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International Bank for Reconstruction and Development



WORLD



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TENTH ANNUAL REPORT • 1954-1955

International Bank
for Reconstruction and Development

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WASHINGTON 25, D.C.



International Bank for Reconstruction and Development

September 12, 1955

My dear Mr. Chairman:

In accordance with Section 10 of the By-Laws of the International Bank for Reconstruction and Development, I have been authorized by the Executive Directors to submit to the Board of Governors this Tenth Annual Report of the Bank, for the fiscal year July 1, 1954 to June 30, 1955.

Certain changes have this year been made in the form of the Annual Report. It is now published in two volumes. This first volume describes the year's activities and surveys the record of the Bank since its foundation in 1946. The second volume consists of appendices; it gives a country-by-country summary of the year's operations, and tabular material including the financial statements as of June 30, 1955 and the administrative budget for the fiscal year ending June 30, 1956.

Sincerely yours,

A handwritten signature in cursive script that reads "Eugene R. Black".

EUGENE R. BLACK,
President

Chairman, Board of Governors,
International Bank for Reconstruction and Development.

contents

	FACTS FROM THE REPORT	5
CHAPTER ONE	THE YEAR'S ACTIVITIES	6
	Loans Made	7
	Financial Operations	11
	Progress on Projects	17
	Advisory Assistance	21
	Cooperation with other International Organizations	25
	Membership and Capital Subscriptions.	26
	Staff	26
	International Finance Corporation	27
CHAPTER TWO	THE BANK IN THE POSTWAR DECADE	28

APPENDICES *Volume Two*

FACTS FROM THE REPORT

► The Bank made loans totaling the equivalent of \$410 million, more than in any earlier fiscal year. The 20 loans made were in 14 countries and territories. Lending since the Bank began operations now totals the equivalent of \$2,324 million (\$2,274 million net of cancellations and refundings) in 37 countries.

► The Bank's net earnings reached a new record figure of \$24.7 million, and reserves rose to \$184 million. Borrowers met all payments of interest and principal due during the year.

► Sales by the Bank of parts of its loans amounted to the equivalent of \$99 million, nearly equal to the sum received from this source in all the preceding years of the Bank's operations. Almost all the year's participations and portfolio sales were without the Bank's guarantee. Lending operations included loans linked with public offerings of bonds in the United States by Belgium and Norway.

► All the bonds issued by the Bank during the year were sold outside the United States. The issues were taken up by investors in 24 countries; they included the first sale of Netherlands guilder bonds, and further sterling and Canadian dollar issues. At the end of the

year bonds equivalent to \$852 million were outstanding, of which 56% were held in the United States and 44% in other countries.

► The year's disbursements amounted to the equivalent of \$274 million. Loan repayments and prepayments came to \$145 million. At the end of the year, the net total of loan commitments (including both effective loans and those not yet effective) amounted to the equivalent of \$2,067 million. Of this, \$594 million had not yet been disbursed. Included in the commitments were loans sold or agreed to be sold to other investors totaling \$143 million.

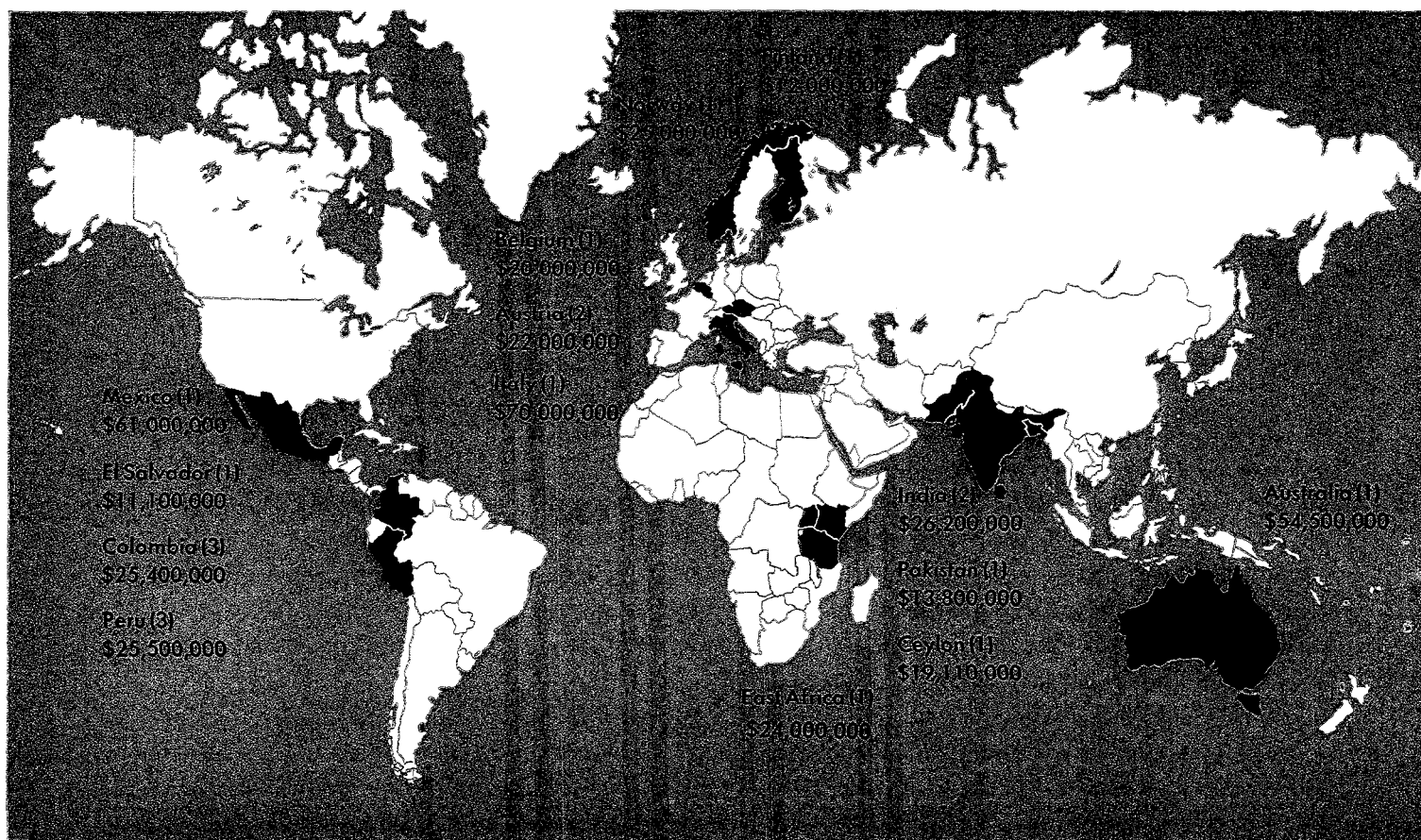
► The Bank continued to provide its members with advice and assistance on development problems. Three general survey missions—to Nigeria, Malaya and Syria—completed their work during the year, and another—to Jordan—was organized. Other developmental assistance covered specific matters such as agricultural improvements in Japan, scientific and industrial research in Ceylon and electric power development in Mexico.

► Plans were completed for the establishment of an Economic Development Institute to be conducted by the Bank.

► At the end of the year the Bank had 56 members and a subscribed capital of \$9,028 million. Czechoslovakia, whose membership had been suspended, ceased to be a member during the year. Israel joined the Bank.

► Substantial progress was made toward the organization of the International Finance Corporation. Articles of Agreement were drawn up in the Bank, and the governments of almost all the Bank's member countries expressed their support for the Corporation as proposed.

chapter 1 . .



The year's loans were made in 14 countries and territories (shown in blue), and were equivalent to \$410 million.



THE YEAR'S ACTIVITIES

THE 12 MONTHS ENDED JUNE 30, 1955 was for most of the free world a period of growing prosperity. It marked a further stage in the economic expansion which has taken place with little interruption since the end of the Second World War. Although local shortages remained, total food production more than kept pace with population growth; industrial production continued to increase both in amount and in diversity. The volume of international trade reached a new high level, more than 50% above that of the immediate prewar years. A number of countries of Europe were in a better position to extend credit abroad, and there were other signs that the international flow of long-term private capital was beginning to gain momentum.

The earlier concern over the outlook for economic activity in the United States gave place to growing confidence based on the continued expansion of business. In Western Europe there was a further increase in industrial production, which rose during the year to approximately 60% above the prewar level. Less developed countries, helped by a strong demand for many of their products in industrial countries, continued their efforts to increase the rate and productiveness of their domestic investment. In the world

as a whole, given an adequate measure of economic and political stability, the prospect is for further expansion in economic activity and improvements in living standards.

The story of the year was not, however, one of steady progress everywhere. In a few countries inflation increased, bringing serious balance of payments difficulties. Although commodity prices were generally stable, the fall in coffee, rice, wool and certain other prices had adverse effects on the terms of trade and balance of payments of some exporting countries, and required adjustments in internal consumption and investment.

But the background as a whole was encouraging, and against it the demand for Bank funds continued undiminished. Indeed, the general economic expansion has been reflected in the Bank's own operations, for this has been its year of greatest activity.

LOANS MADE

In 1954-55 the Bank lent a total, made up of 20 loans, equivalent to approximately \$410 million. This was the highest rate of lending in any fiscal year, and compared with \$324 million in 26 loans during the

preceding 12 months. The gross amount lent by the Bank since it began operations now stands at \$2,324 million, consisting of 124 loans in 37 countries and territories. The amount disbursed stands at \$1,680 million.

The year's loans were made in 14 countries and territories, in three of which—Austria, Ceylon and East Africa—the Bank had not previously invested. Disbursement of the greater part of the sum lent is expected to be in United States dollars. But it is expected that at least five loans—in Austria, Ceylon, Finland, Norway and Pakistan—will be largely or wholly disbursed in other currencies.

Two of the year's loans were linked with a simultaneous public offering of the borrower's bonds by

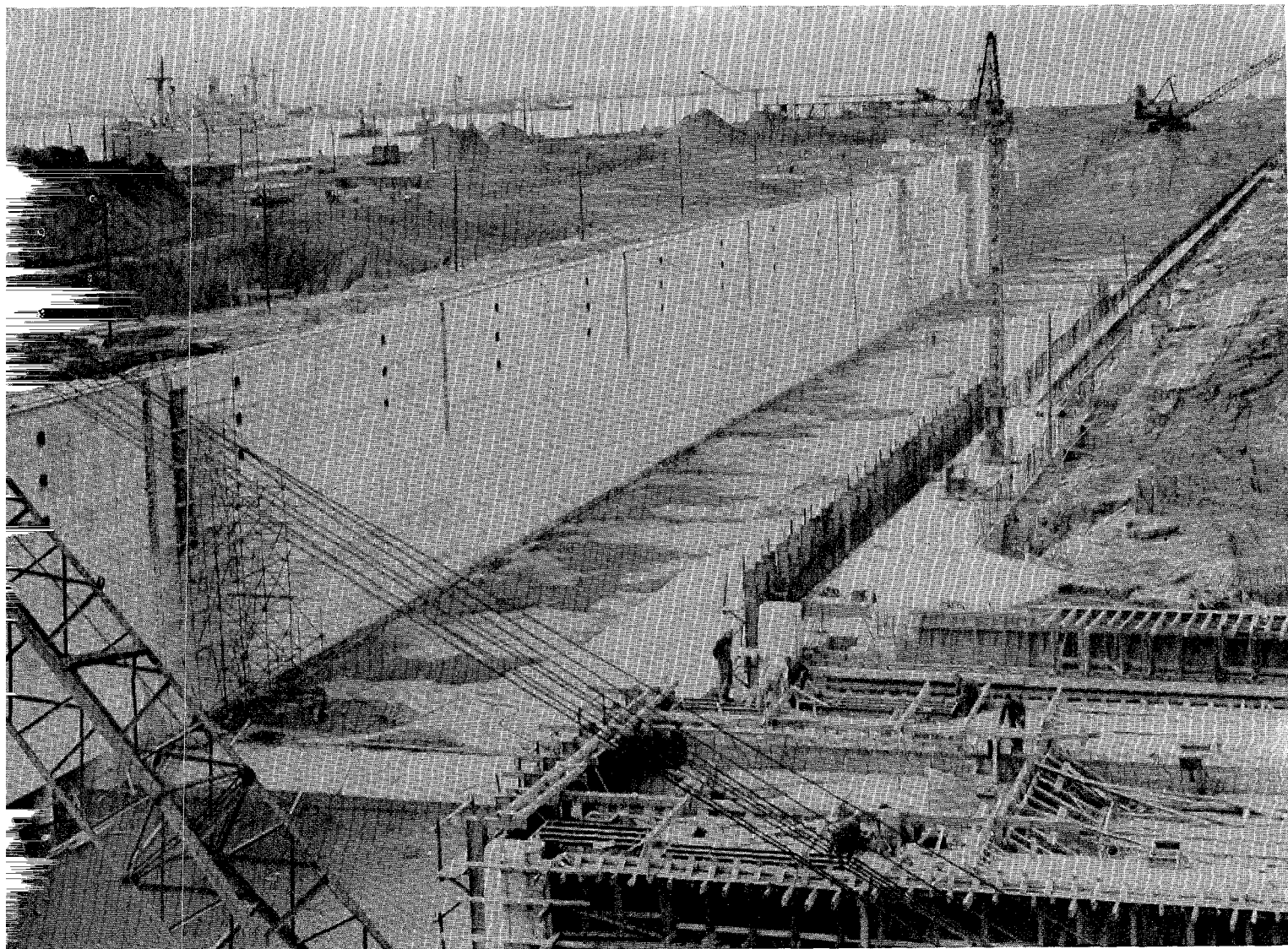
private bankers in the United States, and thus marked a significant development in the revival of private international investment. Bond issues were made at the same time as loans to Belgium and Norway and used for the same purposes as the Bank's loans. Under these arrangements Belgium floated a \$30 million issue in December, and Norway a \$15 million issue in April.

As in earlier years, the bulk of the Bank's lending financed improvements in the basic services which form the essential foundation for economic development. Power and transport were the object of two-thirds of the year's lending, and one-sixth was for agriculture. The remainder helped to finance industrial projects, or was used for other development purposes.

LOANS OF THE YEAR

Expressed in Millions of United States Dollars; For Additional Details See Appendix I of this Report

<i>Borrower or guarantor</i>	<i>Amount of loan</i>	<i>Purpose</i>			
		<i>Transport</i>	<i>Power</i>	<i>Agriculture</i>	<i>Industry and other development purposes</i>
Austria	\$ 22.0 { 12.0 10.0		12.0 10.0		
Australia	54.5	28.0	.5	19.0	7.0
Belgium	20.0	20.0			
Ceylon	19.1		19.1		
Colombia	25.4 { 4.5 15.9 5.0	15.9	4.5	5.0	
East Africa	24.0	24.0			
El Salvador	11.1	11.1			
Finland	12.0		4.2		7.8
India	26.2 { 16.2 10.0		16.2		10.0
Italy	70.0		30.0	20.0	20.0
Mexico	61.0	61.0			
Norway	25.0				25.0
Pakistan	13.8		13.8		
Peru	25.5 { 5.0 18.0 2.5			5.0 18.0	2.5
Totals	\$409.6	\$160.0	\$110.3	\$67.0	\$72.3



Belgium • At Antwerp, Belgium's chief port, the Baudouin Lock is nearing completion. This is one of the projects financed by the Bank's \$20 million loan of December 1954

to improve inland waterways. The lock will be able to handle as many as four 10,000-ton ships at the same time, affording an important new entry to the port.

Transport

The total of \$160 million lent for transport includes a loan of \$61 million to finance the rehabilitation and modernization of the Pacific Railroad of *Mexico*. The railroad extends for 1,100 miles along the northwest coast and serves one of the most rapidly growing parts of Mexico. The rehabilitation program promises to restore efficient service on the railroad and to put it in a position to handle increased tonnages of cotton, wheat and other crops grown in the area.

In *Colombia* \$15.9 million was lent, after a study of traffic needs, to extend by 190 miles a new railway line for which the Bank made a loan in 1952, and which is now under construction. This will link the rail network of the interior to the Caribbean coast, and will remove the need to transfer freight into river barges for part of the journey. A loan of \$11.1 million in *El Salvador* will be used for the construction of a coastal highway. This will open up El Salvador's fertile coastal area, which has hitherto been little developed because of its isolation.

In *East Africa* rail, port and other transport services will benefit from a loan of \$24 million to the East Africa High Commission. This sum will cover the cost of some of the imports needed for a transport expansion program to be carried out in Kenya, Uganda and Tanganyika, at a cost equivalent to about \$100 million, over the four-year period 1954-57. The program will enable the transport system to meet the heavy demands already imposed by the growth of the import and export trade on which the territories heavily depend.

The sum of \$28 million included in a loan of \$54.5 million will be used to finance imports of transport equipment for *Australia*. Because of its geographical location and its widely dispersed population centers, transport services, both external and internal, are of particular importance to *Australia*. The loan will provide dollars to buy certain types of road, rail and airline equipment in North America.

The loan of \$20 million to *Belgium*, together with the proceeds of the public offering in the United States, is helping to modernize the inland waterways and to improve the port of Antwerp. Belgium's canal network plays an important part in the economy, and now carries nearly one-third of the domestic and foreign trade. The port of Antwerp is not only vital to the foreign trade of Belgium, but also handles a large transit traffic for other European countries.

Power

Almost half of the \$110.3 million lent for power during the year is to be used for three projects in South Asia. A loan of \$19.1 million for a hydroelectric project in *Ceylon* will increase the power supply in Colombo, the capital and largest city, and in the surrounding area where Ceylon's major exports—tea, rubber and coconuts—are produced. In *India* the Bank lent \$16.2 million for a thermal plant to be constructed by the private companies which supply the bulk of the electric power in Bombay. The new plant will have a capacity of 125,000 kilowatts. It will relieve the present power shortage in the city, which has become the focus of an increasingly important industrial area. A loan of \$13.8 million for a 30,000-kilowatt thermal power station in *Pakistan* will more than double

Karachi's generating capacity, and thus relieve an acute power shortage. The loan will also help to finance extensive improvements in transmission and distribution facilities. The establishment of the seat of the Pakistan Government in Karachi, the rapid growth of industry and the expansion of commerce have combined to bring an increase in demand which has left supply far behind.

Several power enterprises in Europe were also financed during the year. The loan of \$70 million to the Cassa per il Mezzogiorno in *Italy* included \$30 million for a thermal plant with a capacity of 120,000 kilowatts and for six hydroelectric plants with a total capacity of more than 100,000 kilowatts. This investment will increase installed capacity in southern Italy by 16%, and will help to meet the increased demands arising from the growth of industry and improvement of rural living standards.

In *Austria*, whose Alpine rivers form one of the main power resources remaining to be brought into use in Europe, the Bank lent a total of \$22 million for two large hydroelectric projects. They will supply neighbor countries as well as the domestic market; one will provide power for Germany and the other for Italy. The new plants will add 280,000 kilowatts to Austria's capacity, and will increase power exports by 30%. In *Finland* over \$4 million from a loan of \$12 million will meet part of the cost of a hydroelectric project on a river in the north and of a thermal station on the west coast. These two plants, with a total capacity of 130,000 kilowatts, will increase Finland's power potential by nearly 10%.

A loan of \$4.5 million was made for power in *Colombia*. It will help to finance a steam plant and a hydroelectric station near the important and growing city of Cali, where an earlier power loan of \$3.5 million had already been made.

Agriculture

Financing of agricultural projects, amounting to \$67 million, included two loans totaling \$23 million in *Peru*. The larger of these was for a project which will bring irrigation water to 125,000 acres of uncultivated land in northwestern Peru. The other will enable the

Banco Agropecuario to extend more medium and long term credit to Peruvian farmers, and to import tractors and other supplies urgently needed by them. A loan of the same kind was made in *Colombia*, where the Bank for the second time lent \$5 million to the Caja de Crédito Agrario, Industrial y Minero for imports of machinery to be sold to farmers on credit. The machinery will help to extend and improve cultivation in Colombia's fertile valley land.

Finance for agriculture was included in two other loans made during the year. Of the loan to *Italy*, \$20 million will meet part of the cost of an irrigation project to supply water to 75,000 acres of the Catania Plain in eastern Sicily. More intensive farming will result, and the value of farm output in the area is expected to rise fourfold. In *Australia*, which depends on agricultural products for about four-fifths of its export income, \$19 million was lent for tractors, harvesters, balers and other equipment. This will be used both for bringing new land into use and for increasing productivity on land already farmed.

Industry and Other Development

Of the total of \$72.3 million for industry and for other development purposes, \$37 million was lent directly for industrial enterprises. The \$20 million allotted for this purpose from the loan in *Italy* is closely linked with the Bank's lending for Italian agriculture. It will go to a number of privately-owned industrial enterprises, five of which will be established in Sicily. The Sicilian enterprises will produce insecticides and fungicides, chemical fertilizers and cement; demand for all of these is likely to expand sharply as the irrigation program comes into effect. The projects also include a factory to process oranges, lemons, grapes and other fruit produced in the area. Almost \$8 million from the loan of \$12 million in *Finland* was allocated for the expansion and modernization of five pulp and paper mills. Lumber, pulp and paper provide about four-fifths of Finland's exports, and the projects are expected to strengthen Finland's position in world markets.

In *Norway* a loan of \$25 million was made for the import of capital equipment required for the develop-

ment of the Norwegian economy. The loan, together with the proceeds of the public offering in the United States, will add \$40 million to the total resources available for productive investment. Norway has traditionally been an importer of capital. Further investment is required in many parts of the economy; it is particularly important in building up and modernizing those parts from which Norway earns its foreign exchange, such as shipping and the industries based on cheap hydroelectric power.

Allocated to industry in the loan to *Australia* was \$7 million to provide dollars for imports of capital equipment needed in iron and steel manufacture, mining, engineering, food processing and other private industries.

A loan of \$2.5 million was made to a private cement company in northern *Peru*. The company will build a plant with an annual capacity of 100,000 tons to meet the increasing demands for construction materials for agriculture and industry in the area.

To help to mobilize capital for industrial enterprise the Bank assisted in setting up the Industrial Credit and Investment Corporation of *India*. The Bank lent \$10 million to provide foreign exchange for use in the Corporation's operations. The equity capital, amounting to the equivalent of \$10 million, was subscribed by private investors in India, the United Kingdom and the United States; in addition the Government made a long-term interest-free advance equivalent to \$15.8 million. The Corporation aims to promote the growth of industry not only by investment of its own funds but also through helping to attract the support of other investors for promising ventures and through stimulating the growth of India's capital market.

FINANCIAL OPERATIONS

Earnings, Reserves and Repayments

The Bank's net income for the year amounted to \$24.7 million, compared with \$20.3 million in the preceding year. The net income was again carried to a Supplemental Reserve against losses on loans and guarantees, increasing that Reserve to \$122 million.

In addition, loan commissions, representing a charge of 1% on outstanding balances of all loans, totaled \$13 million. This sum was credited, as required by the Articles of Agreement, to the Special Reserve for meeting the Bank's obligations; it raised that Reserve to \$62 million.

Total reserves at the end of the year stood at \$184 million.

The year's gross income, excluding loan commissions, was \$59 million, compared with \$50 million for the preceding year. Of the total, income from loans was \$48 million, income from investments \$10 million, and miscellaneous income \$1 million.

From the gross income figure were deducted gross expenses of \$34 million, as compared with \$30 million in the preceding year. This rise in expenses was due mainly to increased payments of interest and other charges on the larger volume of Bank borrowings outstanding. The Bank's administrative budget also rose, reflecting the increased scale of its lending operations and of its other developmental assistance.

Repayments of principal during the year amounted to \$145 million. Borrowers met all repayments due, amounting to \$29 million; of this \$11 million was paid on loans held by the Bank and \$18 million on loans sold to other investors. Borrowers also paid in advance of maturity a total of \$116 million. The Netherlands made two prepayments, totaling \$103 million, on the \$195 million reconstruction loan of 1947. KLM (Royal Dutch Airlines) prepaid the \$5.6 million balance outstanding of the \$7 million loan of 1952. Iraq prepaid in March 1955 the whole outstanding balance of \$6.3 million of the loan made in 1950 for flood control on the lower Tigris. A small prepayment was made in July 1954 under the loan of 1950 to a banking consortium in Mexico.

Funds Available for Lending

Additions to the Bank's lendable funds during the year amounted to the equivalent of \$368 million.

Principal repaid to the Bank and available for new lending accounted for \$123 million; it included the unusually large amount paid in advance of maturity, and was equal to nearly half the disbursements of the

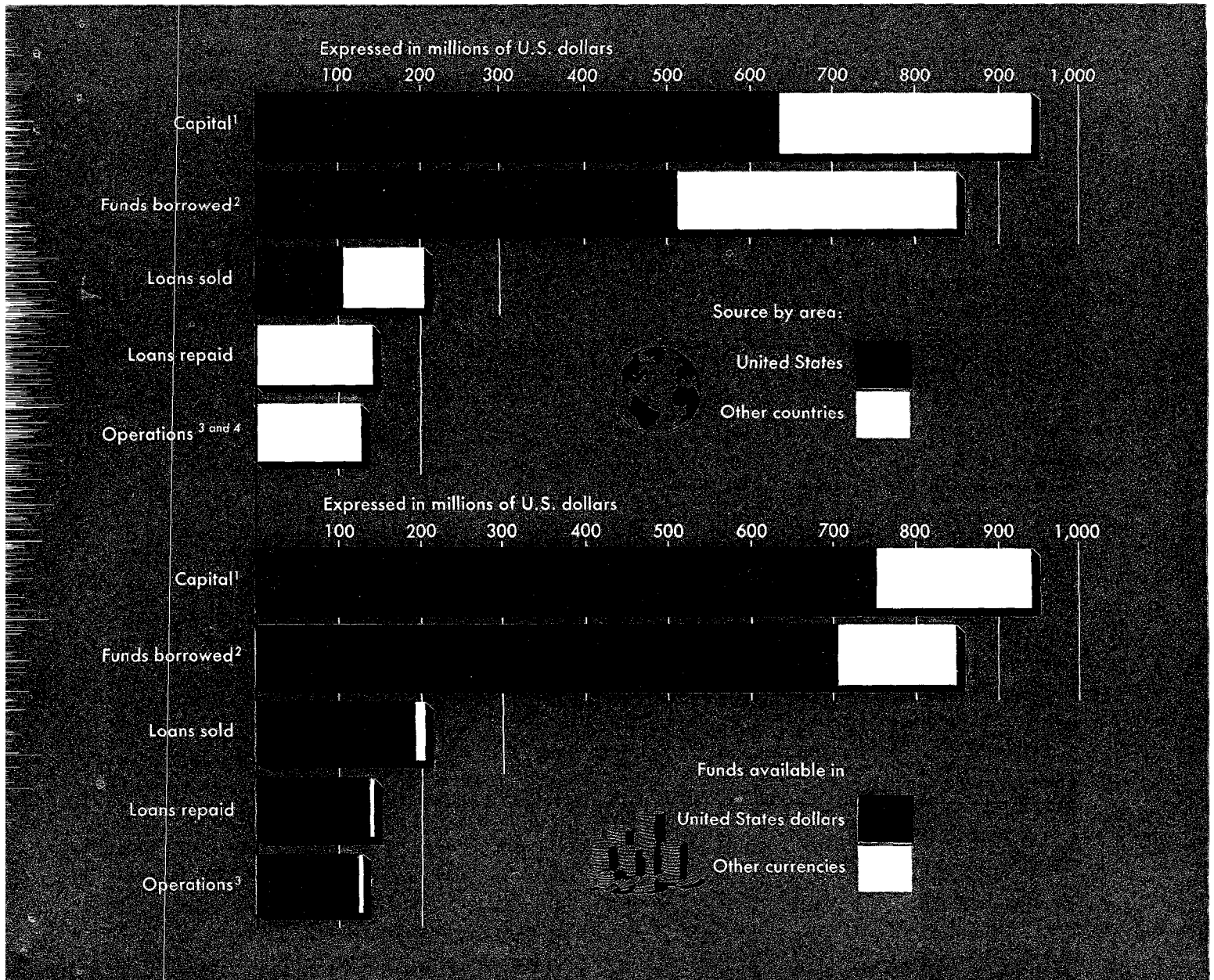
year. Net earnings provided \$25 million. Further funds made available by member countries' releases of parts of the 18% of their capital subscriptions payable in their own currencies amounted to \$43 million. Funds derived from the Bank's sales to other investors of parts of its loans increased sharply during the year; \$97 million—three times as much as in the preceding year—was available from this source for new loans. The net addition to the Bank's resources from bonds issued to meet the remainder of its needs during the year was \$75 million, only one-third of the amount in the preceding year. A net addition of \$5 million resulted from exchange adjustments and changes, reflecting alterations in membership, in funds available from 2% capital subscriptions.

The following table shows the source of the funds that have become available for lending since the Bank started operations:

FUNDS AVAILABLE FOR LENDING	
JUNE 30, 1955	
<i>Cumulative totals expressed in millions of United States dollars</i>	
2% portion of subscription of all members	\$177.8
18% portion of subscription made available by members	764.5
Total available capital subscriptions	942.3
Funds available from operations, including exchange adjustments	128.6
Funds available from sale of bonds	851.6
Funds available from principal repayments and prepayments	139.3
Funds available from loans or agreed to be sold	200.1
Gross total available funds	\$2,261.9

Of the cumulative total of \$2,262 million, loan disbursements at the end of the year had absorbed \$1,680 million, leaving a balance of available funds amounting to \$582 million. Cumulative loan commitments, net of cancellations and refundings, stood at \$2,274 million. Of these commitments, undisbursed loans accounted for \$594 million; this included both effective loans and those not yet effective.

The Bank so far has had \$2,262 million available for lending. The charts below classify these funds by source and currency.



(1) This includes only those amounts of capital which are required for present loans and which are freely available under the articles of agreement or which members have agreed to make available for loan disbursements.

(2) Based on estimates of present holdings of bonds.

(3) This is the net amount of funds realized from operations to date before deducting net expenses paid in currencies which are not available for lending. It is not, therefore, the

same as the amount of the net income of the Bank to date.

(4) The net amount of funds available from operations has been shown as obtained outside the United States because it consists primarily of interest payments received from borrowers. Income (derived largely from investments) obtained in the United States has been more than offset by expenditures there, and the difference has been covered out of gross income from all sources.

USE OF CAPITAL SUBSCRIPTIONS

Releases of 18% capital subscriptions used or allocated to loans during the year added the equivalent of \$43 million to the Bank's lendable resources. This sum came almost wholly from Western Europe, and included the equivalent of \$19.1 million from Germany, \$10.6 million from Italy and \$10.9 million from the United Kingdom. It also included \$1.4 million from South Africa, and \$200,000 from Peru. The Peruvian release enables the Bank for the first time to allocate a Latin American currency to a loan.

The amounts of 18% capital so far released by member countries in various regions and used or allocated to loans are shown in the table below:

USE OF 18% CAPITAL SUBSCRIPTIONS

JUNE 30, 1955

Cumulative totals expressed in millions of United States dollars

<i>Region</i>	<i>(1) Used or allocated to existing loans</i>	<i>(2) Total 18% capital</i>	<i>(3) Percentage of (1) to (2)</i>
North America (United States and Canada)	\$624.9	\$630.0	99
Europe . . .	133.6	586.8	23
Latin America .	0.2	60.5	—
Africa . . .	5.8	28.1	21
Asia . . .	—	283.6	—
Australasia .	—	36.0	—
Totals	\$764.5	\$1,625.0	47

In addition to the amounts shown in the accompanying table, 18% capital totaling the equivalent of \$390 million has been released for lending, but subject to certain conditions. These conditions include consultation with the releasing member, or restrictions on the area of expenditure or rate of disbursement, or other limitations. Such limitations make it difficult to lend the funds, and thus reduce their usefulness to the Bank. The Bank has therefore continued to urge its member countries to adopt a more liberal approach to the use of this capital.

At the end of the year many countries, particularly those of Western Europe, were in a much better

position to export both capital and capital goods than in the early postwar years. In these circumstances the Bank looks forward to a further easing, in line with the improved economic situation of member countries, of the restrictions still placed by them upon the use of this part of the Bank's subscribed capital.

SALES OF LOANS

There was considerable evidence during the year of greater readiness on the part of private capital to enter the field of international investment. This helped the Bank to raise more funds in 1954-55 than in any earlier year through the sale of parts of its loans to other investors. Such sales amounted to the equivalent of \$99 million, compared with \$34 million in the preceding year, and nearly equaled the sum so raised in the whole of the eight preceding years of the Bank's life. Almost the entire amount was raised through sales without the Bank's guarantee.

An increasing number of commercial and other banks took up, in every case without the Bank's guarantee, the shorter maturities at the time the loans were made. They participated in 13 out of the 20 loans made during the year, thereby making \$29 million available for the financing of Bank projects. In the loan to Australia, 11 private United States banks participated to the extent of over \$10 million.

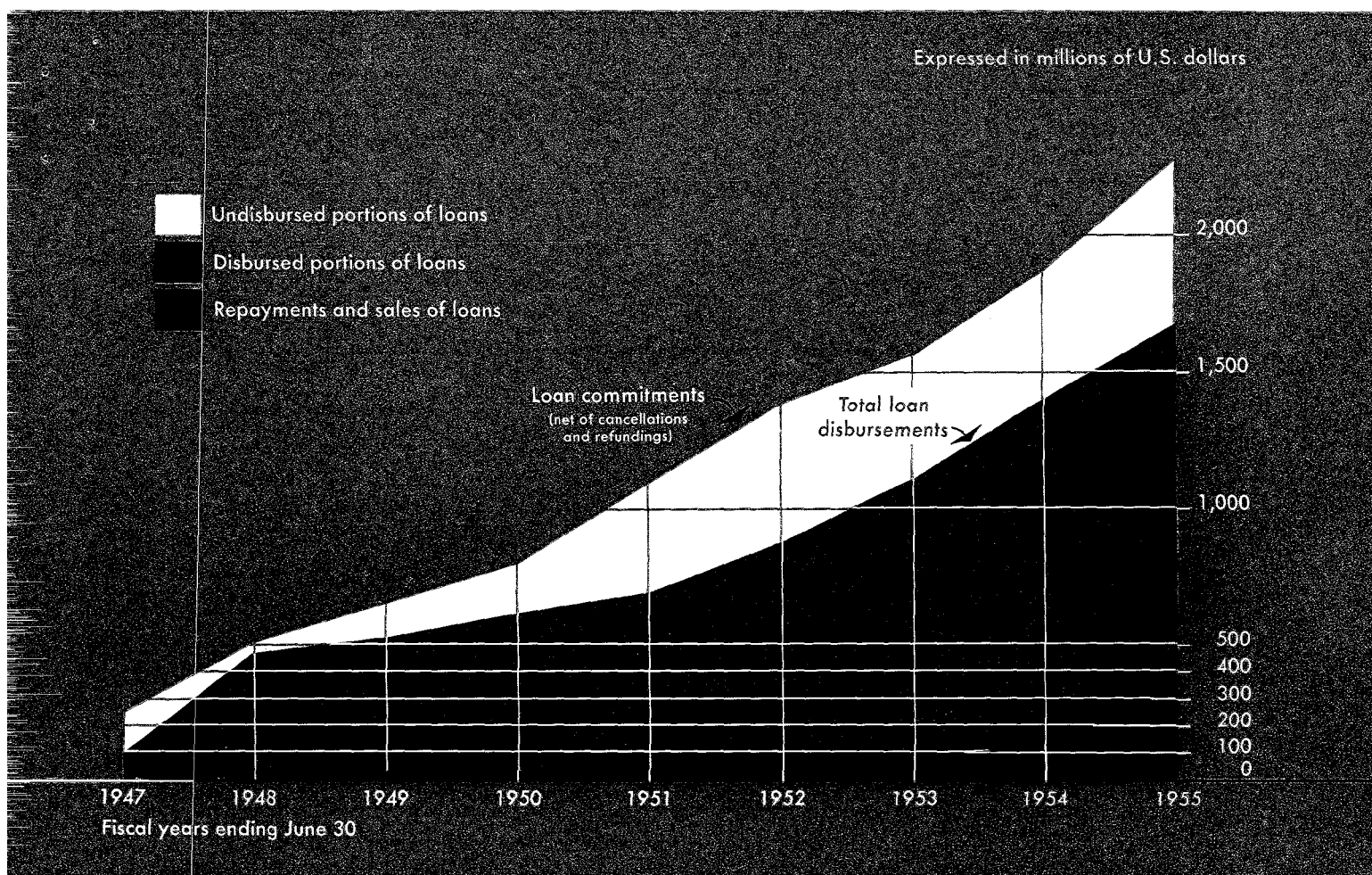
The remainder of the \$99 million arose from sales from the Bank's portfolio of loans already made. These sales, all of which were made by private placement, amounted to \$70 million.

The Bank has in its portfolio a wide range of maturities; but the greater part of those sold have been of five years or less. A notable feature of the past year has been the development of a demand for longer maturities. Obligations with a life of 10 years or more have been sold—mainly to insurance companies, which have shown an increasing readiness to buy parts of Bank loans.

At the end of the year obligations still outstanding which had been sold to other investors amounted to \$143 million. Of this amount only \$19 million carried the Bank's guarantee.

As mentioned earlier, two public offerings made on

Measured against commitments and disbursements, repayments and sales of loans assumed new importance during the year.



the capital market during the year were linked with Bank loans. In conjunction with the Bank's \$20 million loan to Belgium, \$30 million of Belgian bonds were publicly offered by a group of underwriters in the United States; and in conjunction with the Bank's \$25 million loan to Norway, underwriters in the United States offered \$15 million of Norwegian bonds. In each case, by lending at long term the Bank enabled the borrower to issue short and medium term bonds to private investors. Although the market in the United States had in recent years shown little interest in foreign bond issues, both the Belgian and the Norwegian issue were oversubscribed.

FUNDS FROM BOND ISSUES

Large principal repayments and increased sales of loans to other investors reduced the necessity for the Bank to borrow in the capital markets during the year. The four issues sold amounted to the equivalent of \$88 million, as compared with \$221 million in the previous 12 months. All the year's issues were sold outside the United States, the greater part of them in Europe. Evidence was thus provided of the progress made in building up an international market for the Bank's obligations in the five years since the first issue was sold outside the United States.

The strength of the international demand for Bank

BOND ISSUES OF THE YEAR

<i>Principal Amount</i>	<i>Date of Offering</i>	<i>Term</i>	<i>Interest Rate</i>	<i>Offering Price</i>	<i>Issuing Houses</i>
f40,000,000	July 1954	15 yrs.	3½%	100	Underwriting group of 14 Netherlands banks headed by Nederlandsche Handel-Maatschappij, N. V.
£5,000,000	July 1954	20 yrs.	3½%	98	Underwriting group of six investment houses in the United Kingdom headed by Baring Brothers & Co., Limited.
\$50,000,000	Sept. 1954	5 yrs.	2½%	99¾-100	Without underwriters, to investors outside the United States by private placement
Can\$15,000,000	March 1955	10 yrs.	3¼%	99	Underwriting group headed by Wood, Gundy & Company Ltd., Dominion Securities Corp., Limited, and A. E. Ames & Co. Limited

bonds was demonstrated in September, when the whole of a \$50 million issue of United States dollar five-year bonds was sold outside the United States. Although substantial amounts of earlier United States dollar issues had been taken up by investors in other countries, this was the first time that the whole of such an issue had been placed outside the United States. It was also the first time that an issue of the Bank's United States dollar bonds had been sold by private placement.

The demand for these bonds was strong. They were placed in 23 countries in all six continents. Buyers included central banks, commercial banks, insurance companies and other financial institutions, and industrial corporations.

The year saw the first issue of Bank bonds in the Netherlands. Fifteen-year bonds in the amount of f40 million (equivalent to \$10.5 million) were offered in July. The issue was heavily oversubscribed. A second issue of Bank bonds in the United Kingdom was made in the same month. The amount of the issue was £5 million (equivalent to \$14 million) and the term 20 years. A third issue of bonds in Canada was made in March, when the Bank offered Can\$15 million in ten-year bonds.

During the year the Bank redeemed \$10 million of its United States dollar 2% serial bonds of 1950, Sw fr 8.5 million of its Swiss franc 2½% serial bonds of 1950, and Can\$1.4 million of its Canadian dollar 4% ten-year bonds of 1952. With these redemptions

totaling approximately \$13 million, and with new borrowing of \$88 million, the net addition to the Bank's resources from bond issues was equivalent to \$75 million, compared with \$220 million in the preceding year.

At the end of the year Bank bonds outstanding totaled the equivalent of \$852 million. Of this it is estimated that about \$475 million, representing 56%, was held by investors in the United States, compared with 65% a year earlier. The principal holders in the United States are pension and trust funds with an estimated 20% of the total, and insurance companies and savings banks with slightly more than 15% each; the balance of the holding in the United States, representing less than 5% of the total, was held by commercial banks and other investors. The remainder of the bonds, amounting to about \$375 million and representing 44% of the total outstanding, was held outside the United States by banks, insurance companies, pension and trust funds and other private institutional and individual investors as well as by central banks and government agencies. Included in the amount was \$225 million in United States dollar bonds, accounting for almost one-third of the outstanding total of those bonds.

Disbursements

The year's disbursements amounted to the equivalent of \$274 million, bringing total disbursements since the Bank started operations to \$1,680 million. The sum

disbursed compared with \$302 million in the preceding year. The rate of disbursement is not directly related to new lending activity; it is governed by the needs of borrowers as they incur expenditures covered by loans.

Disbursements for which the Bank was able to use currencies other than United States dollars amounted to \$66 million, representing 24% of total disbursements during the year, compared with \$82 million representing 27% a year earlier.

The international distribution of expenditures under Bank loans is indicated in the table on this page.

PROGRESS ON PROJECTS

The accomplishments of borrowers in carrying forward projects and programs already financed by the Bank were perhaps greater during 1954-55 than in any previous year. Difficulties were, of course, encountered in carrying out certain projects, and some expectations were disappointed. Organizational problems, unforeseen engineering obstacles, and unexpected increases in cost were among the factors that contributed to delays. But the record on the whole was satisfactory. In electric power, for example, generating units put into operation during the year had a capacity of more than one million kilowatts—about one-quarter of the capacity that the Bank has helped to finance since it

made its first development loan in 1948. Some examples of progress in this and other fields are given below:

Africa

The Bank has helped to finance the Ten-Year Development Plan for the *Belgian Congo*, under which much has already been done to improve basic services, particularly transport. Navigation on the Congo, the main traffic artery of the country, is being made easier by the installation of navigation lights and the delivery of additional tugboats and barges. Traffic can now move by night along the stretch of over 1,000 miles of river which joins Stanleyville to Leopoldville, and the new craft can complete twice as many round trips a year as the older types. Improvement of port equipment at Leopoldville and Matadi and conversion to diesel traction of the rail link between these towns have helped to overcome traffic congestion along the river-rail route which forms the Belgian Congo's only direct outlet to the sea.

In another part of Africa the Bank financed a road program which has now restored to usable condition nearly all of *Ethiopia's* 2,500 miles of primary roads. The increase in road traffic is evidenced by the fact that annual imports of motor vehicles and fuel have more than doubled in the past three years. Road

GEOGRAPHICAL DISTRIBUTION OF LOAN EXPENDITURES

Expressed in Millions of United States Dollars

<i>Area of Expenditure</i>	<i>Fiscal Year 1954-55</i>		<i>Cumulative Total to June 30, 1955</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
United States	\$129.2	47.1	\$ 982.3	58.5
Europe	133.8*	48.8	536.7*	32.0
Canada	7.9	2.9	86.5	5.1
Latin America	0.3	0.1	62.5	3.7
Africa	2.8	1.0	8.3	0.5
Asia	0.2	0.1	3.4	0.2
Totals	\$274.2	100.0	\$1,679.7	100.0

* These amounts include disbursements on loans in which the funds are used to cover local expenditures or used for broad development programs in which the items imported with Bank

funds are not specified. In the figure for 1954-55, \$35 million is accounted for in this way, and in the cumulative total \$129 million.

transport costs have been reduced, so that in two years charges for carrying some types of goods have fallen by about 40%.

A large increase in power supplies has also been brought about with Bank help in two other countries of Africa. The Electricity Supply Commission, which provides three-quarters of the total output of *South Africa*, made further progress toward completion of the six-year expansion program begun in 1953. Capacity increased during the year by 320,000 kilowatts. In *Southern Rhodesia*, where a four-year phase of the economic development plan was completed, 70,000 kilowatts was added to generating capacity under a Bank-assisted electric power program.

Asia

Agricultural programs helped by the Bank continued to build up farm output in South Asia. In *India*, the

program to rid land of the kans grass weed is entering its seventh season; a further 180,000 acres was deep-plowed during the year, bringing the total cleared to 1¼ million acres. Studies indicate that the yield of wheat, the main crop planted, has been about 70% higher since the weed has been cleared. Reinfestation of land already cleared has been slight. The additional production of food grain from the cleared land after completion of the project is expected to total about 260,000 tons annually.

In *West Pakistan* the Bank has provided finance for machinery which is clearing and preparing land for cultivation in the Thal desert. Over 180,000 acres have now been made ready for cultivation, and families are being settled and new communities established as additional land is cleared. It has been estimated that the full 660,000 acres to be reclaimed by 1958 would produce wheat, cotton, sugar and other crops worth

Thailand • Dredges financed by a Bank loan of \$4.4 million have channeled through a sand bar at the mouth of the Chao Phya River, so that seagoing ships of up to 10,000 DWT

can enter the port of Bangkok. Modern freight-handling equipment, also financed by the Bank's loan, has been installed to deal with the additional traffic.



the equivalent of \$24 million a year. The Bank-financed machinery has shown good performance, and the cost of reclamation is now expected to be lower than the original estimate.

Another loan to Pakistan has helped to bring about marked improvements in rail services. There have been delays in procuring suitable coaches and in carrying out some of the track renewals, but the other main parts of the program have been completed. Diesel locomotives financed by the loan are now in use in both East and West Pakistan, and are being operated at a high standard of efficiency. On the North Western Railways alone they are making possible a foreign exchange saving on fuel equivalent to \$1 million a year. As a result of the program, average speeds have been increased and additional trains are being run.

In *Thailand*, with the help of Bank funds, a channel has been opened through the sand bar downstream of Bangkok. Since the opening of the channel large ocean-going ships, which formerly had to use lighters for loading and unloading, have been able to reach the port; cargo-handling costs have been reduced. The rate of silting has been higher than estimated. But the problem of keeping the channel clear is being vigorously tackled. Continuous dredging is in progress, and the Government is undertaking a study of ways in which the rate of silting in the port and channel can be reduced.

Australia

Bank lending in *Australia* has provided dollars for essential imports from North America. It has paid for equipment and materials needed in almost every part of the economy, and has thus helped to overcome shortages which threatened to slow down Australia's economic advance.

Farm production has continued to increase with the help of equipment financed by the Bank. During 1953 and 1954 imports of North American origin included nearly 7,000 tractors and about 2,000 machines for forage conservation. This and other equipment has played its part in raising production of wool, beef and sugar in the current season above the targets set for 1957-58. During the past year the Bank also con-

tributed substantial sums for imports needed to improve road, rail and air services, and financed imports of a variety of equipment for private industry.

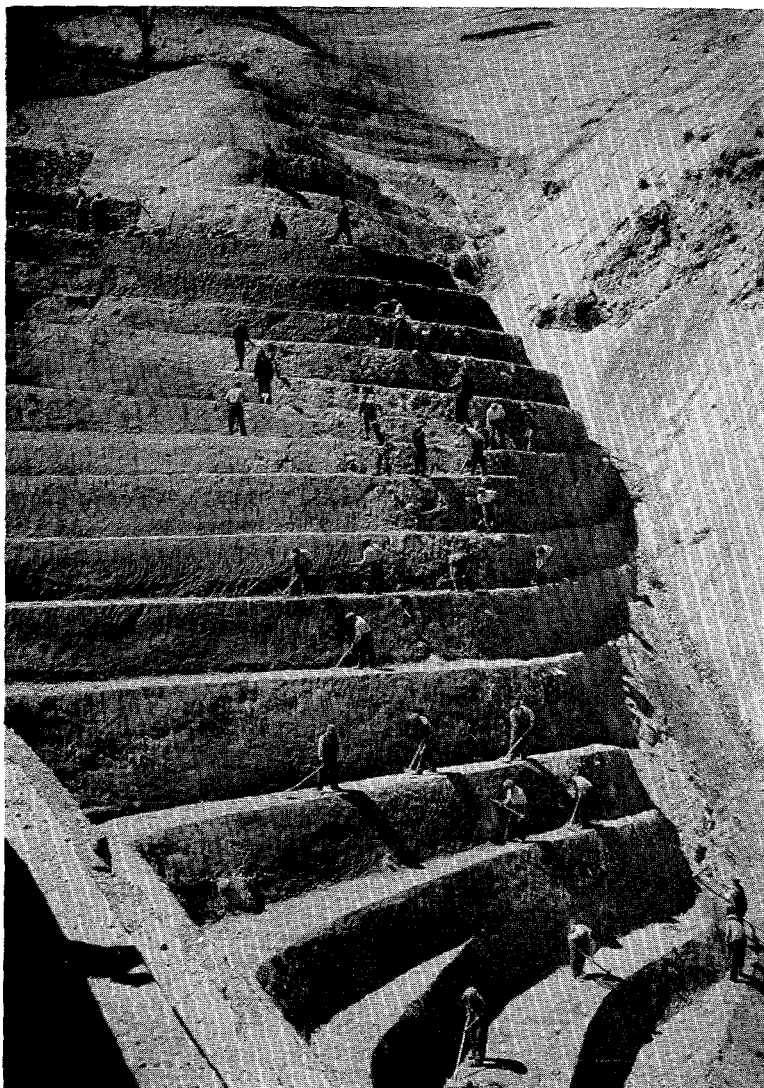
Bank finance has helped to provide capital needed for the continued rapid expansion of all main sectors of the economy. Both public and private investment have been maintained at a high level since the first Bank loan was made in 1950. In keeping abreast of the rapid growth in population and in economic activity, gross investment is at present running at the very high rate of about 25% of gross national product.

Europe

A large part of the Bank's development lending in Europe has been directly for industry, and the year witnessed further progress in bringing industrial projects to a successful conclusion.

In *Finland* two new paper mills with a total annual output of 100,000 tons were completed, and the capacity of an existing woodpulp plant was stepped up from 90,000 to 125,000 tons. With the help of the loan to the Industrial Development Bank of *Turkey*, 13 industrial projects were completed, including plants producing bricks, tiles and other construction materials; pharmaceutical, starch and soap factories; wool and cotton mills; and a fish cannery. In *Yugoslavia*, the Zenica steel mill was virtually completed, with a coke plant and a blast furnace each having an annual capacity of 200,000 tons. An aluminum plant at Strnisce came into initial production. Most of the other Yugoslav industrial projects assisted by the Bank have now come into production, at either part or full capacity. They have contributed to an increase of about 30% in industrial production within the last two years.

Loans for agriculture have strengthened the economy of *Iceland*. Imports of machinery, building materials, fencing, seed and other supplies have helped to improve pasture and to rebuild farms and farm buildings. The sheep flock has been raised to a level thought not to be attainable before 1960. Local production of milk and potatoes can now meet all domestic needs. Exports of wool, fleece and meat are being developed.



In *Italy* the Cassa per il Mezzogiorno made further progress in carrying forward a 12-year program benefiting both agriculture and industry in the south. The Bank made small loans in 1951 and 1953 to the Cassa, and has now lent a further \$70 million. The Cassa program is aimed primarily at raising agricultural production; but it is also intended to improve roads and other basic facilities and to attract private industry. Although the program, launched in 1950, is less than half finished, it has already stimulated economic activity, and has provided new employment for nearly 200,000 workers. Not only has farm production risen, but industry has begun to move to the area, bringing new investments in textile, paper, chemical and fertilizer plants, brick and cement factories, sugar refineries and olive oil presses.

Italy • In southern Italy, the Cassa per il Mezzogiorno is carrying out a broad program of economic development, illustrated here by work to control erosion on a Calabrian hillside. Of the Bank's \$90 million of lending to the Cassa, \$70 million is being used for specific projects to develop agriculture, new private industries and electric power.

Latin America

The greater part of the new power capacity financed by the Bank and brought into use during the year was in Latin America, where good progress was made on several large projects.

In *Brazil* the eight-year expansion program of the Brazilian Traction, Light and Power Company Limited was practically finished, with an increase in capacity of 330,000 kilowatts during the year. Projects completed included the Nilo Peçanha hydroelectric plant, one of the largest underground power stations in the world. This plant was completed in October, and brought a 30% increase in power capacity in the Rio de Janeiro-São Paulo area, the main industrial and commercial center of Brazil. To provide balance in the company's total capacity and to tide over the periods of drought, the Bank has also financed the construction of new thermal capacity at Piratininga near São Paulo. This plant also was completed in October; with its capacity of 160,000 kilowatts it is the largest steam power plant in Latin America.

In northeastern Brazil the Companhia Hidro Elétrica do São Francisco completed the Paulo Afonso project, which will bring more power to the ports of Recife and Salvador as well as to a large rural area where economic development is still at an early stage. Construction of this plant presented the Brazilian engineers in charge of the project with a challenging task, since it called for the building of a dam across the São Francisco river—one of the largest rivers in Latin America, swift-flowing and with a jagged rock bed which greatly added to the difficulties of the work. Although the exacting conditions caused delays, the river was successfully closed and the two Bank-financed generators, with a total capacity of 120,000 kilowatts, are now in operation.

The Mexican Light and Power Company Limited completed all the main features of one of the two large programs financed by the Bank in *Mexico*. The Patla hydroelectric station, which added 45,000 kilowatts to the capacity available to meet the growing needs of the Mexico City area, was the last major plant in the program to be completed; it came into operation in October 1954. The Company, helped by the steady growth in sales and by various adjustments of rates, was able to pay a dividend on its common stock after a lapse of many years.

Meanwhile the expansion program of the Comisión Federal de Electricidad, for which the Bank lent funds in 1949 and 1952, is nearing completion. It is already stimulating economic growth in many rural areas as well as in leading cities of Mexico. Plants completed included a third unit, with a capacity of 45,000 kilowatts at Ixtapantongo, which will feed power into the Mexico City distribution network of the Mexican Light and Power Company, and a 55,000-kilowatt plant to supply the Guadalajara area.

The power program which is being carried out in *Chile* by Empresa Nacional de Electricidad is now completed. Two Bank-financed hydroelectric units came into operation at Los Cipreses. Together with a third unit not financed by the Bank, this plant has added 54,000 kilowatts to the capacity of the Santiago area. In *Uruguay* a new 50,000-kilowatt steam plant is now in operation in Montevideo, and the transmission network, which will distribute power throughout many parts of the interior not previously served, is nearing completion.

An example of the results of agricultural lending in Latin America can be seen in *Colombia*, where a loan made in 1949 has paid for large imports of agricultural equipment. Together with a revolving fund set up from the proceeds of sales of equipment to farmers, this loan has financed the import of various types of machinery including about 3,000 tractors. In the broad Colombian valleys, where labor is scarce and the planting and harvesting seasons are short, mechanization has made a notable impact upon farm output and costs. The cultivated area is being extended by 300,000 acres a year and, with higher yields per acre, larger

quantities of all the principal crops are being produced. Costs of production on some farms have been much reduced.

ADVISORY ASSISTANCE

The Bank continued its policy of giving advice, upon request, on general development problems even where they were not directly related to Bank investments.

Surveys, Missions and Studies

General survey missions to Nigeria, Syria and Malaya completed their work during the year, and a mission left for Jordan in March. This brought to 14 the number of such missions organized to assess the economic resources and potential of member countries and to assist governments to draw up and carry out development plans.

The report on *Nigeria*, based on the mission's field studies in the previous year, was presented to the Government in September 1954. Nigeria produces a wide range of agricultural commodities and important quantities of minerals, and in recent years has enjoyed a strong demand for its exports. This has made possible a marked rise in living standards, which has been accompanied by long strides toward self-government. With plentiful manpower and a substantial accumulation of funds, Nigeria is in a favorable position for further economic development. The mission found, however, that progress was likely to be held back by the shortage of trained personnel and by inadequate knowledge of the natural resources. It therefore recommended a five-year development program which would take account of these limitations and would aim at a balanced and gradually accelerating growth.

The report on *Syria* was presented to the Government in March. It dealt with a country with a long history of urban civilization and deep roots in commerce. It found that in the last two decades the introduction of new crops and the tilling of new land had brought great advances. There has also been a rapid growth of industry. In both sectors, the mission considered, Syria now needs a period of consolidation,

with further progress in agriculture depending mainly upon the rate at which the limited supplies of unused water can be developed. A six-year development program recommended by the mission indicates ways in which agriculture can be further expanded, and contains recommendations for further improvements in transport and power, education and public health.

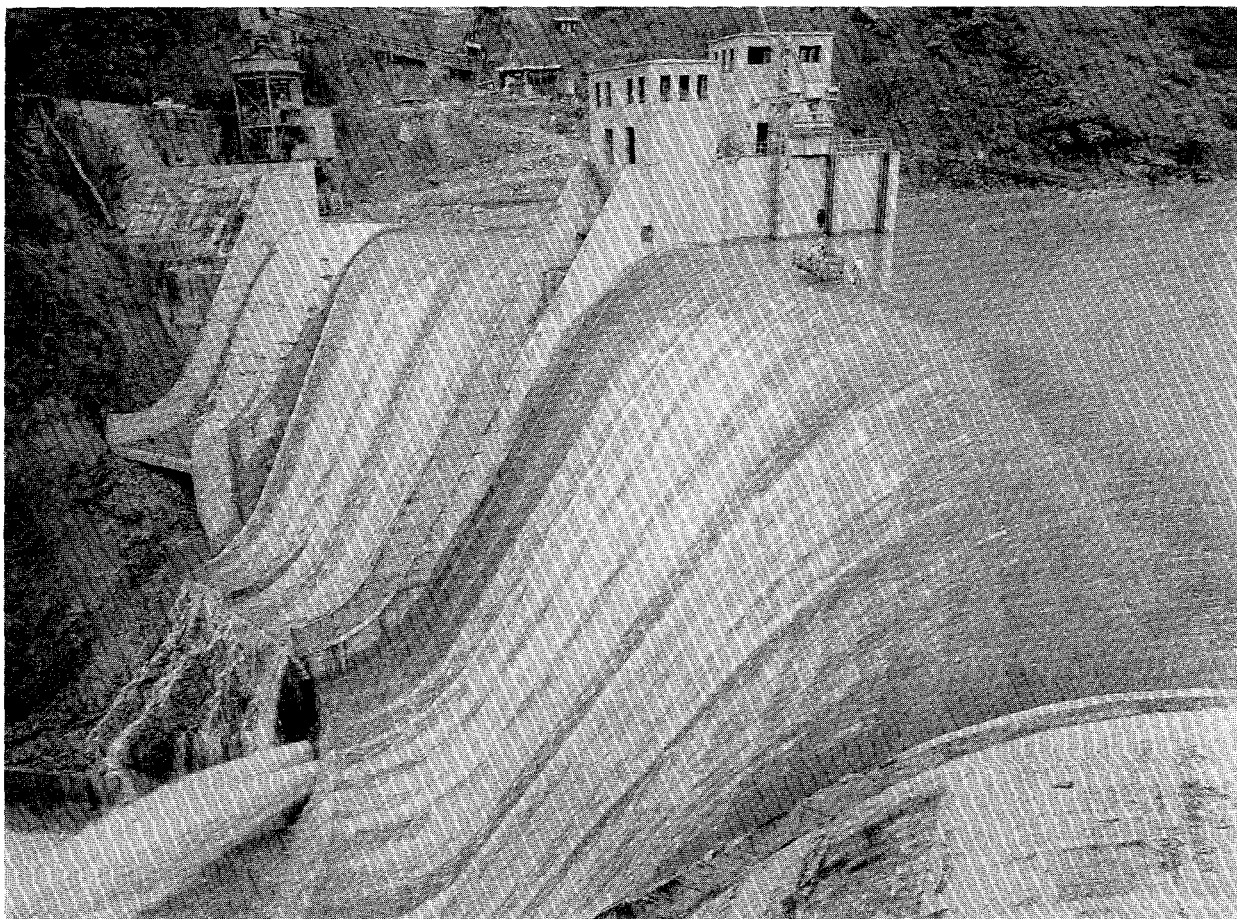
The mission to *Malaya* was concerned with the problems of an area heavily dependent upon a small number of highly developed exports, but with considerable possibilities for further expansion of both agriculture and mining. The mission recommended a five-year program aimed at increasing productivity in

the staple export industries, particularly rubber, and the development of rice, cocoa and other agricultural products. It concluded that the rate of public expenditure will have to remain high if development is to keep pace with the exceptionally rapid growth of population. Its report was presented to the Governments of the Federation of Malaya, Singapore and the United Kingdom in June.

The Bank added to the number of resident representatives stationed in member countries to advise the government on the formation of economic policy and on the preparation and execution of development plans. This service was continued in *Nicaragua* and

Colombia • The *Anchicaya dam and power station* which serve the fast-growing city of Cali have been financed by loans totaling \$8.03 million from the Bank. The plant has a

capacity of 24,000 kilowatts, and is being expanded by an additional 32,500 kilowatts. Cali's many industries will benefit from the increased supply of electric power.



Panama; and it was extended during the year to include for the first time *Ecuador*, *Guatemala* and *Honduras*.

In *Iran* the Bank is providing assistance on technical matters to the organization which will supervise the execution of the Seven-Year Development Plan. In particular it is helping to recruit senior foreign staff members, especially engineers, needed by the Plan Organization. In *Ecuador* help was given in the selection of key members of the staff of a Board of Planning and Economic Coordination established on lines suggested by the Bank. The Board has now begun to operate, and is drawing up a long-term development program. In *Haiti* the Bank gave advice on the setting up of an economic planning organization, and in *British Honduras* it offered comments and suggestions on development opportunities.

Member countries sometimes ask for a study, not of the development potential of the country as a whole, but of a particular economic problem. Thus *Japan*, which has to import 20% of its food and is faced with a continued growth of population, asked the Bank to organize a mission to review and comment on its agricultural program. Although many Japanese farm techniques are very far advanced and yields per acre, particularly of rice, are among the highest in the world, the Bank mission which was in Japan from July to September 1954 concluded that there are substantial possibilities for expansion of cereal production and livestock rearing.

Another agricultural mission spent three months in *Colombia*, where further progress is urgently needed in increasing the supplies and reducing the prices of food. In addition to the problem of increasing the efficiency of farm production, the mission was asked to study broad problems of agricultural policy in such matters as exports and imports, prices, marketing and research. The mission is preparing a report to the Government which will contain recommendations for a long-term program for agriculture. The Bank also organized a mission which spent two months in Colombia assisting the newly-established Autonomous Regional Corporation of the Cauca to launch, in coordination with the other agencies at work in the

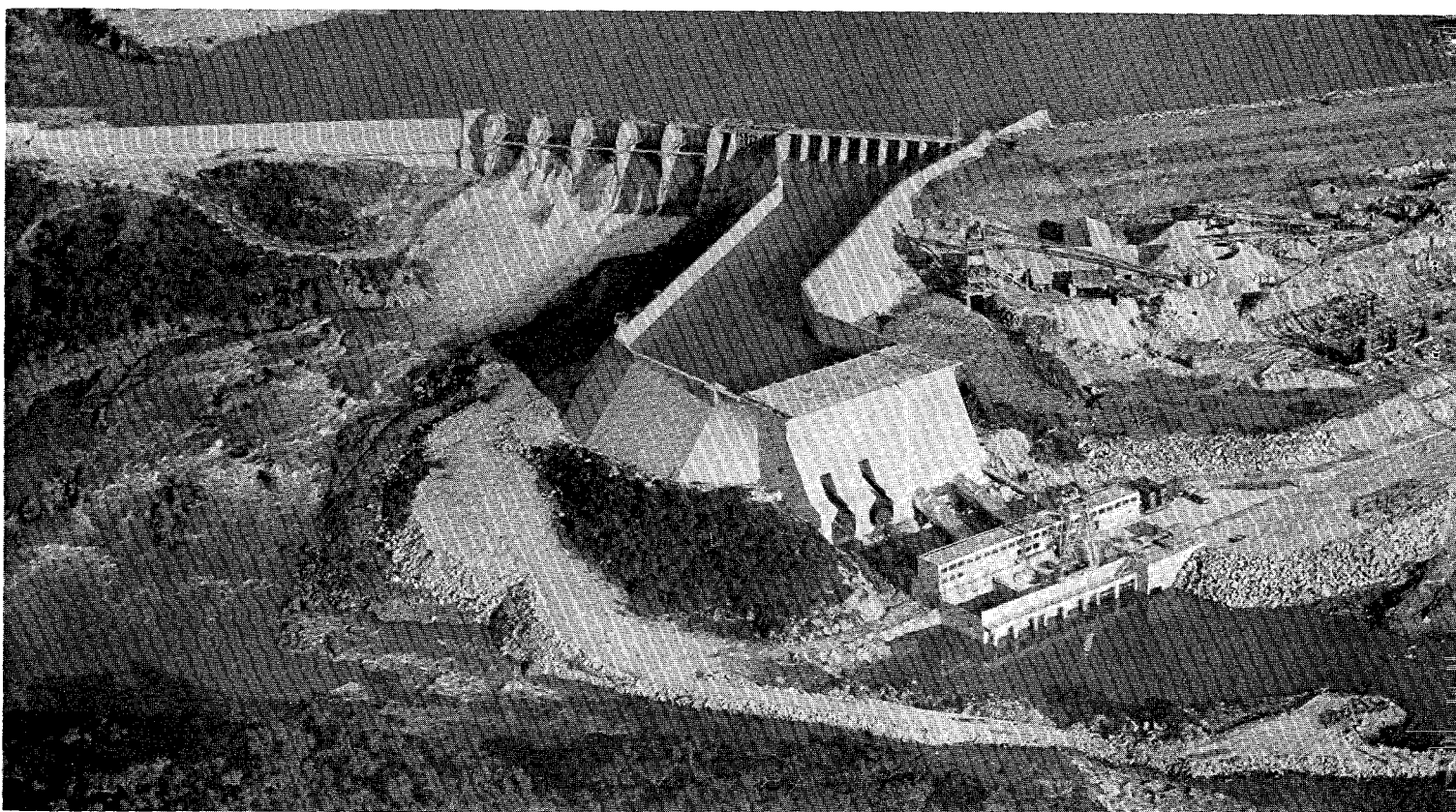
area, a program for the economic development of the Upper Cauca Valley.

In *Mexico* further work was done on a study of the country's future electric power requirements and of methods of financing them. It is expected that the study will be presented to the Government and published in the near future. The Bank has provided the services of an electric power consultant, and of other staff members from time to time.

In *Ceylon* an Institute of Scientific and Industrial Research was set up early in 1955, with the joint help of the Bank and the United Nations Technical Assistance Administration. The aim of the Institute is to improve productive techniques through research applied to the special conditions and characteristic products of Ceylon. It will make field, pilot plant and laboratory studies. It will serve both government agencies and private business, and is expected eventually to become financially self-supporting. The Bank made available a member of its staff to be the Institute's first Director and to help in launching it.

The Bank continued to collaborate with *India* and *Pakistan* in devising ways of increasing the irrigation use of the Indus system of rivers. Discussions were resumed in Washington in December on the basis of terms of reference proposed by the Bank. A firm of engineering consultants was engaged by the Bank to assist in the discussions, and early in 1955 Bank representatives, together with representatives from India and Pakistan, spent two months making field studies. In June an inter-governmental agreement was signed by the leaders of the Indian and Pakistan delegations. The agreement makes transitional arrangements for water use during the April-September crop season of 1955. Discussions are now continuing with the object of preparing a comprehensive plan.

Further steps were taken during the year to help member countries to foster the growth of their capital markets. Suggestions were made in various countries on ways to develop a government bond market as a first step toward establishing a capital market, and advice was given on methods of raising funds to finance economic development. For this purpose the *Dominican Republic*, *Ecuador*, *Guatemala*, *Iceland* and



Brazil • The Itutinga dam and a 25,000-kilowatt power station on the Rio Grande in the State of Minas Gerais is being partially financed by a \$7.3 million Bank loan.

The area served by the plant contains important deposits of iron, manganese and tin-bearing ores. The plant already operates one generator of 12,500-kilowatts capacity.

Panama were visited by the Bank's Director of Marketing, and another staff member spent a month in Nicaragua. In Panama, where virtually no market for government bonds had ever existed among private investors, two issues were sold within six months during the later part of 1954.

Economic Development Institute

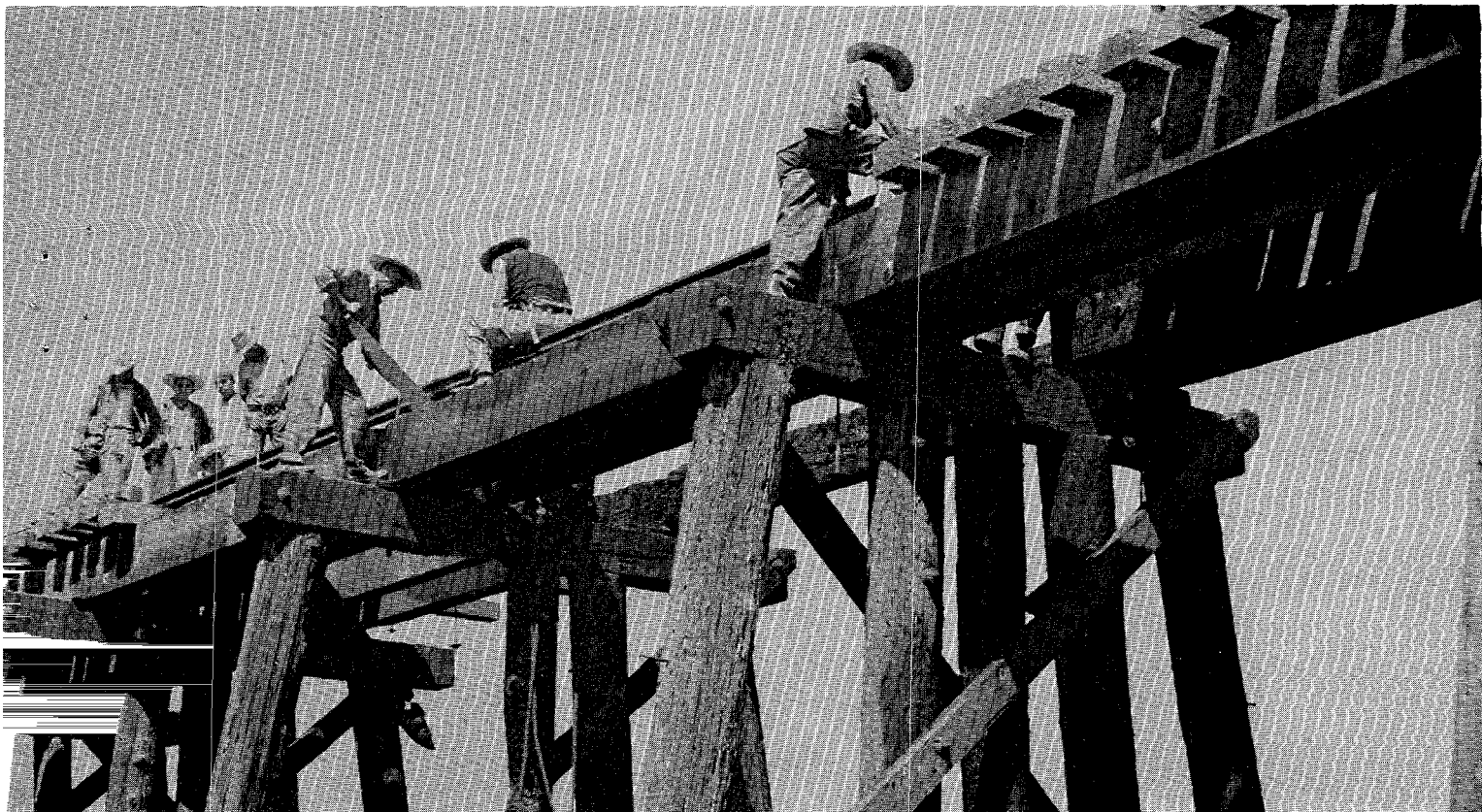
The Bank's experience with problems of economic development has convinced it that the greatest obstacles are not financial but a lack of experience in planning, administration and management. It has therefore been giving increasing attention to means by which it can act as a focal point for the study and discussion of development problems. For the past seven years training has been arranged within the Bank for officials from member countries, both in groups and individually. As a further step in this

direction an Economic Development Institute has now been organized to serve as a staff college at which senior officials from the less developed countries can participate, together with Bank staff, in an intensive study of development problems.

The Institute will offer six-month seminar courses designed to broaden the knowledge of administrators and to permit an exchange of experience among them. Participants will be selected mainly from senior officials with responsibility for economic policy and for the preparation, execution and management of development projects.

The Ford and Rockefeller Foundations have each made a grant to meet a part of the cost of the Institute. A contribution will also be made by the government concerned in respect of each candidate selected. The remaining cost will be met by the Bank.

Professor A. K. Cairncross, Professor of Applied



Mexico • Along the 1,100-mile line of the Pacific Railroad which runs between Guadalajara and Nogales, workmen are repairing bridges, relaying track, installing new ties, and

rebuilding the permanent way. In addition to equipment for these purposes, the loan is financing the purchase of 64 diesel locomotives and 684 freight cars.

Economics and Director of the Department of Social and Economic Research of the University of Glasgow, has been given leave of absence to serve as the first Director of the Institute. The Bank is making two of its own staff available to serve full-time with it. Other staff members will contribute to the work of the Institute from time to time, thus making fully available the lessons of the Bank's experience.

The first course will open in January 1956, and selection of candidates has begun.

COOPERATION WITH OTHER INTERNATIONAL ORGANIZATIONS

Throughout the year close contact was maintained with the International Monetary Fund, the United

Nations and other international agencies. The President of the Bank participated in the annual discussion of Bank activities at the 19th session of the United Nations Economic and Social Council in New York in April, and attended meetings of the United Nations Administrative Committee on Coordination. Bank representatives attended various meetings of the United Nations regional economic commissions, the Organization of American States, the Organization for European Economic Cooperation, the Bank for International Settlements, the Colombo Plan Organization and other bodies. Information was exchanged with the various technical assistance organizations, and Bank personnel, at headquarters or in the field, worked with them whenever opportunity offered. The Bank continued to seek the help of the International Monetary Fund, the Food and Agriculture Organization of the United Nations and other international

agencies in staffing its general survey missions and in supplying advisers and consultants for member countries.

A number of international conferences of interest to the Bank were held during the year. The President of the Bank attended the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council held at Rio de Janeiro in November, and the Vice President addressed a Western Hemisphere conference on private international investment held in New Orleans in March. Bank representatives were present at the United Nations Population Conference held in Rome in August and September. Other representatives attended inter-governmental meetings called to discuss projects for the harnessing of hydro-electric resources in the Austrian Alps and in the mountains of Yugoslavia for the joint benefit of several countries.

MEMBERSHIP AND CAPITAL SUBSCRIPTIONS

Israel became a member of the Bank in July 1954 with a subscription of \$4.5 million. Applications for membership from two more countries, Afghanistan and Korea, were approved by the Board of Governors at the Ninth Annual Meeting in September. The subscriptions of these countries, neither of which had accepted membership by the end of the year, would be \$10 million and \$12.5 million respectively.

Following the arrangement made in 1954, China paid \$70,000 in June 1955 on account of the unpaid portion of its capital subscription. China also furnished economic data relating to its capacity to pay the balance.

Czechoslovakia, with a capital subscription of \$125 million, ceased to be a member on December 31, 1954; it had been suspended from membership a year earlier because of failure to pay the balance due on its capital subscription. On June 30, 1955, in connection with the settlement of accounts, the Bank repurchased the 1,250 shares of Czechoslovakia's capital stock.

At the end of the year the Bank's members totaled 56 and its subscribed capital \$9,028 million.

STAFF

In keeping with its international character the Bank continued its policy of recruiting its staff on as broad an international basis as possible, but with main regard to efficiency. Thirty-seven nations, compared with 32 last year, are now represented on the regular staff.

Reflecting the increase in the volume both of loan business and of technical collaboration with member countries, the Bank's staff increased from 447 at the end of last year to 483 at the end of the year under review. In addition, 46 consultants from 14 countries were engaged for special short-term assignments.

The rate of turnover among the regular staff of the Bank remained low. Although it is less than ten years since the Bank began operations, almost half of its personnel have now served for five years or more, and over one-third have served for seven years or more.

Three resignations of principal officers of the Bank were announced during the latter part of the year. In each case it was possible to fill the vacancy with a senior staff member who had served with the Bank since its earliest years. Mr. Joseph Rucinski, formerly Assistant Director of Operations—Asia and the Middle East, was appointed Director of the Department to succeed Mr. Francois-Didier Gregh, who resigned to become Deputy Secretary General for economic and financial affairs in the North Atlantic Treaty Organization in Paris. Mr. S. R. Cope, formerly Assistant Director of Operations—Europe, Africa and Australasia, was appointed Director of the Department in succession to Mr. A. S. G. Hoar, who resigned to become General Manager of the Commonwealth Development Finance Company in London. Mr. Simon Aldewereld, formerly Assistant Director of Technical Operations, was appointed Director of that Department. He succeeds Mr. Milton C. Cross, who joined The First Boston Corporation as a vice-president and director upon completion of a two-year assignment with the Bank.

In September 1954 Mr. Brian H. Colquhoun was appointed Engineering Adviser to the Bank. He was formerly the senior partner in the London firm of Brian Colquhoun and Partners, Consulting Engineers.

INTERNATIONAL FINANCE CORPORATION

In April 1955 the Bank completed and presented for the consideration of its member governments Articles of Agreement for the proposed International Finance Corporation. The purpose of the Corporation will be to encourage the growth of productive private enterprise, particularly in less developed areas.

The Corporation will be affiliated with the Bank, and membership is open to governments which are Bank members. It will have an authorized capital of \$100 million, payable in gold or United States dollars; the capital will be available for subscription by members in amounts proportionate to their subscriptions to the capital of the Bank.

The Corporation will invest in productive private undertakings, in association with private investors, in cases where sufficient private capital is not available on reasonable terms. As suitable opportunities come to its attention, it will seek to recruit capital from private sources and, if necessary, to find experienced management. In general, the Corporation will aim to stimulate, and to help to create conditions which will stimulate, the flow of both domestic and international private investment into productive private enterprises.

Investments will be made by the Corporation without governmental guarantee; and the Corporation will be authorized to make both fixed-interest loans and investments of other kinds. It may, for instance, buy securities which give it the right to participate in the profits of an enterprise and which, when sold, can be converted by the purchasers into capital stock. But the Corporation will not itself be authorized to invest in capital stock; nor will it assume responsibility for managing the enterprises in which it invests.

The Corporation's charter gives it more latitude than the Bank in financing private enterprise. The Bank may lend to private borrowers only with a governmental guarantee; this has tended to deter private entrepreneurs from seeking Bank finance, and, even when they have been willing to do so, the governments concerned have frequently been unwilling to pledge their credit in favor of particular private

enterprises. Secondly, the Bank makes only fixed-interest loans, whereas the principal need of a new or expanding enterprise is often for venture capital.

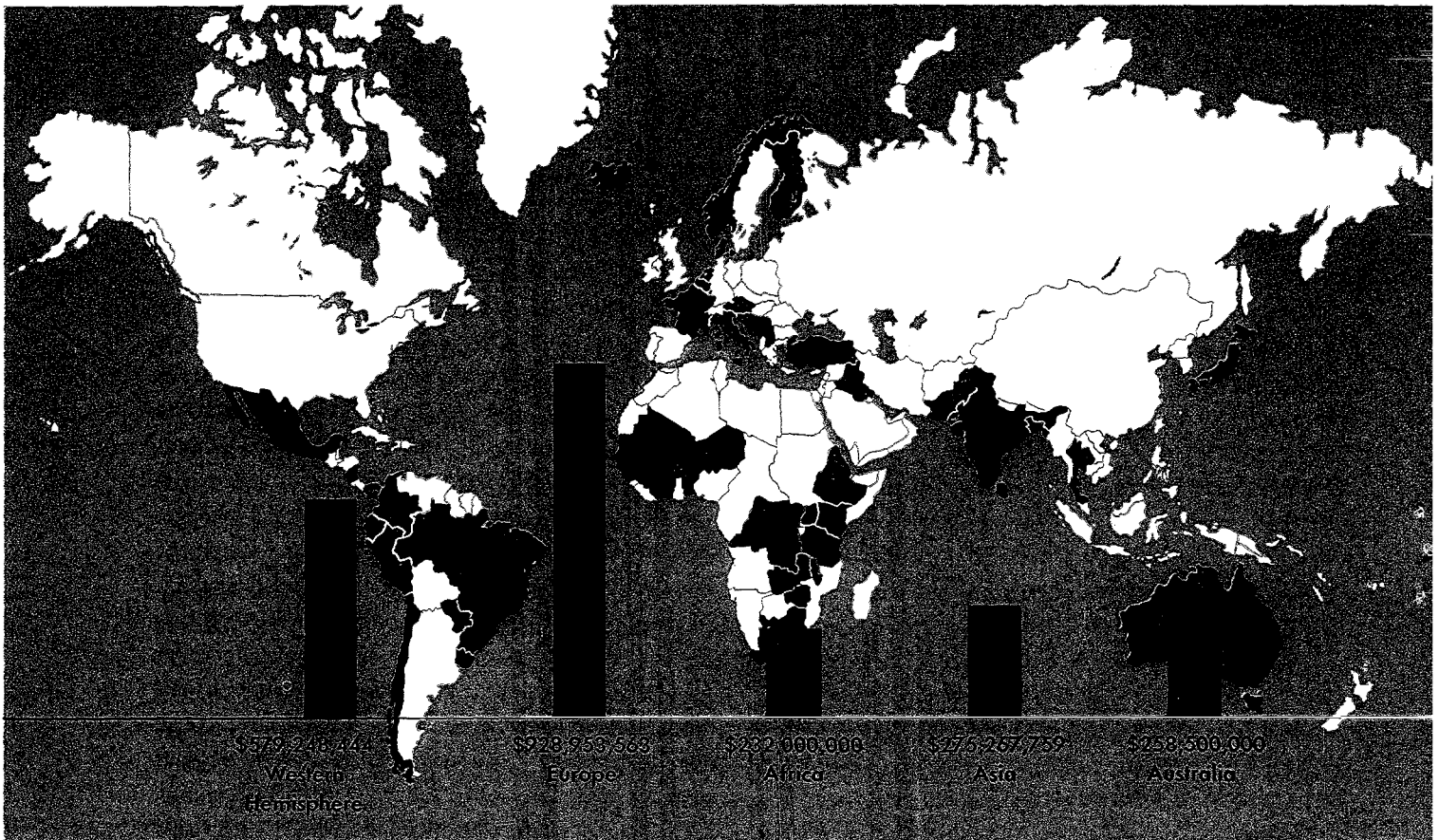
The Corporation will have authority to invest in any kind of productive private enterprise, including agricultural, financial and commercial undertakings; but its main emphasis is likely to be on industry. The Corporation will invest in an enterprise only if it is satisfied that the private interests concerned are contributing their full share of the funds required, and that the remaining requirements cannot be met from other sources on reasonable terms. It will supplement, and not take the place of, private investment.

Enterprises in which the Corporation invests will not, by reason of that investment, have any preferred status under domestic laws and regulations. Although the Corporation itself will have the status and privileges normally accorded to an international organization, its charter does not exempt it from applicable foreign exchange regulations on the transfer of earnings and of repayments of principal on its operational investments. In this respect, the Corporation will be in the same position as private investors generally.

The Corporation will seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms. It will be authorized to raise additional funds by selling its own obligations in the market; but is not likely to do so in the early years of its operations.

The Corporation will come into being when at least 30 governments have subscribed at least \$75 million to its capital. At the end of the year, 48 of the Bank's member governments had in one way or another expressed approval of the proposed Articles of Agreement; of these, 15 had signed the Articles, although they still had to take other steps to accept membership. The Governments of the United States and the United Kingdom, which are prospectively the two largest stockholders, had initiated the legislative action necessary to their acceptance of membership.

chapter 2 . .



Since the start of operations, Bank loans have been made in 37 countries and territories (shown in blue).

THE BANK IN THE POSTWAR DECADE

THE BANK IS NOW ENTERING its 10th year of operations. It was born and has been growing during a highly eventful decade. The decade began with the destitution left by the most destructive war in history; it closes with striking economic improvement in much of the world, and with rising hope that progress in the pursuits of peace will long continue. The Bank has shared in—and made its own contribution to—this marked change of fortune.

Starting with only government capital to lend, the Bank can now trace to private sources nearly half the funds it has had available for loans. At first largely dependent on capital paid in by the United States, the Bank has since been able to use the capital subscribed by many of its other member countries, and has been able to borrow funds from investors throughout the world. At first regarded only as a source of loans, today it is often looked to by its members as a source of advice on many different aspects of economic development. But the Bank is primarily a lender. Now, at the end of its ninth year, it has made loans of more than \$2,300 million to benefit production and living standards in its member countries.

When the Bank informed its members in June 1946 that it was ready to begin operations, nothing quite

like this new intergovernmental corporation had ever existed. Its Articles of Agreement stated its mission: to assist in the reconstruction and development of its member countries by stimulating the international investment of capital, for productive purposes. The Bank was to guarantee loans made for these purposes. It could itself make loans out of capital or borrowed funds—but only if private capital were unwilling to lend on reasonable terms.

For operating policies and methods, the Articles offered guide lines, not specifications. Written large in the charter, nevertheless, was the intent to keep the new institution clear of the reefs on to which the Great Depression had driven some of the more extravagant loans of the 1920s. Whether as guarantor or lender, the Bank was required to make a prudent assessment of the prospects that loans would be repaid. Normally, it was to associate itself with the financing of specific projects. It was expected to study and choose those projects for their usefulness and urgency to the country concerned; and it was required to exercise any care necessary to insure that loans were applied effectively to the purposes for which they were made. With allowance for special circumstances, the Bank was to guarantee or make loans in foreign exchange

rather than in the domestic currency of the borrower.

In sum, the role of the Bank was to be marginal—marginal to private international investment, and marginal to domestic investment in the member countries themselves. Within that scope, the charter left ample room in which the Bank could grow. The Articles contained admonitions, but few prohibitions; and the emphasis of the charter was at least as much on what the new institution should do as on what it should not.

The Bank's Lending

The Bank opened its doors, nearly a year after the end of the war, on a world still in crisis. The peace had not been secured: alarms of war were, in fact, to persist throughout the decade. An international program for the relief and rehabilitation of war-devastated countries was coming to an end and, while massive United States aid was being provided, it was not certain how much longer this aid would continue. Crops had failed in some of the major producing areas of Europe; simultaneous demands for large food imports and for fuel, materials and equipment to reconstruct Europe's economy were depleting foreign exchange reserves at a steadily increasing rate.

There was no question of meeting these needs by private international investment. The Bank itself also had to lend. Yet it could not lend hastily, for in 1946, it was watching the deepening international economic crisis with less than \$700 million of usable funds in sight. It had no earnings, no reserves, and for that matter, no operating experience as an institution. It had not tested its ability to raise capital by borrowing; and the price it would have to pay in the United States market, which for some years would have to be almost its only source of borrowed funds, was unknown.

THE RECONSTRUCTION LOANS

The Bank, nevertheless, had been established to take risks. From May into August 1947, it made \$497 million of reconstruction loans in four countries of western Europe: France, the Netherlands, Denmark and Luxembourg. These funds were an important supplement to the resources of the borrowing coun-

tries. The Danish loan, for instance, amounted to 9% of net investment in Denmark in 1947 and 1948, and the Dutch loan amounted to 15% of net investment during the same years. And the timing was crucial: coming from seven months to a year before the Marshall Plan, they helped maintain a flow of essential imports when an interruption would have been a serious setback to European recovery.

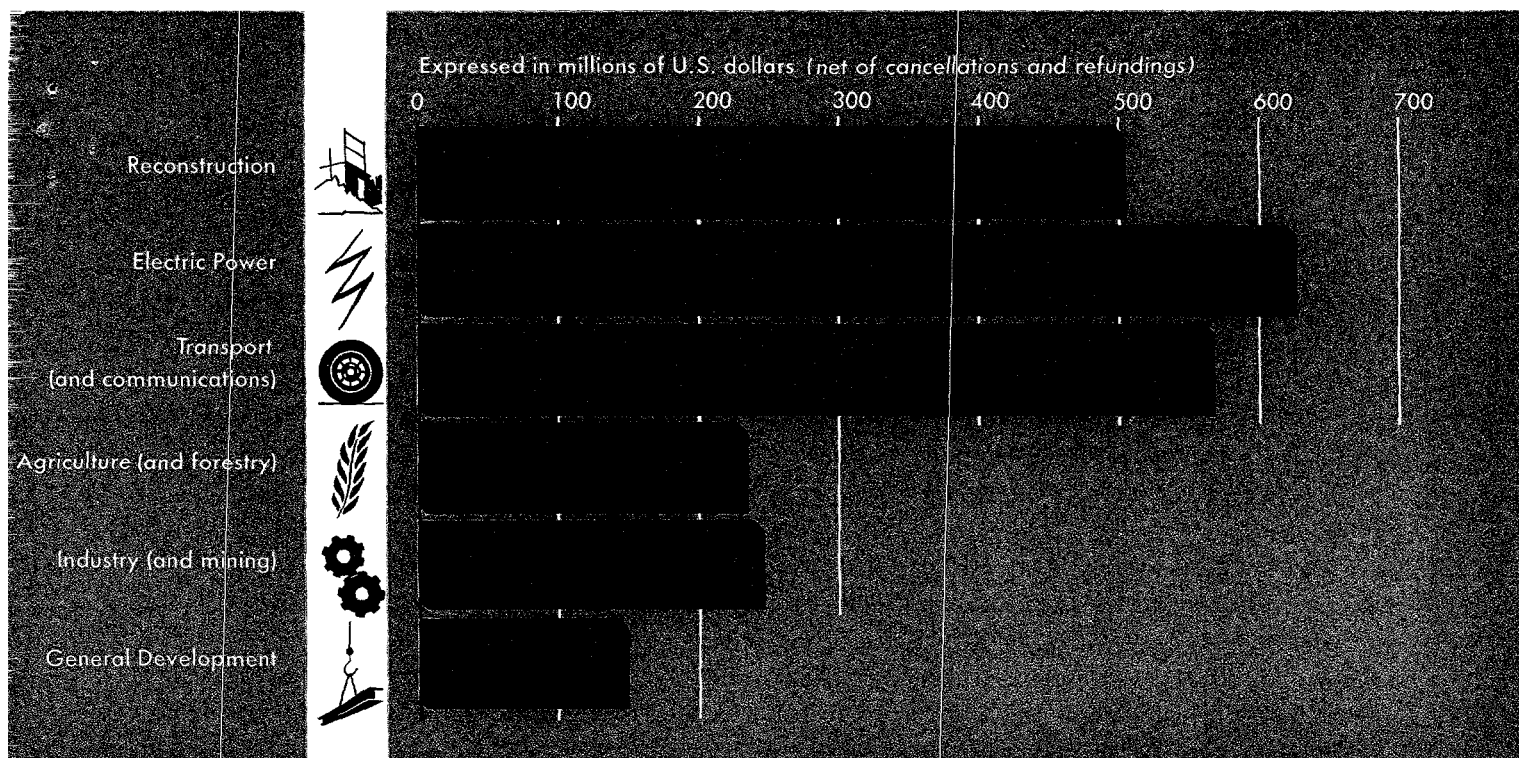
BANK LENDING 1948-1955

With the adoption of the Marshall Plan by the United States in April 1948, the Bank was able to turn from the emergency of reconstruction to its long-term task: assistance in the economic development of its member countries. It continued to lend in Europe, but it now also began to deal actively with the less developed countries elsewhere. The Bank's first loans in these countries were in Latin America; two loans were made in Chile in 1948. The Bank's first loan in Asia (to India) was made in 1949; its first loans to Australia and in Africa (to Ethiopia) were made in 1950. In most of these areas, the Bank found itself faced with problems very different from those of European reconstruction. Here the task was not simply to restore missing components to economies already mature; it was to strengthen foundations.

A dearth of basic services, and particularly of electric power and transportation, has been the major physical obstacle to increasing production and raising living standards in the less developed countries. Lack of these services put severe limits on productivity, on income, and on the willingness to invest. Deficiencies of electric power supply were conspicuously handicapping industrial growth. The lack of dependable and economical transportation had restricted the size of markets for both industrial and agricultural production, and had kept regions with promising natural resources beyond the reach of development.

To strengthen basic services and so to set free new productive energies has been the main objective of the Bank's development lending. The Bank has made more development loans to develop electric power than for any other purpose; but it has lent nearly as much for highways, railways, ports and other means

The economic fields in which the Bank's loans have been made, and the amount lent in each.



of transportation. Taken together, power and transportation account for two-thirds of the Bank's development lending. Projects in these fields have plainly met the Bank's tests of usefulness and urgency; and in general private capital has not been available for projects of this type, even when they were revenue-producing.

About one-eighth of the Bank's development lending has been directly for agriculture, another field of clear priority. The Bank has lent for agricultural machinery, for the equipment needed in land reclamation, irrigation and flood control schemes, and for the expansion of agricultural credit. And the expansion of agricultural production has been an important objective of loans made in other fields, especially for power and the improvement of transport services.

Industry also has been a major beneficiary of the loans for power, and about one-eighth of the Bank's post-reconstruction lending has been more directly for

industry. Most of this lending has been in countries around the periphery of Europe; the Bank has also made loans for the private production of iron and steel in India, of pulp and paper products in Chile and of cement in Peru.

In general, however, more private capital has been available for industrial expansion than for investment in basic services, and to supplement private investment in industry has presented the Bank with certain problems. In underdeveloped areas, industry often develops through a variety of small projects; and it is extremely difficult for the Bank to assess the economic merits and feasibility of these enterprises. Another difficulty arises from the requirement of the Articles that loans to private borrowers must carry a governmental guarantee. This requirement has discouraged private borrowers, who often fear that a government guarantee might lead to state interference in their business. Governments, on the other hand, have

usually been reluctant to give their guarantee lest they appear to favor one private enterprise over another, or over various public projects.

In some cases, the Bank has been able to surmount these obstacles by making funds available to industry through intermediary institutions. In Ethiopia, India and Turkey, moreover, it has helped to establish, as well as to finance, new credit institutions able to investigate projects on the spot and to lend without guarantee, chiefly for industrial development. And the Bank's member countries are now taking steps to create an affiliate of the Bank, the International Finance Corporation, to invest in private enterprises without government guarantee and to make not only fixed interest loans but more flexible types of investment.

Convenient though it may be to describe loans according to economic sectors, economic development obviously does not take place in compartments. The Bank lends with a view to the economy of a country as a whole. In most countries where it has lent, it has lent more than once, has lent for various purposes, and often has lent for projects that complement each other.

In Iceland, for example, two loans have been made for imported materials to improve farm buildings and pastures; another has been made for a plant to produce fertilizer which will be used to extend pasture land and improve the yield of grass; and this plant will draw its power supply from a hydroelectric project for which still another loan has been made. In India, one of the regions to benefit from a loan to improve the service of the national railways was the industrial Damodar Valley; another loan is helping to expand the private production of iron and steel in the Valley; another will help to provide power for various industries; and yet another is being devoted to multipurpose projects which will benefit both industry and agriculture there. In Nicaragua, loans have been made for tractors to increase agricultural yields, for roads to improve transportation between producing areas and markets, for a plant to store grain, and for power stations to supply local industries, many of which process domestic agricultural products.

The most typical pattern of lending has been and will continue to be a series of single loans, made over a period of time, to finance imports for a variety of single projects. In some cases, however, a loan has in fact financed a program, embracing projects in different economic sectors—as, for instance, in the case of loans made to Yugoslavia in 1951 and 1953. In other cases, as in the example of the loan made this year to Norway, the Bank has not lent for particular imports or particular projects, but has provided the foreign exchange needed for general development. In developed areas where the necessary capital equipment is locally available, the Bank has lent foreign exchange to cover domestic expenditures, as in loans this year to Austria and Italy.

In short, the Bank under its Articles has been able to evolve a variety of forms of lending. But the ultimate result, whatever the form, is the same: the Bank adds to the stock of capital in the borrowing country, and helps bring about a balanced development of the economy. It continues to refrain from lending where sufficient private capital is available on reasonable terms; it requires that domestic investment cover a substantial and often a major part of the cost of projects or programs it is financing.

Much of the Bank's lending has been for projects or programs requiring a number of years to complete. While development lending began in 1948, it was not until five years later that any considerable number of projects began to come into operation; and it is only in recent years that there has been some physical evidence of the productive additions that member countries have been able to make to their economies with the help of the Bank.

By the standards of highly industrialized countries, these additions are certainly modest; all the power generating capacity so far completed under Bank loans, for instance, amounts to not much more than is used by the metropolitan area of New York City. But in the setting of less developed countries, these additions represent substantial growth. For instance, a Bank loan helped to create about one-sixth of the generating capacity that existed in India for the public utility power supply in 1953; another loan accounted

for a sixth of the tractor fleet at work in Nicaragua in 1954; a series of loans made in Brazil by 1958 will have increased by two-thirds the power capacity that existed there in 1949.

It will never be possible to gauge the economic effects of these and other projects in terms of national product or per capita income. But what can be said about them, in most cases, is that they constitute important aids to production which should be useful over a period of years—in some cases, half a century or more.

Advisory Assistance

In so far as development was concerned, the guide lines of the Articles were only the beginnings of paths into new territory. Moving carefully from specific problem to specific problem, the Bank had to elaborate its own policies and mark out its own trails. In western Europe, the urgent requirement had been for outside capital. But in the underdeveloped world, the task of lifting living standards was much more complex. The need for outside capital was pressing, but so was the need for creating the conditions and supplying the skills necessary for using capital more effectively than it had been used in the past.

PROJECT PREPARATION AND ADMINISTRATION

The Articles had enjoined the Bank to insure that its funds were economically and efficiently used, and had centered that injunction on the projects to be financed by the Bank. In consequence, the Bank has wished to be satisfied that the economic benefits expected from a project have been properly evaluated, that the project is well designed for the function it is to perform, that the engineering plans have been competently drawn, that cost estimates are complete and realistic, that funds will in fact be available to cover expenditures not financed by the Bank's loan, and that the borrower has made adequate managerial and administrative arrangements, not only for building the project but for operating it once construction has been completed.

It was inevitable that many proposals made to the Bank should be incomplete in these respects. For the underdeveloped countries had relatively few leaders

in business or government able to plan investment; and they were greatly hampered by a shortage of technicians and managers able to design and carry out development projects. Under these circumstances, it seemed plain that the Bank could not simply accept or reject loan proposals. If it were to help finance any considerable number of projects, it would have to offer advice about how to prepare them as well.

The Bank therefore not only closely examined what was proposed, through studies of documentation and visits to the field. It also developed the practice of suggesting modifications or further study whenever necessary. It quickly found itself playing—and has since continued to play—an advisory role of considerable scope and variety, concerned with economics, engineering, organization and many other factors bearing on the eventual success of the project.

Nor does the signing of a loan contract end the matter, for the Articles require the Bank to see that loans are actually spent for the purposes intended. The Bank, accordingly, has asked its borrowers for regular reports of progress made, and periodically sends its staff to examine progress at first hand. The measures taken by the Bank to follow its loans have frequently made it possible to help the borrower to move promptly toward a solution of unexpected difficulties.

As the number and variety of proposals presented to it has increased, the Bank has steadily had to add to its staff of specialists particularly concerned with the assessment and execution of projects; and, when requested, it has helped its borrowers to obtain consultants. An Engineering Consultant (now Engineering Adviser) to the Bank was appointed as early as 1949, and a separate Department of Technical Operations was established in 1952 to be responsible for project assessment and for advising borrowers on project problems.

That the Bank's assistance has prevented a waste of resources is hardly open to doubt. That its value is being more and more recognized is indicated by the fact that an increasing number of member countries are coming to the Bank for advice about how development potentialities can be translated into realities.

DEVELOPMENT POLICIES AND PROGRAMMING

The Bank, however, could not logically confine—and has never confined—its attention to the accomplishment of particular projects. For the Bank's financing of economic development could never be more than marginal to investment from other sources. The Bank could not hope that its loans would stimulate private investment in a member country whose policies discouraged that kind of investment. It could not expect that the projects it helped to finance, however well planned and carried out, could function efficiently in isolation from the economy of the borrowing country as a whole. It also had to recognize that one effect of a loan would be to free some part of the borrower's financial resources for other expenditure, and not necessarily for developmental investment. Not least, the Bank could not look directly to the results of individual projects for the repayment of its loans;

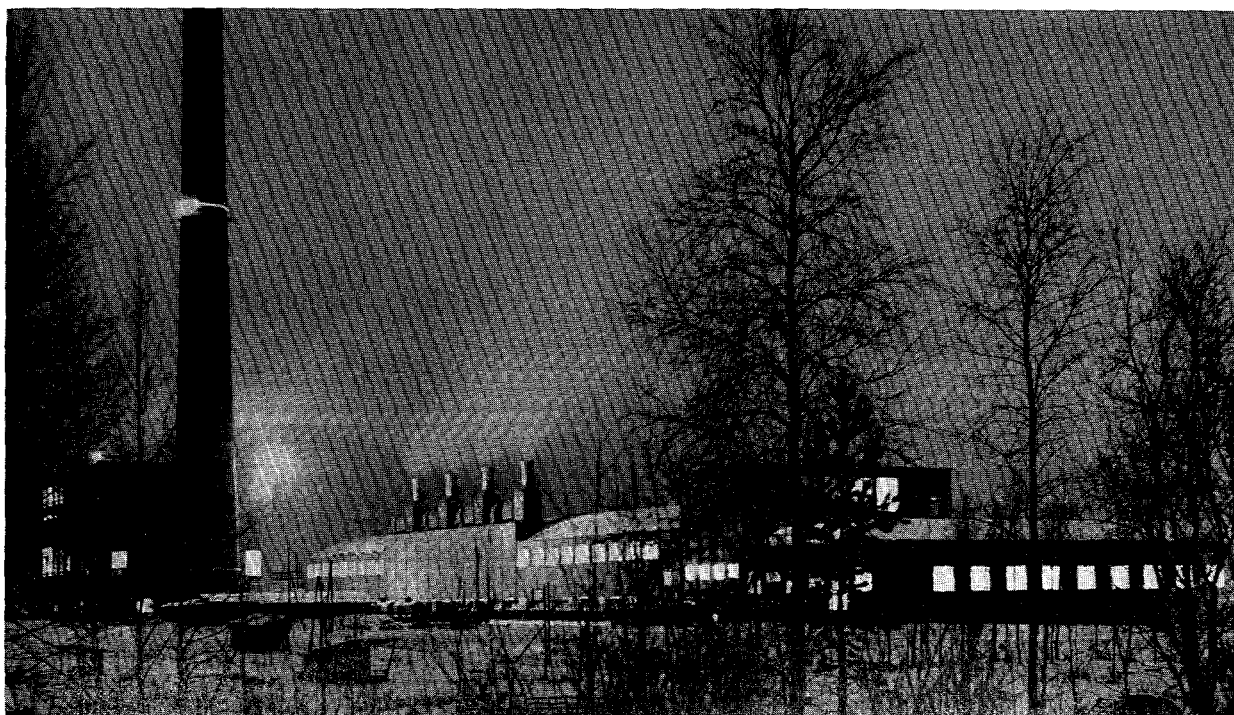
that would depend, in the last analysis, on the direction taken by the whole economy and especially on the availability of foreign exchange resources.

For all these reasons, the Bank from the beginning of its operations has been interested in questions that go beyond the particular project proposed for financing. One of these questions is whether the project itself, judged against the needs of the economy as a whole, promises enough return to justify borrowing on the scale suggested; another is whether the necessary complements to the project exist in the economy—whether farm mechanization, for instance, would be frustrated for want of roads able to carry new produce to market. And in fact the Bank has not infrequently suggested, and ultimately financed, investments substantially different in kind or in scale from those originally proposed.

The Bank has been at least equally concerned with

Finland • Most of the \$50.28 million which the Bank has lent in Finland is for projects related to the wood-products industry. At the privately-owned Kaipola paper mill equip-

ment valued at approximately \$2.5 million was financed by Bank funds. The plant began production in late 1954; it has an annual capacity of 70,000 tons of newsprint per year.



the economic environment in which its loans are to be put to work. In loan discussions, it has as a matter of course examined a wide range of questions with the prospective borrower or guarantor. For instance, it has consistently urged attempts to settle defaulted external debt, to put economic and fiscal policies on a sound footing, and to direct public investment in such a way as to promote, rather than to obstruct or displace, the flow of private capital. While the Bank has not insisted as a condition to lending that final solutions be reached in matters of this kind, it has required appropriate evidence that progress in the desired direction is being made. This position appears in various cases to have had considerable influence on the policies of its member countries. Whatever the degree of influence, it is an observable fact, for example, that nearly all those member countries which had defaulted external debts outstanding at the end of the war have begun—and in most cases successfully concluded—negotiations for settlement.

If the Bank's persuasiveness at first was chiefly due to the fact that the advice was coming from a prospective lender, that is no longer so true. An increasing number of member countries now seek assistance quite apart from any question of financing. This has been the trend, for instance, in the Bank's activities in the field of helping member countries to mobilize local capital for domestic investment.

In 1950, a Bank representative helped the Rio Lempa Commission of El Salvador to float a public bond issue—the first in El Salvador—to cover the local costs of a hydroelectric project otherwise financed by the Bank. Since that time, the Bank has continued to give advice on the mobilization of local capital for the purpose of specific projects. But it has also given assistance for more general purposes. It has often advised member countries, for instance, on the organization of development financing institutions, both public and private. For advice on the development of capital markets, it has frequently made available the services of its staff; and it has on occasion nominated consultants to collaborate with member countries on this basic problem of mustering funds for long-term investment in economic development.

The most comprehensive instrument for giving developmental advice to member countries, however, is the general survey mission. The first of these missions was organized in 1949, in response to a request from the Government of Colombia for a thorough analysis of the Colombian economy and for recommendations on which the Government could base the formulation of a long-term program for economic development. Even in its early stages, this experiment promised sufficient results to encourage its repetition. A separate department (the Office of Technical Assistance) was accordingly established and given continuing responsibilities for this kind of activity.

In all, the Bank has now organized 14 general survey missions to its member countries. While the terms of reference have varied according to the needs of the receiving country, the emphasis consistently has been on three points. The first is to estimate in a rough order of magnitude the amount of investment that a country can undertake with the resources at its disposal. The second is to recommend priorities for public investment among the important sectors of the economy and among types of undertaking in each sector, after taking into account estimated private investment requirements. The third is to suggest economic and financial policies and administrative measures necessary to support the development program.

The Bank has engaged in a number of other undertakings analogous to these missions and in some cases deriving their inspiration from them. In 1951 and 1952, for instance, economists of the staff collaborated with Mexican economists in an analysis of long-term trends in the Mexican economy and what those trends implied for the economy's ability to absorb additional foreign investment. More specialized studies have been undertaken elsewhere, of agricultural development in Uruguay (1951), Chile (1952) and Colombia (1955), and of regional development in Colombia (1955).

The general survey mission has also been the forerunner of other forms of developmental assistance. Beginning in 1951, the Bank stationed two staff members in Nicaragua to work with the Government not

only in drawing up a development program but in actually putting it into effect. At the request of the Government, the Bank has maintained a resident representative in Nicaragua ever since, to give further assistance in the programming and execution of measures for economic development; and resident representatives are now serving in Ecuador, Guatemala, Honduras and Panama as well. A further and logical outcome of the Bank's interest in the formulation of development policies is the decision to begin operation next year of an Economic Development Institute as a staff college for senior officials of member countries.

In not a few cases, the Bank's assistance has fallen short of achieving its objectives. But in many others, it has had its influence on public policies; it has given new and stronger impetus to development efforts; it has improved the economic machinery of member countries; and it has done something to establish new and useful habits of thinking about economic development. Whether these contributions will prove to have been crucial or permanent, it is too early to say. What can be said is that both the usefulness and the objectivity of the Bank's assistance are now generally recognized. The demands for assistance have steadily grown, and show no signs of abating.

Financial Resources

When the Bank's charter was written, it was obvious that at the end of the war most countries that had been important sources of international investment would be short of both capital and capital goods for some transitional period of unpredictable duration. A majority of the new institution's members, in any case, were to be countries that for a long time would be importers rather than exporters of capital. In endowing the Bank, a formula had to be found that would establish a fund of hard currency with which to start operations and would at the same time recognize the straitened but changeable financial circumstances of most of its members.

CAPITAL SUBSCRIPTION

These considerations were balanced in the financial

structure of the Bank. Under the Articles, each member agreed to make a modest payment, amounting to 2%, on capital subscription, payable in gold or United States dollars and freely available to the Bank for lending; and to accept a liability for another 80%, unpaid but callable in gold or appropriate currencies if the Bank should need it to meet obligations rising from guarantees or borrowings. The remainder of subscribed capital, amounting to 18%, was to be paid in the member's own currency; but as a protection against undue strains on the subscribers, it could be used for lending only when the member consented.

The Bank at first had only dollars to lend—and, indeed, most of the goods its borrowers wanted could be purchased only for dollars. In April 1947, on the eve of the first reconstruction loan, the United States made the whole of its 18% fully available, for lending to any borrower for purchases anywhere. Soon afterward, Canada began to release Canadian dollars for purchases in Canada; and in 1952 it released the entire balance of its original 18% subscription for purchases anywhere.

These releases totaled \$625 million. They were of vital importance to the Bank; for the first five years of operations, they were the bulk of the subscribed capital available for lending. The fact that they, like all 18% funds, were interest-free gave them added value: they gave the Bank a source of finance with which to increase its earnings and to build up its reserves while still holding its interest rate to borrowers (apart from a statutory commission charge) only fractionally above the cost of its own borrowing in the United States capital market.

In the meantime, economic recovery was creating conditions in which European countries could once more begin to send capital and capital goods abroad. From 1952 onward, the Bank was able to allocate increasing annual amounts for lending from European 18% capital subscriptions; at mid-1955, the allocations totaled some \$135 million.

These releases added new latitude to the Bank's operations. To the extent that European 18% was available and usable, the Bank was able to measure the repayment capacity of borrowers, and to make

loans, in currencies that many debtors could repay more easily than dollars. And, like other 18% releases, they gave the Bank more freedom in choosing the time for its periodic approaches to the capital market for needed currencies.

Nevertheless, the Bank's European members have considered themselves unable to supply 18% funds unconditionally. While by 1954 they had in theory made nearly all their 18% funds available, they had so hedged them about as to make them difficult for the Bank to reach and use. Of all these releases, for instance, it had been possible to use only about \$2 million equivalent for purchases outside the territory of the releasing member, even within the framework of the European Payments Union. There were conditions on the rate at which releases could be disbursed and on the countries to which they could be lent. At mid-1955, the Bank actually had used, or set aside for use, less than a quarter of the 18% subscriptions of its European members—even though, by this time, some of these members were guaranteeing or extending substantial credits through national institutions to stimulate their own exports. After nine years of operations, the Bank was still far from commanding the resources with which the founders had hoped to equip it.

BORROWED FUNDS

It was never to have been the purpose of the Bank, however, simply to deploy government funds; it was the purpose of the Bank to encourage the international investment of capital from other sources.

The authors of the charter had believed that one of the new institution's chief means of performing its function would be to attach its guarantee to bond issues offered to private investors by its member countries. But when the Bank concluded that it would have to become an active lender itself, it had to decide also that it would itself become an active issuer in the capital market. Before the Bank could go far in its lending, it would have to test its ability to borrow.

The only market able to provide funds, in the Bank's first year of operations, was the United States. The character of this market presented immediate and

formidable difficulties. The financial community distrusted any investment connected with international lending and the Bank, although possessing the advantage of its large uncalled capital subscriptions, suffered the disadvantage of being new and little known. Moreover, the market for bonds in the United States is composed largely of banks, insurance companies and other institutional investors. Under Federal law and the laws of the 48 States, many of these investors could not legally purchase the Bank's bonds. Early in 1947, therefore, the Bank began—and has continued up to the present—a wide program to acquaint investors and officials with facts about the Bank, to create a market for its bonds and to qualify them for institutional investment.

Two months after the first reconstruction loan, the Bank successfully sold a \$250 million issue of bonds in the United States market. The issue established that the new institution would in all probability be able to borrow in reasonable amounts at reasonable rates. The Bank thereafter was able to time its issues in relation to its actual need for funds. It first returned to the United States market for new money in 1951; and, beginning then, in every calendar year but the present one it has sold issues in the United States, in amounts ranging from \$50 million to \$100 million.

While the United States, as far as anyone could then see into the future, would always be the chief market for the Bank's bonds, there nevertheless were early explorations of possibilities elsewhere. As an international lender with a long-term need for capital, the Bank would need as broad a market as possible.

The first country outside the United States to open its market to a public issue by the Bank was the United Kingdom, in May 1951. Bonds were publicly offered in Switzerland and in Canada for the first time in 1952, and in the Netherlands in 1954. Subsequent issues have been arranged in all these countries. In the meantime, portions of the Bank's United States dollar issues had begun to be sold abroad; and in 1954, the Bank was able to place an entire \$50 million issue of dollar bonds with private and governmental purchasers outside the United States.

At the end of the Bank's ninth year, its securities

were held, mostly by private purchasers, in some 30 different countries of the world. They were regarded as prime investments; they had traded well; and the margin by which the Bank's costs of borrowing exceeded those of governments had persistently narrowed. Subject always to basic market conditions that affect all portfolio securities, there was no reason to suppose that the Bank would not be able to continue borrowing in ample volume on reasonable terms.

SALES AND PARTICIPATIONS

The bonds of the Bank, up to now, have been the chief vehicle through which the Bank has been able to mobilize international investment in economic development. But an additional course open to the Bank from the beginning was to try to bring the capital market into a more direct financial relationship with borrowers. This it could do by transferring its own loans to other investors, either by arranging for other investors to participate directly in the loans at the time they are made, or by later selling borrowers' obligations out of its loan portfolio. These transactions would be a step toward enabling borrowers to establish their own credit in the private market; and they would increase the funds available to the Bank for lending.

The first transaction of this kind was carried out in 1948, when the Bank placed part of its Dutch shipping loans with a group of banks in the United States at the time the loans were made. In this case, the securities were placed with the Bank's guarantee, and for a number of years the Bank continued to guarantee the loans it placed with other investors. But from 1953 onward, the great majority of these transactions did not carry the Bank's guarantee; and beginning in the spring of 1954, most of these placements were occurring in the form of direct participation by other investors at the time the loans were made. In the year just past, there was a conspicuously rapid growth of participations in, and sales of, Bank loans: participations and sales together were equal in amount to nearly a quarter of the Bank's lending during the year.

In its ninth year of operations, the Bank was able to break fresh ground by lending in combination with public bond issues. It made long-term loans to Belgium

and Norway at the same time as Belgian and Norwegian bonds of shorter term were offered to the public through a group of underwriters in the United States. These were the first occasions on which the Bank operated in association with borrowers offering bonds in the open market; and presumably they would not be the last.

The Tenth Year Begins

The Bank was born in a time of trouble; it starts its tenth year in a time of rising hope. But from the first, it has had the good fortune to be working in an age when economic progress has been of concern to more individuals, more organizations, more countries than ever before. Development efforts have been manifold; they have tended, on the whole, to reinforce each other.

There has been no lack of opportunity, in the post-war decade, to learn and relearn from experience. Economic progress, not for the first time in history, has proved to grow out of a state of mind: out of the knowledge of people that a better life is, in fact, attainable; and out of a determination of the people to win it by their own work. And the work goes better when there is economic and political stability—when the worker in farm and factory, the business man, the investor and the public servant can have confidence in the value of money, and when they know that changes of government, if they occur, will not interrupt the essential continuity of national effort.

Technology, by itself, has proved inadequate, and those who thought they could progress merely by importing machinery have often been frustrated. Machines demand changes of habit and organization, and when these do not occur, technology is wasted. Machinery without maintenance, production without marketing, industry without skilled management, are costly. Experience has shown again and again that monumental projects are not necessarily useful projects. But the unspectacular—the care of equipment, the teaching of skills, the careful nurturing of land—is often of inestimable value.

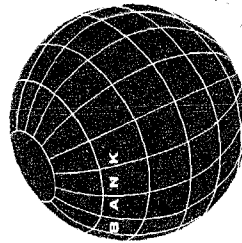
In sum, it has been shown that economic development requires more than machines, more than money. It does not only require the building of great power

plants and ports and roads. It has to be an awakening in the minds of millions of people, in all walks and conditions of life—an awakening that will move people to work more effectively for tomorrow's rewards.

The trials and the errors of the decade were countless, and some of them were costly. But they produced great results. Ten years after the war, many countries have gained a momentum that is likely to go on increasing. Throughout most of the world, in the race between population and production, production is drawing ahead; living standards are on the rise.

The Bank itself has been one of the many parti-

cipants in the development effort of the decade. It has affected, and been affected by, that effort; it has been driven, and has driven itself, to a variety of activity not imagined by its founders. As an international organization, it is privileged to have an unusually wide opportunity to gain experience in the world; it also has the opportunity to apply that experience in a practical and effective way to the problems of a world membership. The Bank starts its tenth year with a sense of much learned and much done, but with a full realization that there is much more yet to learn and much more yet to do.



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