

STRICTLY CONFIDENTIAL

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Preliminary Draft Outline
of a Proposal for
A United Nations Bank
For Reconstruction and Development

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Preamble

1. The provision of foreign capital will be one of the important international economic and financial problems of the postwar period. Many countries will require capital for reconstruction, for the conversion of their industries to peacetime needs, and for the development of their productive resources. Others will find that foreign investment provides a growing market for their goods. Sound international investment can be of immense benefit to the lending as well as to the borrowing countries.

2. ^{whenever possible,} ~~Even in the early postwar years it may be hoped that a considerable part of the capital for international investment will be provided through private investment channels.~~ ^{should} It will undoubtedly be necessary, however, to encourage private investment by assuming some of the risks that will be especially large immediately after the war and to supplement private investment with capital provided through international cooperation. The United Nations Bank for Reconstruction and Development is proposed as a permanent institution to encourage and facilitate international investment for sound productive purposes.

3. The Bank is intended to cooperate with private financial agencies in making available long-term capital for reconstruction and development and to supplement such investment where private agencies are unable to meet fully the legitimate needs for capital for productive purposes. The Bank would make no loans that could be secured from private investors on reasonable terms.

^{Guaranty Fund} The principal function of the Bank would be to guarantee and participate in loans made by private investment agencies and to lend directly from its own resources whatever additional capital may be needed. ^{should} Loans would be made only for approved governmental and industrial projects which have been guaranteed by national governments. Operating under these principles, the Bank will be a powerful factor in encouraging the provision of private capital for international investment.

The facilities of the Bank would be made available

4. By making certain that capital is available for productive uses on reasonable terms, the Bank can make an important contribution to enduring peace and prosperity. With adequate capital, countries affected by the war can move steadily toward reconstruction, and the newer countries can undertake the economic development of which they are capable. International investment for these purposes can be a significant factor in expanding trade and in helping to maintain a high level of business activity throughout the world.

in carrying out

I. The Purposes of the Bank

1. To assist in the reconstruction and development of member countries by cooperating with private financial agencies in the provision of capital for sound and constructive purposes. *international investment*
2. To provide capital for reconstruction and development, under conditions which will amply safeguard the Bank's funds, when private financial agencies are unable to supply the needed capital for such purposes on reasonable terms consistent with the borrowing policies of member countries.
3. To facilitate a rapid and smooth transition from a wartime economy to a peacetime economy by increasing the flow of international investment, and thus to avoid serious disruption of the economic life of member countries. *through international investment*
4. To assist in raising the productivity of member countries by helping to make available long-term capital for the sound development of their productive resources. *through international investment*
5. To promote the long-range balanced growth of international trade among member countries.

II. Capital Structure of the Bank

1. The authorized capital shall be equivalent to about \$10 billion consisting of shares having a par value equal to \$100,000.
2. The shares of the Bank shall be non-transferable, non-assessable, and non-taxable. The liability on shares shall be limited to the unpaid portion of the subscription price.
3. Each government which is ^{shall} a member of the International Stabilization Fund ~~may~~ subscribe to a number of shares to be determined by an agreed upon formula. The formula shall take into account such relevant data as the national income and the international trade of the member country.

Such a formula would make the subscription of the United States approximately one-third of the total.

4. Payments on subscriptions to the shares of the Bank shall be made as follows:
 - a. The initial payment of each member country shall be 20 percent of its subscription, some portion of which (not to exceed 20 percent) shall be in gold and the remainder in local currency. The proportions to be paid in gold and local currency shall be graduated according to an agreed upon schedule which shall take into account the adequacy of the gold and free foreign exchange holdings of each member country.

- b. The member countries shall make the initial payments within 60 days after the date set for the operations of the Bank to begin. The remainder of their respective subscriptions shall be paid in such amounts and at such times as the Board of Directors may determine, but not more than 20 percent of the subscription may be called in any one year.
 - c. Calls for further payment on subscriptions shall be uniform on all shares, and no calls shall be made unless funds are needed for the operations of the Bank. The proportion of subsequent payments to be made in gold shall be determined by the schedule in II-4^{as} it applies to each member country at the time of each call.
5. A substantial part of the subscribed capital of the Bank shall be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed by the Bank or issued by the Bank.
6. When the cash resources of the Bank are substantially in excess of prospective needs, the Board may return, subject to future call, uniform proportions of the subscriptions. When the local currency holdings of the Bank exceed 20 percent of the subscription of any member country, the Board may arrange to repurchase with local currency some of the shares held by such a country.
7. Each member country agrees to repurchase each year its local currency held by the Bank amounting to not more than 2 percent of its ^{paid} subscription, paying for it with gold; provided, however, that:
 - a. This requirement may be generally suspended for any year by a three-fourths vote of the Board.
 - b. No country shall be required to repurchase local currency in any given year in excess of one-half of the addition to its official holdings of gold during the preceding year.
 - c. The obligation of a member country to repurchase its local currency shall be limited to the amount of the local currency paid on its subscription.
8. No country shall be obligated to increase its subscription to the shares of the Bank. Any member country may at any time acquire additional shares from the Bank at the book value of such shares at the time of purchase, but at not less than par. The initial payment on such additional shares shall be equal to the amount paid-in on outstanding shares plus the premium, if any. The local currency portion of the initial payment may not exceed the average amount paid in local currency on shares outstanding at that time.

- II-9. All member countries agree that all of the local currency holdings and other assets of the Bank located in their countries shall be free from any special restrictions as to their use, except such restrictions as are consented to by the Bank, and subject to IV-13, below.
10. The resources and the facilities of the Bank shall be used exclusively for the benefit of member countries.

III. The International Monetary Unit

1. The monetary unit of the Bank shall be the Unitas of the International Stabilization Fund (137-1/7 grains of fine gold, that is, equivalent to \$10 U.S.).
2. The Bank shall keep its accounts in terms of unitas. The local currency assets of the Bank are to be guaranteed against any depreciation in their value in terms of unitas.

IV. Powers and Operations

1. To achieve the purposes stated in Section I, the Bank may guarantee, participate in, or make loans to any member country and through the government of such country to any of its political subdivisions or to business or industrial enterprises therein under conditions provided below.
 - a. The payment of interest and principal is fully guaranteed by the national government.
 - b. The borrower is otherwise unable to secure ~~the~~ ^{the funds} funds from other sources, even with the national government's guaranty of repayment, under conditions which in the opinion of the Bank are reasonable.
 - c. A competent ^{international} committee has made a careful study of the merits of the project or the program and ~~of the loan and,~~ in a written report, concludes that the loan would serve directly or indirectly to raise the productivity of the borrowing country and that the country's budgetary and balance of payments prospects are favorable to the servicing of the loan. The majority of the committee making the report shall consist of members of the technical staff of the Bank. The committee shall include an expert selected by the country requesting the loan who may or may not be a member of the technical staff of the Bank.
 - d. The Bank shall make arrangements to assure the use of the proceeds of any ^{international} loan which it guarantees, participates in, or makes for the purposes for which the loan was approved.

- e. The Bank shall impose no condition upon a loan as to the particular member country in which the proceeds of the loan must be spent; provided, however, that the proceeds of a loan may not be spent in any country which is not a member country without the approval of the Bank.
2. In accordance with the provisions in IV-1, ^{international} above, the Bank may guarantee in whole or in part loans made by private investors provided further:
- a. The rate of interest and other conditions of the loan are reasonable.
- b. The Bank is compensated for its risk in guaranteeing the loan.
3. The Bank may participate in ^{international} loans placed through the usual investment channels, provided all the conditions listed under IV-1 above are met except that the rate of interest may be higher than if the loans were guaranteed by the Bank.
4. The Bank may ^{acquire} publicly offer any securities it has previously acquired. To facilitate the placing of such ~~loans~~, the Bank may, in its discretion, guarantee the ~~loan~~.
5. The Bank shall make no loans that can be placed through the usual private investment channels on reasonable terms. The Bank shall by regulation prescribe procedure for its operations that will assure the application of this principle.

6. The Bank shall make loans only at reasonable rates of interest with a schedule of repayment appropriate to the character of the project and the balance of payments prospects of the country of the borrower.

7. The Bank in making ^{international out of its own resources} loans shall provide that:
- a. The foreign exchange in connection with the project or program shall be provided by the Bank in the currencies of the countries in which the proceeds of the loan will be spent and only with the approval of such countries.
- b. The local currency needs in connection with the project shall be entirely or very largely financed locally without the assistance of the Bank.
- c. In special circumstances, where the Bank considers that the local part of any project cannot be financed at home except on very unreasonable terms, it can lend that portion to the borrower out of local currency held by the Bank.
- d. Where the developmental program will give rise to an increased need for foreign exchange resulting from that program the Bank will provide an appropriate part of the loan in gold.

IV-8. When a loan is made by the Bank it shall credit the account of the borrower with the amount of the loan. Payment shall be made from this account to meet drafts covering audited expenses.

9. ^{2. *international*} Loans participated in or made by the Bank shall contain the following payment provisions:
- a. Payment of interest due on loans shall be made in currencies acceptable to the Bank or in gold. Interest will be payable only on amounts withdrawn.
 - b. Payment on account of principal of a loan shall be in currencies acceptable to the Bank or in gold. If the Bank and the borrower should so agree at the time a loan is made, payment on principal may be in gold, or at the option of the borrower, in the currency actually borrowed.
 - c. In event of an acute exchange stringency the Bank may in its judgment accept for periods not exceeding 3 years at a time the payments of interest and principal in local currency. The Bank shall arrange with the borrowing country for the repurchase of such local currency over a period of years on appropriate terms that safeguard the value of the Bank's holdings of such currency.
 - d. Payments of interest and principal, whether made in member currencies or in gold, must be equivalent to the unitas value of the loan or the contractual interest thereon.
10. Any ^{*international*} loan guaranteed, participated in, or made by the Bank may provide that it may be repaid, at the option of the borrower, in whole or in part, at any time prior to its maturity. The Bank may also arrange for the refunding, through governmental or private financial channels, of any loan guaranteed, participated in, or made by the Bank.
11. The Bank may levy a charge against the borrower for its expenses in investigating any loan placed, guaranteed, participated in, or made in whole or in part by the Bank.
12. The Bank may guarantee, participate in, or make loans to international governmental agencies for objectives consonant with the purposes of the Bank, provided that one-half of the participants in the international agencies are members of the Bank.
13. In considering any application to guarantee, participate in, or make a loan to a member country, the Bank shall give due regard to the effect of such a loan on business and financial conditions in the country in which the loan is to be spent, and shall accordingly obtain the consent of the country affected.

~~a. At the request of the representative of the country in which the proposed loan is to be spent, accompanied by a statement of the reasons for such request, the Bank shall postpone for one year action on the proposed loan. The Bank shall inform the applicant of the postponement and the reasons therefor.~~

~~At the end of one year, the representative of the country in which the loan is proposed to be spent may request the further postponement or the withdrawal of the application and the Bank shall act accordingly.~~

~~b. The borrower may at any time amend the application to provide for the expenditure of the loan in a currency or currencies other than that of the country whose representative requested the postponement. The Bank may guarantee, participate in or make the loan on the basis of the amended application.~~

14 ~~x~~. At the request of the countries in which portions of the loan are spent, the Bank will repurchase for gold or needed foreign exchange an appropriate part of the expenditures in the currencies of those countries made by the borrower from the proceeds of the loan.

15. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

- a. It may issue, ^{by and} sell, pledge, or discount any of its own securities and obligations, or securities and obligations taken from its portfolio, ^{or securities and obligations in which it is a guarantor}
- b. It may borrow from any member governments, fiscal agencies, central banks, stabilization funds, private financial institutions in member countries, or from international financial agencies.
- c. It may buy or sell foreign exchange, after consultation with the International Stabilization Fund, where such transactions are necessary in connection with its operations.

15. The Bank may act as agent or correspondent for the governments of member countries, their central banks, stabilization funds and fiscal agencies, and for international financial institutions.

The Bank may act ^{international} as trustee, registrar or agent in connection with loans guaranteed, participated in, made, or placed through the Bank.

16. Except as otherwise indicated the Bank shall deal only with or through:

- a. The governments of member countries, their central banks, stabilization funds and fiscal agencies.
- b. The International Stabilization Fund and any other international financial agencies owned predominantly by member governments.

The Bank may, nevertheless, with the approval of the member of the Board representing the government of the country concerned, ~~sell its own securities or securities it holds~~ to the public or to institutions of member countries *in its own securities or in securities in which it is a guarantor.*

17. If the Bank shall declare any country as suspended from membership, the member governments and their agencies agree not to extend any financial assistance to that country without the approval of the Bank until the country has been restored to membership.
18. The Bank and its officers shall scrupulously avoid interference in the political affairs of any member country. This provision shall not limit the right of an officer of the Bank to participate in the political life of his own country.

The Bank shall not be influenced in its decisions with respect to applications for loans by the political character of the government of the country requesting a loan. Only economic considerations shall be relevant to the Bank's decisions.

V. Management

1. The administration of the Bank shall be vested in a Board of Directors composed of one director and one alternate appointed by each member government in a manner to be determined by it.

The director and alternate shall serve for a period of three years, subject to the pleasure of their government. Directors and alternates may be reappointed.

2. Voting by the Board shall be as follows:
 - a. The director or alternate of each member country shall be entitled to cast 1,000 votes plus one vote for each share of stock held. Thus a government owning one share shall cast 1,001 votes, while a government having 1,000 shares shall cast 2,000 votes.
 - b. No country shall cast more than 25 percent of the aggregate votes.
 - c. Except where otherwise provided, decisions of the Board of Directors shall be by simple majority of the votes cast, each member of the Board casting the votes allotted to his government. When deemed to be in the best interests

V-2-c. of the Bank, decisions of the Board may be made, without a meeting, by polling the directors on specific questions submitted to them in such manner as the Board shall by regulation provide.

3. The Board of Directors shall select a President of the Bank, who shall be the chief of the operating staff of the Bank and ex-officio Chairman of the Board, and one or more vice presidents. The President and vice presidents of the Bank shall hold office for four years, shall be eligible for reelection, and may be removed for cause at any time by the Board. The staff of the Bank shall be selected in accordance with regulations established by the Board of Directors.

4. The Board of Directors shall appoint from among its members, an Executive Committee of not more than nine members. The President of the Bank shall be an ex-officio member of the Executive Committee.

The Executive Committee shall be continuously available at the head office of the Bank and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate on the Board shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

5. The Board of Directors shall select an Advisory Council of seven members. The Council shall advise with the Board and the officers of the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Board may request.

The members of the Advisory Council shall be selected from men of outstanding ability, but not more than one member shall be selected from the same country. They shall serve for two years, and the term of any member may be renewed. Members of the Council shall be paid their expenses and a remuneration to be fixed by the Board.

6. The Board of Directors may appoint such other committees as it finds necessary for the work of the Bank. It may also appoint advisory committees chosen wholly or partially from persons not regularly employed by the Bank.

7. The Board of Directors may at any meeting authorize any officers or committees of the Bank to exercise any specified powers of the Board except the power to make, guarantee or participate in loans. Such powers shall be exercised in a manner consistent with the general policies and practices of the Board.

The Board may by a three-fourths vote delegate to the Executive Committee the power to make, guarantee or participate in loans in such amounts as may be fixed by the Board. In passing upon applications for loans, the Executive Committee shall act under the requirements specified for each type of loan.

- V-8. A member country failing to meet its financial obligations to the Bank may be declared in default and it may be suspended from membership during the period of its default provided a majority of the member countries so decide. While under suspension, the country shall be denied the privileges of membership, but shall be subject to the obligations of membership. At the end of one year the country shall be automatically dropped from membership in the Bank unless it has been restored to good standing by a majority of the member countries.

If a member country elects to withdraw or is dropped from the Bank its shares of stock shall, if the Bank has a surplus, be repurchased at the price paid. If the Bank's books show a loss, such country shall bear a proportionate share of the loss. The Bank shall have 5 years in which to liquidate its obligations to a member withdrawing or dropped from the Bank.

Any member country that withdraws or is dropped from the International Stabilization Fund, shall relinquish its membership in the Bank unless three-fourths of the member votes favor its remaining as a member.

9. The yearly net profits shall be applied as follows:
- a. All profits shall be distributed in proportion to shares held, except that one-fourth of the profits shall be applied to surplus until the surplus equals 20 percent of the capital.
 - b. Profits shall be payable in a country's local currency, or in gold at the option of the Bank.
10. The Bank shall collect and make available to member countries financial and economic information and reports relating to the operations of the Bank.

Member countries shall furnish the Bank with all information and data that would facilitate the operations of the Bank.