BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

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To Board of Governors

Subject: Joint Statement on International Investment Bank

From Walter R. Gardner WRG

Attached is a copy of the latest Treasury document on the International Investment Bank. The Treasury has prepared this document as a summary statement of principles to which experts of the United and Associated Nations might agree, as in the case of the Monetary Fund. This statement eliminates many of the details and some of the controversial points in the November 24 draft. The Treasury has indicated that they would like to publish this statement as a joint statement of United and Associated Nations experts in the near future preparatory to the international Conference which they are proposing for both the Monetary Fund and the Bank.

Attachment

PRELIMINARY DRAFT

A Statement on the Establishment of A Bank for Reconstruction and Development

The technical experts of some of the United and Associated Nations who have participated in the discussions on international financial problems are of the opinion that the revival of international investment after the war is essential to the expansion of trade and the maintenance of a high level of business activity throughout the world. In their opinion, the most practical method of encouraging and aiding private investors to provide an adequate volume of capital for productive purposes is through the establishment of a permanent Bank for Reconstruction and Development. They have set forth below the principles which they, as technical experts, believe should be the basis for this Bank. Governments are not asked to give final approval to these principles until they have been embodied in the form of definite proposals.

I. Purposes and Policies of the Bank

1. The Bank will assist in the reconstruction and development of member countries by facilitating provision of long-term investment capital for productive purposes through private financial agencies. It will do so by guaranteeing and participating in the loans made by private investors.

2. The Bank will supplement private financial agencies by providing capital for productive purposes out of its own resources, on conditions that amply safeguard its funds, when private capital is not available on reasonable terms.

3. The Bank will promote the long-range balanced growth of international trade by encouraging international investment for the development of the productive resources of member countries.

4. The Bank will take into consideration, in its operations, the effect of international investment on business conditions in member countries. In the immediate post-war years, its policy will be to assist in bringing about a smooth transition from a wartime to a peacetime economy.

II. Capital of the Bank

1. The capital of the Bank will be the equivalent of $10 billion, to be subscribed by member governments. Liability on shares will be limited to the unpaid portion of the subscription.

2. A substantial part of the subscribed capital of the Bank will be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed or issued by the Bank.

3. The initial payment on shares will be 20 percent of the subscription, some portion of which should be in gold and the remainder in local currency. Further payment on subscriptions will be made as the Board of Directors may determine, but not more than 20 percent of the subscription may be called in any one year.

III. Operations of the Bank

1. The Bank will deal through the governments of member countries and their fiscal agencies, the International Monetary Fund, and other international agencies owned predominantly by member governments.

It may also deal with the public and private institutions of member countries in the Bank's own securities or the securities which it has guaranteed.

2. An appropriate limit will be placed on the outstanding obligations of the Bank; and all the resources of the Bank will be available to meet its obligations.

3. The Bank will not finance the local currency needs of a borrower except in those special circumstances where facilities are not available for borrowing investment funds at home.

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

(a) The national government, central bank or a comparable agency guarantees the payment of interest and principal.

(b) The borrower is otherwise unable to secure the funds from other sources under conditions which in the opinion of the Bank are reasonable.

(c) A competent committee, after careful study of the merits of the project, reports that the loan would serve to raise the productivity of the borrowing country and that the prospects are favorable to the servicing of the loan.

(d) Loans are made at reasonable rates of interest with schedules of repayment appropriate to the project and the balance of payments prospects of the borrowing country.

(e) The Bank is compensated for its risk in guaranteeing loans made by private investors.

5. To encourage international investment in equity securities, the Bank may obtain a governmental guarantee of conversion into foreign exchange of the current earnings on such investments. It may also employ a small portion of its capital directly in equity investment.

6. The Bank will impose no conditions as to the particular member country in which a loan will be spent. The Bank will make arrangements to assure the use of the loan only for the approved purposes.

7. In providing the funds for loans made by the Bank, its policy will be:

(a) To furnish the currencies needed by the borrower in connection with the loan.

(b) To make available an appropriate part of the loan in gold or needed foreign exchange when a developmental program gives rise to an increased need for foreign exchange.

(c) To furnish gold or needed foreign exchange for a part of the loan expended by the borrower at the request of countries in which portions of the loans are spent.

8. No loans may be guaranteed or made by the Bank without the approval of the country in whose currency the loan is made.

9. 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 its own securities, securities taken from its portfolio, or securities which it has guaranteed.

(b) It may borrow from member governments, central banks, or private financial institutions in member countries.

(c) It may buy or sell foreign exchange where such transactions are necessary in connection with its operations.

IV. Repayment Provisions.

1. Payment of interest and principal on loans participated in or made by the Bank will be in currencies acceptable to the Bank or in gold.

2. In the event of an acute exchange stringency the Bank may, for brief periods, accept local currency in payment of interest and principal under conditions that safeguard the value of the Bank's holdings.

3. Payment of interest and principal, whether made in currencies or in gold, must be equivalent to the gold value of the loan and of the contractual interest thereon.

V. Management

1. The administration of the Bank will be vested in a governing board and an executive committee representing the members. The governing board may appoint an advisory council consisting of representatives of banking, business, labor and agricultural interests, and such committees as it finds necessary. Provision will be made for consultation with other interested agencies on matters of direct interest to them.

2. The distribution of voting power will be closely related to the share holdings of the member countries.

3. The Bank will publish regularly a balance sheet showing its financial position and a statement of earnings showing the results of its operations. The Bank may also publish from time to time such other information as would be helpful to the sound development of international investment.

4. One-fourth of the profits would be applied to surplus until surplus equals 20 percent of the capital.

VI. Withdrawal and Suspension

1. A member country may withdraw from the Bank by giving notice in writing.

2. A member country failing to meet its financial obligations to the Bank may be declared in default and may be suspended from membership, provided that a majority of the member countries so decides.

3. If a member country elects to withdraw or is dropped from the Bank, its shares of stock would, if the Bank has a surplus, be repurchased at the price paid. If the Bank's books show a loss, the country would bear a proportionate share of the loss. Appropriate provision should be made for meeting the contingent liabilities.