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March 21, 1945

Mr. Luxford

E. Arnold

Re: Making of stabilization loans by International Bank for Reconstruction and Development

Article III, Section 4, of the proposed Articles of Agreement for the International Bank for Reconstruction and Development provides:

"(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development."

This provision is derived from Part (2) of Alternative B, submitted by the United Kingdom under Section 4 (SA/3-Doc. 245-p. 15a). The alternative reads:

"Part (2) In general, loans made or guaranteed by the Bank, shall be for the purpose of specific projects of reconstruction and development, and except as otherwise provided in this plan, the proceeds of loans shall only be made available to meet specific purposes. In exceptional circumstances, however, the Bank, acting in agreement with the International Monetary Fund, may make or guarantee a loan which provides the borrowing country with gold or foreign exchange for the purpose of establishing its exchanges and allowing a breathing space for the recovery of its economy and the balancing of its international payments."

Alternative B, advanced by The Netherlands, is identical except that it stresses the making of stabilization loans during the early postwar period (SA/3-Doc. 245-p. 15e).

The documents of the Conference do not reveal the entire evolution of the alternatives into the provision finally adopted. A committee report of July 13 states that the United Kingdom alternative "was referred to the drafting committee for consideration as possibly within the purposes of the Bank" (CII/2/S-a-b/RPI-Doc. 336-p. 2). It is also reported that the Netherlands alternative was referred to the drafting committee. On July 15, the same committee reported as follows:

"The observer of the United Nations Interim Commission on Food and Agriculture, Mr. Twentyman, appeared before the Committee and the problems presented by the Interim Commission were given consideration by the Committee. To make its position clear the Committee adopted paragraph 6 of Article III, Section 4 (Appendix, page 15g) of this report." (CII/AH/RP5-Doc. 394)

The paragraph 6 referred to in the committee report is identical in wording with Clause (VII) now appearing in Section 4, except for an immaterial transposition of a phrase. No further mention of the provision appears in the documents other than the reproduction of Section 4 in several documents of the drafting committee and of Commission II.

An examination of the long memorandum (CII/MC/1-Doc. 286) submitted by the Interim Commission on Food and Agriculture does not reveal exactly what point disturbed the Commission's representative. Page 10 of the memorandum points out that the Bank might be called on to make loans to institutions which would in turn provide credit to numerous farmers and other small borrowers. It also states that agricultural improvement projects might well give rise to an increased need for foreign exchange by the borrowing country.

Subsection (c) of Article III, Section 5, of the Bank plan should be considered in conjunction with Section 4. It provides:

"In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred."

Although the effect of this subsection is not absolutely clear, it might be taken to imply that stabilization loans should be effected through the medium of guarantees by the Bank rather than by direct loans. The Conference documents cast no light on the relationship of the two sections.

It might also be noticed that most of the purposes of the Bank stated in Article I contain some direct reference to the encouragement of production, but subsection (v) states specifically that the Bank shall act "in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy". Moreover, the other purposes of the Bank are not stated in such a way as to preclude a stabilization loan if it will have the ultimate effect of developing the productive resources of the borrowing country.

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