Preliminary Draft Outline
Of a Proposal for

A BANK FOR RECONSTRUCTION AND DEVELOPMENT OF THE UNITED AND ASSOCIATED NATIONS

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U. S. TREASURY WASHINGTON, D. C.

When the tentative proposal for an International Stabilization Fund was published some months ago, the Secretary of the Treasury stated that the technical staffs of the Treasury and of other Departments of this Government were studying means of encouraging and facilitating international investment in the post-war period. The technical staffs have now prepared a tentative proposal for a Bank for Reconstruction and Development of the United and Associated Nations which was made public on November 23, 1943.

The tentative proposal was sent by the Secretary of the Treasury to the Finance Ministers of the United Nations and the countries associated with them with the request that it be studied by their technical experts. It is now published in order to give the American people the fullest opportunity to express their views on this important question.

This draft is in every sense still a preliminary document representing the views of the technical staffs of the Treasury and other Departments of this Government. It has not received the official approval either of the Treasury or of this Government.

FOREWORD

By Henry Morgenthau, Jr., *Secretary of the Treasury*

One of the important international economic and financial problems which will confront the United Nations at the end of the war will be the unprecedented need for foreign capital. In the areas devastated by war or plundered and ravaged by the enemy, factories and mines, public utilities and railroads, public buildings and public works will have to be repaired or restored. In most of the United Nations, industries now producing war goods will require capital for reconversion to peacetime production and in many areas of the world, large investment will be needed for industrial, agricultural, and commercial development.

Countries whose productive capacities have been seriously impaired by war will find that their industries cannot provide the capital goods and their people cannot provide the savings required for investment in reconstruction. Most nonindustrial countries will of necessity be dependent upon foreign capital to acquire the funds for the purchase of machinery, equipment, and other capital goods necessary for development. And even in those countries where a considerable part of the need for capital can be met locally, there will be some need for foreign capital to supplement the funds that can be raised at home.

With the return of an assured peace, private financial agencies may be expected to supply most of the needed short-term foreign capital. When the shipping situation is improved and peacetime industry here and abroad has recovered, many business firms will be eager to sell their products abroad on reasonable and even generous credit terms. And banks likewise will hasten to expand their foreign business, reopening and establishing branches abroad, and assisting in the financing of international trade.

It is not unreasonable to expect that with the return of peace there will also be a gradual resumption of long-term international investment, particularly through the establishment of foreign branch plants and the acquisition of shares in established foreign enterprises. With the growth of confidence in monetary stability, foreign investments will gradually assume the form of publicly floated loans to governments and municipalities, and to public utilities and other industries.

This flow of private capital to war stricken countries will be encouraged by an adequate program of international relief and rehabilitation which helps to restore quickly to a working basis the economic life of those countries. Another, and possibly even more important, stimulus to foreign investment would be the existence of an international agency, such as the International Stabilization Fund, designed to promote stability of foreign exchange rates and freedom from restrictions on the withdrawal of earnings. Such an agency could do much to enhance the attractiveness of foreign investments.

While there will undoubtedly be substantial amounts of long-term foreign investment even in the early post-war period, the flow of capital to countries greatly in need of foreign capital is likely to be inadequate for many years to come. Private capital will understandingly hesitate to venture abroad in anything like the required volume. It has suffered too many losses from war, from depreciating currencies, from exchange restrictions, and from failures and defaults. There is little evidence to justify the hope that in the years immediately after the war investors will lend the large sums that can be economically used in foreign countries unless steps are taken to restore confidence in foreign investment.

It would be desirable to encourage in every way, the provision of capital for sound and productive purposes through private investment channels, and to the extent that private investment is inadequate, to provide supplemental facilities. The problem is fundamentally an international problem and only an international agency equipped with broad powers and large resources can effectively encourage private capital to flow abroad in adequate amounts and provide a part of the capital not otherwise available.

The primary aim of such an agency should be to encourage private capital to go abroad for productive investment by sharing the risks of private investors and by participating with private investors in large ventures. The provision of some of the capital needed for reconstruction and development, where private capital is unable to take the risk, is intended to remain secondary in the operations of such an agency. It should, of course, scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms. It should perform only that part of the task which private capital cannot do alone.

The need for foreign capital will be so great and the provision of adequate capital so important that it would be extremely short-sighted to neglect this urgent international problem. If private capital should suffice there would then be little for an international agency to do, beyond encouraging private investment. If, however, private capital were to prove unable fully to meet the needs, then such an international agency would be able to fill the breach until private capital again flowed freely and the demand for foreign capital throughout the world became less urgent.

It is imperative that we recognize that the investment of productive capital in undeveloped and in capital-needy countries means not only that those countries will be able to supply at lower costs more of the goods the world needs, but that they will at the same time become better markets for the world's goods. By investing in countries in need of capital, the lending countries, therefore, help themselves as well as the borrowing countries. If the capital made available to foreign countries would not otherwise have been currently employed, and if it is used for productive purposes, then the whole world is truly the gainer. Foreign trade everywhere will be increased; the real cost of producing the goods the world consumes will be lowered; and the economic well-being of the borrowing and lending countries will be raised.

One great contribution that the United Nations can make to sustained peace and world-wide prosperity is to make certain that adequate capital is available on reasonable terms for productive uses in capital-poor countries. With abundant capital, the devastated countries can move steadily toward rehabilitation and a constantly improving standard of living. Nothing could be more conducive to political stability and to international collaboration. Without adequate supplies of capital, however, recovery in Europe and Asia will be slow and sporadic, and economic discontent and international bitterness will in time assume disturbing proportions.

Accompanying this memorandum is a draft proposal for a Bank for Reconstruction and Development of the United and Associated Nations. The draft was prepared by the technical staff of the United States Treasury in consultation with the technical staffs of other Departments of this Government. The proposal has neither official status nor the approval of any Department of this Government. It is in outline form, touching on the more important points, and is intended only to stimulate thoughtful discussion of the problem in the hope that such discussion will call forth constructive criticism, suggestions, and alternative proposals for possible later submission to the appropriate authorities and to the public.

A United Nations Bank for Reconstruction and Development is proposed as another international agency needed to help attain and maintain world-wide prosperity after the war. It is designed as a companion agency to an International Stabilization Fund. Each agency could stand and function effectively without the other; but the establishment of such a Bank would make easier the task of an International Stabilization Fund, and the successful operation of such a Fund would enhance the effectiveness of the Bank.

PRELIMINARY DRAFT OUTLINE OF A PROPOSAL FOR

A BANK FOR RECONSTRUCTION AND DEVELOPMENT

OF THE

UNITED AND ASSOCIATED NATIONS

Preamble

1. The provision of foreign capital will be one of the important international economic and financial problems of the post-war 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 will be of immense benefit to the lending as well as to the borrowing countries.

2. Even in the early post-war years it may be hoped that a considerable part of the capital for international investment will be provided through private investment channels. 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 and 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 or investments that could

be secured from private investors on reasonable terms. The principal function of the Bank would be to guarantee and to participate in loans made by private investment agencies and to lend directly from its own resources whatever additional capital may be needed. The facilities of the Bank would be available only for approved governmental and business projects which have been guaranteed by national governments. Operating under these principles, the Bank should be a powerful factor in encouraging the provision of private capital for international investment.

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.

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 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 capital needed 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 help avoid serious disruption of the economic life of member countries.

4. To assist in raising the productivity of member countries by helping to make available through international collaboration long-term capital for the sound development of productive resources.

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 nontransferable, nonassessable, and nontaxable. The liability on shares shall be limited to the unpaid portion of the subscription price.

3. Each government which is a member of the International Stabilization Fund shall subscribe to a minimum number of shares to be determined by formula to be agreed upon. 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 a schedule to be agreed upon 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 payment within 60 days after the date set for the operations

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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–a 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. 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.

9. 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 unit of the International Stabilization Fund ($137\frac{1}{7}$ grains of fine gold, that is, equivalent to $10 U. S.).

2. The Bank shall keep its accounts in terms of this unit. The local currency assets of the Bank are to be guaranteed against any depreciation in their value in terms of gold.

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 enterprizes 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 funds from other sources, even with the national government's guarantee of repayment, under conditions which in the opinion of the Bank are reasonable.

(*c*) A competent committee has made a careful study of the merits of the project or the program 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 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 loan which it guarantees, participates in, or makes for the purposes for which the loan was approved.

(*e*) The Bank shall guarantee, participate in, or 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.

2. In accordance with the provisions in IV–1, 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 loans placed through the usual investment channels, provided that 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 encourage and facilitate international investment in equity securities by securing the guarantee by governments of conversion into foreign exchange of the current earnings of such foreign held investments. In promoting this objective the Bank may also participate in such investments, but its aggregate participation in such equity securities shall not exceed 10 percent of its paid in capital.

5. The Bank may publicly offer any securities it has previously acquired. To facilitate the sale of such securities, the Bank may, in its discretion, guarantee them.

6. The Bank shall make no loans or investments 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.

7. 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.

8. The Bank in making 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 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 in local currency.

(*d*) Where the developmental program will give rise to an increased need for foreign exchange for purposes not directly needed for that program, yet resulting from the program, the Bank will provide an appropriate part of the loan in gold or desired foreign exchange.

9. 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.

10. Loans participated in or made by the Bank shall contain the following payment provisions:

(*a*) Payment of interest 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 the event of an acute exchange stringency the Bank may accept local currency in payment of interest and principal for periods not exceeding three years. The Bank shall arrange with the borrowing country for the repurchase of such local currency over a period of years under 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 gold value of the loan and of the contractual interest thereon.

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 at least 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.

14. At the request of the countries in which portions of the loan are spent, the Bank will repurchase for gold or needed foreign exchange a part of the local currency proceeds of the loan expended by the borrower in those countries.

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, buy or sell, pledge, or discount any of its own securities and obligations, or securities and obligations taken from its portfolio, or securities which it has guaranteed.

(*b*) It may borrow from 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.

16. 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 as trustee, registrar, or agent in connection with loans guaranteed, participated in, made, or placed through the Bank.

17. 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, deal with the public or institutions of member countries in the Bank's own securities or securities which it has guaranteed.

18. If the Bank shall declare any country as suspended from membership, the member governments and their agencies agree not to extend financial assistance to that country without approval of the Bank until the country has been restored to membership.

19. 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.

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 3 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 will cast 1,001 votes, while a government owning 1,000 shares will 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 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* a member of the Board, and one or more vice presidents. The President and vice-presidents of the Bank shall hold office for 4 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 2 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 authorize any officers or committees of the Bank to exercise any specified powers of the Board except the powers to guarantee, participate in, or make loans. Delegated 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 guarantee, participate in, or make loans in such amounts as may be fixed by the Board. In passing upon applications for loans, the Executive Committee shall act in accordance with the requirements specified for each type of loan.

8. A member country failing to meet its financial obligations to the Bank may be declared in default and may be suspended from membership during the period of its default, provided that 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 1 year the country shall be dropped automatically 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 country withdrawing or dropped from the Bank.

Any member country that withdraws or is dropped from the International Stabilization Fund shall lose 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 subscribed 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 and to the International Stabilization Fund 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.

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