans received from the Bank Group.

Economics Department

The Economics Department has the main responsibility for economic and statistical work in the Bank. Divisions within the Department carry out studies and make analyses of a wide range of economic problems relevant to the work of the Bank Group. Subjects for study include the fiscal policies of developing countries, project and sector research problems, quantitative techniques, comparative data, trade policies and export projections, the economics of industrialization and urbanization, and population. The Department collaborates with Area and Projects Departments, providing specialists for economic and appraisal missions and analyses of particular problems relevant to their needs. The Economics Department also furnishes statistical services as required by the various departments of the Bank Group and processes economic data for or jointly with other international institutions.

Economic Study Groups

Five economic study units have been established within the Bank which report, as does the Economics Department, to the Economic Adviser to the President. These units consist of the Special Studies unit, the Basic Research Center, the Creditworthiness Studies unit, the Development Finance Studies unit, and the Development Program Studies unit.

Development Services Department

The Development Services Department has three principal functions. It has primary responsibility for the coordination of technical assistance and for the formulation of policies and procedures for the administration of such assistance. It participates with other Departments in considering all proposals for technical assistance, including proposals for sector and feasibility studies and requests that the Bank serve as Executing Agency for a UNDP project. It also advises member governments on planning machinery and procedures.

On behalf of the Bank and IDA, the Department is responsible for the establishment and maintenance of formal relationships and informal working arrangements with other official international organizations, including the United Nations and the specialized agencies. It coordinates the Group's participation in meetings or conferences sponsored by other organizations. In association with other Departments as appropriate, it negotiates agreements for cooperative arrangements with other organizations, such as those with the Food and Agriculture Organization of the United Nations and the United Nations Educational, Scientific and Cultural Organization.

As assigned by the President, the Department conducts studies and proposes policies on questions of general concern to the Bank Group and other international organizations, except when the problems involved are primarily economic. For example, it is responsible for developing policies and procedures for the coordination of development assistance (see pages 52–56), and in cooperation with the Legal Department has been responsible for the Bank staff's study of the feasibility of establishing a multilateral investment insurance scheme. It is also responsible for developing Bank policy concerning treatment of members involved in disputes over defaults on external debt, expropriation and breach of contract.

Economic Development Institute

The Economic Development Institute is a staff college operated by the Bank for senior officials of developing countries who have responsibility for the formulation or execution of policies, programs or projects related to economic development. It conducts annually one general course on development and several courses on project preparation and evaluation (see also pages 47–49).

Secretary's Department

The Secretary's Department provides secretariat services for and maintains the records and proceedings of the Boards of Governors, Boards of Directors, and their committees. It processes all membership applications. In cooperation with IMF, the Department is responsible in the Bank Group for preparing for Annual Meetings. It provides secretariat services for each principal committee of the three organizations of the World Bank Group, as it also does for meetings of aid consortia and consultative groups organized by the Bank. It coordinates and edits operational reports to the Executive Directors, monthly operational summaries, mission schedules and various other reports.

Legal Department

The Legal Department advises the President, other Departments and offices, and, when appropriate, the Boards of Governors and Directors of the Bank and IDA on all legal questions. It prepares or reviews documents concerning corporate meetings and actions of the two organizations, and those relating to their legal rights or obligations, including loan and credit agreements and the issuance of securities. It furnishes or arranges for legal counsel to represent the Bank or IDA whenever necessary. From time to time, it undertakes studies of the legal aspects of problems with which the Bank Group is concerned, such as the international administration of river and watershed development projects. It provided necessary legal counsel and drafting assistance to the Executive Directors in preparing the IDA and IFC Articles of Agreement and the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States.

Administration Department

The Administration Department provides supporting administrative services for the entire World Bank Group. These include: the formulation of administrative policies and procedures, including a continuing review of the Bank Group's organization in terms of its effectiveness in achieving the Bank Group's objectives; the development and operation of a personnel program, including the recruitment and training of staff members; arrangements for all travel undertaken at the organizations' expense; the administration of retirement and insurance programs for the staff and the organizations; the maintenance and administration of files, records, communications and electronic data processing computer services; the provision of translation and interpretation services; the supervision of construction, maintenance and repair of buildings and facilities, including space allocation; the operation of a central print shop and the purchase of all supplies and equipment.

Programming and Budgeting Department

The principal responsibilities of the Programming and Budgeting Department are to prepare from time to time programs pertaining to the Bank Group's lending and borrowing operations, to activities supporting these operations and to its staffing needs; to monitor, analyze, and report periodically the progress of these programs; to review and revise these programs in the light of progress observed and of changes in the Bank Group's policies; to prepare the annual budgets of the institutions comprising the World Bank Group on the basis of the programs, and to institute and implement procedures for effective budgetary controls.

Treasurer's Department

The Treasurer's Department is responsible for fund raising, the investment of liquid funds, and receipt and payment of funds. It is divided into four Divisions: the Capital Markets Division which is responsible for collecting information about capital markets throughout the world in connection with the issuance of Bank bonds; an Investment Division which is responsible for recommending policies for the investment of the Bank's liquid funds; the Securities Division and the Cashier's Division.

Controller's Department

The Controller's Department has overall responsibility for accounting, loan disbursement, and administrative expenses, and is divided into three divisions dealing with each of these activities.

Information and Public Affairs Department

The Information and Public Affairs Department fosters knowledge of and stimulates interest in the international economic development effort and the Bank Group's role therein on the part of the general public, special interest groups, and other international organizations. In pursuit of this objective, the Department prepares and distributes news announcements, brochures, reports, speeches and other items on subjects relating to the Group's activities; maintains relations with information media, academic institutions, business organizations, public affairs groups and other bodies; organizes speaking programs and information conferences; and commissions, obtains and arranges for the outside use of films, photographs and radio tapes dealing with the Group's activities. The Department is also responsible for supervising the production and distribution of books published for the Bank Group, and for clearing for policy conformance all material relating to the Bank Group proposed for publication by staff members.

New York Office

The New York Office is responsible to the Treasurer and acts as liaison for the Bank and IFC with the investment community in North America and other financial centers, except for those in Europe.

European Office

The European Office, in Paris, provides continuing representation of the entire Group with European governments, central banks and other financial institutions, European headquarters or activities of other international organizations, and the European information media, academic

institutions and business community. As required, it represents one or more of the Bank Group institutions at meetings and conferences, and provides administrative and secretariat services. The Group also maintains an office in London for administrative purposes.

Permanent Missions in Africa

The Permanent Mission in Eastern Africa (Nairobi) under the general supervision of the Eastern Africa Department, and the Permanent Mission in Western Africa (Abidjan) under the general supervision of the Western Africa Department, are responsible for helping governments in their respective regions to identify and prepare projects for Bank financing in the agricultural, educational and transportation sectors.

FINANCIAL STRUCTURE

The Bank and IDA each has its own assets and each is financially distinct from the other. The Bank has three primary sources of funds: the paid-in capital of member governments, borrowings, and the net income from its operations. IDA's lending resources have been derived principally from budgetary allocations by its member governments; in addition, the Bank, from its own net income, has made transfers to IDA.

THE BANK

Capitalization

To September 1959, the authorized capital stock of the Bank was $10,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944. It was divided into 100,000 shares of the par value of $100,000 each.

Under the Articles of Agreement the capital subscription of each member is divided into three parts:

a. 2 per cent of each subscription is payable in gold or United States dollars, which may be used freely by the Bank in any of its operations.

b. 18 per cent of each subscription is payable in the currency of the subscribing members. These funds may be lent only with the consent of the member whose currency is lent. The Articles of Agreement require each member to maintain the value of the Bank's holdings of currency derived from this portion of the member's subscription, if the par value of its currency is reduced or if the foreign exchange value of its currency depreciates to a significant extent in the member's territories. From time to time, the Bank has received additional amounts of currency pursuant to this requirement. Similarly, if the par value of a member's currency is increased the Bank is required to return to the member the increase in the value of such currency held by the Bank.

c. The remaining 80 per cent of each subscription is not available to the Bank for lending but is subject to call if required by the Bank to meet its obligations on borrowings or on loans guaranteed by it. Payments on any such call may be made either in gold, US dollars, or the currency required to discharge the obligations of the Bank for which the call is made.

The uncalled capital under (c) constitutes assets which the Bank is bound to use when necessary; no call, however, has been made against this portion of subscribed capital. The obligations of the members to make payment on such calls are independent of each other; in other words, default of one or more members would not excuse any other member from its obligation to make payment. Calls need not be deferred until the obligation has actually matured but may be made sufficiently in advance of maturity to enable the Bank to meet the obligation as it becomes due. No member may be required to pay more than the unpaid balance of its capital subscription. On the other hand, as pointed out in the previous chapter, even withdrawal from membership does not relieve a government either from its direct obligations to the Bank or from its contingent liabilities

(including its obligations to make payments of calls on the unpaid portion of its subscription) for losses on loans or guarantees contracted by the Bank before the government concerned ceased to be a member.

Thus the uncalled portions of the subscriptions, while not available for lending by the Bank, constitute in effect a guarantee of the Bank's obligations by the Bank's members, with the members sharing proportionately in the risks of the Bank loans and each member putting its own credit behind Bank obligations to the extent of the uncalled portion of its own capital subscription.

The Capital Increase of 1959

In buying the Bank's bonds, investors attach great importance to the security provided by the Bank's ability to call on the unpaid subscriptions of the member countries. By the end of 1958 the outstanding funded debt of the Bank had risen to nearly $1,800 million, of which three-quarters was in the form of US dollar obligations, and it was felt that the Bank's future borrowing in the investment market would be facilitated by an increase in the uncalled portion of members' subscriptions.

Early in 1959 the Board of Governors decided to increase the authorized capital stock of the Bank from $10,000 million to $21,000 million, effective from September 15, 1959. Each member was given an opportunity to double its subscription compared to what it was on January 31, 1959. Since the purpose of the capital increase was to raise the Bank's guarantee resources, rather than to obtain cash funds from member governments for lending, one of the resolutions adopted by the Board of Governors provides that the 2 per cent and 18 per cent portions of this general increase of subscriptions are to be called only when required to meet obligations of the Bank arising out of its borrowings or guarantees. While this resolution is not legally binding on the Boards of Governors, it does record an understanding among members that these portions of subscriptions shall not be called for use by the Bank in its lending activities or for administrative purposes.

The doubling of member countries' subscriptions without an increase in the paid-in portion has meant in practice that 1 per cent of each member's total subscription to the Bank (rather than 2 per cent) has been payable in gold or US dollars, and 9 per cent (rather than 18 per cent) has been payable in the subscribing country's currency. In addition to the doubling operation, a number of countries, including Canada, Germany and Japan, were given an opportunity to make further special increases in their subscriptions. To preserve parity of treatment between members, the subscription of these special increases involved the payment by the member countries concerned of 1 per cent in gold or dollars and of 9 per cent in the currency of the member.

Similarly, when further countries have become members of the Bank since the 1959 capital increase, the statutory provisions affecting the 2 per cent and 18 per cent portions have been applied to only half of these countries' total subscriptions, so that 1 per cent of each subscription has been payable in gold or US dollars and 9 per cent in the currency of the subscribing member, the remaining 90 per cent standing in unpaid form as additional backing for the Bank's borrowings. The same treatment has been accorded to special increases in subscriptions which have been approved from time to time at the request of individual members.

By December 31, 1968, subscribed capital had risen to over $22,990 million, compared to over $9,500 million in December 1958, and the authorized capital had been increased to $24,000 million. The effect of this large increase in the Bank's subscribed capital was to reinforce the security offered to investors and therefore to enhance the Bank's borrowing power.

Funds for Lending

a. *Capital Subscriptions.* The portion of the subscription of all members which is payable in gold or US dollars, and which is freely available for lending, amounted to $230 million on December 31, 1968. On the same date, the member countries had paid in the equivalent of $2,069 million as their national currency subscriptions to the Bank's capital. As already mentioned, these national currencies are available for Bank lending only with the consent of the member country concerned. (The Bank may freely use these subscriptions to defray its administrative expenses in member countries, however; and the national currencies have in fact been used for this purpose.) As of December 31,1968, the total of national currencies that the Bank had been able to use in its lending, including amounts allocated to future disbursements, was $1,682 million. The remainder of the national currency subscriptions were still governed by restrictions of one kind or another which prevented the Bank from making use of them for lending.

b. *Sale of Bank Obligations.* The Bank has obtained a much larger proportion of its lending resources from borrowings. As of December 31, 1968, the Bank had sold its own obligations in an aggregate principal amount equivalent in various currencies to $7,230 million, of which the equivalent of approximately $3,803 million was then outstanding. A fuller description of the Bank's borrowing activities is given in a following chapter.

c. *Net Income.* The Bank's net income, which is derived mainly from interest, commitment charges, and commissions on loans, rose from $5.3 million in fiscal 1948 to $169 million in 1968. Most of these net earnings have been allocated to a Supplemental Reserve against Losses on Loans and Guarantees and may be used in Bank operations. As of December 31, 1968, the Supplemental Reserve and unallocated net income amounted to $1,047 million.

d. *Portfolio Sales and Principal Repayments.* As of December 31, 1968, the total amount raised through sales to investors of parts of Bank loans aggregated the equivalent of $2,173 million,[1] of which $69 million was with the Bank's guarantee (see pages 63–64). The volume of such sales has diminished rapidly in recent years; from a high of $319 million in the fiscal year 1961/62 to $107 million in fiscal year 1967/68. The decrease has resulted mainly from the general scarcity of capital and the fact that the Bank could not offer yields on portfolio sales as attractive as those available on other investments. Total principal repayments of loans, including prepayments, amounted at December 31,1968, to $1,639 million to the Bank (and $1,473 million to investors who had purchased parts of Bank loans).

[1]Including over $5 million of loans which were not then effective.

Resources Behind Bank Obligations

As required by the Articles of Agreement, the Bank has created a special Reserve Fund, invested in liquid assets, which may be used only to meet the Bank's own obligations arising out of borrowings or guarantees. Under the Articles, during the first ten years of the Bank's operations a commission of not less than 1 per cent and not more than 1-1/2 per cent per annum had to be charged on the outstanding portion of all loans made by the Bank out of borrowed funds and on all loans guaranteed by the Bank. The commission was in fact fixed at 1 per cent and all commissions received were set aside in the Special Reserve. Since July 1, 1964, when the Special Reserve had reached $288 million, all loan charges, including the 1 per cent previously segregated as commission, have been considered as part of the Bank's regular income.[2] As of December 31, 1968, the Special Reserve stood at over $291 million.

The Articles of Agreement, as noted above, restrict the amount of loans and guarantees by the Bank to 100 per cent of its unimpaired subscribed capital, reserves and surplus. In fact, however, the Bank's outstanding loan commitments are far from this maximum and are not likely to approach it in the foreseeable future.

The following table summarizes the resources behind the Bank's obligations:

Resources Behind Bank Obligations
as of December 31, 1968

(in US dollar equivalents)

Uncalled capital subscriptions	$20,692,530,000
Disbursed loans outstanding held by Bank	5,434,653,000
Investments (including time deposits)	1,220,179,000
Receivable on account of subscribed capital	382,911,000
Special Reserve	291,274,000
Due from banks and other depositories	114,057,000
Miscellaneous assets	161,108,000
	$28,296,712,000
Less Miscellaneous liabilities	195,667,000
Total Resources	$28,101,045,000

IDA

By its Articles of Agreement, IDA in a legal sense is "an entity separate and distinct from the Bank." At the same time, its particular function is to provide finance "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of (the Bank) and supplementing its activities."

[2] A minor exception was made for legal reasons in the case of a few old loans with outstanding amounts totaling $87 million. The commission charge on late maturities of these loans subsequently raised the Special Reserve to $291 million on December 31, 1968.

IDA's primary lending resources have been the subscriptions and supplementary contributions of member countries, chiefly its 18 wealthiest. The World Bank has made grants to IDA out of its net income; in addition, the Association has a small flow of net income of its own. In 1967, IDA negotiated an interest-free loan from Switzerland, its first borrowing and the first financing it had received from any non-member.

Subscriptions

The Articles of Agreement provided for initial subscriptions by all members of the Bank at December 31, 1959, since all were eligible for membership in IDA. They were based on a total of $1,000 million, with each member's subscription proportioned to its subscription to the capital stock of the Bank. In general, the same formula has been applied as new members have been added.

In accordance with the Articles of Agreement, members of the Association are divided into two groups: Part I countries, consisting of the countries which are more advanced economically; and Part II countries, comprising the less developed nations. The two groups make their payments on subscriptions in different ways. The entire subscriptions of Part I countries are in convertible form and are usable by the Association for development credits, while only 10 per cent of the subscription of Part II countries are in convertible funds. The remainder is paid in the member's own currency and may not be used by IDA without the member's consent.

Seventeen of the Bank's more highly industrialized members were named in the Articles of Agreement as eligible for original Part I membership. Fifteen of these had joined as original members by the end of IDA's first fiscal year, June 30, 1961, and Belgium and Luxembourg joined in 1964. Kuwait also became a Part I member when it joined all three World Bank institutions in 1962.

The initial subscriptions of Part I members, all of which have been paid in, aggregate $751,345,000, or slightly more than 74 per cent of the total. As of December 31, 1968, initial subscriptions of the 84 Part II members represented a quarter of the total and aggregated $261,157,000. Of this amount, $26,115,700, or 10 per cent, has been paid in convertible form. In addition, as of the end of December 1968, nine Part II members (Iceland, India, Ireland, Israel, Jordan, Mexico, Panama, Spain and Yugoslavia) had released all or part of the remaining 90 per cent portions of their subscriptions, totaling over $15.1 million, for use by the Association under various terms and conditions.[3] Thus, the total of usable resources available from initial subscriptions by December 31, 1968, was $792,563,000. The Association held another $219,939,000 in currencies and notes not yet available for use, representing the unreleased balance of the 90 per cent portions of the subscriptions of Part II members.[4]

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[3]Some of these funds are available only for use in the member country, some are to be made freely convertible over a period of years.

[4]Compensating payments by the Association or the member are required, as appropriate, to maintain the initial value of these currencies, so long as they shall not have been initially disbursed or exchanged for the currency of another member. This applies also to the currencies of Part I members.

Replenishment of Resources

Under the Articles of Agreement, the Association was directed to review the adequacy of its resources in the light of the schedule of payments on initial subscriptions, which were to be completed over a period of five years, and approximately each five years thereafter, and to authorize a general increase in subscriptions if thought desirable. The Articles also authorize the receipt of supplementary resources from any member, on terms and conditions to be agreed upon.

The Executive Directors reviewed the adequacy of IDA's resources in 1963, and recommended that they be replenished. It was agreed that replenishment should take the form of supplemental contributions rather than a general increase in subscriptions which would involve adjustments in voting rights and other complications.

In June 1964 a first replenishment of the Association's resources was approved by the Board of Governors: IDA was authorized to receive supplementary contributions aggregating $741,375,000, including contributions agreed to by Belgium and Luxembourg, which became members in July and June, 1964, respectively. Initial subscriptions of these two countries increased the replenishment to $750 million, for commitments for the period up to at least June 30, 1966. In addition, Kuwait decided to participate by making a contribution equal to its initial subscription of $3.36 million, raising the total replenishment to $753.36 million. As in the case of initial subscriptions, all contributions were agreed upon with the individual members. Each was made payable in freely convertible currencies in three equal installments, the last of which was payable on or before November 8, 1967.

The practical effect of these arrangements was to increase the pace of IDA's operations. Commitments based on initial subscriptions from member countries, had they been spread evenly over the initial five years of IDA's operations, would have averaged around $150 million a year; the 1964 replenishment was intended to enable the Association to lend around $250 million a year.

In March 1968, the Executive Directors recommended and transmitted to member governments for approval a proposal for a second general replenishment of IDA's resources at the rate of $400 million annually for three years, with the first payment by the contributing countries scheduled for November 8, 1968.[5] Under the terms of the proposal, the 18 Part I member countries of IDA would make contributions equivalent to $1,170.5 million in the amounts shown below:

Country	(US dollars)	Country	(US dollars)
Australia	24,000,000	Japan	66,480,000
Austria	8,160,000	Kuwait	5,400,000
Belgium	20,400,000	Luxembourg	600,000
Canada	67,200,000	Netherlands	26,520,000
Denmark	12,120,000	Norway	10,680,000
Finland	3,720,000	South Africa	3,000,000
France	97,200,000	Sweden	24,120,000
Germany	117,000,000	United Kingdom	155,520,000
Italy	48,360,000	United States	480,000,000

[5]In view of delays in bringing the second replenishment into effect, the date for this first payment has several times been deferred. It is presently set for June 30, 1969.

Also, five of these countries – Canada, Denmark, Finland, the Netherlands and Sweden – proposed to make available the equivalent of $17,520,000 in supplementary contributions to IDA during the same period and on the same payment terms. In addition, the Swiss Confederation, not a member of IDA, made IDA a 50-year interest-free loan equivalent to approximately $12 million payable in three equal installments on July 1 of the three years 1968, 1969 and 1970.

The combined total from the above sources would enable IDA to make new lending commitments of $1,200 million up to June 30, 1970 or as soon thereafter as feasible.

The replenishment proposal was based upon a continuation of IDA's policy of requiring full international competition for procurement of goods and services financed by IDA. However, in view of the serious balance of payments problems of the United States, the proposal provided that, during the three years ending June 30, 1971 and for as long thereafter as permitted by the state of its resources, IDA would call upon the US contribution to meet disbursements on new credits only for the amount needed to finance procurement in the United States. Thus, during that period, payments under the second replenishment would have no adverse effect on the US balance of payments. Amounts deferred, however, would be subject to subsequent call, thus permitting the entire amount of the replenishment to be committed.

As a necessary corollary to this deferment arrangement for the United States, a number of other participating countries agreed to permit a compensating acceleration of IDA's drawings upon their contributions in order to meet its disbursement requirements.

For this proposed replenishment agreement to come into force, a minimum of 12 nations must have formally notified IDA by June 30, 1969[6] (or such date as the Executive Directors of IDA may specify) that they will contribute at least $950 million of the total proposed amount of $1,200 million. This means that the agreement cannot come into being unless the United States Government, through its legislative process, agrees to make its contribution of $480 million. Therefore, without the US contribution, the other nations would not be required to make their pledge contributions effective.

At the present time, 11 of the necessary 12 countries, pledging a total of $472 million, have notified IDA that they have taken all necessary steps to fulfill their part of the agreement.

The IDA replenishment legislation did not pass at the second session of the 90th Congress of the United States in 1968. However, on March 12, 1969, the US House of Representatives passed a bill authorizing US participation in the Second Replenishment.

Advance Contributions

Delays in negotiating and bringing the Second Replenishment into effect and the reduction in funds available for commitment caused a marked diminution in IDA's lending activities in the fiscal year ended June 30, 1968 and the first half of fiscal 1969.

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[6]The original intended deadline, June 30, 1968, has four times been extended.

After the U.S. Congress failed to act on the IDA replenishment in 1968, 12 other countries [7] party to the second IDA replenishment proposal took steps to make advance contributions against their pledges before the replenishment comes into effect. Of these 12 countries, Canada and Australia have made their whole contributions of $75 million and $24 million, respectively, available for immediate commitment, while the remaining ten countries are making available the first installment (one-third) of their total contribution. When all these countries have completed the necessary legislative steps, some $245 million will be available for commitment by IDA. It is expected that such legislative action will have been completed during the spring of 1969. Another donor country also is considering similar action.

Special Supplementary Contributions

In addition to the special supplementary contributions proposed under the terms of the proposal for a second general replenishment of IDA's resources submitted to governments in March 1968, three countries have announced supplementary contributions to IDA. Sweden had through 1968 made six special supplementary contributions to IDA totaling the equivalent of $28.14 million. A further $21.36 million in additional special supplementary contributions is to be made available to IDA by Sweden during the three years ending June 30, 1971. Also, Norway is to make a special supplementary contribution to IDA totaling $1.32 million in three installments, the last of which will be made in calendar 1970. Furthermore, Denmark is to make a special supplementary contribution to the Second Replenishment of IDA in the total amount of $15 million in three equal installments during each of the three fiscal years beginning April 1, 1969, April 1, 1970 and April 1, 1971. A full statement of subscriptions and contributions to IDA is given in Appendix B.

Transfers from the Bank

Through 1968, the Bank had made five grants to IDA out of its net income, totaling $285 million: $50 million from income earned in the fiscal year 1963/64, $75 million out of income for each of the following two years, $10 million from its 1966/67 fiscal year income and $75 million from income earned in the fiscal year 1967/68. When the first transfer to IDA was approved in 1964, the Board of Governors adopted the following statement of policy which remains in effect today: "Any transfers to the Association will be made only out of net income which (i) accrued during the fiscal year in respect of which the transfer is made and (ii) is not needed for allocation to reserves or otherwise required to be retained in the Bank's business and, accordingly, could prudently be distributed as dividends."

Net Income

IDA's operating income has been derived from the service charge of three-quarters of one per cent on the disbursed portion of credits, and from interest on invested funds. Through December 31, 1968, cumulative net income totaled $26.2 million.

The Articles of Agreement made the Board of Governors responsible for determining the disposition of net income, "having due regard to provision for reserves and contingencies." So far,

[7] Australia, Austria, Belgium, Canada, Denmark, Finland, Germany, Italy, Netherlands, Norway, Sweden, and the United Kingdom.

no separate reserve has been established. The first amortization payments on IDA's development credits are not due until 1971, while repayments on the Swiss loan will not begin until 1979.

Borrowings

Under the Articles of Agreement, IDA is authorized to borrow funds and to issue and guarantee securities. In June 1967, the Association entered into an agreement with the Swiss Confederation, subject to parliamentary ratification which was enacted in December 1967, whereby the Confederation will lend SWF 52 million (approximately US$12.1 million) to the Association. Under the agreement the loan will be made on the same terms as those on which IDA itself extends credits for projects: the loan will carry no interest and will be repayable in forty annual installments beginning July 1, 1979. The proceeds will be made available to IDA in three equal installments on July 1 of the years 1968, 1969 and 1970, and are to be freely convertible and usable in any member country and Switzerland.

Usable Funds Available to IDA
As of December 31, 1968
(in millions of US dollar equivalents)

Subscriptions		
Part I Countries (100% of subscriptions)	$751	
Part II Countries (10% of subscriptions)	26	
Part II Countries (90% portion of subscriptions released)	15	$ 792
Supplementary Resources[1]		908
Loan from Swiss Confederation		12
World Bank Transfers		285
Accumulated Net Income		26
Total		$2,024[2]

[1]Includes the first replenishment of $745 million; special supplementary contributions of $49.5 million by Sweden; advance contributions to the Second Replenishment of $75 million by Canada and of $39 million by Germany.

[2]Difference due to rounding.

OPERATING POLICIES AND PROCEDURES

In most major respects the operating policies of the Bank and IDA are identical. Both institutions lend only for projects or programs which are of high priority for the borrowing country's economic development, which are economically and technically sound, and which have satisfactory prospects of being carried out and operated successfully. The two institutions apply the same methods and standards in determining for what purposes loans or credits should be extended and in deciding what conditions need to be established to assure that these purposes will be achieved. In addition, the Bank and IDA try to help borrowing countries to improve their economic management and to increase the productivity of their resources. This objective is sought through analysis of the long-term development problems of a country and its development strategy and evaluation of the policies being followed and planned.

The fundamental difference in the operating policies of the two institutions is in the terms of their financing. The Bank lends at long term and at more or less conventional rates of interest; IDA lends at still longer term, and levies no interest charge as such. IDA's Articles state that one of the purposes of the Association is to provide finance "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans," thereby supplementing the Bank's activities. IDA was set up, as was noted in Section 1, specifically to assist countries whose balance of payments prospects do not justify the borrowing on conventional terms of as much capital as they can effectively use. Such countries, however, are not regarded as eligible for IDA assistance if their lack of repayment capacity is attributable to their own mismanagement of their economies.

Creditworthiness

In making a loan the Bank is obliged under its Articles of Agreement to pay "due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in a position to meet its obligations under the loan". The Articles further enjoin the Bank to act "prudently" in the interests both of the borrowing country and of the members as a whole. Even apart from this provision of the Articles, it would be implicit in the concept of the Bank as a continuing institution, designed to operate on a sound business basis and with funds borrowed in the private market, that it should make loans only where there are reasonable prospects of repayment.

Service payments on Bank loans, as on IDA credits, are in foreign exchange, not in local currency. The Bank is therefore concerned with the ability of the borrowing country to make foreign exchange available for service payments. Before a loan is provided an appraisal is made of whether the amount contemplated is within the limits which the prospective borrowing country can reasonably be expected to service, taking account not only of its existing and prospective debts to the Bank but to all sources of external finance.

The structure of a country's existing and prospective external debt, as well as its absolute level, is a major element in a creditworthiness assessment. The outstanding external indebtedness of the developing countries has risen rapidly during the past few years, to the point where some

countries are now devoting 20 per cent or more of their foreign exchange earnings from exports to the servicing of their debts. In some instances serious problems are being created by the peaking of debt service obligations in a short period and by excessive borrowing on short term. When an otherwise creditworthy country confronts an exceptionally heavy debt service burden over a particular period, the Bank may adjust its own terms by granting longer than usual periods of grace or of amortization on its loans.

A country which has not the repayment capacity to borrow all the capital it could effectively use on conventional, or Bank, terms may nevertheless have good prospects for economic growth if its domestic savings can be supplemented by foreign funds. Such a country is eligible for IDA credits provided its economic performance is satisfactory. However, IDA credits are not confined to countries which have completely exhausted their creditworthiness for conventional loans. In some countries creditworthy by Bank standards, the external capital required to achieve an adequate rate of investment is so large, or the period that the country must be a net importer of capital is so long, that the debt service burden would quickly reach a critical level if the whole of this capital was borrowed on conventional terms. In the circumstances it may be justifiable for IDA or other sources of "soft" funds to provide assistance even while some creditworthiness for conventional borrowing still remains. Bank/IDA "blend" lending may be achieved by joint Bank and IDA financing of the same project or by separate Bank and IDA operations in the same country.

Because of the shortage of its funds in relation to the needs of members, IDA has had to reserve its assistance for countries whose economic problems are exceptionally pressing. Credits have not normally been extended to countries where per capita incomes exceed $250 a year.

The evaluation of the economic position of a country asking for finance sometimes reveals practices or policies which could seriously affect the economic outlook of the country and its ability to make effective use of financial resources. In such instances, it is the policy to require in advance of a Bank loan or IDA credit that the borrowing country institute measures designed to improve the performance of its economy. The Bank and IDA do not insist that all remedial measures which appear necessary be completed before that country may qualify for finance. On the other hand, they are not normally willing to rely simply on a representation that such remedial measures will in due course be taken. Their position is midway between these extremes; concrete evidence must be forthcoming that the government is actually taking appropriate steps to remedy deficiencies in its policies. Once given such evidence, the Bank or IDA are usually willing to provide finance concurrently with the execution of the measures adopted.

The Bank has taken a similar position in the case of those member countries whose credit is impaired by the existence of a dispute over a default on their foreign debt or over compensation for expropriated property formerly owned by foreigners. The Bank is charged, under its Articles of Agreement, to encourage international investment. It has, therefore, a direct interest in the creation and maintenance of satisfactory relations between member countries and their external creditors. Accordingly, the normal practice is to inform governments who are involved in such disputes that the Bank or IDA will not assist them unless and until they make appropriate efforts to reach a fair and equitable settlement.

The Bank and its affiliates are forbidden by their Articles of Agreement to act from political motives; but the Bank Group cannot ignore conditions of obvious internal political instability or uncertainty which may directly affect the economic prospects of a borrower. To this extent, therefore, a country's political situation is taken into account in the investigation of proposals for financing.

Methods of Investigation

The available resources of every country have limits. To the extent that resources are devoted to particular investment projects, other projects may have to be abandoned or delayed. Every effort is therefore made to ensure that Bank and IDA financing is devoted to undertakings which will make an important contribution to strengthening the economy of a borrowing country. Accordingly, neither institution would normally consider a project without undertaking a general review of the economy of the country concerned as well as a detailed study of the project or program proposed for financing. This review enables areas of high priority and high potential to be identified and provides guidelines to the types of projects which deserve early attention. It also enables judgments to be formed about the country's economic performance and its eligibility for Bank and IDA financing. The Bank is aware that, if it confined its investigations to ensuring that its own funds are only used for high-priority, productive purposes, the provision of finance to a country might in effect simply release other funds available to that country which might be used inefficiently. For that reason, before providing finance, the Bank seeks to satisfy itself about the effectiveness with which the total resources available to a borrowing country are being employed.

The existence of an effective development program, particularly in countries whose investment requirements are large in relation to their available financial resources, greatly facilitates the task of determining which projects are of the highest priority in the light of their prospective contribution to the program as a whole. The Bank therefore has encouraged its members to formulate long-term development policies and, as explained on pages 42–44, has provided many of them with technical assistance for this purpose.

The procedures followed by the Bank and IDA (and by IFC acting on their behalf) in investigating a loan or credit application have evolved with time and experience, and have also varied from case to case. Differences in the conditions and experiences of the countries in which the projects are located, in the extent to which the institutions are already familiar with them, and in the projects themselves, all affect the character of the investigation. No two applications are likely to be handled in exactly the same way.

Wherever possible, the Bank and IDA prefer to have informal exploratory discussions with prospective borrowers before a formal loan request is made. These discussions enable the two institutions to determine whether the project to be financed is of a type which they can consider, and to indicate to the prospective borrower what kinds of information are needed concerning the project and economic conditions in that country. If the prospective borrower is not a government, the Bank requires an indication from the government that it would guarantee a loan for the project before starting any serious investigation.

In general, the actual processing of a request to the Bank or IDA for finance falls into two parts: a preliminary review of the project under consideration in relation to the country's

economic needs and potentialities, and a more technical and critical examination of the economic, engineering, financial and other aspects of the project and of the appropriate conditions for finance. These two stages of investigation may proceed more or less concurrently or they may be successive, depending on the circumstances.

Much of the work of investigating the suitability of a project for financing is carried out in the Group's headquarters in Washington. Here the staff studies all available information about the country and the project. In addition to studying its own files, the Group takes advantage of material available from other institutions, national and international, public and private. Information from all these sources is supplemented by information specifically requested from the borrower.

No study at headquarters, however, can provide all the information and understanding required. At some stage in the processing of a loan, or credit, one or more missions are sent to the borrowing country to gain first-hand knowledge of the project and of the economy. The composition of the mission and its responsibilities depend on the task at hand. It may consist of one or two persons or of half a dozen or more of various qualifications. The mission members are normally drawn from the staff but, since the Group cannot keep on its permanent staff a sufficient number of experts in each of the many fields which it may be called upon to examine, it frequently employs independent consultants for specific short-term assignments, or borrows technical experts for this purpose from member governments, other international agencies or private firms. The Bank has special arrangements with FAO and Unesco for cooperation on agricultural and education projects (see page 46).

Economic Analysis

Economic analysis is at the core of the Bank and IDA's lending operations. It is an important factor in decisions on projects, and it determines the views of the two institutions on such questions as a country's economic policies, resource mobilization and allocation, and external financial requirements as they relate to its economic growth.

In country economic reports, the Bank analyzes the structure of a country's economy, and its past and probable future economic development. The country's development policies and economic performance are assessed. If a development plan or program exists, an analysis is made of its magnitude and consistency, the extent to which it appears to be based on a realistic assessment of the resources available and optimizes their use, its sectoral distribution, methods of financing and arrangements for execution. Judgment is reached as to the sector or sectors in which external financing can be most effective.

For all countries in which the Bank Group engages in lending operations it seeks to acquire a comprehensive picture of the structure and development of the economy by assessing its agricultural, mineral and industrial resources, the state of its basic facilities such as education, transport and power, and quality and efficiency of public administration, the pattern of external trade and payments, and the condition of internal economics and finance. In addition, periodic

assessments are made of recent economic developments and of the effects of recent changes on the country's growth prospects.

The performance by a country in the promotion of its economic development is an essential criterion for Bank and IDA financing. Performance in the broadest sense covers the effectiveness with which a country's resources are being directed toward economic development; it encompasses policies and activities, private and public, for the purpose of increasing the output of goods and services.

The evaluation of performance is a continuous process based in part on the investigations in connection with the preparation of economic reports, but in part also on frequent contacts with political leaders, government officials and central bankers. For countries in which the Bank Group is particularly active, formal and informal contacts result in a continuous dialogue on economic policies, the direction of the development effort and the flow of development finance. A frequent exchange of views and review of specific problems, supplemented if necessary by technical assistance and advice, is especially important for developing countries for which the Bank has organized or helped to organize consortia and consultative groups, discussed on pages 52–56.

By giving continuous attention to general economic and financial conditions in developing member countries, and by keeping in close touch with their progress, the Bank Group hopes to help them deal with their economic problems. The member countries in turn are able to discuss their plans for development activities well in advance. This helps to facilitate subsequent financing from the Group, the members of consortia and consultative groups or other sources.

The Specific Project Provision

The Bank's Articles of Agreement require that "loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development." The objective of this provision is to assure that loans are used for the most productive purposes. It does not commit the Bank to a single inflexible lending technique; and many different sorts of undertakings are, for the purposes of Bank lending, considered to be projects. In effect, the only requirement imposed by the specific project provision of the Articles is that, before a loan is made, there shall be a clear agreement both on how the proceeds of the loan are to be expended and on what the loan is expected to accomplish. A similar agreement is sought before an IDA credit is provided.

If finance were provided by the Bank or IDA for unspecified purposes or for vague development programs which had not been worked out in terms of the projects by which the objectives of the program were to be achieved, there would be a danger that the resources would be used in ways which would make little or no contribution to the expansion of productive capacity or output. This danger is by no means hypothetical. Many projects presented to the Bank, particularly in the earlier years of its operations, were far from satisfactory. Some were not economically advantageous. In many cases cost estimates were inadequate or incorrect; technical plans or proposed financial or administrative arrangements also frequently were deficient. During the course of discussions with a borrower, it has often been possible to work out modifications of

a project to reduce its cost, to increase its efficiency or to improve its financial or organizational features. Sometimes a substitute project or one conceived on a somewhat different scale has been found to be more productive than the one originally proposed.

Project Appraisal

As already indicated, an analysis of a country's economy provides the general framework within which an assessment of any particular project presented to the Bank or IDA for financing is made. This analysis indicates whether the project is in a sector which is of priority for the economic development of the country concerned. The appraisal of the project itself usually involves the investigation of six different aspects of the project; namely, its economic, technical, managerial, organizational, commercial and financial aspects. The relative importance of these different aspects can vary considerably according to circumstances and to the type of project.

The chief objective of the appraisal of the *economic* aspects of a project is to determine whether the project is of sufficiently high priority from the viewpoint of the national economy of the country concerned to justify investment in it. The relative financial return of different projects is frequently not a sufficient test of their relative contribution to a country's development. In many cases, certain basic investments are required before other investments in more immediately profitable activities can be undertaken. The benefits properly attributable to these basic investments may be very great even though the direct earnings, at least in the short run, are not high or may even be non-existent. For example, a highway system, unless it involves toll roads, yields no direct revenue but it causes savings in traffic costs and may foster all kinds of industrial and agricultural activity.

Normally, the appraisal of the economic aspects of a project involves an investigation of the demand for the goods or services which the enterprise carrying out the project is expected to produce. This study may be of varying scope, ranging from a narrowly localized study, as in the case of a municipal water supply project, to one that is nationwide, as in the case of a national railway project. In some instances the investigations may need to be world-wide; for example, in the case of a project to develop a source of iron ore for export. Other questions which will normally be investigated during the economic appraisal include the extent to which the project will use domestic resources (including labor) which would otherwise be unutilized, the effects on the balance of payments, and the relative merits of alternative ways to provide the goods and services required.

The appraisal of the *technical* aspects of a project involves an investigation of the detailed engineering plan for its construction and operation. The main items coming under this heading include the proposed scale of the project, the types of process or equipment to be used, the location of the project, its layout and design, and the availability of the various factors of production. The technical staff available to the borrower, both for carrying out the project and for operating it, is evaluated and a judgment is reached whether outside help is required.

When, in the Bank's opinion, consulting engineers or other experts should be brought in to assist those responsible for the engineering arrangements for a project, the Bank often assists the borrower to prepare detailed terms of reference. The choice of consultant is made by the

borrower, but the Bank satisfies itself that the consultant chosen is suitably qualified; it believes that a selection should be made on the basis of qualification to perform the work, not on price. If the chosen consulting firm is owned by or associated with a contractor or manufacturer, the Bank insists that the firm limit its role on the project to providing consulting services and disqualify itself and its associates from construction work or supply of equipment.

An important part of the technical appraisal of a project is an investigation of the assumptions on which the cost estimates have been calculated. For example, a check is made to ensure that there is adequate allowance for physical contingencies and for likely increases in the general level of costs during the construction period; and also to determine whether sufficient provision has been made for interest on borrowed money during construction and for initial working capital.

The Bank and IDA place particular stress upon the assurance of adequate *management* for a project. In cases where the appraisal of the management and organizational aspects of a project indicates that adequate local management is not available, the two institutions suggest that the borrowing country or the enterprise concerned should look for organizations or individuals qualified to assist in running the enterprise, at least during the initial stages, and to provide appropriate management training to local personnel. Where this type of arrangement is agreed to, the Bank upon request frequently helps the borrower to find individuals or organizations qualified for the task.

The difficulty of recruiting qualified management is particularly acute in agriculture. Because of this, the Group has made special arrangements for assisting member governments with this problem. Details are given in the chapter on Technical Assistance (see page 47).

In the case of financing for industry, Bank loans and IDA credits have been largely directed to the private sector. It is the Group's experience that private ownership is the best way of assuring continuity of efficient management and sound investment policies. There is not, however, any bar to lending by the Bank or IDA to industry in the public sector. They are willing to consider such financing provided they are satisfied with the quality of the management.

The institutions are also concerned with the *organization* proposed for the execution of a project, both during the construction and operating phases. In the case of some projects, the Bank has conditioned its assistance upon the creation of an autonomous operating authority insulated from political pressures and rigidities of government administrative procedures. In several such cases, the Bank's help has been sought and given in the establishment and staffing of authorities of this sort.

The *commercial* aspects of project appraisal entail a review of all arrangements for buying and selling. In the construction phase, this aspect of the appraisal involves an investigation of the proposed arrangements for buying the materials needed to construct the project. The Bank is concerned that the borrower shall obtain the best value for the money spent – an objective normally attained by requiring international competitive bidding for orders (see page 39). For the operating phase, an investigation is required of the proposed arrangements for obtaining the raw materials, power and labor needed to operate the project, and for marketing its product.

The appraisal of the *financial* aspects of a project usually falls into two sections: that concerned with the amount of money required to bring the project into operation and with the sources from which it is to be obtained, and that concerned with operating costs and revenue and prospective liquidity in the operating phase.

Since the Bank and IDA finance only a part of the investment cost of a project, it is necessary in every case to ensure that funds from other sources are available on reasonable terms to meet the balance of the cost. This may be relatively simple, as in the case of a project where the government is able without difficulty to provide the rest of the necessary funds from budgetary sources; or it may be complicated, as in the case of a project to expand or modernize a revenue-earning concern, where all the financial requirements of the concern during the construction of the project must be considered.

Financial projections must also be calculated for the operating period and will again be relatively simple or complex according to the type of project. For a non-revenue-earning project these projections are necessary to calculate the recurrent financial burden of its operation and maintenance. For a revenue-earning project they are necessary, for example, to estimate the financial return on the investment and to determine whether the borrower is likely to have sufficient working capital. In the light of these projections, a judgment has to be made about the soundness of the financing plan and the need, if any, for financial arrangements to protect the Bank or IDA's investment.

Terms of Lending

The Bank normally makes medium or long-term loans, with the principal repayments beginning at the end of a period of grace and thereafter spread over the remainder of the life of the loan. In establishing the length of its loans and the grace period, the Bank follows the principle that the terms should be related to the characteristics of the particular project and also to the prospective balance of payments situation of the borrowing country itself. The grace period is designed to run until the project becomes operational and starts to yield economic benefits, while the calculation of the amortization period takes into account the estimated useful life of the project. Both the length of the loan and the grace period may also reflect the borrowing country's debt position. Allowance may be made, for example, for heavy "bunching" of debt service obligations in the country's foreign debt structure.

The Bank's general policy on interest rates is determined by the Executive Directors on the recommendation of the President. The rate of interest charged by the Bank on its loans is based on the cost to the Bank of raising money in the world's capital markets; it is kept as low as is compatible with the need to maintain the Bank's financial strength and reputation. In determining the rate, due regard is given to the trend of the Bank's earnings; the maintenance of an adequate ratio of Bank earnings to interest requirements on funded debt; the maintenance of a reasonable rate of return on capital and reserves; and the accumulation of adequate reserves. The standard rate for Bank loans at the end of 1968 was 6-1/2 per cent.

Interest on Bank loans is charged only on that part of a loan which has actually been disbursed. To compensate the Bank for the cost of holding funds at the disposal of the borrower,

and to encourage borrowers to draw down loans promptly, a commitment charge is normally made on the undisbursed portion of a loan. This charge is now 3/4 of 1 per cent and accrues from a date 60 days after the date of the loan agreement.

For all but one type of borrower, the terms of a loan are fixed at the time the loan is approved and normally remain unchanged throughout its life. The exception is loans to development finance companies, where amortization is arranged to conform substantially to the aggregate of the amortization schedules of the loans and investments made by the companies with the Bank's money. Similarly, when a part of a Bank loan to a development finance company is credited to the company's account, that portion of the loan is charged the Bank's rate of interest ruling at the time.

In keeping with its directive to provide finance "on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans", IDA's development credits to date have all been for a term of 50 years and have been interest free. There has been no commitment charge. Only a service charge of 3/4 of 1 per cent to meet IDA's administrative costs has been imposed on the principal amount withdrawn and outstanding. The credits have carried grace periods of 10 years before repayment has to begin. Thereafter, 1 per cent of the credit is repayable annually for 10 years and 3 per cent annually for the final 30 years.[1]

It was not intended that the concessionary terms of IDA's financing should result in the extension of financial subsidies to the actual projects on which IDA funds were employed, or that IDA funds should be used to finance a project which could not satisfy normal criteria of economic and financial viability. Accordingly, when IDA finances a revenue producing project the credit is extended to the government, which then relends it for the project on terms customary in the country. This has the effect of providing the government with the balance of payments relief intended from the IDA credit, while avoiding any relaxation of the financial discipline required in the execution and administration of the project itself.

Formal Negotiations

If, after intensive investigations, the Bank and IDA are satisfied that a loan or credit can be made to a country and that a project is suitable for financing, the potential borrower is invited to begin formal negotiations. Since most of the problems should have been settled during the course of the economic analysis and project appraisal, it is possible in most cases to complete these negotiations expeditiously. When agreement has been reached on the project and on the terms and conditions of the financing, the loan or credit agreements and all supporting documents are presented to the Executive Directors, together with the recommendation of the President, for their approval.

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[1]The only exceptions made to these terms to December 31, 1968, were in the case of four small credits extended for project preparation. These credits were for terms ranging from 9 to 12 years, with repayment due to begin after grace periods ranging from 2 to 4 years. It was expected that if development credits or Bank loans were made for the projects in question, these project preparation credits would be absorbed in the project financing.

After approval by the Board and the signing of the loan or credit agreement, a further period usually elapses before the agreement becomes effective. The coming into effect of the agreement generally depends upon the fulfillment of certain prescribed conditions, including the furnishing of satisfactory evidence to the Bank or IDA that the agreements are binding upon the borrower and, if applicable, the guarantor. Only after the agreement has become effective can the disbursement of funds begin.

Types of Expenditure Financed

Normally, a Bank loan or IDA credit is related to the expenditure on imported goods and services required in carrying out the project; this may include the foreign exchange component of civil works contracts and of domestically procured goods, as well as direct imports. The remainder of the financing must be provided or found by the borrower.

In certain instances, particularly when the foreign exchange content of a project is relatively low, the Bank and IDA are prepared to provide foreign exchange to finance some local expenditure. A decision whether to finance local expenditure in any specific case is made in the light of the special circumstances prevailing in the country. The domestic availability of funds for the project and the need for capital of the economy as a whole are taken into account.

Close scrutiny is made of requests for the reimbursement of expenditure incurred on projects before finance has been approved by the Executive Directors. Even in the exceptional cases where some reimbursement of past expenditure is agreed to, the amount is usually relatively small. It is confined normally to expenditure on studies, preliminary engineering and other work essential for the preparation of the project, or for preliminary work such as site clearing and construction of access roads necessary for the project to be started promptly. Reimbursement for past expenditure for construction work, equipment or similar items forming the main items of expenditure on the project itself requires special justification.

Methods of Procurement

In accordance with provisions of their Articles of Agreement, the Bank and IDA do not tie the use of the proceeds of their loans and credits to particular sources of supply. Borrowers are free to use them to make purchases in any member country. In addition, purchases may be made in Switzerland in recognition of the fact that Switzerland, although not a member country, has provided resources to and has established a special relationship with the Group.

The Bank and IDA attach great importance, in the interest of the borrowing country, to the procurement of the goods and services needed for a project on the best possible terms. Moreover, as cooperative international institutions among whose principal purposes is the promotion of the long-range balanced growth of international trade, they wish all of their member countries to have a fair opportunity to supply goods and services financed by them. To this end, borrowers are required to obtain goods and services (other than consultants' services; see pages 35–36) through international competition unless this procedure is clearly inappropriate. In some cases, in order to ensure that maximum benefit is obtained from this system of procurement, borrowers are requested to employ qualified consultants to assist in determining the qualification of bidders, in

preparing the specifications and in analyzing bids. In addition to price, such considerations as delivery dates, quality and performance must be taken into account.

In arranging procurement for any Bank or IDA financed project where there is competition between domestic and foreign suppliers of material and equipment, the two institutions may accept a degree of protection as a legitimate method of promoting the expansion of sound domestic industries. In such cases, the degree of protection to be taken into account in comparing bids from domestic and foreign suppliers is agreed before bidding arrangements for a project are approved.

Circumstances sometimes arise where, although the goods are to be imported, international competition may not be appropriate. Certain types of agricultural projects, such as those involving the provision of credit to local farmers or the purchase of breeding livestock, come into this category. An exception to the usual procurement rules is also made in the case of loans or credits to development finance companies, where it would be difficult for the Group to require that special procurement arrangements should be made for the numerous private firms obtaining funds through these local financing institutions. Cogent reasons may be advanced by a borrower for making purchases in some particular market. Such reasons might include the desirability of matching existing equipment to avoid complications and expense in maintenance and spare parts, familiarity of the operating organization with certain types of equipment, and the availability of dealers' maintenance and service facilities for specific types of equipment. There might also be exceptional cases in which the equipment required may be available in one market only.

In any event, the Group satisfies itself before making disbursements that the equipment to be purchased is suitable for the project and that the terms of the purchase are reasonable. The same applies in the financing of local expenditures (see previous section).

The Bank and IDA do not require, or even propose, that a borrower should place a contract under a Bank loan or IDA credit with a designated supplier of goods or services or that competition should be restricted to a designated group of suppliers. Nor do they furnish lists of suppliers or consultants to their borrowers. Deciding which suppliers should be invited to bid and to which of them the contract is to be awarded is the responsibility of the borrower, subject only to review by the Bank or IDA from the point of view of suitability of the goods or services and the reasonableness of the terms of purchase.

Supervision and Disbursement

The interest of the Bank and IDA in a project does not end when finance has been agreed and negotiated with the borrowing country and the necessary documents signed. The institutions are concerned to ensure that the project is properly carried out. In addition, problems inevitably arise in the execution of projects, especially those involving large-scale and complex construction. Early warning of difficulties makes it possible to discuss solutions with the borrower in good time. In this way a number of obstacles to the successful accomplishment of a project can be averted or quickly overcome.

Accordingly, the Group requires records to be kept and regular reports to be submitted on the progress of projects which it is financing. While the form and detail of these reports vary, the information required is of a kind which any prudent businessman would want.

Reports from the borrower are supplemented by periodic visits to the project by members of the Bank staff. On these visits, staff members examine the work being done, scrutinize the accounts of the borrower, observe the use and maintenance of goods and equipment purchased with the loan or credit proceeds, and satisfy themselves that the management and administration of the project are satisfactory.

Problems arising in the course of implementing a project are discussed and solutions jointly explored. Changes in the specifications of a project are sometimes found necessary and are mutually agreed upon. Such changes, and also changes in financial conditions affecting wages and prices, may increase the cost of the project beyond the amount originally forecast; in this case, the borrower and the Bank or IDA will consult as appropriate on the measures that need to be taken to provide the extra funds and so assure completion of the project.

In keeping with their policy of carefully scrutinizing how their money is used, the Bank and IDA disburse funds under their project loans and credits only as expenditures are incurred for specific goods and services. By means of this procedure and the reporting system described above, it is possible to follow each item financed by the institutions, from the determination of specifications and the placing of an order to the delivery of the item and its actual use in the project. Disbursements are made on receipt of satisfactory documentation. Normally this will provide evidence that the goods or services to be financed are covered by the loan or credit agreement and that they are reasonable in cost and of proper quality.

When the required documents have been received, the borrower is provided with the currencies needed. For example, a borrower purchasing equipment in the United Kingdom is normally supplied with pounds sterling, while if the purchase is made in France he would be given French francs. The particular currency needed by the borrower may be obtained by the Bank or IDA either out of its own holdings of that currency or by purchasing it with other currencies which it holds.

In the first of these two instances, a Bank loan is repayable in the currency provided to the borrower, and in the second instance in the currency used to buy the currency furnished to the borrower. In the case of IDA, a credit is repayable in a convertible currency agreed with the borrower of equivalent value to the currency withdrawn. With all loans and credits, a strict procedure is adopted by both institutions to ensure that service charges are paid punctually.

TECHNICAL ASSISTANCE AND ECONOMIC STUDIES

Technical assistance to member countries has become an integral part of the World Bank Group's activities. Most developing countries need assistance in identifying and preparing projects. They may also require help in carrying out many other tasks essential to their development: analyzing their economies, formulating appropriate development policies, establishing effective development institutions, preparing investment programs, studying sector development, determining project and other priorities, testing the feasibility of individual projects or finding solutions to particular problems. The Group has been requested or found it necessary to advise on all these and other matters at some time or another over the years.

Most of the Group's technical assistance is provided in the normal course of financing activities. Advice on project preparation, for example, is frequently given by staff members during the examination of projects for which applications for finance have been received. This advice may relate to any matter affecting the successful execution and operation of a project, from the design of a plant to the arrangements for the project's management and organization.

Where the Bank believes that outside assistance is required, it normally suggests to the prospective borrower that proper technical services should be obtained from consulting engineers or other appropriate sources. In such instances, as indicated on page 35, the Bank stands ready to help the borrower to choose suitable consultants and to draw up terms of reference. When finance is finally agreed for a project, an amount may be included to reimburse the expert advice involved, both during the planning and execution stages. Finance may also be included to cover the cost of feasibility studies for related future projects.

In addition, the Bank has provided, either on request or on its own initiative, a variety of assistance to member countries not immediately connected with loan operations. This assistance has been confined to fields where, because of its character as a development finance institution and the operational experience of its staff, the Bank could be considered to have particular qualifications or particular reasons for providing help; and especially where its assistance might be expected to facilitate new capital investment in high-priority projects.

ASSISTANCE IN DEVELOPMENT PROGRAMMING

Missions sent by the Bank to less developed member countries in connection with early loan operations found that development programming efforts were inadequate in many cases and that there was a risk that scarce investment resources might be misapplied. They noted with few exceptions the absence of any effective government agency charged with designing a consistent overall framework of development and appraising proposed projects within the pattern of such a framework. It was against the background of this experience that the Bank decided in 1949 to comply with a request of the Government of Colombia to organize a general survey mission to analyze the Colombian economy and to make recommendations on the basis of which the Government could formulate a long-term development program. The results of this mission to Colombia were sufficiently encouraging to convince the Bank that this type of assistance could do much to help development.

Altogether the Bank, acting on request of the governments concerned, has organized a total of 25 general survey missions. In addition to Colombia, these were for Turkey, Nicaragua, Guatemala and Cuba (1950); Iraq, Ceylon and Surinam (1951); Jamaica (1952); British Guiana and Nigeria (1953); Malaya and Syria (1954); Jordan (1955); Italian Somaliland (1956); Thailand (1957); Libya (1958); Tanganyika and Venezuela (1959); Uganda (1960); Spain and Kenya (1961); the Territory of Papua and New Guinea, and Kuwait (1962); and Morocco (1964).

The terms of reference of these survey missions varied in accordance with the needs of the respective countries, but their basic purposes were identical. They were intended to survey the development potentialities and problems of the countries to which they were sent, and then to make recommendations that would assist the governments in formulating long-term development programs. The emphasis was on three points – to produce an approximate estimate of the amount of investment which a country could appropriately undertake with the resources at its command; to recommend priorities for public investment among the important sectors of the economy and among types of undertakings within each sector, after taking private investment requirements into account; and to suggest economic and financial policies and administrative measures necessary to assure the success of the development program. In addition, the missions were frequently able to make important technical recommendations for improving productivity in various sectors of the economy.

The analysis and recommendations of each mission were published in a report intended to be useful not only to government officials and technicians but to non-specialists as well. Arrangements were made, as appropriate, for translating the report into the language of the country concerned and for its publication within that country.

The Bank urged that the reports be widely disseminated in the countries concerned, that the recommendations be subjected to careful study and to such modification as the responsible authorities deem necessary, and that some continuing agency be established to review and periodically revise the programs emerging from consideration of the reports. In several cases, the Bank Group provided the services of staff members or consultants to help member governments both in their study of mission recommendations and in putting them into effect.

To assist governments with development programming or the preparation and execution of investment programs, staff members have been assigned to member countries as resident advisers for periods ranging from a few months to several years. Countries where missions of this kind have worked in recent years include Colombia, Libya, Nigeria, and the Sudan. The Bank maintains resident representatives in Afghanistan, India and Pakistan who, although chiefly concerned with Bank and IDA operations, have in some cases been able to assist governments on general development matters.

The Bank has also been able to help developing countries through its own country economic missions. These missions, though intended primarily to improve the Group's knowledge of the development potential and problems of member countries, have enabled it to offer advice to member countries and have assisted governments to reach sound conclusions on the policies to be followed. The reports of the missions are made available to governments through the Bank's

Executive Directors. These comprehensive surveys now cover the economies of virtually all the Bank's developing member countries, and they are brought up to date periodically.

The Bank has an Adviser on Planning Organization, through whom assistance is being provided to member countries in setting up suitable organizations for formulating and implementing development programs. The Adviser deals with such questions as the choice of planning machinery, the distribution of planning functions, the role, organization and location of a central planning agency, and regional and local planning bodies.

In December 1965, The Johns Hopkins Press published for the Bank's Economic Development Institute "Development Planning – Lessons of Experience," a study of the organization of development planning based on the experience of more than 100 countries, both developed and underdeveloped. The book was written by Mr. Albert Waterston with the assistance of other members of the Bank's staff. Three monographs on planning administration in Yugoslavia, Morocco and Pakistan have also been published.

In some instances, the Bank's technical assistance has been directed to programming for specific sectors of the economy or regions of a country (see following section). In addition, a study of successes and failures of agricultural development programs in tropical Africa was carried out over a two-year period under the auspices of the Bank by a research team headed by Mr. John C. de Wilde, one of the Bank's senior economists. It was published in May 1967, by The Johns Hopkins Press, under the title "Experiences with Agricultural Development in Tropical Africa."

PROJECT IDENTIFICATION AND PREPARATION

The usefulness of development planning has by now received widespread recognition among the Bank's member countries, many of which now have development plans or are working on their preparation. However, in many of these countries and particularly in the Bank's newer members, there is still a shortage of well-prepared, high-priority projects ready for financing. The Bank has therefore of late been giving emphasis in its technical assistance to project preparation and to the earlier step of project identification. Principal among the varying techniques which it has employed are sector and feasibility studies; cooperative arrangements with FAO and Unesco, the Bank's Permanent Missions in Africa and its Resident Staff in Indonesia. A good deal of project identification assistance is provided informally, through Bank economic missions, resident advisers, or in the course of the appraisal and supervision of other projects.

Sector and Feasibility Studies

"Sector study" is the term used to describe the analysis of a particular sector of the economy, e.g., transport or power, with a view to drawing up a coordinated investment program for that sector and identifying projects within it. The study may be country-wide; it may be limited to a region within a country; it may cover the given sector throughout a region embracing several countries. A "feasibility study" determines whether projects which have already been identified are technically feasible and economically justified. A common characteristic of these studies is that, unlike other kinds of technical assistance provided by the Bank, they have been

carried out by independent consultants, under Bank supervision. Some of the studies which the Bank has organized have been financed by the Bank; others have been financed by the United Nations Development Programme (UNDP) for which the Bank has acted as Executing Agency.

The UNDP finances the foreign exchange costs of pre-investment studies on a grant basis, but does not itself carry them out; instead it makes use of the United Nations and the specialized agencies to administer studies for which it provides financing. A request that the Bank serve as Executing Agency may originate with the UNDP or with the country applying for UNDP assistance. Normally, the Bank's willingness to serve as Executing Agency depends upon the role it thinks it could usefully play in the country concerned and upon the availability within the Bank of the knowledge and technical competence required for organization and supervision of the study. When the Bank does serve as Executing Agency it helps to draw up the "Plan of Operations" for the study, negotiates the terms of reference with the government and the UNDP, employs the consultants, supervises the field work, reviews the consultants' report and, when the study is concluded, submits to the UNDP a confidential assessment of the work.

The Bank first served as Executing Agency in 1959 for a study of the power sector in Argentina. Through January 1, 1969, it had been Executing Agency for 53 UNDP studies for which the UNDP had allocated $48 million. Twenty of these studies had been completed by the end of 1968. Of the Bank-executed studies, nine had led directly to Bank loans or IDA credits totaling nearly $433 million, primarily for road and power projects. In addition, these and other Bank-executed UNDP studies have contributed indirectly to an additional $320 million of loans.

The UNDP asks the Bank to review and comment on all requests for UNDP assistance, and takes the Bank's views into account in reaching its decision. When commenting on requests for studies for which it will not be Executing Agency, but which appear likely to lead to proposals for Bank Group financing of the ultimate project, the Bank may note its "special interest" and ask that the UNDP instruct the organization serving as Executing Agency to consult with the Bank in working out the Plan for executing the study, and in selecting the consultants and formulating their terms of reference. The Bank has indicated its special interest in a number of studies for which the FAO is Executing Agency, and is following them closely.

The Bank itself has been financing the foreign exchange costs of sector and feasibility studies since 1961. Its policy is to give the UNDP first refusal of all requests and proposals for financial assistance for such studies, since the UNDP is the member of the United Nations family specifically concerned with pre-investment studies; it will help a government to prepare an application to the UNDP. However, in a few cases the study required may be too small for the UNDP to consider, or the other claims on the UNDP's resources may preclude it from financing the study on a time schedule appropriate to the requirements of the project. In these circumstances, which are by now relatively infrequent, the Bank will provide finance for the study itself.

Initially, it was the Bank's practice to cover the foreign exchange costs of the study with a grant, as the UNDP does. In the last few years, however, as a means of facilitating an appropriate division of functions between itself and the UNDP, the Bank has financed on a grant basis only

those studies for which a Bank contribution of no more than $200,000 is sought. When larger amounts are involved, if UNDP financing is either not available or is inappropriate, and if the country is eligible for IDA assistance, the foreign exchange cost can be met by an IDA technical assistance credit. Should the project covered by the study be subsequently financed by the Bank or IDA, any balance outstanding on the technical assistance credit may be incorporated in the new project loan or credit. *Ad hoc* decisions are made concerning the financing of a study in a country which is not eligible for IDA assistance, which would require Bank financing in excess of $200,000 and for which UNDP financing is not available.

As of December 31, 1968, the Bank had financed 42 sector and feasibility studies, allocating for the purpose more than $14 million. Thirty-seven had been completed, of which 16 have thus far led to Bank or IDA financing totaling $288 million for transport, school buildings, agriculture and water supply. Should a study be concerned with the industrial or mining sector, or with projects within those sectors, IFC would organize and direct the study.

The Bank has financed a few studies of a third type, involving the examination of the structure and capability of an organization such as a power or port authority or a transport commission. These "institutional" studies are likely to be, but are not always, an aspect of a sector study.

Unless the circumstances are exceptional, it has been the Bank's practice to undertake a sector or feasibility study only where there is a reasonable prospect that it will lead to financing by a member of the Bank Group, or within the framework of an aid-coordinating group with which the Bank is associated. Similarly, an institutional study should have a reasonable prospect of strengthening an institution which can make a significant contribution to a sector to which such financing is likely to be addressed. This means that studies are not undertaken in countries in which Bank Group operations would be precluded because of the country's unsatisfactory economic performance, its position with respect to defaulted external debt, etc. The Bank also requires evidence of the interest of the country concerned, at least through a contribution to the local currency costs of the study.

Cooperative Arrangements

In 1964, the Bank and IDA decided to increase their activities in the fields of agriculture and education. As one way of doing so, they entered into agreements with the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Educational, Scientific and Cultural Organization (Unesco) for jointly financed cooperative programs under which these two institutions work with the Bank in their respective fields by assisting governments to identify and prepare projects for Bank Group financing. Project appraisal and supervision continue to be the responsibility of the Bank, but FAO and Unesco staff frequently participate in these activities and may, in appropriate cases, provide technical assistance in project execution. Under the arrangements, the Bank has had access to the expertise and experience of FAO and Unesco, these organizations have acquired a financial partner with a special interest in education and agricultural projects, and the result has been that the number of projects coming forward for Bank financing has increased and their quality has improved.

The arrangements with FAO and Unesco are the only formal cooperative agreements of their kind which the Bank has entered into. It does, however, consult with other agencies, such as the World Health Organization (WHO), the International Labour Office (ILO) and the International Telecommunications Union (ITU), regarding projects within the special technical competence of those agencies.

Permanent Missions

To increase the flow of well-prepared projects from African countries, where the shortage of such projects has been particularly critical, the Bank in 1965 established permanent missions in eastern and western Africa, primarily to assist governments in those areas to identify and prepare projects for Bank or IDA financing. The missions have their offices in Nairobi and Abidjan, respectively. For the time being, they are concentrating on the agricultural and transport sectors. Eventually they may provide assistance for other sectors as well. They are also available to advise governments on policy issues and practical problems which may arise in connection with these projects.

In Indonesia, the Bank has established a resident team of advisers in Djakarta, first to advise the Indonesian authorities on questions of economic policy and administration, and secondly to help BAPPENAS, the country's planning organization, and other government agencies with the coordination and effective use of technical assistance, including studies to identify and prepare projects, the selection of consultants, the framing of their terms of reference and related matters.

Other Project Assistance

To help alleviate the difficulty of recruiting qualified people to organize and manage agricultural projects, the Bank has established the Agricultural Development Service, which is attached to the Permanent Mission in Nairobi. This service consists of a group of experts available, on a reimbursable basis, for employment by governments in East Africa to assist in the execution and management of agricultural projects.

The problem of recruiting qualified people to organize and manage agricultural projects is general and applies to other parts of the world as well as Africa. In exceptional cases, where it has proven impracticable to make other arrangements, the Bank has engaged a small number of individual experts, whose services have been made available to borrowers on a reimbursable basis to help in the organization and management of agricultural projects which it has financed.

ECONOMIC DEVELOPMENT INSTITUTE

The Economic Development Institute (EDI) was organized by the Bank in 1955 with some initial financial support from the Ford Foundation and the Rockefeller Foundation. The Institute's aim is to improve the quality of economic management in less developed countries by gathering together groups of senior officials from those countries to study the practical problems that arise in preparing and carrying through development programs and projects. The courses are designed to give the participants a broad perspective of the process of development and an insight into the particular problems of their own countries. The curriculum emphasizes the marriage of

sound theory with practical considerations in order to increase the effectiveness of government officials in discharging their responsibilities. The close link between the Institute and the World Bank provides the essential foundation in experience required for such an approach. The number in each group of participants is kept small – usually not more than 25 – to encourage group discussions and the exchange of ideas and experience.

The Institute held its first course from January to June 1956. Until 1962 the Institute offered only a six-month general course, given once a year, in the formulation and administration of policies, programs and projects related to economic development. Since that time five new courses have been added. All of these courses deal with the preparation and evaluation of projects, either generally or in especially important sectors such as infrastructure, industry and agriculture. One of the general projects courses is conducted in French and one in Spanish for officials unable to participate in courses in English. The General Development Course lasts for six months and the others for two to three months. By December 31, 1968, 950 officials from 105 countries and dependent territories had participated in courses given by EDI since its establishment.

Participants are selected from candidates nominated by governments or public agencies in the developing member countries of the Bank. In selecting participants, much weight is given to the candidate's experience in matters related to the course, his present position, his ability to profit from his work at the Institute and his prospects for making significant contribution in the future to the development of his country.

At present the Institute has a full-time teaching staff of ten members. Additional lecturers are appointed each year to assist the regular staff in conducting the Agricultural Projects Course and the projects courses in French and Spanish. In addition, the Institute normally has in residence for part or all of the year two visiting lecturers selected because of their outstanding contributions to the field of economic development. Staff members of the Bank and the International Finance Corporation, including economists, engineers, lawyers, financial analysts, commodity experts and country specialists, frequently conduct sessions when their special knowledge and experience are applicable. Specialists from other international organizations, government agencies, universities and private concerns are often invited to lead sessions related to their fields.

The courses of the Institute emphasize discussion and the pooling of experience to supplement the lectures by staff members and others. Case studies, special exercises and group problem-solving are features of the courses, and special meetings may be arranged for groups of participants who are interested in going into certain subjects more fully than can be done in the regular sessions. Short field trips are organized to areas (usually within the United States) where financial, industrial and agricultural institutions can be visited. Participants in certain courses also visit a country where the process of development can be observed at first hand.

The Institute provides, to the extent that its staff resources will permit, assistance to other agencies or institutions which conduct training courses in the developing countries, chiefly in the field of project preparation and project evaluation. Preference is given to requests for assistance from institutions which are engaged or likely to engage in regional or national training programs on a continuing basis. The Institute, for instance, has provided the curriculum, teaching materials and

staff for project evaluation courses in Nigeria, Kenya, Iran, and Guyana. Staff members of the Institute have also lectured or conducted seminars at a number of institutions engaged in work similar to that of the Institute.

So far, technical assistance has been rendered on an *ad hoc* basis, in response to specific requests. The Institute is now working toward developing longer-run cooperative arrangements with a small number of overseas institutions, with a view to the possible joint sponsorship of two to three-month project courses on a regional and continuing basis.

In 1960, with financial help from the Rockefeller Foundation, the Institute undertook a project of providing to countries where materials on economic development were not available a limited number of small libraries on economic development in English. The libraries comprise books, articles and reference materials chosen for their usefulness to practitioners in the field of development. In 1962, again with the financial participation of the Rockefeller Foundation, the Institute began to assemble libraries in French. With technical assistance from the Centro de Estudios Monetarios Latinoamericanos (CEMLA) and with financial participation from the Inter-American Development Bank, the Institute has also assembled and distributed libraries in Spanish and Portuguese. All of these libraries have now been distributed; however, the Institute continues to send out annually supplementary libraries to assist in keeping the basic libraries up to date.

ECONOMIC AND OTHER STUDIES AND REPORTS

Apart from its technical assistance to individual member countries, the Bank also undertakes work in various fields of applied research in economic development, either on its own initiative or at the request of or in cooperation with other international organizations.

The Bank staff, for example, undertook four studies at the request of the first United Nations Conference on Trade and Development (UNCTAD), held in 1964. In February 1965 the President of the Bank transmitted to the Secretary-General of the United Nations a staff study of the "Horowitz Proposal," a proposal advanced by Governor Horowitz of the Bank of Israel to tap the private capital markets as a source of development funds available for lending through IDA. In December of the same year a staff study on "Supplementary Financial Measures" was also transmitted to the Secretary-General. This study, based on a proposal submitted to UNCTAD by the United Kingdom and Sweden, outlined a scheme to provide supplementary finance in support of development programs threatened with disruption by the failure of export earnings to come up to reasonable expectations.

A staff study of the nature, use and effects on development of suppliers' credits was submitted to the Secretary-General in January 1967. The study suggested various ways to increase the usefulness of suppliers' credits as an instrument of international finance, while avoiding the debt crises and other problems resulting from excesses and abuses in their use. UNCTAD also asked the Bank to consider the feasibility of a multilateral investment insurance scheme which would insure new private investment flowing into a developing country against losses resulting from non-commercial risks. Following discussions by a Committee of the Bank's Executive

Directors of a first draft of Articles of Agreement for an international investment insurance agency, prepared by the staff, a revised draft was drawn up. This second draft is under review by governments.

Economic and Other Studies

In 1964, the Bank carried out for the International Cotton Advisory Committee a study of the prospects for extra-long staple cotton. At the initiative of the International Coffee Organization, the Bank has been taking part with the International Coffee Council and FAO in a study of the long-term prospects for coffee demand and supply and the implications for international coffee policy and of the need of the main coffee-producing countries to diversify into other lines of production. This study is expected to be concluded in 1969.

In response to resolutions adopted by the Boards of Governors of the Bank and the IMF at their Annual Meetings in Rio de Janeiro in September 1967, the staffs of the two institutions have been carrying out a special study concerning the problem of the stabilization of prices of primary products. The general section of the Study was completed during 1968. That section was devoted to a factual review and analysis of the commodity problem, considered the problems arising from fluctuations and adverse trends in commodity prices and trade and in a general way examined possible measures for dealing with them. Upon completion of this first stage of the study additional work was initiated by the Bank staff with a view to examining financial and other ways in which the Bank Group might assist toward finding feasible solutions to the problem. This work has been going on since September 1968 in close collaboration with the Executive Directors of the Bank and its results will be transmitted by the Executive Directors to the Board of Governors by June 30, 1969, together with such comments or recommendations as they may wish to make on the entire study and a report on any actions regarding it which they may have taken.

During the 1966/67 fiscal year, the Bank began publication of a series of occasional staff papers, to make the result of research undertaken within the Bank available to others engaged or interested in economic development. Seven papers have been published in this series: "The Economic Choice between Hydroelectric and Thermal Power Development," "Quantification of Road User Savings," "The Export Experience of Developing Countries," "Sector and Project Planning in Transportation," "The Economics of Road User Charges," "Notes on the Mechanics of Growth and Debt," and "Reappraisal of a Road Project in Iran."

An important aspect of the Bank's economic research work, and an activity which provides essential background information for the whole of the Bank's operations, is the regular gathering, analysis and presentation of basic economic data.

Practically from its inception, the Bank has obtained regular reports from borrowing countries on the status of their medium and long-term external public debt. Reports are now submitted annually by over 200 debtor countries and are supplemented by quarterly descriptions of new loans. This world-wide reporting system provides the basis for making such computations as projecting service payments on external debt for use by Bank personnel in appraising creditworthiness for future lending. The system also provides data for computing measures for use in analyzing regional and global indebtedness and other debt servicing problems. To the extent

confidentiality is not violated, the system provides answers to requests for information from international organizations, individual countries and others. Data produced from this sytem have been the basis for special studies, such as the one by UNCTAD on suppliers' credits, and appear regularly as part of the Bank's annual report.

Under agreements with the Inter-American Development Bank, the African Development Bank and the Asian Development Bank, the World Bank provides debt information on member countries to each of the respective banks.

As part of its effort to improve the quality of debt-reporting, the Bank operates a creditor reporting system in cooperation with the Organization for Economic Co-operation and Development (OECD). This system, known as the Expanded Reporting System, covers official and officially guaranteed lending and grants by DAC countries to developing countries and is expected to be in full operation by the end of 1969.

As part of the effort to obtain a complete picture of international debt, the Bank collects data on the issues of foreign bonds and equity shares in the principal capital markets of the world. This data collection system, because of the completeness of its coverage, is also used by the OECD in their studies on capital markets. The Bank also maintains on a regular basis information from secondary sources on production, consumption and prices of major commodities, on which developing countries rely for most of their export earnings.

COORDINATION OF DEVELOPMENT ASSISTANCE

The importance of effective coordination among multilateral and bilateral donors of assistance, and between donors and recipient countries, has become increasingly evident over the past several years. Such consultation can help to assure that all donors are supporting consistent development goals and that financial and technical aid from all sources is applied efficiently to priority requirements. At the receiving end, it can facilitate better planning and execution by the developing countries and so enable them to use assistance more productively.

The Bank's experience in coordinating aid from several sources to a single recipient country began as an emergency matter in the summer of 1958, when a consortium of interested governments and institutions met under the Bank's chairmanship to pledge assistance needed to avert a foreign exchange crisis in India. A second consortium was organized in 1960 to coordinate assistance to Pakistan. In addition, the Bank has helped to organize other coordinating groups for a number of countries which have requested them and whose development programs have attracted sufficient support to justify them. By December 1968 ten such bodies, called "consultative groups," had been formed, for Colombia, East Africa (Kenya, Tanzania, Uganda), Korea, Malaysia, Morocco, Nigeria, Peru, Sudan, Thailand and Tunisia, although those for Nigeria and Sudan had been inactive for some time.

The Bank has in some cases arranged meetings of countries interested in aid to a particular recipient country outside the formal consultative group structure. Meetings of countries interested in assisting Ceylon, for example, were organized in each of the five years 1965-1969.

The Bank has also been a participant in five coordinating groups organized under other auspices for Ecuador, Ghana, Greece, Indonesia and Turkey. The proportion of official development assistance for which coordinating arrangements exist has grown considerably in recent years and now amounts to about two-fifths of the total net assistance provided by the main donor countries and multilateral agencies.

Twenty-two nations have been associated, either as members or observers, with one or more of the Bank-organized aid coordinating groups. The IMF, UNDP and, where appropriate, the regional development banks and other international organizations also participate in the proceedings. Participants of the groups are shown on the following page.

The chief objectives of coordinating groups, as envisaged by the Bank are:

(a) to enable the recipient country and the several aid-giving governments and institutions interested in assisting that country jointly to consider its development program and needs in comprehensive, continuing fashion, rather than piecemeal, on the basis of competent, objective information and analysis;

(b) to provide opportunities for exchange of information among donor governments about their respective programs and activities;

BANK-SPONSORED AID COORDINATING GROUPS

ASSISTING COUNTRIES

Recipient Countries	Australia	Austria	Belgium	Canada	China	Denmark	Finland	France	Germany	Italy	India	Japan	Kuwait	Libya	Netherlands	New Zealand	Norway	Spain	Sweden	Switzerland	UK	US
Consortia																						
India		X	X	X		X		X	X	X		X			X				X		X	X
Pakistan			X	X				X	X	X		X			X				X		X	X
Consultative Groups																						
Colombia			X	X		X		X	X	X		X			X			X	O	X	X	X
East Africa				X		X	X	X	X	X					X		X		X		X	X
Korea	X	O	X	X	X			X	X	X		X			X						X	X
Malaysia	X		X	X		X		X	X	X		X			X	X				X	X	X
Morocco			X	X				X	X	X					X			X		X	X	X
Nigeria			X	X					X	X		X			X					X	X	X
Peru			X	X			X	X	X	X		X			X			X		X	X	X
Sudan			X	O				X	X	X		X	O		X					X	X	X
Thailand	X		X	X		X		X	X	X		X			X	X				X	X	X
Tunisia		X	X	X		X	X	X	X	X			X	X	X			X	X	X	X	X
Other																						
Ceylon	X			X		X		X	X	X	O	X									X	X

OTHER AID COORDINATION GROUPS IN WHICH BANK PARTICIPATES

ASSISTING COUNTRIES

Recipient Countries	Australia	Austria	Belgium	Canada	Denmark	France	Germany	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Sweden	Switzerland	UK	US
Ghana[1]				X	X	X	X	X	X		X		X		X	X	X
Greece[2]		X	X	X	X	X	X	X		X	X					X	X
Guyana[3]				X			X									X	X
Indonesia[4]	X	O	X	O		X	X	X	X		X	O			O	X	X
Turkey[2]		X	X	X	X	X	X	X		X	X		X	X	X	X	X

[1]IMF-sponsored Ghana Aid Group [2]OECD-sponsored Consortium [3]Guyana-sponsored Aid Group [4]Dutch-sponsored Intergovernmental Group for Indonesia

X = Member O = Observer

(c) to facilitate and coordinate the provision of external finance and technical assistance from appropriate sources, and their efficient channelling to meet priority needs;

(d) to help adjust the character and terms of aid to the country's special circumstances;

(e) to reduce confusion and disparity of criteria and terms of aid from various sources, and duplication of effort in the presentation and review of programs and projects;

(f) to provide opportunities for mitigating the problems associated with aid tying and suppliers' credits; and

(g) to help to highlight deficiencies or difficulties in the country's economic performance and to influence or assist the taking of remedial actions.

In some instances, if it appears that other questions have a crucial bearing on the development of a country for which a coordinating group has been formed, and if the debtor and the creditors agree, these subjects may also be included in the group's terms of reference. For example, in the case of India, the Consortium for that country arranged for rescheduling of India's debts to members of the Consortium. This affected about $100 million, or 25%, of debt service due during the Indian fiscal year ending April 1969. International efforts to meet India's emergency food requirements were also coordinated through the Consortium in 1966/67.

Certain conditions must be satisfied before the Bank will consider the advisability of organizing a consultative group or other coordinating machinery for a particular recipient country. A *prima facie* need for coordination must exist: the country concerned must be receiving substantial external aid from several sources. Both the recipient government and the aid-givers representing the bulk of external financing to the country must agree that the Bank should organize some sort of coordinating machinery.

In addition, there must be reasonable prospects that the Bank or IDA will themselves be in a position to provide financing for the country's development, and that a sufficient volume of projects can be expected to be forthcoming (with the help of technical assistance in project preparation if necessary) to provide an adequate vehicle for external assistance. Governmental stability and attitudes in the recipient country must be such as to offer reasonable prospects that the coordination effort can have constructive results.

The Bank assumes several responsibilities in relation to coordinating groups of which it is chairman or in which it participates. On the one hand, the Bank attempts to provide information and objective judgments, based on extensive field work, to assist donor countries in their deliberations. On the other, it assists the developing country wherever possible to assess needs and to take measures required to use assistance effectively. It makes periodic comprehensive reports on the recipient country's development possibilities, problems and performance. It comments on the country's own estimate of aid requirements and makes recommendations concerning the type and terms of aid which seem appropriate. When requested to do so, the Bank assists the recipient country to prepare or revise its development program and advises on problems of execution. It

may also help the government to identify projects, may arrange feasibility studies, determine major or key pre-investment technical assistance requirements, and establish an order of priority for investments.

The degree of formality, functions and mode of operation of Bank-organized coordinating groups may vary considerably from one country to another, and their role is evolving with time and experience. The Bank's approach to coordination has been pragmatic; varying techniques have been used as the different and changing circumstances of particular countries have required.

Joint Financing

Advantages of joint consultation can be achieved within the framework of an individual project as well as of a national economy. On a number of occasions the World Bank Group has joined with other providers of development assistance in the financing of specific projects. IDA, for example, has joined with Sweden in providing finance for projects in Ethiopia, Kenya, Pakistan and Uganda, while the Bank has financed a project in the Congo (Brazzaville) in association with the European Investment Bank and projects in the Western Hemisphere in association with the Inter-American Development Bank. Examples of larger projects for which Bank finance has been combined with other development funds are the Volta River power and aluminum project in Ghana, the Roseires dam and irrigation project in Sudan, and the Niger dam in Nigeria.

The Bank and IDA also joined with governments of eight countries to form the $1,200 million Indus Basin Development Fund, which was set up in 1960 to finance the construction of irrigation and other works in Pakistan consequent upon the settlement of the dispute between India and Pakistan over the sharing of the waters of the Indus Basin. Other contributors to the Fund were Australia, Canada, Germany, India, New Zealand, Pakistan, the United Kingdom and the United States.

The main charge on the Indus Basin Development Fund was the cost of constructing the Mangla Dam on the Jhelum River, together with link canals and associated barrages. The fund also financed a major study, carried out by the Bank with the help of outside consultants, of the water and power resources of West Pakistan. The non-rupee portion of the remainder of the Fund is being applied toward the joint financing of the construction of a second major dam in the Indus, at Tarbela. In May 1968, the World Bank and six countries – Canada, France, Italy, Pakistan, the United Kingdom and the United States – established the Tarbela Development Fund to complete arrangements for providing financing for the Tarbela project. This agreement was negotiated within the framework of the Pakistan Consortium.

Where Bank loans and long-term bilateral development assistance from several sources have been combined to finance a project, the Bank has acted as the leader of the financial syndicate. With the notable exceptions of contributions to the Indus Basin Development Fund and the Swedish contributions to jointly-financed projects, funds from participating countries have usually only been available to finance orders placed in their own countries. Proceeds from the Bank loan have then been available to finance orders placed in a participating country after international competitive bidding beyond the amount the country has agreed to finance bilaterally; orders placed in member countries not participating in the joint scheme; and possibly some local

expenditures. The bilateral agencies may finance or guarantee financing by bankers of 100 per cent of orders placed in their respective countries up to the agreed maximum amount, or some smaller percentage. In practice, the terms of such bilateral assistance have varied widely as to interest rates, period of grace and amortization.

THE BANK AND CAPITAL MARKETS

The international capital market is the largest single source of funds for the World Bank. Funded debt of the Bank on December 31, 1968, consisted of 83 bond and note issues in the hands of investors in an amount equivalent to $3,803 million. This figure, however, does not wholly indicate the size and scope of marketing operations, as it represents the net outstanding amount. In all, the Bank has marketed 133 bond and note issues aggregating $7,230 million.

Sixty-two of these issues were sold and distributed by means of public offerings: twenty-three in the United States, fifteen in Switzerland, seven in Canada, five in the Netherlands, three in the United Kingdom, four in Germany and one each in Austria, Belgium, Italy, Kuwait and Sweden. The other seventy-one issues were sold by private placement outside the United States, and were denominated in United States dollars, Swiss francs or Deutsche mark. Of the aggregate principal amount of all issues at December 31, 1968, $277 million had been sold to investors for delivery at a later date, and $3,150 million had matured, been called for redemption or been retired through operations of sinking and purchase funds.

Bank borrowings to December 31, 1968, gross and net outstanding, are summarized in the following table:

Currency of Issue	No. of Issues	Original Amount	Outstanding Amount	No. of Outstanding Issues
U.S. Dollars	68	$5,553,125,000	$2,665,899,000	35
Belgian Francs	1	10,000,000	10,000,000	1
Canadian Dollars	7	124,875,000	89,169,000	5
Deutsche Mark	24	1,016,625,000	707,460,000	18
Italian Lire	1	24,000,000	24,000,000	1
Kuwaiti Dinars	1	42,000,000	21,000,000	1
Netherlands Guilders	5	58,011,000	41,651,000	5
Pounds Sterling	3	48,000,000	33,891,000	3
Swedish Kronor	1	14,498,000	14,498,000	1
Swiss Francs	22	339,065,000	195,245,000	13
	133	$7,230,199,000	$3,802,813,000	83

DEVELOPMENT OF THE MARKET FOR BANK OBLIGATIONS

The Bank lost no time in making its market debut. On July 11, 1947, about two months after the first Bank loan, two issues of its bonds totaling $250 million were offered publicly in the United States. Its first issue outside the United States was sold in the following year by private placement in Switzerland.

Since then the Bank has built up a wide market for its bonds, and their rating among the international investment community is high. In recent years, however, competing demands for

capital in the developed countries have made it more difficult and more costly for the Bank to obtain finance by borrowing. The Bank can offer bonds only with the consent of the governments in whose markets they are to be sold. To obtain funds, it also must offer yields to investors which are competitive with those available on similar types of securities. The cost of borrowings to the Bank has increased in recent years, reflecting a rise in the general level of interest rates. For example, the average cost of all Bank issues offered during the 1967/68 fiscal year was 6.17 per cent, compared with 5.52 per cent in 1966/67 and 4.88 per cent in 1965/66.

THE MARKET IN THE UNITED STATES

In the Bank's early years only the United States market was able to provide it with sizeable funds, since capital markets in Europe were preoccupied with the financing of domestic postwar recovery and reconstruction. When the Bank prepared to approach the U.S. market for the first time it encountered major problems, due in part to investor attitudes toward foreign investment, and in part to legal regulations affecting security sales and purchases.

As a legacy of the experience of the 1930s, the U.S. financial community distrusted investments related to foreign lending. At the time, it was also deeply immersed in financing postwar economic growth at home and, at best, had little interest in securities that might be offered by a new type of international institution whose credit was unknown. To overcome this attitude the Bank, early in 1947, embarked on a program to disseminate information concerning its purposes, capital structure, organization, policies and operations. The program was designed to reach investment institutions, investment banks and dealers, and investment advisory and rating services, which together make up or influence the bulk of the market for bonds in the United States.

Results may be measured by the broad acceptance accorded the Bank's bonds by investment institutions throughout the country. The Bank's bonds are readily offered and traded by numerous investment banks and dealers, and the principal rating services have listed them as Triple A, the highest investment rating.

The principal purchasers of bonds in the United States are institutional investors such as insurance companies, savings and commercial banks, pension and other trust funds, and other fiduciaries. In 1947, State or Federal legislation in effect precluded many of these institutions from purchasing the Bank's issues.

A program directed toward State and Federal authorities in the United States was therefore undertaken to make the Bank's bonds eligible investments for institutional investors. In most of the States, legislative action was required to qualify the Bank's bonds as eligible investments for such investors; in others administrative rulings were sufficient. The work is now largely completed but continues in a few States where the Bank's bonds are still ineligible for purchase by one or more classes of investment institutions.

In addition, Federal action was necessary to qualify the Bank's bonds as eligible investments for national banks and insurance companies in the District of Columbia, and to enable national banks and State chartered banks holding membership in the Federal Reserve System to assist in

marketing World Bank issues. A 1949 amendment to the National Bank Act permits national banks and state member banks of the Federal Reserve System to deal in and underwrite securities issued by the Bank up to 10 per cent of their unimpaired paid-in capital and surplus, provided those securities are at the time eligible for purchase by national banks for their own account. The U.S. Comptroller of the Currency has ruled that the Bank's bonds are eligible for purchase by national banks for their own account in amounts up to 10 per cent of their capital and surplus and are also eligible as security for U.S. Government deposits.

The Bretton Woods Agreement Act, which authorized United States membership in the Bank, was also amended in 1949 to exempt the Bank's bonds from certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, in effect according them the same general treatment under these Acts as U.S. government and state and municipal bonds.

By December 31, 1968, the Bank's bonds, subject to various statutory and administrative qualifications, were legal investment for:

Commercial banks in 50 States and the District of Columbia
Savings banks in 29 States and the District of Columbia [1]
Life insurance companies in 48 States and the District of Columbia
Other insurance companies in 45 States and the District of Columbia
Trust funds in 47 States and the District of Columbia
Public pension funds (State and municipal employees and teachers) in 38 States; and also specifically for certain general public funds in 13 States.

Bond Sales in the U.S.

Public offerings of bonds in the United States investment market have been a major source of long-term funds for the Bank. The 23 issues floated on this market to December 31, 1968, aggregated $2,860 million, of which 19 issues were outstanding, in whole or in part, in the amount of $1,919 million, including bonds to be issued under delayed delivery arrangements.

The Bank has employed several methods in marketing issues in the United States. The first issues in 1947 were sold under an agency arrangement and distribution was effected through over 1,700 investment dealers throughout the country. For its third issue in 1950, the Bank turned to competitive bidding by syndicates of banks and securities dealers; and the next two issues, both sold in 1951, were disposed of under sponsorship arrangements with groups of banks and dealers.

None of these methods proved satisfactory to meet the Bank's needs as a continuing borrower of sizeable amounts of funds. In 1952, the Bank resorted to a negotiated underwriting arrangement, and all subsequent issues in the United States have been sold and distributed on this basis. Nation-wide syndicates of investment banking firms, commercial banks and dealers, headed in rotation by Morgan Stanley & Company and the First Boston Corporation, have served as underwriters, and have organized selling groups of investment dealers throughout the country.

[1] Only 35 States have separate savings banks.

THE MARKET OUTSIDE THE UNITED STATES

It is important that the Bank, both as an international organization and as a borrower which must go to the market periodically to finance operations, should not be unduly dependent on any one market as a source of funds. Consequently, it has consistently sought to develop sources of both dollar and non-dollar funds in other capital markets.

The Bank has marketed its obligations outside the United States in three ways. First, in various capital markets in Canada and Europe it has made public offerings of bonds normally denominated in the currencies of the countries concerned. Secondly, it has placed bond and note issues privately with central banks, government agencies and governments. In addition, parts of its public issues in the United States have found buyers in other countries.

Public Offerings in Other Currencies

With one exception, all public offerings of World Bank bonds have been denominated in the currencies of the countries in whose markets the offerings have been made. The exception was an offering in Austria in 1962 of $5 million of 4-1/2 per cent Fifteen-Year Bonds denominated in US dollars, with the Oesterreichische Kontrollbank, A.G. heading the underwriting syndicate.

To December 31, 1968, the Bank had publicly offered 38 bond issues denominated in currencies other than US dollars. These issues totaled the equivalent of $796 million, of which 32 issues totaling $628 million were outstanding in whole or in part, including issues denominated in Belgian francs, Canadian dollars, Deutsche mark, Italian lire, Kuwaiti dinars, Netherlands guilders, pounds sterling, Swedish kronor and Swiss francs.

In addition to postwar limitations on capital markets abroad, the Bank, when it sought to establish a market for public issues in various member countries, found that it was faced with problems similar to those it encountered on first entering the U.S. market. Prospective investors and the financial communities had to be informed about the purposes, organization, policies and operations of the Bank, and the legal status of the Bank and its securities had to be determined. All member governments cooperated in helping the Bank to overcome these obstacles, as did Switzerland, a non-member.

The Bank took its first step toward raising non-dollar currencies in 1948 by placing SWF 17 million ($4 million) of 2-1/2 per cent Serial Bonds due 1953/54, with the Bank for International Settlements (BIS) in Basle, Switzerland. A second placement with a group of leading Swiss banks and the BIS led to talks with the Swiss banks, the Swiss National Bank and the Swiss Government about the possibility of public offerings in Switzerland. Negotiations between the Bank and the Swiss Federal Council followed, resulting in mid-1951 in the signing of a formal agreement under which Switzerland recognized the international personality and legal capacity of the Bank and granted it facilities corresponding in large part to those accorded the Bank in the territories of member countries.

In July 1951, the Bank offered its first public issue in Switzerland, SWF 50 million of 3-1/2 per cent Twelve-Year Bonds, through an underwriting syndicate consisting of the Swiss Bank

Corporation, the Swiss Credit Bank and the Union Bank of Switzerland. All 14 of the Bank's subsequent public issues in Switzerland have been sold through the same syndicate with the position of lead underwriter being rotated among the three banks.

At the same time as negotiations were proceeding in Switzerland the Bank approached H.M. Treasury and the Bank of England with a view to listing the Bank's US dollar bonds on the London market, but this proved impractical and consideration was given to an issue in sterling. As in Switzerland, the problem was to clarify the legal status of the Bank and its bonds. When this had been done the Bank in May 1951 offered the London market an issue of £5 million of 3-1/2 per cent Twenty-Year Stock due 1971, its first public issue outside the United States. The offering was made through a group of London banking firms headed by Baring Brothers & Co. Limited.

A similar pattern was followed in introducing the Bank's public issues in other countries. In 1952, the first public issue was floated in Canada, in 1954 in the Netherlands, in 1959 in Belgium and Germany, and in 1961 in Italy. Heading the syndicates in Canada have been Wood Gundy Securities Limited, Dominion Securities Corporation Limited and A.E. Ames & Co. Limited, on a rotation basis; in the Netherlands, Algemene Bank Nederland N.V.; in Germany, Deutsche Bank A.G. and Dresdner Bank A.G.; in Belgium, Banque de la Societe Generale de Belgique, Banque de Bruxelles, Kredietbank, and Societe Belge de Banque; and in Italy, Banca d'Italia, the only central bank to undertake this role.

In 1968, the Bank arranged the first issue of a Kuwaiti dinar bond in Kuwait through an underwriting with the Kuwait Investment Company (S.A.K.).

Placements

All placements of World Bank obligations have been with purchasers outside the United States, by far the bulk of the issues being taken up by central banks and other governmental institutions. These transactions are a major source of funds, including sizeable amounts of US dollars and Deutsche mark and to a lesser extent Swiss francs.

Seventy-one issues aggregating the equivalent of $3,570 million had been placed privately to December 31, 1968: $2,688 million of US dollar bonds and notes, DM 3,096 million of Deutsche mark bonds and notes, and SWF 462 million of Swiss franc obligations. Of these issues the equivalent of $1,251 million was outstanding – $742 million in US dollar obligations, DM 1,973 million in Deutsche mark obligations, and SWF 66 million in Swiss franc obligations.

Placements fall into two main categories: (1) broad placements with central banks and governmental accounts in countries outside the United States of two-year bond issues denominated in US dollars; and (2) placements of entire note and bond issues, denominated in Deutsche mark or US dollars, with the Deutsche Bundesbank, Westdeutsche Landesbank Girozentrale, the Saudi Arabian Monetary Agency and the Austrian National Bank.

For a number of years the Bank has been placing two-year US dollar bond issues with central banks and other governmental accounts. The practice started with a $50 million Five-Year issue placed in 1954 with both governmental and private purchasers outside the United States. In 1956

a $75 million Two-Year issue was similarly placed. Beginning in 1963 these placements have been limited to central banks and governmental accounts. The Bank has $469.5 million in four Two-Year US dollar issues outstanding, with an issue maturing every six months and being replaced with a similar Two-Year issue. The last placement prior to December 31, 1968, was in September 1968, when a $144.5 million issue of Two-Year US dollar bonds was sold to central banks and governmental accounts for 48 countries other than the United States and to two international institutions.

In 1957 the Deutsche Bundesbank purchased $100 million of 4-1/4 per cent US dollar notes of the Bank with maturities of from one to three years. In 1958, the Bundesbank made its first purchase of World Bank obligations denominated in Deutsche mark, with the purchase of DM 200 million of three year notes. It has since added to its holdings. Deutsche Bundesbank holdings of Bank obligations on December 31, 1968, were estimated to amount to about $614 million equivalent, 36 per cent in dollars and 64 per cent in Deutsche mark.

Sales Abroad of Bonds Publicly Offered in the U.S.

Despite postwar stringencies, part of the Bank's earliest issues offered in the United States were purchased by investors abroad. Virtually all of a $100 million issue of 2 per cent Serial Bonds, due 1953-62, which were offered in the United States in 1950, was ultimately purchased by central banks outside the United States. In 1953, $40 million of a public offering in New York of $75 million of 3 per cent Three-Year Bonds were bought for private and governmental accounts in 16 countries. Non-American investors, helped by certain exemption from US taxes accorded holders of World Bank dollar bonds and notes who are non-resident aliens or foreign corporations, have purchased part of all subsequent issues offered publicly in the United States.

It is estimated that on December 31, 1968, some $332 million of currently outstanding US dollar bonds of the Bank publicly offered in the United States were held by investors outside the United States. Roughly $282 million were held by private investors principally in Europe and Canada, and the balance by central banks and other governmental accounts.

DISTRIBUTION OF WORLD BANK OBLIGATIONS

As a result of the Bank's efforts to obtain the broadest possible market for its obligations, holdings of its bonds and notes are widely distributed. Of the US dollar issues outstanding on December 31, 1968, an estimated total of $1,079 million, or 40.5 per cent of all outstanding dollar obligations, were held by private and governmental investors in some 60 countries other than the United States. Taking into account all Bank issues outstanding, about 58 per cent of the total is held outside the United States.

Distribution of World Bank Obligations
Estimated as of December 31, 1968

	Amount (in millions of US dollar equivalent)	%
Holdings Outside the United States		
US dollar bonds and notes	1,079	
Bonds and notes in other currencies	1,137	
	2,216	58
Holdings in the United States	1,586	42
	3,802	100

TYPES OF SECURITIES SOLD

Bonds and notes issued by the Bank are its direct obligations; none is secured by a pledge of specific assets and, as required by the Articles of Agreement, both bonds and notes state that they are not obligations of any government. As explained in a previous chapter (pages 21–23), however, member governments are obliged to make payments on their uncalled capital if this is required by the Bank to meet its obligations on borrowings. Thus the uncalled capital provides strong backing for the Bank's notes and bonds.

All the bonds contain a provision to the effect that, with a minor exception relating to purchase money security, the Bank will not pledge any of its assets to secure other debt unless the bonds share *pro rata* in such a pledge. Many outstanding bond issues of the Bank contain sinking fund provisions obliging the Bank to purchase or redeem bonds for sinking fund purposes during the life of the issue.

Under the Articles, holders of Bank obligations do not, as such, enjoy any general exemption from taxes on interest paid to them. The bonds and the interest thereon, however, are not subject to any tax (a) which discriminates against the bonds solely because they are issued by the Bank, or (b) the sole jurisdictional basis for which is the place or currency in which the bonds are made payable or paid, or location of any office or place of business maintained by the Bank. Also under the Articles the Bank is not obligated to withhold or to pay any tax on the interest on the bonds.

SALES OF LOANS

By December 31, 1968, the Bank had sold or arranged to sell to investors by private placement the equivalent of $2,173 million of the obligations of its borrowers received in connection with its loans to them. On that date, $1,473 million of these obligations had been repaid.

In some cases, sales are made after the loan contract has been signed and disbursements have been made, and these are designated as "portfolio sales." In other cases, sales are arranged about the time the loan contract is signed and funds are called when disbursements are made. These transactions are designated as "participations." Portfolio sales accounted for $1,654 million of loan sales to December 31, 1968, and participations for $519 million.

For about five years loan sales were an important source of replenishment to the Bank's lendable funds. The peak was reached in the fiscal years 1961/62 and 1962/63, when sales were $319 million and $273 million respectively. Loan sales declined thereafter and totaled only $107 million in the fiscal year 1967/68.

This decrease has been an outcome of the world-wide scarcity of capital in recent years and the resulting increase in the general level of interest rates. This increase has made it difficult for the Bank to offer yields on loans in its portfolio as attractive as those available on other investments.

As in the case of the Bank's bonds and notes, the placement of its loans has been made on a broad international scale, with United States private investors purchasing about one-third of the total, and the remainder being bought by investors abroad, including purchases by governmental accounts of their own governments' obligations to the Bank.

LOANS SOLD AND AGREED TO BE SOLD
(In millions of US dollar equivalents) to December 31, 1968

	Amount	% of Total
Purchased by investors outside U.S.	1,493	69
Purchased by U.S. investors	680	31
	2,173	100

JOINT BANK-MARKET OPERATIONS

Joint Bank-market operations have been arranged on several occasions to provide finance for development projects in member countries, notably between 1954 and 1960. Under this arrangement, agreement was reached with U.S. investment banking houses whereby a World Bank loan was made to coincide with the raising of additional funds from private investors, either by means of a public offering of the borrowers' bonds, by the private placement of securities with institutional investors, or by a combination of the two. In this way the Bank assisted in bringing to the market the obligations of a number of governments that had not sold issues in the United States market since before World War II. It also helped to introduce to investors through the medium of the investment market in the United States the securities of two international airlines and of two Japanese steel companies.

Fifteen such operations were undertaken between December 1954 and December 1960 involving a total amount of $562 million, of which $252 million was in World Bank loans and $310 million in sales of the borrowers' securities. The borrowers involved were the Governments

of Austria, Belgium, Denmark, Federation of Rhodesia and Nyasaland, Japan, Norway, South Africa, the Cassa per il Mezzogiorno, an Italian Government agency, the international airlines of Australia (Qantas) and India (Air India), and the Kawasaki and Sumitomo Steel Companies in Japan.

GROUP SUPPORT TO DEVELOPMENT FINANCE COMPANIES

The World Bank, IFC and IDA operations in supporting development finance companies – also known as development banks or development corporations – are closely coordinated and the World Bank Group acts as a team in providing this assistance. The World Bank has supplied the great majority of Group funds that have gone to development finance companies.

A development finance company provides venture capital to businesses in its own country, promotes new enterprises, finances expansion of existing firms, underwrites equity issues and otherwise helps develop capital markets, gives assistance in the preparation of projects and, in general, helps strengthen and expand production in the same ways that the World Bank Group does on a larger scale in many countries.

The World Bank Group's objective in promoting development finance companies is to help build strong and effective domestic investment institutions which can channel local savings, external capital and local and foreign know-how into productive private enterprise. The Group seeks in this way to encourage both the growth of these enterprises and the development of capital markets in its member countries.

A secondary objective is the establishment of development finance companies as local intermediaries through which the Bank Group can help finance productive private enterprises that the Bank or IFC could not reach directly.

The local development finance bank may bring to the attention of the Bank Group a project that the development company cannot handle by itself, but that a member of the Bank Group may undertake.

The hard core of the work of development finance companies is the task of providing medium and long-term loans and equity capital for productive enterprises, in industry, tourism, agriculture or in other economic sectors.

In order to carry on this activity, development finance companies require equity capital and a source of loan funds. They may also need technical assistance and help in training management and staff.

The World Bank supports development finance companies through loans based on their equity capital and business prospects. The companies may be private or public in ownership and control, depending both on the nature of their activities and on the availability of private capital in the country or countries concerned.

IFC supports private development finance companies, chiefly in the form of investment through the purchase of shares or, in exceptional cases, through loans. Most of the equity comes from local private investors, supplemented by foreign private sources. IFC will underwrite share offerings of a development finance company when appropriate and feasible.

IDA has supplied credits to Turkey and the Republic of China for use by development finance companies in those countries.

As of December 31, 1968, the World Bank Group was associated with 27 development finance companies in the following 23 countries: Austria, Ceylon, China (Taiwan), Colombia, Ethiopia, Finland, Greece, India, Iran, Israel, Ivory Coast, Korea, Liberia, Malaysia, Morocco, Nigeria, Pakistan, Philippines, Spain, Thailand, Tunisia, Turkey and Venezuela. The Group had provided a total of $741.9 million to these companies. Of this amount, the Bank had provided $679.6 million in loans, IDA had supplied $39.7 million in credits, while IFC had made commitments that totaled $22.6 million. IFC had nominated representatives on the boards of 12 companies.

The government of a country in which the World Bank makes a loan to a development finance company guarantees the loan. The government may also give support in other ways: by providing long-term "quasi-equity" to the company in the form of loans on lenient repayment and interest terms; by subscribing to share capital; by entrusting the administration and management of special funds to the company; by giving the company preferential tax treatment; and by taking the foreign exchange risk for borrowing abroad.

Financial assistance is only part of the World Bank Group's support of development finance companies. The Group, through the Bank's Development Finance Companies Department, has helped to reorganize companies and has aided in the organization of new concerns. It has helped to bring private investors, and has provided a wide range of technical assistance such as help in drafting statutes, preparing policy statements, finding experienced management, training staff and developing project analysis procedures.

Development finance companies are instrumental in spurring the growth of local capital markets in several ways. To obtain World Bank Group assistance the finance company must establish sound business and accounting practices which, together with the company's prospects for earnings, can make its share more marketable. It also requires client companies to establish such practices, improving their viability and market acceptability.

The development finance company also, like IFC, sells from its own portfolio the securities of companies that have become profitable, thus increasing the supply of marketable securities, encouraging broader ownership and, at the same time, replenishing the finance company's resources.

Underwriting, another finance company activity, heightens investor confidence and broadens the supply of securities. Development finance companies have also rendered technical assistance to capital market development by such means as sponsoring studies of local capital market possibilities and consulting with governments on commercial and tax law changes.

INTERNATIONAL FINANCE CORPORATION

The International Finance Corporation (IFC) was established in 1956 as an affiliate of the World Bank, to assist less developed member countries in furthering their economic development by means of encouraging the growth of productive private enterprise. IFC's activities supplement those of the World Bank.

MEMBERSHIP AND ORGANIZATION

Membership and Voting Rights

The Articles of Agreement of the International Finance Corporation are patterned on those of the Bank. Countries that are members of the Bank are eligible for membership in the Corporation. Voting rights in IFC are related to member countries' capital subscriptions in the Corporation, and with certain exceptions all matters before the Corporation are decided by a majority of votes cast. Each member has 250 votes, plus one for each $1,000 of capital stock subscribed. Details of members' subscriptions and voting power are given in Appendix C.

A government may withdraw from the IFC at any time, or it may be suspended if it fails to fulfill any of the obligations of membership. If a government belonging to IFC ceases to be a member of the Bank, or if its membership in the Bank is suspended, its membership in IFC is automatically terminated or suspended as well. If a government ceases to be a member it remains liable for all amounts due from it to the Corporation. The Corporation will arrange to repurchase the capital stock of a government relinquishing membership, as part of the settlement of accounts with the government.

Five countries joined IFC in 1968, bringing membership to 90 at December 31, 1968.

Policy Direction

As indicated earlier, the three institutions of the World Bank Group have essentially identical organizational structures for policy formulation and executive supervision. The arrangements relating to the Boards of Governors, Executive Directors, the President and Chairman of the Directors described on pages 12–13 apply to IFC. The President of the World Bank is Chairman of the Board of Directors of IFC. IFC has had four Presidents: Mr. Robert L. Garner (1956-61); Mr. Eugene R. Black (1961-62); Mr. George D. Woods (1963-68), and Mr. Robert S. McNamara, who became President of IFC, as of the Bank and IDA, on April 1, 1968.

Management

The Executive Vice President of IFC is the deputy of the President and conducts the day-to-day affairs of the Corporation. In the President's absence he acts as senior executive, and presides at meetings of the Board. The Vice President is responsible for internal administration. In the absence of the President and Executive Vice President, the Vice President acts as senior executive of the Corporation, and presides at meetings of the Board. Mr. Martin M. Rosen was appointed Executive Vice President of IFC in June 1961. Mr. James S. Raj was appointed Vice President of IFC in June 1967.

The Corporation has a Special Representative in the Far East. The Executive Vice President is assisted by Special Advisers.

International Advisory Panel

The Corporation's activities and policies are reviewed annually by an international panel of investment bankers. Members, at the close of Fiscal 1968 were: Dr. Hermann J. Abs, Chairman of Deutsche Bank, A.G., Frankfurt; Viscount Harcourt, Managing Director, Morgan Grenfell & Company Limited, London; Dr. Raffaele Mattioli, Chairman, Banca Commerciale Italiana, Milan; Mr. Andre Meyer, Senior Partner, Lazard Freres & Company, New York; and Baron Guy de Rothschild, Partner, de Rothschild Freres, Paris.

Organization

The Corporation is organized into four departments, two of them (the Departments of Investments) operating on a geographical basis and two others (the Legal and Engineering Departments) on functional lines.

These departments work in close coordination with the Bank whenever Bank loans are involved. The Departments of Investments are responsible for the appraisal and supervision of all projects in their respective areas relating to manufacturing and mining industries (and such other fields as may be determined from time to time) as submitted to the World Bank Group irrespective of which member of the Bank Group is to provide the financing. In addition, six of the Bank's functional departments – Administration, Information and Public Affairs, the Secretary's, Treasurer's and Controller's Departments, and the Programming and Budgeting Department – as well as the Bank's European and New York Offices – also serve IFC (see pages 18–20).

Staff Investment Committee

This Committee considers questions of general IFC investment policy. It reviews proposed investments prior to the President's Report on the proposal to the Board of Directors. It considers proposals for IFC investments, projects where joint financing with the World Bank is proposed, and draft appraisal reports prepared by IFC at the request of the Bank on industrial, mining or development finance company projects for which Bank or IDA financing has been requested. It reviews at suitable intervals the status of each investment in the Corporation's portfolio.

The Chairman at meetings of the Staff Investment Committee is the Executive Vice President of IFC, or the Vice President. The Staff Investment Committee also includes the Directors of Investments, the Director of the Engineering Department, the General Counsel, the Treasurer, the Special Assistant to the Executive Vice President, and the Corporation's Accounting Adviser. The Manager of Participations and Portfolio Sales and the Director of Information and Public Affairs, or his representative, participate in the meetings.

When present in Washington the Special Adviser and the Special Representative in the Far East also serve as members of the Committee.

Departments

The Departments of Investments are organized on geographical lines. One of these has responsibility for the Corporation's investment operations in member countries in Africa, Asia and the Middle East. The other is similarly responsible in Latin America, Europe and Australasia.

The Departments of Investments determine and develop investment opportunities; preselect investment proposals and recommend the principal directions for investment efforts; evaluate investment proposals and make recommendations as to their suitability; conduct negotiations, present investment proposals to the Board and take or coordinate other actions to complete approved investments. They evaluate projects submitted by the Bank to the Corporation and formulate the Corporation's recommendations to the Bank on the suitability of these projects, particularly with respect to the amounts of loans and their terms and the conditions under which they might be granted. The Departments of Investments participate in subsequent loan negotiations and follow up the execution of manufacturing and mining projects. They also keep in close touch with manufacturing and mining enterprises assisted by the Bank Group to identify problems and the action needed to overcome them and conduct correspondence on Corporation investments and certain aspects of Bank loans in the manufacturing and mining fields, and keep other financial institutions informed as to the progress of transactions in which they participate.

The Legal Department advises the Corporation on legal questions relating to the organization, structure, administration, policies and operations of the Corporation. It prepares or reviews documents which create, define, modify or limit the legal rights or obligations of the Corporation, including those relating to investment operations and the issuance or sale of securities. It also, in consultation with the Secretary's Department, prepares or reviews documents relating to corporate meetings or actions, and furnishes or arranges for counsel to represent the Corporation in any legal proceedings in which it may be interested.

The Engineering Department assists the Departments of Investments of the Corporation in the appraisal and supervision of investment enquiries and applications and of industrial and related projects for Bank financing. It recommends contractual arrangements designed to assure successful construction and operation of projects; follows up on project progress; advises on selection of consultant and contractor services to borrowers; advises on the organizational, managerial, marketing and engineering aspects of projects, including, upon request, projects submitted by development finance companies; and comments, as requested by the Development Services Department of the Bank, on proposals submitted to them by the affiliated United Nations organizations.

POLICIES AND PROCEDURES IN MAKING DEVELOPMENT INVESTMENTS

The International Finance Corporation is unique among inter-governmental organizations in that it is the only such institution operated for the sole purpose of assisting the international spread of private enterprise. To this end, it operates as an international investment bank, but with responsibilities for assisting economic development as well as for making sound investments.

As demand for the expansion of the private sector in the developing countries has grown, IFC's investments have become both larger and more varied, and have been made with increasing flexibility to meet varying conditions in these countries and the unique nature of each development investment. Two major changes have been made in the Corporation's Articles of Agreement, both designed to give it greater scope in its investments.

The first of these involved the kind of investments IFC could make.

During its first few years IFC was empowered only to lend to private enterprise in developing countries, not to make equity investments. That is, during this five-year period, the chief distinction between Bank and IFC investments was that the Corporation could lend to private enterprise without government guarantee, while the Bank required a guarantee from the government of a country where it made a loan to private enterprise.

IFC was permitted to include quasi-equity features in its loan agreements. It did so in various ways, for example, by investing in debt instruments that, when sold to private investors, could be converted to capital shares.

IFC in 1961 sought and obtained an amendment to its Articles of Agreement making it possible to invest in equity.

This change opened up new areas of opportunity that the Corporation began quickly to exploit. The 1964 fiscal year was the first time during which IFC made more than half its investments in the form of subscriptions to capital shares rather than in loans. IFC's usual investment now consists of an equity investment together with a long-term loan. By the end of 1968, 42.7 per cent of disbursed and outstanding investments were held by the Corporation in equity.

The power to invest in equities made it possible to simplify the form of IFC's investments, facilitated negotiations and made it easier for the Corporation to find participants and to sell from its portfolio. Further, IFC was enabled to underwrite sales of shares by new or expanding companies. Finally, IFC also gained the opportunity to participate as a shareholder in local development finance companies – institutions which can provide venture capital in their own countries, carry out underwritings, promote new enterprises and extend assistance to local entrepreneurs in preparing projects. Since 1961, IFC has invested in 19 development finance companies in 17 countries. In addition to supplying share capital, IFC also helps these institutions to obtain participation in their share capital by private foreign investors. In February 1968, for example, IFC helped bring together an exceptionally broad investment group to provide $22.5 million to the Korea Development Finance Corporation, the first private institution in Korea for the supply of long-term industrial funds. Nine private banks from outside Korea participated in this financing.

The ability to hold equity has also enabled IFC to attain other objectives more effectively. As a shareholder in a development finance company the Corporation is in a position to play an influential advisory role and thus assist in the spread of sound financing practices. IFC's authority to take part in underwriting operations lays the basis for development of local capital markets.

The scope for IFC's operations was further enlarged by amendments to the Articles of Agreement of the Bank and the Corporation that took effect in 1965. These amendments made it possible for IFC to borrow from the World Bank amounts up to four times the Corporation's own unimpaired capital and surplus, or a total of about $400 million, for use in the Corporation's lending. An initial line of credit from the Bank to IFC amounting to $100 million was approved in October 1966.

The availability of new resources for use in lending made it possible for the Corporation ultimately to apply all of its own share capital and reserves to equity investments. Further, it permitted the Corporation to engage in considerably larger transactions: the average size of its principal commitments, which had been $1.4 million over the Corporation's first decade of operations, rose to $7.1 million during the 1968 fiscal year.

In July 1968, IFC decided to undertake a more active role in seeking to promote projects which have a reasonable prospect of eventually being suitable for financing by IFC in accordance with established criteria. This enabled IFC to increase the range of help it can give in assisting potentially sound private enterprises through study and planning stages and into the stage of productive businesses.

The form IFC's promotional assistance takes is flexible, so as to meet the many kinds of need for such help encountered in the varying circumstances of different kinds of projects in countries at various stages of development. IFC's first investment under the new policy, in December 1968, was in a pilot company established in Colombia to promote investments in tourism projects. In February 1969 IFC joined other investors in putting equity funds in a new company in Honduras, set up to conduct studies and negotiations to carry forward a projected pulp, paper and lumber operation. Also under the new policy, the Corporation is undertaking pre-investment studies in Indonesia.

In some cases, IFC will give financial and technical support in the pre-investment stage of potential projects, by paying part of the costs of feasibility studies and, in general, helping to pay the costs of putting together all the elements of a project, industrial, technical and financial, including the search for an appropriate business sponsor.

In other cases, IFC will join in the equity of pilot companies, together with other members of an investment group interested in backing the prospective full-scale company. The embryo company would then carry out the necessary detailed studies and negotiations needed to implement the project. If the project succeeds, the equity investors in the pilot company would be reimbursed, usually by having an investment in the full-scale company.

INVESTMENT PRACTICES AND PROCEDURES

Preliminary Information

In common with most investment institutions, IFC looks for certain preliminary information before deciding whether to make a detailed appraisal of an investment proposal. This information,

which varies according to the kind of investment being considered, includes a description of the enterprise concerned, its legal status, financial history, present and proposed operations, the purposes for which the financing is required, the outlook for profits and the amounts of financing sought. A manufacturing enterprise would also be expected to give information such as an indication of the costs and availability of raw materials and other inputs, together with a review of technical assistance and other agreements desired.

Investment Criteria

IFC uses several guidelines in deciding whether to make an investment. The Corporation invests only in less developed member countries, where sufficient private capital is not available on reasonable terms, in projects of economic priority to the country concerned, and where there are reasonable prospects of adequate returns. This means that each project is required to make public profits in such forms as higher national income, employment, increased per capita income, and the like, as well as to be a sound and profitable business.

In considering whether to make an investment, IFC does not choose between the objectives of economic priority and profitability. Rather, it makes an investment only where it is convinced that both objectives will be satisfied. IFC does not pursue profit *per se,* but as the best available indicator that its investments do in fact carry out the Corporation's purpose of fostering the establishment, improvement and expansion in the developing countries of productive private businesses.

The determination of economic priority depends on answers to a number of questions, for example: Can the projected enterprise make use of an abundant natural resource? Will it create employment locally? Will it *earn* foreign exchange by making a product that can be exported? Or, will its products *save* foreign exchange by substituting for imports? While recognizing that new industries may need some initial tariff protection, IFC seeks assurance that they can become competitive. To this end, the Corporation supports proposals that involve the transfer of technological managerial and other skills for increasing productivity from the economically advanced to the developing countries.

One of the generally most important criteria of a potentially sound investment for IFC is the availability of sponsors – partners – for new enterprises from among companies with proved industrial competence willing to accept responsibility in a joint venture. Experience has shown that such a partnership, which usually involves local and foreign investors, brings together elements that are, together, the best assurance of the viability of a new venture. The local investor provides knowledge of national and regional market conditions and is at home in relations with labor and government. The foreign partner brings to the association a knowledge of the newer industrial techniques as well as up to date management and administrative practices.

IFC may provide early financing around which other funds can cluster, or, it may make a project possible by providing finance that could not otherwise be obtained upon reasonable terms. It may even be that known willingness by IFC to enter into a proposed investment will result in all needed funds becoming available without an actual IFC financial commitment. In any of these

cases, IFC regards itself as performing its function as a catalyst in mobilizing finance for private ventures in the developing countries. The Corporation views as one of the most meaningful measures of its success the amount of financing from other sources included in enterprises in which IFC invests.

While the nature of ownership of projects submitted to IFC varies, in the main, the Corporation makes two stipulations: first, there should be adequate participation by the chief sponsor in the capital of the enterprise, so as to ensure that a proper long-term incentive exists; and second, there should be provision for adequate domestic participation.

Since the project is always in one of the less developed countries, it is unlikely that a fully developed securities market exists. Therefore IFC may join in underwriting arrangements, or it may agree to make shares available locally when the enterprise is established. In both cases, and in other ways, IFC serves a purpose ancillary to the investment itself but centrally important to one of IFC's principal aims – helping to develop capital markets.

Range of Investments

The range of IFC's investments is steadily broadening. Most of the Corporation's early commitments were made to help basic industries of obvious priority to developing countries, for the manufacture of iron and steel, pulp and paper, textiles, cement and machinery. With new resources available from the World Bank, the Corporation is in a position to respond to the changing demands of the developing countries by diversifying its operations, in kind and geographically. IFC commitments are shown by purpose and by area in the tables on pages 81–82.

In its 1966/67 fiscal year the Corporation invested for the first time in an electric utility (in the Philippines) and in tourism (in Kenya). IFC has also extended its assistance to agricultural enterprises that are in corporate form and that meet IFC's usual criteria with regard to economic priority, scale of investment, and profitability of the enterprise. It has helped finance a grain storage company and a project to produce and distribute beef (in Colombia). The Corporation is prepared to invest in service industries. But it does not engage in refunding operations, nor does it commit its funds to be used for the financing of exports or imports or for real estate development.

IFC is continuing its interest in tourism as a developmental industry. In October 1968, it made an investment in a convention and tourist hotel in Jamaica, and in December of the same year, it co-sponsored a new promotional company formed to develop Colombia's tourism potential, one of its first moves under the new policy adopted in July 1968. In February 1969, the Corporation helped to finance a convention and tourist hotel in El Salvador.

An important and growing feature of IFC's industrial operations is its interest in increasing the availability of fertilizers in the low income countries. This was manifest in fiscal 1966/67 when more than half the Corporation's investment commitments were to fertilizer manufacturing in Brazil, Senegal and India. The Senegal investment was for the first fertilizer manufacturing plant in West Africa.

IFC is continuing to pursue this objective. In July 1968, the Corporation helped to finance a $78 million urea fertilizer plant in West Pakistan. The IFC commitment was made in conjunction

with a World Bank loan. In April 1969, IFC joined investors in the United States and India to help set up a fertilizer project at Goa, in Southwest India, that will produce both urea and compound fertilizers.

On behalf of the whole World Bank Group, IFC has taken the lead in discussing with governments and with the world's large petroleum, chemical and fertilizer companies ways of establishing fertilizer production in the developing countries. There are two reasons for this interest. Fertilizer can make a vital contribution to improving the overall productivity of the agricultural sector, and to increasing food production, in countries where agricultural lag is retarding economic development. Second, fertilizer manufacture is a rapidly changing, high technology industry. Therefore, if the fertilizer needs of the developing countries are to be met, they will need to draw upon the capital, technical skills and marketing and management experience of private firms in the industrialized countries.

Terms of Investments

Each IFC investment is examined on its merits and in relation to local factors such as the pattern of interest rates and the general financial maturity of the country where the investment is proposed. There is no formula for working out the terms of an IFC investment, and there is no fixed relationship between the amount of loan and of equity funds provided. IFC seeks a prospective overall return that is consistent with the requirements of the business involved and with the Corporation's need to revolve its funds for repeated beneficial use, by selling its part of the investment at some future time.

Share investments are usually denominated in the currency of the country concerned.

Reflecting the fact that subscriptions to the Corporation's capital have been paid by all its members in U.S. dollars, most loans are expressed in U.S. dollars. Loans are usually for seven to twelve years, though longer maturities are occasionally permitted. Repayment is customarily made in semi-annual installments following a grace period, and a commitment fee of one per cent a year is levied on the undisbursed portions of loans. These stipulations conform to the usual practices of long-term private investors.

In the case of a new venture, IFC insists that others provide the bulk of the financing. The Corporation may finance a larger proportion of the costs of expanding an existing enterprise, especially one in which it already has an interest, though such cases are always judged on their merits and always in the light of what other resources are available to the company. Only in exceptional cases would IFC consider making an investment of less than $500,000, since commitments on this scale seldom prove economical, due to the costs to the Corporation of appraisal and follow-up. One exception is the case of promotional investments, where commitments are typically small.

IFC's $20 million commitment to Societe Miniere de Mauritanie (Somima), for the development of copper deposits at Akjoujt, Mauritania was the Corporation's largest single investment during the 1957-68 fiscal years. In the 1969 fiscal year, in a transaction that involved

the simultaneous financing of five separate but interrelated companies of the Siam Cement Group in Thailand, which were engaged in carrying out four capital expansion programs, the Corporation made loan and equity commitments totaling $22.1 million. Participations by other investors in each of these cases reduced IFC's own exposure considerably. Participations in the Siam Cement investment by 17 banks and financial institutions, for example, came to 64 per cent of the IFC commitment at the time the agreement was signed.

A company may use IFC financing to acquire new machinery or to modernize existing plant. Or, the IFC money may serve as additional working capital for a growing enterprise. Use of IFC funds is not tied to the purchase of equipment or services in any particular country. As indicated previously, government guarantees for IFC loans are neither sought nor accepted.

Relations with Management and Government

While IFC does not normally seek board representation, in the case of development finance companies the presence of an IFC representative on the board of directors can be of mutual value as a means by which IFC experience and know-how can be paired with local knowledge. In order effectively to carry out its promotional activities, IFC might seek representation on the Board of a promotional company in which IFC has made a share subscription.

The Corporation, like other investment institutions, does not undertake managerial responsibilities in companies it assists. Also, IFC is unwilling to be the dominant shareholder in any enterprise and will normally insist that its holdings be less than 25 per cent. Only in exceptional cases does the Corporation exercise its voting rights. Nevertheless, IFC expects to be kept fully informed on the company's affairs. This is achieved through periodic consultations with management, visits by IFC staff, the receipt of regular progress reports and information on factors materially affecting or likely to affect the company's business. Annual financial statements are required to be audited by independent public accountants, and stipulations regarding accounting and financial reporting are written into IFC investment agreements.

IFC's Articles of Agreement confine the Corporation's financing to productive private enterprises. IFC does invest in enterprises in which there is government participation, so long as the business is predominantly privately owned.

The IFC does not invest in a business in a member country that objects to the financing. The Corporation seeks no special privileges regarding foreign exchange, or other regulations, although, like any investor, it requires assurances that appropriate arrangements for repatriation of funds will be made. The Corporation, an inter-governmental organization, is immune from taxation on income earned on its investments.

FINANCIAL STRUCTURE AND OPERATIONS

IFC's authorized capital was initially fixed by its Articles of Agreement at $100 million, divided into 100,000 shares of $1,000 par value. Original members took up the number of shares assigned to them in the Articles, while the number, price and other terms of subscription by others

are determined in each case by the Corporation in agreement with the prospective member. To provide for subscriptions by new members, the number of shares was increased to 110,000 in 1963, raising the authorized capital to $110 million. At December 31, 1968, subscribed capital totaled $102,386,000. The Republic of China's subscription, upon its admission to membership in January 1969, brought this total to $106,540,000.

The Corporation's Articles of Agreement provide that subscriptions by member countries to IFC's capital stock should be entirely payable in gold or United States dollars. The entire subscribed capital of IFC is available to the Corporation for use in its operations.

IFC's net income, together with net gains on sales and other dispositions of loans and equity investments and various other net profits, have been allocated to a reserve against losses. This reserve, like IFC's subscribed capital, can be used for investments. At December 31, 1968 it stood at $45.1 million.

During its first decade IFC relied for its resources exclusively on capital subscriptions, net earnings and its ability to revolve its portfolio by sales of securities to other investors. In the course of 1966, as already noted, the Corporation's resources were supplemented by a $100 million line of credit from the World Bank. By December 31, 1968, the total of funds available to the Corporation for use in its operations was $358.7 million. This included, in addition to the $100 million available from the Bank, capital subscriptions of $102.4 million, net income of $42.7 million and net profit on sales of investments amounting to $3.4 million.

Details of funds available to the Corporation for the period 1956-68, commitments against these funds, and funds uncommitted at the end of fiscal year 1968 are given on page 81.

INVESTMENTS AND FINANCIAL RESULTS

IFC made gross commitments, net of exchange adjustments, of $289.2 million to 118 enterprises in 39 countries from the start of operations in 1956 through December 31, 1968. Of the total, $253.0 million was for operating investments and $36.2 million for standby and underwriting purposes.

The Corporation has sold to other investors equities and loans from its own portfolio amounting to $61.8 million. Repayments to IFC totaled a further $23.3 million. And an additional $14.9 million had been cancelled, terminated, or written off. The Corporation's holdings in its portfolio at the end of 1968 were $146.9 million.

Equity investments accounted for $53.6 million of the Corporation's portfolio. The remaining $93.3 million was investments in the form of loans.

The Corporation became active in standby financing and underwriting in 1962 when it committed $2.9 million for these purposes. This increased rapidly, reaching the $36.2 million level at the end of 1968. Of that amount $26.1 million was acquired by others, $234,321 was cancelled,

$8.9 million was taken up by the Corporation or its sub-underwriters, and $1.0 million was not effective pending the close of a public offering period ending in 1969.

The extent to which the Corporation has increased the availability of funds for investment in productive private enterprise in capital-short, low income countries is by no means measured by IFC's total investment. IFC is also a mobilizer of the capital of others, who invest together with the Corporation.

At the end of the 1968 calendar year Latin America accounted for 49.3 per cent of IFC's total commitments while commitments in Asia and the Middle East accounted for 24 per cent. Commitments made to 17 enterprises in Africa accounted for 21 per cent.

Over their life to the end of the Corporation's 1968 fiscal year the average annual return on loan and equity investments held in IFC's portfolio was 7.61 per cent – comprised of 7.43 per cent on loan investments and 7.98 per cent on equity investments.

SALES OF INVESTMENTS

An important source of replenishment of IFC's funds has been the sale of its commitments, in whole or in part, to other investors: as at December 31, 1968, approximately $87.9 million, or 30.4 per cent, of IFC's total commitments of $289.2 million, have been revolved in this way, and IFC had obtained the participation of other investors in more than half the commitments it had made.

Purchasers of IFC investment securities represent a broad segment of the world investment community, including the United States, United Kingdom, France, Germany, Italy, Switzerland, Sweden, the Netherlands, Japan and Kuwait. Pension funds, mutual funds, and insurance companies, as well as banks and investment houses are among the institutions that have purchased parts of IFC investments. In general, IFC's individual sales of investments have involved amounts not smaller than $100,000.

Sales of investments carry out IFC's objective of mobilizing private capital for enterprises in the less developed areas. IFC itself carries out the work involved in setting up an investment transaction, and absorbs the costs. Through sales of investments to other institutions, the Corporation has demonstrated the possibilities of opening up channels for portfolio investments in private industry in the developing countries. In some cases, this has in turn led to the establishment of new banking connections and new sources of long-term funds for the companies themselves.

IFC revolves its funds and brings other investors into partnership in its transactions in two main ways. The first is for IFC to offer participations at the time of a commitment. The second is through sales from the Corporation's portfolio.

Participations are generally made on the same terms as those negotiated by IFC. The investor is offered a choice between taking a *pro rata* interest in the entire transaction including equity or taking the loan maturities without equity, in which case he can take up either a portion of the entire loan or a portion of the early maturities. Although nearly all IFC's loans are denominated in dollars, IFC has been able to arrange for the sale of loan participations in some other currencies, such as sterling, Deutsche mark and Swiss francs. Investors purchasing parts of IFC loans normally do so through participation certificates. The administration and exercise of rights under the investment documents are handled by IFC.

At appropriate times, IFC is prepared to sell from its portfolio various types of paper which it holds resulting from past investments, including straight equity, loans and conversion rights. The investor is offered a wide choice in this respect, but the terms of the sale naturally have to be negotiated in each case, reflecting how the investment has fared since the original commitment. In the case of sales of equity, the shares sold by IFC are transferred to the participant, so that a direct relationship may be established between the company and the participant as a shareholder. It is IFC's practice to consult with its partners on sales of equity in order to establish that there are no objections for valid business reasons to the proposed sale.

In making sales of shares held in its portfolio, IFC uses several methods. Some of the companies in which IFC has acquired an equity interest are owned by a broad range of local investors, with the shares quoted and traded on local stock exchanges. In such cases there is an opportunity for IFC to sell its holdings through the normal mechanism of the market. In many cases a public market for the shares held by IFC does not exist or is too narrow to allow sales of the volume desired. In such cases private negotiation is used.

The extent of participations in individual investments has shown considerable variation, in some cases amounting to as much as 88 per cent of the original IFC commitment. Many of the institutions have taken participations on the basis of attractiveness of the paper purchased, simply taking account of normal investment criteria such as the relationship between risk and potential return. Participants, especially institutions active in international banking, also have been attracted by the actual or potential collateral benefits attached to an investment, particularly where there is an existing or prospective banking connection either with the enterprise itself or the country in which the enterprise is located.

IFC AND CAPITAL MARKET DEVELOPMENT

As IFC's investment activities are directed at encouraging the growth of the private sector of national economies, development of capital markets in less developed countries is a vital IFC interest. The availability of financing funds through capital market facilities, and the orderly bringing to market of savings available for investment, at a going price for money known to all, are important elements making for investment and business growth.

IFC encourages the development of capital markets in several ways. The Corporation may counsel on the technical aspects of creating a public securities market where there is none.

Alternatively, IFC's actions may assist the development of a capital market by increasing the number and variety of worthwhile securities available for trading.

One means of encouraging capital market development in this last way lies in making available for sale to the public of a country where IFC has invested securities representing IFC's interest in an investment there. As the company IFC has assisted progresses and matures the need for continued IFC support declines. IFC can then make available its portfolio holdings for sale to local investors. There are multiple benefits in this: from the point of view of the developing country where the investment is located, the development of a capital market is encouraged by increasing the number of proven shares available to the public, and local ownership of local enterprise is spread; from IFC's viewpoint, and the viewpoint of developing member nations generally, the sale from IFC's portfolio enables the Corporation to revolve its funds and use the proceeds for investment in new projects aimed at the further growth and improvement of the economy of a low income member country.

Underwriting is another principal way of assisting the development of capital markets. The Corporation does not itself engage in the direct selling of new securities to the public, but it is prepared to act as the sole underwriter or as one of a group of underwriters. It will also enter into standby arrangements. This is important because domestic securities exchanges in less developed countries tend to be limited in size and scope, if they exist at all, and consequently, offerings of new shares, debentures or other securities can be difficult. IFC underwriting of issues can assure that the required capital will be raised. Moreover, IFC's implied endorsement of a new venture because of its role as underwriter may add to investor confidence and make an otherwise risky offering successful. In all, IFC has assisted in underwritings which totaled $80.8 million while investing only $8.0 million of its own funds.

When a public offering is impractical because of market conditions it is sometimes preferable to negotiate sales to pension funds, banks, insurance companies, mutual funds and other large institutional investors. Here again, IFC's interest and participation in a project can help create confidence and, consequently, enlist the necessary commitments from private sources.

Sometimes, technical assistance alone can improve a domestic capital market. The devising or introduction of special types of securities can be helpful where issues in traditional form are unsuited to market conditions. Underwriting, itself, is an innovation in many areas.

IFC also exerts indirect influence, through the spread of its own operating standards and requirements. These can make a project more viable and worthy of investor support, eventually bringing into being attractive new issues for trading on the local capital market.

IFC also influences the development of capital markets through the Corporation's investments in development finance companies. This is discussed, together with the other aspects of development finance company work, in an earlier section titled "Group Support to Development Finance Companies".

IFC'S RESOURCES AND COMMITMENTS, 1956-1968
(Millions of US Dollars)

Capital	$102.4
World Bank Line of Credit[1]	100.0
Net Income	42.7
Net profits on sales of investments	3.4
Net other losses	(1.0)
Repayments of investments	23.3
Sales of investments	61.8
Acquisition by others of securities covered by standby and underwriting commitments	26.1
Total of funds available	$358.7
Gross commitments made	290.2
Less cancellations, terminations and write-offs	15.8
Less exchange adjustments	1.0
Net commitments made	$273.4
Uncommitted funds at December 31, 1968	$ 85.3

[1] First line of credit under amendments in 1965 to the Articles of Agreement of IFC and the Bank, permitting IFC to borrow up to four times its unimpaired capital and surplus.

IFC'S COMMITMENTS BY PURPOSE, THROUGH DECEMBER 31, 1968
(Millions of US Dollars)

MANUFACTURING	
Iron and Steel	$ 46.9
Fertilizers	37.1
Chemical and Petrochemical Products	14.1
Paper and Paper Products	32.5
Textiles and Fibers	19.7
Food Processing	21.6
Machinery	18.6
Cement	17.6
Other Manufacturing	8.7
OTHER	
Utilities, Tourism, Storage and Agriculture	20.6
Mining	24.3
Development Finance Banks	27.5
TOTAL	$289.2

IFC'S COMMITMENTS BY REGION
THROUGH DECEMBER 31, 1968
(Millions of US Dollars)

AFRICA	$ 59.2
ASIA AND THE MIDDLE EAST	69.4
AUSTRALASIA	1.0
EUROPE	17.0
WESTERN HEMISPHERE	142.6
GROSS COMMITMENTS	$289.2

THE INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

One of the central objectives of the World Bank is to promote and maintain the flow of international private investment. This flow has sometimes been impeded by fear among private investors that, once outside the familiar protection of their domestic legal systems, their investments may be exposed in a number of countries to expropriation or other arbitrary governmental action not subject to objective and independent judicial review.

Because of its position of impartiality, the Bank, or its President in his personal capacity, has on a number of occasions been approached by governments or by foreign investors seeking assistance in settling disputes relating to investments. While recognizing that the conciliation or arbitration of disputes is a function somewhat alien to its structure, the Bank has nevertheless occasionally agreed to such requests, where it considered that its intervention could significantly improve the investment climate of the State concerned or would remove the obstacle that defaults due to unresolved disputes might present to Bank or IDA financing (see page 31).

In the light of its experience with these and other disputes, the Bank became convinced that the creation of permanent facilities, designed specifically to deal with investment disputes between States and foreign investors, could be a major step toward promoting an atmosphere of mutual confidence, and thereby stimulating a larger flow of private international capital into those countries which wish to attract it. Study of the possibility of establishing such facilities began in 1961. By 1965 an appropriate treaty instrument, prepared by the Executive Directors and staff of the Bank at the request of the Bank's Board of Governors and with the assistance of legal experts from many member countries, was submitted to governments.

The Convention

The Convention on the Settlement of Investment Disputes between States and Nationals of other States was opened for signature on March 18, 1965 to all members of the Bank. By September 1966 a sufficient number had signed and ratified the Convention to permit it to enter into force on October 14, 1966, 30 days after the deposit of the 20th instrument of ratification.

Non-members of the Bank which are parties to the Statute of the International Court of Justice may be invited to become signatories. An invitation has been extended to, and accepted by, the Government of Switzerland.

By April 1, 1969 the 60 States listed below had signed the Convention, and of these the 47 marked with asterisks have become Contracting States after the deposit of their instruments of ratification.

Afghanistan*
Austria
Belgium
Burundi
Cameroon*
Central African Republic*
Ceylon*
Chad*
China*
Congo (Brazzaville)*
Congo, Democratic Republic of
Cyprus*
Dahomey*
Denmark*
Ethiopia
Finland*
France*
Gabon*
Germany, Federal Republic of
Ghana*
Greece
Guinea*
Iceland*
Indonesia*
Ireland
Italy
Ivory Coast*
Jamaica*
Japan*
Kenya*
Korea*
Lesotho
Liberia
Luxembourg
Malagasy Republic*
Malawi*
Malaysia*
Mauritania*
Morocco*
Nepal*
Netherlands*
Niger*
Nigeria*
Norway*
Pakistan*
Senegal*
Sierra Leone*
Singapore*
Somalia*
Sudan
Sweden*
Switzerland*
Togo*
Trinidad and Tobago*
Tunisia*
Uganda*
United Kingdom*
United States of America*
Upper Volta*
Yugoslavia*

The Centre

The International Centre for Settlement of Investment Disputes is the international organization created by the Convention as the instrument for carrying out its provisions. Its purpose is to be available to the parties to certain international investment arrangements, to provide them with an assured forum on which they may agree, for the settlement of future disputes, and to assist them in settling any that have already arisen.

The governing body of the Centre is its Administrative Council, composed of one representative of each Contracting State – all of whom have equal voting power. Unless a State makes a specific designation, the Governor appointed by it to the World Bank is automatically its representative on the Council. The President of the World Bank acts *ex officio* as the non-voting Chairman. The principal functions of the Council are to adopt the Regulations and Rules of the Centre, to elect the Secretary-General, to adopt the annual budget, and to decide upon invitations to non-members of the World Bank to become parties to the Convention.

The legal representative and principal officer of the Centre is its Secretary-General, who is responsible for its administration and also functions as registrar. He is elected by the Administrative Council on the nomination of its Chairman. Since the Inaugural Meeting of the Council, Mr. A. Broches has occupied this post; as he is continuing to serve as General Counsel of the World Bank, he receives no compensation from the Centre.

The Centre maintains separate Panels of Conciliators and of Arbitrators, most of whom are designated by the Contracting States (each of whom may place four persons on each list) and some by the Chairman of the Administrative Council (who may place 10 persons on each list). The Convention requires members of the Panel to be persons of high moral character and recognized competence in the fields of law, commerce, industry or finance, who may be relied upon to

exercise independent judgment; legal competence is specified as particularly important for arbitrators. The Panel members are not employed by the Centre, but are merely listed by it so as to facilitate the formation of Conciliation Commissions and Arbitral Tribunals.

The expenses incurred by the Centre in connection with any proceeding must be borne by the parties to the proceeding, divided evenly in the case of conciliation, and as agreed by the parties or decided by the Tribunal in the case of arbitration. The overhead expenditures of the Centre are to be covered in part by any miscellaneous receipts, but largely by assessments on the Contracting States (generally in proportion to their capital stock in the World Bank); however, the Bank has agreed to accommodate the Centre free of charge as long as its seat is at the headquarters of the Bank, and also to underwrite its overhead expenditures during the initial years.

Proceedings

The jurisdiction of the Centre is based on consent, given by both parties to a legal dispute relating to an investment. One of these parties must be the Government of a Contracting State, or a constituent subdivision or agency designated by such a Government. The other must be a national or another Contracting State, who may be a natural or a juridical person.

Consent to the jurisdiction of the Centre can be given in connection with (a) a new investment agreement, (b) an existing agreement whose disputes provisions are no longer considered satisfactory by the parties, or (c) any legal dispute which has already arisen, whether or not under an agreement. Once given, consent cannot be unilaterally withdrawn by either party, even if one of the Contracting States concerned should withdraw from the Centre. The consent may, however, be qualified in various ways at the time it is given. For example, a Contracting State may require the prior exhaustion of local administrative or judicial remedies; or consent may be restricted to conciliation, to arbitration, or to conciliation followed, if necessary, by arbitration. Although no particular form is prescribed for the giving of consent (except that it must be in writing), the Centre has developed a set of Model Consent Clauses to assist potential parties in submitting disputes to the Centre, and in exercising the various procedural and substantive options available under the Convention.

The Centre does not itself settle any disputes. Rather, it establishes as far as possible in cooperation with the parties, *ad hoc* Conciliation Commissions or Arbitral Tribunals, to which the resolution of the controversy is then entrusted. At all stages (as illustrated in the paragraphs below) the same basic principle is observed: as far as possible the parties are free to regulate by agreement all aspects of the proceeding. However, their failure to agree on any point, or the refusal of either party to cooperate, cannot prevent the constitution of the body to which they had originally consented to submit their dispute, or decisively frustrate the progress and conclusion of the proceeding.

Once both parties have given their consent, either before or after a dispute has arisen, either party may file a request for conciliation or arbitration, or the parties may do so jointly. The procedure for so doing is specified in the Institution Rules adopted by the Administrative Council. The Secretary-General will submit each request to a preliminary screening for substantive conformity with the requirements of the Convention; if appropriate, he will then register it.

Once a proceeding has been instituted, a Conciliation Commission or an Arbitral Tribunal will be constituted as rapidly as possible. Subject to the requirement of having an uneven number of members and to certain restrictions on the nationality of arbitrators, the parties are free to constitute a Commission or Tribunal in any way agreeable to both of them; they may, but need not, choose the members from the Centre's Panels. However, if they cannot agree on the structure of the body, the Convention provides that it shall consist of one member appointed by each party and of a jointly appointed President. If the parties cannot agree on any joint appointments, or if either of them declines to make the designations for which it is responsible, or if for any reason the constitution of the body is delayed, either party may require the Chairman of the Administrative Council to make the necessary appointments from the appropriate Panel. Once all members of a Commission or Tribunal have accepted their appointments, the proceeding is deemed to have begun.

The procedure to be followed by the Commission or Tribunal will primarily be that agreed by the parties, unless this would contravene the Convention. Should they fail to agree, then the Conciliation or Arbitration Rules (supplemented by the Administrative and Financial Regulations) adopted by the Administrative Council will automatically apply. So far as these Rules leave any gaps, or so far as *ad hoc* decisions may be required in a particular situation, the Commission or Tribunal may issue procedural orders, and may, to some extent, delegate this function to its President.

Each Commission and Tribunal is the ultimate judge of its own competence, and may also decide whether the proceeding is within the jurisdiction of the Centre. The preliminary decision made by the Secretary-General in registering the request is not binding upon a Commission or Tribunal.

It is the objective of a Conciliation Commission to clarify the issues in dispute and to try to bring about agreement between the parties on mutually acceptable terms. Although the parties are required to cooperate in good faith with the Commission, and to give the most serious consideration to its recommendations for settlement, they are not bound to accept them. The Commission must conclude its work by drawing up a report, recording that agreement has been reached, or that it has proved impossible to achieve any agreement, or that one party has failed to appear or to participate in the proceeding.

Arbitral Tribunals are required to render an award, on the basis of rules of law agreed by the parties or as specified in the Convention. The failure of a party to appear or to present its case will not prevent the Tribunal from rendering an award, although it must follow special procedures in such a case. An Arbitral Tribunal may also consider claims ancillary to the principal dispute, such as incidental or additional claims or counterclaims, and it may recommend provisional measures to be taken by the parties. A Tribunal's decisions are taken, and awards are made by a majority of the members. Although no appeals may be taken outside the procedures provided by the Convention, several post-award remedies are available within it:

(a) The original Tribunal may be requested to correct any errors and to supplement any incomplete decisions.

(b) The original Tribunal, or if necessary a newly constituted one, may be requested to interpret or revise an award.

(c) The Chairman of the Administrative Council may constitute an *ad hoc* Committee of arbitrators to consider the annulment of an award on certain grounds specified in the Convention. If the award is annulled in whole or in part, the dispute may be submitted to a new Tribunal.

Once rendered, an award is binding on both parties, who must comply with its terms. Moreover, every Contracting State is required to recognize as binding all awards rendered pursuant to the Convention and generally to enforce any pecuniary obligation imposed – whether or not its Government or any of its nationals were parties to the proceeding. For this purpose, each Contracting State must designate to the Centre a court or other authority competent to recognize and enforce awards certified by the Secretary-General.

No request for the institution of any conciliation or arbitration proceeding under the Convention has so far been addressed to the Secretary-General. However, a number of investment agreements have been concluded in which the parties recorded their consent to the submission of any disputes to the jurisdiction of the Centre. While such agreements may well continue to be the most usual method of having recourse to the Convention, there are other means of so doing. For example, many States have enacted legislation for the promotion of foreign investments, and in such legislation a link with the Convention may be provided. Furthermore, treaties dealing with the status of investments made by the citizens of one party in the territories of another, may provide for the use of the Convention to settle disputes arising out of such transactions.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Subscriptions to Capital Stock and Voting Power

As of December 31, 1968

EXPRESSED IN UNITED STATES CURRENCY (IN THOUSANDS)

Member	Subscriptions			Amounts Paid in				Voting Power	
	Shares	Percent of total	Amount	In United States dollars	In currency of member other than United States dollars	In non-negotiable, non-interest-bearing, demand notes	Subject to call to meet obligations of Bank	Number of votes	Percent of total
Afghanistan	300	.13	$ 30,000	$ 300	$ 1,200	$ 1,500	$ 27,000	550	.21
Algeria	800	.35	80,000	800	72	7,128	72,000	1,050	.41
Argentina	3,733	1.62	373,300	10,253	1,999	25,078	335,970	3,983	1.55
Australia	5,330	2.32	533,000	5,330	47,970	–	479,700	5,580	2.17
Austria	1,867	.81	186,700	1,867	16,803	–	168,030	2,117	.82
Belgium	4,500	1.96	450,000	4,500	40,500	–	405,000	4,750	1.84
Bolivia	210	.09	21,000	210	13	1,877	18,900	460	.18
Botswana	32	.01	3,200	32	3	285	2,880	282	.11
Brazil	3,733	1.62	373,300	3,733	33,597	–	335,970	3,983	1.55
Burma	400	.17	40,000	400	1,207	2,393	36,000	650	.25
Burundi	150	.07	15,000	150	9	1,341	13,500	400	.16
Cameroon	200	.09	20,000	200	22	1,778	18,000	450	.17
Canada	7,920	3.45	792,000	7,920	71,280	–	712,800	8,170	3.17
Central African Republic	100	.04	10,000	100	39	861	9,000	350	.14
Ceylon	827	.36	82,700	827	908	6,535	74,430	1,077	.42
Chad	100	.04	10,000	100	17	883	9,000	350	.14
Chile	933	.41	93,300	933	8,397	–	83,970	1,183	.46
China	7,500	3.26	750,000	7,500	4,328	63,172	675,000	7,750	3.01
Colombia	933	.41	93,300	9,330	–	–	83,970	1,183	.46
Congo (Brazzaville)	100	.04	10,000	100	19	881	9,000	350	.14
Congo, Democratic Rep. of *	600	.26	60,000	600	694	–	54,000	850	.33
Costa Rica	107	.05	10,700	467	603	–	9,630	357	.14
Cyprus	213	.09	21,300	213	14	1,903	19,170	463	.18
Dahomey	100	.04	10,000	100	25	875	9,000	350	.14
Denmark	1,733	.75	173,300	1,733	15,597	–	155,970	1,983	.77
Dominican Republic	133	.06	13,300	133	483	714	11,970	383	.15
Ecuador	171	.07	17,100	1,710	–	–	15,390	421	.16
El Salvador	107	.05	10,700	287	783	–	9,630	357	.14
Ethiopia	100	.04	10,000	1,000	–	–	9,000	350	.14
Finland	1,333	.58	133,300	1,333	9,759	2,238	119,970	1,583	.61
France	10,500	4.57	1,050,000	10,500	94,500	–	945,000	10,750	4.18
Gabon	100	.04	10,000	100	25	875	9,000	350	.14
Gambia, The	53	.02	5,300	53	4	473	4,770	303	.12
Germany, Federal Republic of*	12,800	5.57	1,280,000	12,800	101,400	13,800	1,152,000	13,050	5.07
Ghana *(1)	467	.20	46,700	467	2,702	1,051	42,030	717	.28
Greece	667	.29	66,700	667	6,003	–	60,030	917	.36
Guatemala	107	.05	10,700	467	603	–	9,630	357	.14
Guinea	200	.09	20,000	200	1,800	–	18,000	450	.17
Guyana	160	.07	16,000	160	15	1,425	14,400	410	.16
Haiti	150	.07	15,000	150	41	1,309	13,500	400	.16
Honduras	80	.03	8,000	620	–	180	7,200	330	.13
Iceland	150	.07	15,000	1,266	107	127	13,500	400	.16
India	8,000	3.48	800,000	8,000	21,551	50,449	720,000	8,250	3.20
Indonesia	2,200	.96	220,000	2,200	198	19,602	198,000	2,450	.95
Iran	1,286	.56	128,600	1,286	8,100	3,474	115,740	1,536	.60

Iraq	640	.28	64,000	640	1,350	4,410	57,600	890	.34
Ireland	853	.37	85,300	853	5,474	2,203	76,770	1,103	.43
Israel	959	.42	95,900	959	2,997	5,634	86,310	1,209	.47
Italy	6,660	2.90	666,000	6,660	59,940	–	599,400	6,910	2.68
Ivory Coast	200	.09	20,000	200	828	972	18,000	450	.17
Jamaica	320	.14	32,000	1,470	22	1,708	28,800	570	.22
Japan	7,726	3.36	772,600	7,726	69,534	–	695,340	7,976	3.10
Jordan	163	.07	16,300	163	52	1,415	14,670	413	.16
Kenya	333	.14	33,300	333	911	2,086	29,970	583	.23
Korea	533	.23	53,300	533	1,130	3,667	47,970	783	.30
Kuwait	667	.29	66,700	667	6,003	–	60,030	917	.36
Laos	100	.04	10,000	100	900	–	9,000	350	.14
Lebanon	90	.04	9,000	900	–	–	8,100	340	.13
Lesotho	32	.01	3,200	32	3	285	2,880	282	.11
Liberia	213	.09	21,300	213	13	1,904	19,170	463	.18
Libya	200	.09	20,000	2,000	–	–	18,000	450	.17
Luxembourg	200	.09	20,000	200	1,800	–	18,000	450	.17
Malagasy Republic	200	.09	20,000	200	30	1,770	18,000	450	.17
Malawi	150	.07	15,000	150	12	1,338	13,500	400	.16
Malaysia	1,333	.58	133,300	1,333	9,000	2,997	119,970	1,583	.61
Mali	173	.08	17,300	173	1,557	–	15,570	423	.16
Mauritania	100	.04	10,000	100	19	881	9,000	350	.14
Mauritius	171	.07	17,100	171	16	1,523	15,390	421	.16
Mexico	2,080	.90	208,000	2,080	18,720	–	187,200	2,330	.90
Morocco	960	.42	96,000	960	99	8,541	86,400	1,210	.47
Nepal	100	.04	10,000	100	9	891	9,000	350	.14
Netherlands	5,500	2.39	550,000	5,500	49,500	–	495,000	5,750	2.23
New Zealand	1,667	.73	166,700	1,667	129	14,874	150,030	1,917	.74
Nicaragua	80	.03	8,000	485	315	–	7,200	330	.13
Niger	100	.04	10,000	100	19	881	9,000	350	.14
Nigeria	667	.29	66,700	667	256	5,747	60,030	917	.36
Norway	1,600	.70	160,000	1,600	14,400	–	144,000	1,850	.72
Pakistan	2,000	.87	200,000	2,000	2,049	15,951	180,000	2,250	.87
Panama	90	.04	9,000	126	–	774	8,100	340	.13
Paraguay	60	.03	6,000	60	540	–	5,400	310	.12
Peru	635	.28	63,500	3,785	26	2,539	57,150	885	.34
Philippines	1,173	.51	117,300	3,873	6,300	1,557	105,570	1,423	.55
Portugal	800	.35	80,000	800	4,330	2,870	72,000	1,050	.41
Rwanda	150	.07	15,000	150	1,350	–	13,500	400	.16
Saudi Arabia	960	.42	96,000	960	22	8,618	86,400	1,210	.47
Senegal	333	.14	33,300	333	30	2,967	29,970	583	.23
Sierra Leone	150	.07	15,000	150	12	1,338	13,500	400	.16
Singapore	320	.14	32,000	320	1,152	1,728	28,800	570	.22
Somalia	150	.07	15,000	150	14	1,336	13,500	400	.16
South Africa	2,133	.93	213,300	2,133	19,197	–	191,970	2,383	.92
Spain	2,667	1.16	266,700	2,667	20,401	3,602	240,030	2,917	1.13
Sudan	600	.26	60,000	600	1,800	3,600	54,000	850	.33
Sweden	2,400	1.04	240,000	2,400	21,600	–	216,000	2,650	1.03
Syrian Arab Republic	400	.17	40,000	400	44	3,556	36,000	650	.25
Tanzania	333	.14	33,300	333	71	2,926	29,970	583	.23
Thailand	1,013	.44	101,300	6,413	–	3,717	91,170	1,263	.49
Togo	150	.07	15,000	150	28	1,322	13,500	400	.16
Trinidad and Tobago	467	.20	46,700	1,228	24	3,418	42,030	717	.28
Tunisia (1)	300	.13	30,000	300	74	2,626	27,000	550	.21
Turkey	1,150	.50	115,000	1,150	271	10,079	103,500	1,400	.54
Uganda	333	.14	33,300	333	50	2,947	29,970	583	.23
United Arab Republic	1,421	.62	142,100	1,421	128	12,661	127,890	1,671	.65
United Kingdom	26,000	11.31	2,600,000	26,000	234,000	–	2,340,000	26,250	10.20
United States	63,500	27.62	6,350,000	635,000	–	–	5,715,000	63,750	24.76
Upper Volta	100	.04	10,000	100	19	881	9,000	350	.14
Uruguay	280	.12	28,000	1,414	249	1,137	25,200	530	.21
Venezuela	1,867	.81	186,700	13,726	22	4,922	168,030	2,117	.82
Viet-Nam	427	.19	42,700	427	3,843	–	38,430	677	.26
Yugoslavia	1,067	.46	106,700	8,273	2,397	–	96,030	1,317	.51
Zambia	533	.23	53,300	533	48	4,749	47,970	783	.30
Totals	229,917	100.00	$22,991,700	$857,740	$1,058,519	$377,755	$20,692,530	257,417	100.00

* Amounts aggregating the equivalent of $5,156,523 receivable and of $247,746 payable as a result of revaluation of these currencies, are not included in the "Amounts Paid in" columns.

(1) Amounts aggregating the equivalent of $2,476,000 have been received from two members on account of increases in subscriptions which are in process of completion.

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Subscriptions, Voting Power and Supplementary Resources

As of December 31, 1968

Expressed in United States Currency ($ millions)

Members[1]	Subscriptions		Voting Power		Supplementary Resources		
	Total	Per Cent of Total	Number of Votes	Per Cent of Total	Amounts Paid in	Amounts not yet due	Total Subscriptions and Supplementary Resources
Australia	$20.18	1.99	4,536	1.79	$ 19.80	–	$ 39.98
Austria	5.04	0.50	1,508	0.60	5.04	–	10.08
Belgium	8.25	0.81	2,150	0.85	8.25	–	16.50
Canada	37.83	3.74	8,066	3.18	66.70	50.00	154.53
Denmark	8.74	0.86	2,248	0.89	7.50	–	16.24
Finland	3.83	0.38	1,266	0.50	2.30	–	6.13
France	52.96	5.23	11,092	4.37	61.87	–	114.83
Germany, Federal Republic of	52.96	5.23	11,092	4.37	111.60	–	164.56
Italy	18.16	1.79	4,132	1.63	30.00	–	48.16
Japan	33.59	3.32	7,218	2.85	41.25	–	74.84
Kuwait	3.36	0.33	1,172	0.46	3.36	–	6.72
Luxembourg	0.38	0.04	575	0.23	0.37	–	0.75
Netherlands	27.74	2.74	6,048	2.39	16.50	–	44.24
Norway	6.72	0.66	1,844	0.73	6.60	–	13.32
South Africa	10.09	1.00	2,518	0.99	3.99	–	14.08
Sweden	10.09	1.00	2,518	0.99	47.26	17.24	74.59
United Kingdom	131.14	12.95	26,728	10.54	96.60	–	227.74
United States	320.29	31.64	64,558	25.47	312.00	–	632.29
Total Part 1 Members	$751.35	74.21	159,269	62.83	$840.99	$67.24	$1,659.58
Afghanistan	$1.01	0.10	702	0.28	–	–	$1.01
Algeria	4.03	0.40	1,306	0.51	–	–	4.03
Argentina	18.83	1.86	4,266	1.68	–	–	18.83
Bolivia	1.06	0.10	712	0.28	–	–	1.06
Botswana	0.16	0.02	532	0.21	–	–	0.16
Brazil	18.83	1.86	4,266	1.68	–	–	18.83
Burma	2.02	0.20	904	0.35	–	–	2.02
Burundi	0.76	0.07	652	0.26	–	–	0.76
Cameroon	1.01	0.10	702	0.28	–	–	1.01
Central African Republic	0.50	0.05	600	0.24	–	–	0.50
Ceylon	3.03	0.30	1,106	0.43	–	–	3.03
Chad	0.50	0.05	600	0.24	–	–	0.50
Chile	3.53	0.35	1,206	0.47	–	–	3.53
China	30.26	2.99	6,552	2.59	–	–	30.26
Colombia	3.53	0.35	1,206	0.47	–	–	3.53
Congo (Brazzaville)	0.50	0.05	600	0.24	–	–	0.50
Congo, Democratic Republic of	3.02	0.30	1,104	0.43	–	–	3.02
Costa Rica	0.20	0.02	540	0.21	–	–	0.20
Cyprus	0.76	0.07	652	0.26	–	–	0.76
Dahomey	0.50	0.05	600	0.24	–	–	0.50
Dominican Republic	0.40	0.04	580	0.23	–	–	0.40
Ecuador	0.65	0.06	630	0.25	–	–	0.65
El Salvador	0.30	0.03	560	0.22	–	–	0.30

Ethiopia	0.50	0.05	600	0.24	–	–	0.50
Gabon	0.50	0.05	600	0.24	–	–	0.50
Gambia, The	0.267	0.03	553	0.22	–	–	0.267
Ghana	2.36	0.23	972	0.38	–	–	2.36
Greece	2.52	0.25	1,004	0.39	–	–	2.52
Guatemala	0.40	0.04	580	0.23	–	–	0.40
Guyana	0.81	0.08	662	0.26	–	–	0.81
Haiti	0.76	0.07	652	0.26	–	–	0.76
Honduras	0.30	0.03	560	0.22	–	–	0.30
Iceland	0.10	0.01	520	0.20	–	–	0.10
India	40.35	3.99	8,570	3.38	–	–	40.35
Indonesia	11.10	1.10	2,720	1.07	–	–	11.10
Iran	4.54	0.45	1,408	0.55	–	–	4.54
Iraq	0.76	0.07	652	0.26	–	–	0.76
Ireland	3.03	0.30	1,106	0.43	–	–	3.03
Israel	1.68	0.17	836	0.33	–	–	1.68
Ivory Coast	1.01	0.10	702	0.28	–	–	1.01
Jordan	0.30	0.03	560	0.22	–	–	0.30
Kenya	1.68	0.17	836	0.33	–	–	1.68
Korea	1.26	0.12	752	0.30	–	–	1.26
Laos	0.50	0.05	600	0.24	–	–	0.50
Lebanon	0.45	0.04	590	0.23	–	–	0.45
Lesotho	0.16	0.02	532	0.21	–	–	0.16
Liberia	0.76	0.07	652	0.26	–	–	0.76
Libya	1.01	0.10	702	0.28	–	–	1.01
Malagasy Republic	1.01	0.10	702	0.28	–	–	1.01
Malawi	0.76	0.07	652	0.26	–	–	0.76
Malaysia	2.52	0.25	1,004	0.39	–	–	2.52
Mali	0.87	0.09	674	0.26	–	–	0.87
Mauritania	0.50	0.05	600	0.24	–	–	0.50
Mauritius	0.86	0.08	672	0.26	–	–	0.86
Mexico	8.74	0.86	2,248	0.89	–	–	8.74
Morocco	3.53	0.35	1,206	0.47	–	–	3.53
Nepal	0.50	0.05	600	0.24	–	–	0.50
Nicaragua	0.30	0.03	560	0.22	–	–	0.30
Niger	0.50	0.05	600	0.24	–	–	0.50
Nigeria	3.36	0.33	1,172	0.46	–	–	3.36
Pakistan	10.09	1.00	2,518	0.99	–	–	10.09
Panama	0.02	*	504	0.20	–	–	0.02
Paraguay	0.30	0.03	560	0.22	–	–	0.30
Peru	1.77	0.17	854	0.34	–	–	1.77
Philippines	5.04	0.50	1,508	0.60	–	–	5.04
Rwanda	0.76	0.07	652	0.26	–	–	0.76
Saudi Arabia	3.70	0.37	1,240	0.49	–	–	3.70
Senegal	1.68	0.17	836	0.33	–	–	1.68
Sierra Leone	0.76	0.07	652	0.26	–	–	0.76
Somalia	0.76	0.07	652	0.26	–	–	0.76
Spain	10.09	1.00	2,518	0.99	–	–	10.09
Sudan	1.01	0.10	702	0.28	–	–	1.01
Syrian Arab Republic	0.95	0.09	690	0.27	–	–	0.95
Tanzania	1.68	0.17	836	0.33	–	–	1.68
Thailand	3.03	0.30	1,106	0.43	–	–	3.03
Togo	0.76	0.07	652	0.26	–	–	0.76
Tunisia	1.51	0.15	802	0.32	–	–	1.51
Turkey	5.80	0.57	1,660	0.66	–	–	5.80
Uganda	1.68	0.17	836	0.33	–	–	1.68
United Arab Republic	5.08	0.50	1,516	0.60	–	–	5.08
Upper Volta	0.50	0.05	600	0.24	–	–	0.50
Viet-Nam	1.51	0.15	802	0.32	–	–	1.51
Yugoslavia	4.04	0.40	1,308	0.51	–	–	4.04
Zambia	2.69	0.27	1,038	0.41	–	–	2.69
Total Part II Members	$261.15	25.79	94,231	37.17	–	–	$261.15
GRAND TOTALS	$1,012.50	100.00	253,500	100.00	$840.99	$67.24	$1,920.73

[1] Members whose subscriptions may be freely used or exchanged by the Association and who have participated in the replenishment of the Association's resources are included in Part I. All other members are included in Part II.

*Less than .005 per cent.

APPENDIX C

INTERNATIONAL FINANCE CORPORATION
Statement of Subscriptions to Capital Stock and Voting Power
As at December 31, 1968

Member	Total Subscription: Amount (in Thousands of US Dollars)	Total Subscription: Percent of Total	Voting Power: Number of Votes	Voting Power: Percent of Total
Afghanistan	$ 111	.11	361	.29
Argentina	1,662	1.62	1,912	1.53
Australia	2,215	2.16	2,465	1.97
Austria	554	.54	804	.64
Belgium	2,492	2.43	2,742	2.20
Bolivia	78	.08	328	.26
Brazil	1,163	1.14	1,413	1.13
Burma	166	.16	416	.33
Canada	3,600	3.52	3,850	3.08
Ceylon	166	.16	416	.33
Chile	388	.38	638	.51
Colombia	388	.38	638	.51
Costa Rica	22	.02	272	.22
Cyprus	83	.08	333	.27
Denmark	753	.74	1,003	.80
Dominican Republic	22	.02	272	.22
Ecuador	35	.03	285	.23
El Salvador	11	.01	261	.21
Ethiopia	33	.03	283	.23
Finland	421	.41	671	.54
France	5,815	5.68	6,065	4.86
Germany, Federal Republic of	3,655	3.57	3,905	3.13
Ghana	166	.16	416	.33
Greece	277	.27	527	.42
Guatemala	22	.02	272	.22
Guyana	89	.09	339	.27
Haiti	22	.02	272	.22
Honduras	11	.01	261	.21
Iceland	11	.01	261	.21
India	4,431	4.33	4,681	3.75
Indonesia	1,218	1.19	1,468	1.17
Iran	372	.36	622	.50
Iraq	67	.07	317	.25
Ireland	332	.32	582	.47
Israel	50	.05	300	.24
Italy	1,994	1.95	2,244	1.80
Ivory Coast	111	.11	361	.29
Jamaica	148	.15	398	.32
Japan	2,769	2.71	3,019	2.42
Jordan	33	.03	283	.23
Kenya	184	.18	434	.35
Korea	139	.14	389	.31
Kuwait	369	.36	619	.49
Lebanon	50	.05	300	.24
Liberia	83	.08	333	.27
Libya	55	.05	305	.24
Luxembourg	111	.11	361	.29

Malagasy Republic	111	.11	361	.29
Malawi	83	.08	333	.27
Malaysia	277	.27	527	.42
Mauritania	55	.05	305	.24
Mauritius	95	.09	345	.28
Mexico	720	.70	970	.78
Morocco	388	.38	638	.51
Nepal	55	.05	305	.24
Netherlands	3,046	2.98	3,296	2.64
New Zealand	923	.90	1,173	.94
Nicaragua	9	.01	259	.21
Nigeria	369	.36	619	.49
Norway	554	.54	804	.64
Pakistan	1,108	1.08	1,358	1.09
Panama	2	*	252	.20
Paraguay	16	.02	266	.21
Peru	194	.19	444	.35
Philippines	166	.16	416	.33
Portugal	443	.43	693	.55
Saudi Arabia	111	.11	361	.29
Senegal	184	.18	434	.35
Sierra Leone	83	.08	333	.27
Singapore	177	.17	427	.34
Somalia	83	.08	333	.27
South Africa	1,108	1.08	1,358	1.09
Spain	1,108	1.08	1,358	1.09
Sudan	111	.11	361	.29
Sweden	1,108	1.08	1,358	1.09
Syrian Arab Republic	72	.07	322	.26
Tanzania	184	.18	434	.35
Thailand	139	.14	389	.31
Togo	83	.08	333	.27
Tunisia	133	.13	383	.31
Turkey	476	.47	726	.58
Uganda	184	.18	434	.35
United Arab Republic	590	.58	840	.67
United Kingdom	14,400	14.07	14,650	11.73
United States	35,168	34.35	35,418	28.36
Uruguay	155	.15	405	.32
Venezuela	116	.11	366	.29
Viet-Nam	166	.16	416	.33
Yugoslavia	591	.58	841	.67
Zambia	295	.29	545	.44
	$102,386	100.00	124,886	100.00

*Less than .005 percent
90 countries

World Bank/IFC/IDA

Headquarters/1818 H Street, N.W., Washington, D.C. 20433, U.S.A. Telephone: EXecutive 3-6360

New York Office/20 Exchange Place, New York, N.Y. 10005, U.S.A. Telephone: WHitehall 3-5400

European Office/4 Ave. d'Iena, Paris 16e, France Telephone: 553-2510

London Office/New Zealand House, Haymarket, London S.W. 1, England Telephone: 930-3886

Cable Addresses/World Bank: INTBAFRAD, IFC: CORINTFIN, IDA: INDEVAS