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FEDERAL RESERVE BANK of CLEVELAND

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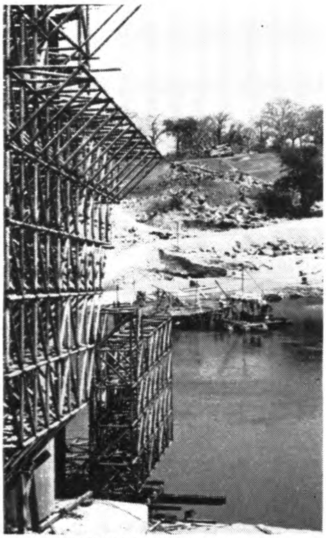
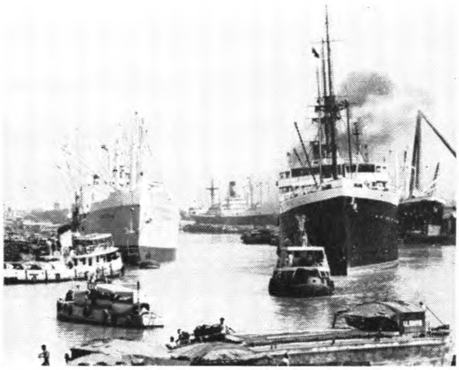


ROSEIRES DAM – Southern Sudan



PORT OF CALCUTTA – India

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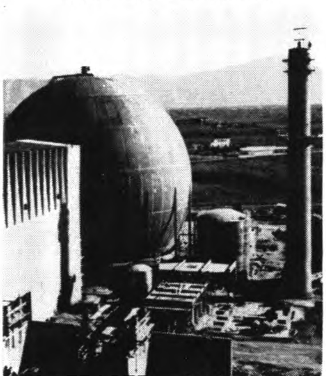
Many projects in underdeveloped nations have been financed by various international lending institutions.



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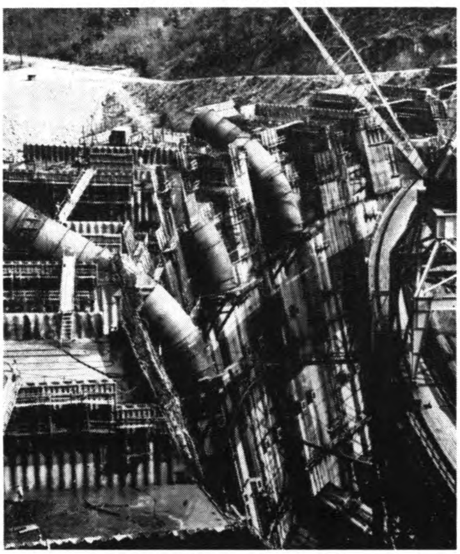

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Lending For International Development

THE ACTIVITY of international lending agencies, which received a strong impetus toward the end of World War II, has been marked in more recent years by the increasing variety of assistance programs. In the early postwar period, when the immediate objective was to restore productive capacities of industrial countries with broadly similar economic structures, a relatively standardized approach was sufficient. Later on, however, as the approach-emphasis shifted from reconstruction to helping underdeveloped countries, which are in all stages of economic and cultural evolution, there emerged more diversified kinds of international financial assistance. To meet the broad spectrum of financial requirements, international lending institutions have increased not only in number but in scope of activity.

The U. S. Government has played an important role in the establishment of six international development organizations, and in two instances has been the sole sponsor.[1] Certain basic information pertaining to the international programs in which the U. S. has participated is summarized in Table I. As the table shows, four of the programs have been established since 1956. The scale of operations and the extent of participation by the U. S. is also indicated. All of the agencies shown in the table are sources of credit for development purposes, and all are able to provide technical assistance to borrowers. None of these institutions is in direct competition with regular banking facilities. The six international institutions differ from one another, however, with respect to the average size of operations, the characteristics of borrowers, credit terms available, and the sources of funds utilized.

Development Institutions

The International Bank for Reconstruction and Development, or World Bank, which operates on a multi-lateral basis, is the largest and best-known development institution. The World Bank was formed in 1944, simultaneously with the International Monetary Fund, at the Bretton Woods conference.[2] The present membership of the World Bank, with the exception of Yugoslavia, is located outside the communist bloc of nations.

Although nearly all credit extended by the World Bank immediately following World War II was for the reconstruction of countries in Europe, no new loans have been made for this purpose since the beginning of the 1950's. Moreover, in fiscal year 1962 reconstruction loans represented less than 8 percent of total loans outstanding. The World Bank extends credit to the government of underdeveloped member countries primarily for specific projects, e.g., the construction of electric power and transportation facilities. At the end of fiscal year 1962, loans outstanding of the World Bank totaled \$6.5 billion. (Except where otherwise noted all subsequent data refer to fiscal year 1962, which ended on June 30.)

Capital stock of the World Bank is based on subscriptions of the member governments, with the amount of subscription varying with

(1) Other multilateral development lending institutions in which the U. S. does not participate include the European Development Fund of the European Economic Community. This and other bilateral sources of development credit are outside the scope of this article.

Note: Photographs on cover courtesy of International Bank for Reconstruction and Development, Washington, D.C.

(2) Whereas the World Bank is concerned primarily with the flow of capital into long-term investment across national boundaries, the International Monetary Fund is concerned with problems of international liquidity and short-term credit. Thus, the two institutions lead separate existences, although they supplement each other and their futures are closely related.

Table I
INTERNATIONAL LENDING INSTITUTIONS

	MULTILATERAL			REGIONAL	BILATERAL	
(Data as of end of fiscal year 1962)	**International Bank for Reconstruction and Development**	**International Finance Corporation**	**International Development Association**	**Inter-American Development Bank**	**Agency for International Development**	**Export-Import Bank**
Creation	1944	1956	1960	1960	1961 (Development Loan Fund beginning in 1957)	1934 (Reorganized to present form in 1945)
Borrowers of Development Loans	75 member governments	Private firms within 63 member countries	Governments of 62 member countries	20 member governments	Foreign governments and/or U. S. and foreign firms engaged in foreign enterprises	
Development Credit:						
Purpose	Social overhead projects such as transportation and electric power facilities	Primarily for expansion of industrial enterprises	Same as parent but may include housing and sanitation facilities	Basically encompasses the range of activities of multilateral institutions	Purchase of goods and services produced in the United States	
Maturity	15-25 years	Long-term credit carries various stock options	50 years	12-20 years depending on nature of project	Over 10 years	10 to 20 years
Repayment	Currency in which credit is extended	Currency which is loaned or invested in corporations	Currency loaned (in special circumstances local currency may be accepted in repayment)	Currency loaned (except under Social Progress Trust Program)	U. S. Dollars	U. S. Dollars
Current Interest Rates	5¾%	7%	¾% service charge	5¾% (3½% for special projects)	5¾%	5¾%
Total Assets (in millions)	$ 6,829.0	$125.4	$551.7	$475.0	—	$6,563.8
Subscribed Capital—						
Paid-in	2,049.0	96.5	387.5	400.0	Annual appropriations $1,112 in latest fiscal year	2,830.0
Callable	18,435.0	3.5	529.7	450.0		4,170.0*
Total	$20,484.0	$100.0	$917.2	$850.0		$7,000.0
U. S. Share	31%	36%	35%	50%	100%	100%

*Additional borrowing authority from U. S. Treasury the size of the individual nation. The U. S. subscription amounts to 31 percent of the total. Only 10 percent of capital is paid-in, however, and thus the bulk of the Bank's subscribed capital, or 90 percent, takes the form of a guaranty fund to be drawn upon when necessary to meet obligations arising out of credit extended or guaranteed by the Bank.

The requirements with respect to the paid-in portion are uniform: each member is to pay one percent of its subscription in gold, and nine percent in dollars or in its own currency. The means of payment for the callable portion of capital, however, can be in gold, local currency, and/or dollars.

Total paid-in capital of the Bank at the end of fiscal 1962 was $2.0 billion. The major source of funds available to the Bank is borrowed capital, obtained by the sale of long-term bonds. Such capital outstanding at the end of fiscal 1962 amounted to $2.5 billion.

In order to fill development credit needs not covered by World Bank activities, two affiliates were formed in recent years. The first of these is the *International Finance Corporation,* established in 1956. The chief characteristics that distinguish the IFC from the World Bank are that it provides capital funds in relatively smaller amounts than the World Bank does, and that it lends to private enterprises directly without government guarantee of repayment. So far, the investments of IFC have been components of larger financing transactions, helping usually to complete projects in which private investors have provided substantially more than the IFC commitment. The IFC, in effect, is similar to an investment banker in that both underwrite security issues. Basic information pertaining to IFC is shown in Table I. In addition, it should be noted that the 63 member countries of IFC also belong to the parent body, the World Bank, and that investment commitments of the IFC at the end of fiscal 1962 totaled $62.5 million.

The second affiliate of the World Bank, the *International Development Association,* was established late in 1960 to provide capital to its 62 member governments on more liberal terms of repayment and to help finance a wider range of projects than its parent institution is permitted to support. The IDA can finance projects of high developmental priority, such as housing and sanitation facilities. Thus, the activities of IDA cover a broader range of investments than those of the World Bank. Basic information pertaining to IDA is shown in Table I.[3] Loan commitments outstanding as of the end of fiscal 1962 totaled $235 million.

The *Inter - American Development Bank,* unlike the World Bank and its affiliates, is a regionally - oriented institution. The IADB was organized early in 1960 by the 20 members of the Organization of American States for the purpose of providing an additional source of capital to help promote the economic growth of Latin America. IADB lends both to government entities and indirectly to private enterprises through local development institutions. As of the end of fiscal 1962, loan commitments outstanding amounted to $271 million. Basic information pertaining to IADB is also shown in Table I. It should be noted that the callable portion of capital serves primarily as financial backing for bond issues.[4]

In addition to its participation in these multi-lateral and regional undertakings, the U. S. has also provided long-term development credit to underdeveloped nations on a bilateral basis. In this venture, the U. S. has worked through both the Export-Import Bank and the Agency for International Development.[5]

(3) The articles of agreement call for subscriptions to be paid in five annual instalments. Since only the industrialized countries, including Western Europe, and the United States, Canada, Australia, and Japan are being required to make their subscriptions available in gold or freely convertible currencies, the effective resources of IDA will amount to only about 80 percent of its total subscriptions.

(4) In December 1962, a $1 billion capital expansion program was approved by the governors of IADB. Contributions of increased capital would be made by member countries under the same formula that was followed in the original capitalization of the Bank in 1960.

(5) The International Cooperation Administration had provided long-term loans and grants under the Mutual Security Act of 1954, as amended. Such assistance, however, was primarily for defense support and therefore would not be strictly termed development credit.

The *Export-Import Bank* was originally established in 1934, but its present form of organization dates from the end of World War II. The Ex-Im Bank is a U. S. Government-owned corporation whose major function is to facilitate U. S. trade. Ex-Im had an initial capital of $1 billion paid-in by the U. S. Treasury, and may borrow, on a revolving basis, up to $6.0 billion from the U. S. Treasury. Ex-Im extends credit of varying maturities and/or provides guarantees on loans made by other institutions.[6] Credit is extended to both private enterprises and governments for the purchase of capital machinery and equipment.

United States bilateral long-term credit is also extended through the *Agency for International Development.* AID was established by the U. S. Government in the fall of 1961 in an attempt to help streamline the U. S. contribution to the economic growth of underdeveloped areas. Long-term credit, as one part of AID, represents a continuation of the Development Loan Fund which was established by the Mutual Security Act of 1957.[7] Development credit under both programs has been extended to public and private enterprises for the purchase of goods and services produced in the U.S. Development loan commitments by AID totaled $1.3 billion in fiscal 1962.

In contrast to the other development institutions, funds available to AID are based on annual appropriations by the U. S. Congress, and thus can not be committed to borrowers for years in advance.

Lending Activity, 1958-1962

In the five years ended in fiscal year 1962, the six lending institutions discussed in this article, taken together, extended a total of $9.0 billion in credit, or an average annual amount of $1.8 billion. Chart 1 shows the commitments of these institutions, on a comparative basis, highlighting the multilateral, regional, and bilateral aspects.

During fiscal years 1958-1962, there was a marked tendency toward increased use of bilateral funds. Of the total funds committed by the six lending institutions in fiscal 1958, 65 percent were on a multi-lateral basis (35 percent were thus on a bilateral basis). By fiscal 1962, however, the relative shares had nearly turned around; multilateral commitments had dropped to about 46 percent of total development credit extended, while bilateral commitments had grown to about 54 percent.

If allowance is made for the fact that the U. S. Government participation in expanding regional credit is one-half and in multilateral credit is one-third, then in fiscal 1958 the U. S. provided 21.7 percent of the total extended on a multilateral basis and 35.0 percent on a bilateral basis. By fiscal 1962, however, multilateral commitments of the U. S. had declined to 14.4 percent while bilateral commitments had expanded to 58.3 percent.

These changes in the shares of development credit committed by the various institutions have important implications not only for potential borrowers of credit but, perhaps more importantly, in the terms of the credit extended. In other words, with the recent reshaping of credit sources, are similar amounts of credit available to borrowers as previously? In addition, does this reshaping mean that there are significant differences in the credit terms available? Moreover, what impact might these factors have on the course of economic development in various countries?

A Look at the Borrowers

Chart 2, on page 7, shows the geographic distribution of development credit extended by the six lending institutions from fiscal 1958 through fiscal 1962. The countries of Asia and Latin America received the bulk, or 77 percent, of the total amount of credit extended. The principal borrowers in Asia were India, Pakistan, and Japan, while the major

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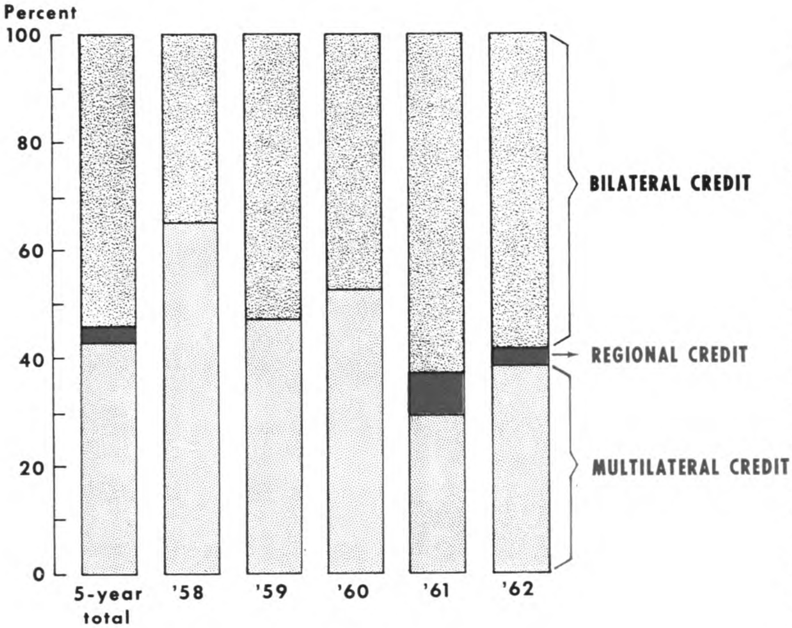
(6) For purposes of comparison with the other institutions, only credit extended by the Ex-Im bank with a maturity of ten years and over is considered in this article.

(7) Actually, the development loans under AID are a continuation of the loans extended by DLF with one major difference: under AID credit is to be repayable in dollars rather than in foreign currencies as permitted by the DLF.

Chart 1.

PERCENTAGE DISTRIBUTION OF DEVELOPMENT CREDIT EXTENDED BY LENDING INSTITUTIONS

Fiscal Years 1958-62



borrowers in Latin America were Brazil, Colombia, and Mexico. The amount of credit extended to African countries, although small in relation to the total, increased rapidly during the five-year period. On the other hand, the relative share of credit extended to European countries declined, despite the fact that some parts of Europe, e.g., Southern Italy and Yugoslavia, usually are considered as being underdeveloped.

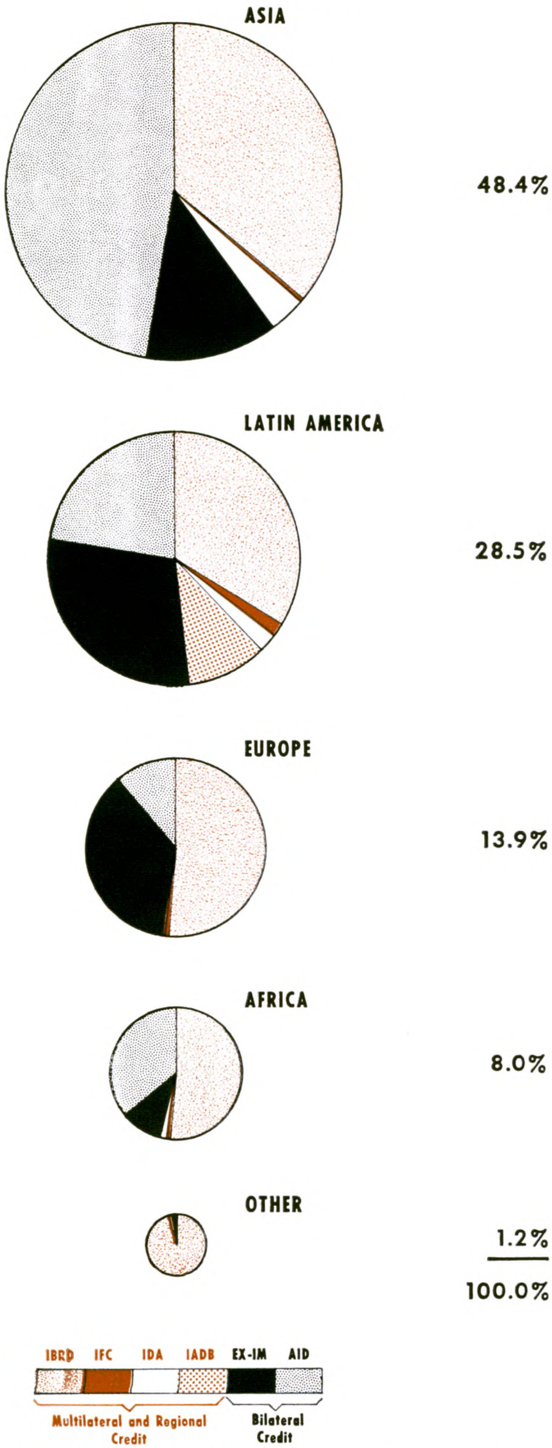
The activities of AID are fairly heavily concentrated in Asia and Latin America. The activities of the World Bank, in contrast, have been more evenly distributed around the world, as befits its more diversified membership and support. Although the share of the regional institution — the Inter-American Development Bank — is small compared with the total credit extended by all institutions to Latin America, the comparison is based only on the first two years of IADB's operation.

A Look at Credit

The term "development credit" has been applied loosely to numerous types of financial assistance, ranging from outright grants-in-aid to various "soft" and "hard" loans. When properly used, however, grants-in-aid do not qualify as development credit since they include only financial assistance for which no repayment is expected. Likewise, "soft" loans are similar to aid and are, in fact, contingent part grants. There are many varieties of soft loans, but usually such financial assistance is *very* long-term (often carrying a maturity of 99 years) and has a low rate of interest. Moreover, soft loans are often repayable in local currency regardless of the currency in which the credit is initially extended. This latter provision is a particularly desirable feature to an underdeveloped country, which often finds it difficult to acquire other currencies. "Hard" loans, are made on commercial terms, i.e., with a maturity of ten or more years (but with a maximum between 20 and 30 years) and at a market rate of interest. Moreover, these loans must be repaid in the currency lent.

As defined in this article, the development credit of the lending institutions is long-term, with a maturity of ten years and over. Other characteristics of credit, however, vary among the institutions. These characteristics include the purpose and size of loans, the repayment schedule and currency of repayment, and costs of borrowing.

Chart 2.
PERCENTAGE DISTRIBUTION OF DEVELOPMENT CREDIT BY REGIONS AND LENDING INSTITUTIONS
Fiscal Years 1958-62



NOTE: The size of each circle corresponds to the amount of development credit extended as a proportion of the total.

Purpose of Loans. Most of the development credit extended by the World Bank has been in relatively large loans (with many in the $50 to $100 million range), and has been used primarily for electric power facilities and transportation. The World Bank finances only the foreign exchange portion of the credit. Industrial and agricultural credit, which in general is of smaller average size, has played a comparatively minor role in World Bank lending activity. The IDA also extends credit for "social overhead" purposes such as road construction and improvement of harbor facilities, but the amount of credit extended by IDA is smaller in size. The IFC, in contrast, specializes in lending or investing in private industrial enterprises, often through local development institutions in participation with private banks. The IFC participation is usually the smallest component of the total credit and is directed to a wide variety of industries.

The lending activities of the IADB are broad, encompassing most of the principal features of the World Bank and its affiliates. IADB generally seeks to participate with other lending institutions, in that it is willing to finance up to a maximum of one-half of a particular program. Loan commitments have been somewhat smaller in size than those of the World Bank, depending primarily on the type of project financed.

The Ex-Im Bank and AID establish a revolving fund for a borrower to purchase specific capital equipment and machinery produced in the United States. Since emphasis is placed on having the proceeds spent in the country which grants the credit — in this case the U. S. — such credit has often been termed "tied loans".

A common procedure of the Ex-Im Bank, for example, is to guarantee payment of letters of credit issued by the commercial bank in favor of the supplier of goods in the U. S. The borrower is then notified of the transaction, and that repayment is to be made to the Ex-Im Bank as pre-arranged. In contrast, credit extended by the World Bank and other multilateral institutions is granted to the borrower in the currency with which the borrower purchases the goods. Tied loans are not an uncommon feature of bilateral credit, as many countries lend on this basis.

Repayment Terms. World Bank credit usually carries a maturity of 15 to 25 years and is repayable in instalments after a short-duration grace period. Credit of the IFC often carries various stock option features upon maturity.[8]

All IDA credit is on identical terms which are considerably more liberal than those of either the parent body or IFC. IDA credit not only carries a maturity of 50 years, which is much longer than was previously available to underdeveloped nations, but also defers amortization until after a ten-year grace period. All credit of the multilateral institutions, however, is repayable in the currency in which equipment and services are originally purchased.

The credit terms offered by the regional institution, IADB, vary. Private undertakings usually can obtain credit with maturities of 12 years, while public or social overhead ventures may obtain credit with maturities up to 20 years.

While the maturities of the Ex-Im Bank are similar to those of the World Bank, the maturities of AID are often longer. AID's predecessor permitted repayment in the currency of the borrower even though the goods or services were originally purchased in the U. S. (In some cases the loans of AID carry maturities up to 50 years and thus verge on being "soft" loans.)

Although most of Ex-Im's credit to finance the movement of goods is intermediate-length credit, a substantial amount of total credit is long-term. For example, of the $942 million credit extended in fiscal 1962, about $235 million, or one-fourth, carried a maturity of ten years and over.

Lending Rates. All of the development institutions except IDA lend on commercial terms. The World Bank, for example, bases the interest rate on development credit on the rate it would have to pay on a bond issue of similar maturity. (All countries which borrow at a particular time are charged the same rate of interest.) To this rate is added 1.25 percentage points to cover administrative costs. The rate charged by the World Bank has been historically between four and six percent (the current rate is 5.75 percent). The IADB, the Ex-Im Bank, and AID in their hard loans are currently charging similar rates.

In contrast, the rate charged by IFC has almost always been higher than that of the other institutions (the current rate is 7 percent). A principal reason why the rate charged by IFC is relatively high is the amount of risk usually involved in its loans. Unlike the other development institutions, the credit or investments of IFC in private enterprise carry no government guarantee of repayment. On the other hand, the second affiliate of the World Bank, IDA, charges no interest but only a service charge of ¾ percent.[9] Whereas the types of investments made by IFC are expected to provide a reasonable return, the credit of IDA is for social overhead purposes which usually are accepted as nonprofit making.

The funds of IDA are nearly exhausted, while IFC has committed only half of its available funds. The easier terms of IDA are undoubtedly a major factor in the relative attractiveness of IDA loans. One other important aspect of the attractiveness of IDA credit is related to the stage of economic development of the particular borrower. Since the type of credit extended by IDA usually precedes that of the IFC in terms of what a country needs for its growth, loans from

(8) An important development during 1962 was an amendment to the Articles of Agreement of the IFC which removed the restriction on equity investment, thereby enabling IFC to make first investments in equity form as well as to participate for the first time in an underwriting of common shares. Previously, the complex investment formulas that IFC had to employ in order to obtain some equity features in extending credit were a serious barrier to expansion of operations.

(9) In special instances both the IADB and the AID will issue credit with a relatively low or no interest charge.

the former have performed a very important preliminary function, and have thus been vigorously sought out.

With the exception of IDA, and some credit extended by AID, the terms of credit of the other development institutions, although not identical, are similar and can be grouped under the "hard" loan definition. Thus, the principal differences of the development institutions lie along the lines of whether credit is multilateral or bilateral and whether such credit is tied.

When tied loans are employed in strictly bilateral agreements, trade among several nations geared to the grounds of comparative advantage is rendered difficult. The tying of loans favors the creditor rather than the borrower, and is thus potentially a hindrance to the growth of underdeveloped areas; this is so, especially as compared with credit which can be used in a variety of ways and in a variety of countries, and thus promotes wider channels of trade.[10]

Sources of Funds

As mentioned earlier, the main source of funds to AID are annual appropriations by the U. S. Congress, while the funds of the Ex-Im Bank are derived largely from the initial capital and borrowings from the U. S. Treasury. In addition, a significant amount of funds available to the Ex-Im Bank is obtained from repayments of outstanding loans.

On the other hand, although capital subscriptions by the members of the multilateral institutions comprise an important portion of funds available, such paid-in capital is not the only, and in the case of the World Bank, not the principal source of funds. The World Bank and the IADB have also tapped the bond markets of several nations. This source of funds is more elastic than others and explains in part why the bulk of the capital of the World Bank and IADB takes the form of a guaranty fund. (See Table II.)

The U. S. has been the principal capital market entered by the World Bank, although the U. S. share of the total has declined somewhat.[11] Bonds of the World Bank have also been floated in Switzerland and Germany, and to a much lesser extent in the United Kingdom, Netherlands, and Italy. The chief purchasers in the U. S. have been pension and trust funds, insurance companies, and savings banks. These groups have exerted a strong demand for the bonds as prices of such issues have been well maintained in relation, for example, to the prices of U. S. Government obligations. World Bank bonds usually are priced to yield about 50 basis points more than yields on U. S. Government long-term bonds of comparable maturities. The increase in the funded debt of the World Bank during fiscal years 1958-1962 amounted to over seven and one half times the increase in paid-in capital, and thus was its most important source of funds.

The IADB floated its first bond issue ($25 million) in Italy in April 1961, less than two months after making its first loan. Although the issue was subscribed in total by a consortium of Italian banks, the agreement provides for the eventual offering of the bonds for public subscription. In this instance, funds which were subsequently lent to IADB members were obtained from investors who are not members of the bank. (This is also the case when the World Bank sells bonds in Switzerland, which is not a member.) When the IADB's second bond issue ($75 million) was floated in the U. S. in December 1962, the amount of IADB's bonds outstanding became one-fourth as large as its paid-in capital.

Several of the lending institutions have been successful in selling their loans as participations. Sometimes participations are arranged simultaneously with a loan agreement, and at other times they represent subsequent

(10) One reason why the U.S. currently places major emphasis on tied credit is because of the U.S. balance of payments situation. To the extent that the funds which are loaned to other countries are used to purchase U.S. goods and services, the balance of payments is not affected adversely.

(11) At the end of fiscal year 1962, the U. S. dollar share of funded debt outstanding was about three-fourths of the total.

Table II

FLOW OF FUNDS OF INTERNATIONAL LENDING INSTITUTIONS

SUMMARY OF ACTIVITY FOR FISCAL YEARS 1958 - 1962

(in millions)

	MULTILATERAL			REGIONAL	BILATERAL	
	International Bank for Reconstruction and Development	International Finance Corporation	International Development Association (1)	Inter-American Development Bank (1), (2)	Agency for International Development (3)	Export-Import Bank (4)
Resources:						
Additions to Paid-in Capital	$ 196.0	$ 96.5	$387.5	$400.0	—	$ 652.0
Appropriations by Congress	—	—	—	—	$3,585.2	—
Increase in Funded Debt	1,487.0	—	—	24.2	—	—
Participations and/or Sales of Loans	1,000.0	10.6	—	n.a.	—	1,447.1
Repayments	352.0	0.8	—	—	n.a.	2,022.0
Interest Income (5)	304.0	12.8	1.5	1.3	n.a.	675.0
Total	$3,339.0	$120.7	$389.0	$425.5	$3,585.2	$4,796.1
Development Loans Committed (6)	$3,560.0	$62.5	$237.0	$271.0	$3,037.9	$1,854.0

n.a. not available

(1) Represents only 2 years of data.

(2) Does not include operations of Social Progress Trust Fund.

(3) Includes only activity of development loan program.

(4) Resources of the Export-Import Bank represent funds for all credit extended (including short- and intermediate-term credit.) Development loans committed are only credit for a term of 10 years and over.

(5) Includes interest income from loans and investments.

(6) Includes a small portion of loans which have been committed but not yet disbursed.

sales from the portfolios of banks. By selling a loan, a bank exchanges one type of asset for another, i.e., cash, and is able to free funds for relending. In the five years ended in fiscal 1962 the World Bank sold $1.0 billion to other investors, or over one-fourth of the total amount of credit extended. In the same period, the IFC sold a total of $10.1 million, and in fact extended most of its credit on a participation basis with other financial institutions.

Because of their institutional nature, the sale of bonds is not a feasible alternative source of funds to either AID or the Ex-Im Bank. However, these institutions can employ participation agreements. For example, the Export-Import Bank, for the first time in August of last year, offered $100 million of notes to European industries.

To the extent that the development institutions are able to obtain funds from sources other than capital, they may be described as financial intermediaries. Having a banking and not a subsidy basis of operation helps to assure continuity for an institution; it means that it does not have to face the difficulty and somewhat more discontinuous means of having funds appropriatetd. Financial intermediaries, moreover, have the ability to mobilize funds from capital-exporting countries and to lend to capital-importing nations. The international role of the multilateral institutions does not consist solely in raising capital in developed countries in order to relend to underdeveloped countries. A multilateral institution may borrow from either group and lend to either group, and may even finance projects in the same countries from which it is currently borrowing. At times, the World Bank has done precisely this.

An Important New Development

A recent twist which has been gaining in popularity involves a consortium of development institutions, or pooling of resources, to finance a particular program in a country. Many programs contain a variety of credit demands which can be served by different types of financial assistance. For example, in July of last year, ten nations (including the U. S.) and the World Bank announced subscriptions totaling over $1 billion to help India finance the second year of her current five-year plan.

The IFC, in particular, has devoted most of its lending and investing activity to participation plans with private lenders. Six commercial banks and the IFC agreed in August 1962 to advance $2 million to the largest cotton-textile maker in Colombia. The year before, the same company had raised $3 million through a subscription issue to stockholders. Conditions in the Colombian capital market in 1962 were not favorable for stock or bond issues, nor could the company obtain funds from regular domestic banking channels. The IFC in this instance served as a broker in bringing together the commercial bank participants to take over the largest share of the loan, all of which was without government guarantee.

The first joint financing project of the IFC and its parent body, the World Bank, to the local development bank of Morocco was announced last December. The project was also the first of a number of planned combined operations, whereby the World Bank is to provide the loan funds and the IFC will provide share capital.

Encouraging the growth of local development institutions is one of the more effective but less publicized efforts of the international development institutions. After obtaining funds from an international financial institution, a local development bank can redistribute the funds to smaller and medium-sized industrial enterprises which lack a private market to obtain funds. Since 1950, the World Bank has lent over $150 million to development agencies. Currently, the World Bank is advising a large number of newly-independent African nations on preparing a foundation for growth through local development institutions.

Some Concluding Comments

Estimates of total annual credit needs of underdeveloped nations vary greatly; but many estimates show needs that are two to three times as large as the annual average of credit extended from fiscal years 1958 through 1962 by the six international institutions discussed here. The achieving of economic growth is not only a question of how much credit is or should be extended; it is also a question that is related to the purposes for which credit is used. There are a large number of underdeveloped countries, all of which are at different stages of economic growth. Perhaps the most important aspect of development assistance is the ability to evaluate the prerequisites to growth, and then to marshal the resources with which to meet these requirements. For some nations, the development of educational and technical training may provide a quicker and yet more lasting contribution to growth than would placing undue reliance on financial assistance. This is especially relevant to countries in the preliminary stages of growth where a debt-servicing burden, even one on easy terms, could be prohibitive.

Since the end of World War II, the international institutions created primarily for world-wide lending have made an important contribution to economic development. The relatively recent multiplication of such institutions on a regional and bilateral basis requires that there be close coordination in lending activities. The current popularity of consortia arrangements suggests that the possibilities for new and more efficient approaches to international development are by no means exhausted.

Around the Fourth District—

Electric power production in Cleveland and northeast Ohio expanded counterseasonally during most of February and simultaneously widened its year-to-year margin. Output in the last two weeks of the month posted year-to-year increases of 7 percent and 8 percent as compared with 4 percent on average during January.

* * *

At department stores in the Fourth District, sales for the four weeks ended February 23 were fractionally below year-ago levels, in contrast to the 3 percent increase reported for the nation.

* * *

Earning assets at Fourth District reporting banks rose nearly $38 million in the week ended February 27. Most of the change was reflected in loan accounts and the net increase in total loans was the largest in any week since the turn of the year.

Participation In Food Stamp Plan

(Fourth District)

THE FOOD STAMP PLAN was introduced in mid-1961 by the U. S. Department of Agriculture as a means of providing indigent families with a more adequate diet. The program attempts to achieve this goal by increasing the food purchasing power of low income families. As the food budgets of these families improve, the nutritional level of their diets also increases, i.e., food purchases tend to shift from wholly staple foods to a wider range of foods, including meats, dairy and poultry products, fruits, and vegetables. The higher consumption levels of such foods, in turn, expands the demand for farm products. Higher meat consumption, for example, would increase the demand for livestock products and, at the same time, result in a higher level of feed grain utilization.

The food stamp program is supervised by the U. S. Department of Agriculture but utilizes the staff of state and local welfare agencies. These agencies certify the households eligible to participate and they also distribute the food stamps. Another feature of the program is that it uses regular marketing channels. Retail food stores, authorized by the Department of Agriculture, accept the coupons in payment of foods purchased by participants.

In areas of operation, the Food Stamp Plan has replaced the Department of Agriculture's direct distribution program which donates farm products acquired under market stabilization programs to people in financial need. The foods distributed through this program are only those in surplus or plentiful supply such as dried milk, butter, cheese, flour, and rice. In contrast, the Food Stamp Plan allows participants to purchase a wide selection of food items; any food or food product may be purchased with food stamps except alcoholic beverages, tobacco, coffee, tea, cocoa, bananas, and those foods specifically labeled as imports.

Fourth District Areas

The feasibility of the Food Stamp Plan was initially tested in eight economically depressed areas in the U. S. The areas selected included the city of Detroit, Michigan, the Virginia-Hibbing-Nashwauk area of Minnesota, and the following counties: Franklin, Illinois; Silver Bow, Montana; San Miguel, New Mexico; McDowell, West Virginia; Fayette, Pennsylvania; and Floyd, Kentucky. The last two of these pilot areas lie within the Fourth Federal Reserve District.

As a result of relative success in the pilot areas, the program has been offered to 39 additional areas which cover 45 counties and 3 cities in 23 states. In contrast to the selection of the pilot areas, the extended coverage was designed to subject the program to more diverse economic and social circumstances as well as to obtain a wider geographic distribution for program operations. Availability of Department of Agriculture personnel in an area was also a requirement for participation.

The two pilot counties in the Fourth District were selected to participate in the food stamp program on the basis of depressed economic conditions. Fayette County, Pennsylvania is located in the bituminous coal mining area and has experienced a chronic unemployment problem. Since 1954, the annual rate of unemployment in this county has averaged 14 percent or higher. When the program was initiated in this area in 1961, 23 percent of the total civilian labor force was unemployed. The rate of unemployment for selected months in Fayette County and other Fourth District areas is shown in the table on the next page.

Unemployment Rates in Participating Areas, Fourth District (estimated total unemployment as a percent of estimated civilian labor force)

	November 1962	March 1962	March 1961	March 1960
Ohio				
Cleveland SMSA(1)	4.8	5.3	9.6	N.A.
Lucas County	5.2	8.6	10.0	N.A.
Pennsylvania				
Pittsburgh SMSA(2)	9.8	9.5	12.7	8.1
Fayette County	15.8(3)	18.9	26.0	17.1
Kentucky				
Floyd County	11.2(4)	14.6	19.1	13.8
Perry & Knott Counties	14.2(4)	22.4	25.7	15.8

(1) Includes Cuyahoga and Lake Counties.

(2) Includes Allegheny, Beaver, Washington, and Westmoreland Counties.

(3) Latest figure available, October 1962.

(4) Latest figure available, August 1962.

Sources: Cleveland and Toledo Offices, Ohio State Employment Service; Pittsburgh and Uniontown-Connellsville District Offices, Pennsylvania Bureau of Employment Security; and Research and Statistics Service, Kentucky Department of Economic Security.

Note: Figures are not seasonally adjusted.

The principal industries in Floyd County, Kentucky include coal mining, lumber, and some farming. This area has also experienced a high rate of unemployment. During 1961, the rate of unemployment averaged 15.2 percent of the civilian labor force in Floyd County.

Knott County, Kentucky recently entered the Food Stamp Plan (see accompanying map). More than 700 families in this area were initially eligible to receive food stamps. In addition, Perry County is expected to participate in the program beginning about March 1. The rate of unemployment in these two counties amounted to 14.2 percent in August 1962. The program operation in Knott and Perry counties is an extension of the Floyd County program.

Lucas County, Ohio entered the program about December 1, and during the first month approximately 11 thousand people participated. The city of Pittsburgh, Pennsylvania is scheduled to enter the program about March 1, and about 17 thousand families are expected to participate. The Standard Metropolitan Statistical Area in which Pittsburgh is located has experienced a substantial rate of unemployment since 1958; figures for selected months during the past three years are shown in the above table.

The last Fourth District area scheduled to enter the Food Stamp Plan as part of the extended trial coverage is Cuyahoga County, Ohio. The target date in this area has tentatively been set as May 1. At present, approximately 15 thousand families are expected to participate.

Program Administration

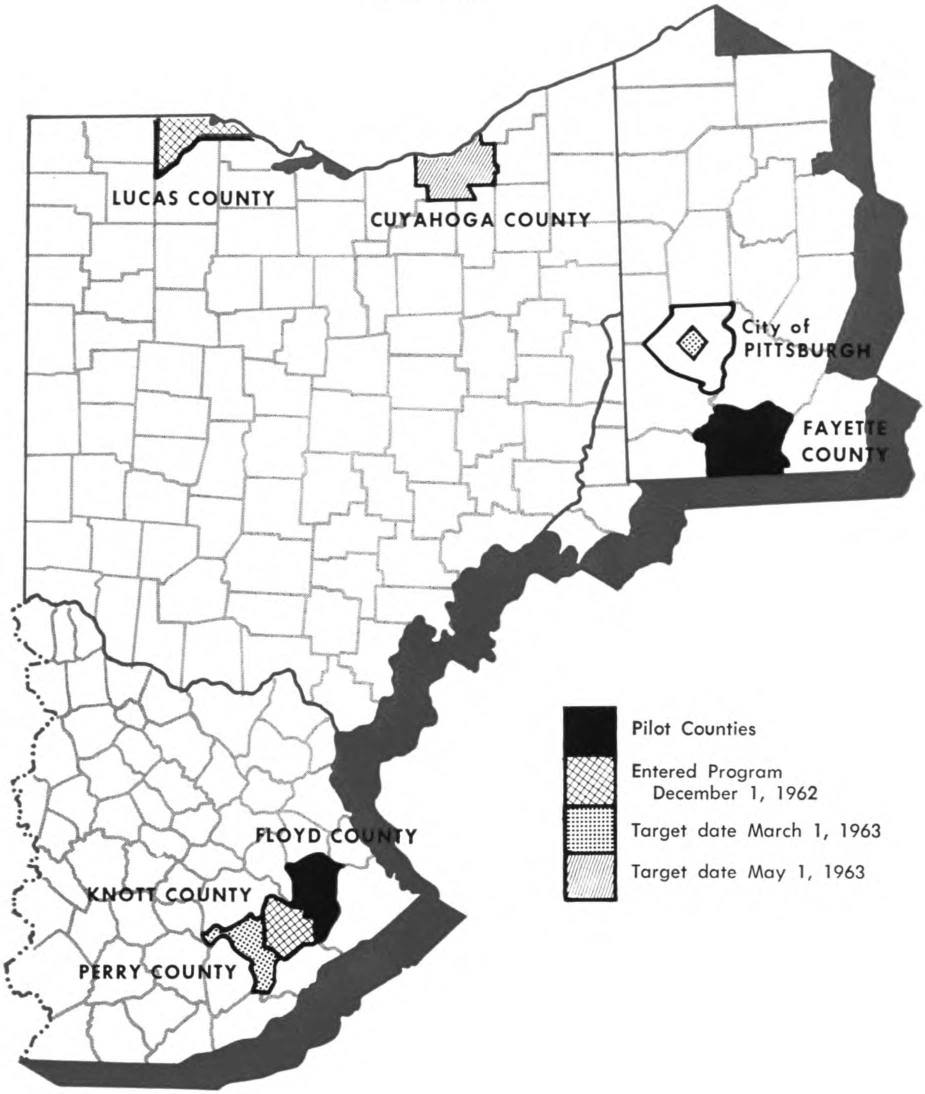
The U. S. Department of Agriculture supervises the food stamp program, although the state and local welfare agencies, which administer federal assistance programs, are responsible for a major part of the operation. This co-agency feature provides program adaptability to local economic needs and conditions.

The welfare agencies establish the eligibility standards for program participation. Families are automatically eligible to receive food stamps if they are receiving federal aid under the following Social Security programs: old age assistance, aid to dependent children, aid to the blind, and aid to the disabled. Families receiving general assistance under state or local programs are also automatically eligible.

In addition to families on relief programs, eligible participants in the food stamp program include individuals or families with in-

PARTICIPATION IN FOOD STAMP PLAN

Fourth District



comes and resources below a level specified by the certifying agencies. For such nonrelief participants, the eligibility standards are similar to those used by the welfare agencies to administer the state general assistance program. As shown in the following table, a family of four in Pittsburgh is eligible to participate if its monthly income does not exceed $245. An additional qualification is that the family's liquid assets are less than three times as large as the income amount shown in the table on page 16.

Monthly Household Income Limits For Food Stamp Participation

Persons In Household	Pittsburgh, Pennsylvania	Cuyahoga County, Ohio
1	$110	$110
2	170	180
3	205	220
4	245	260
5	280	290
6	315	320
7	350	355
8	390	385
9	425	415
10	460	445

Source: County Welfare Board of Assistance, Allegheny, Pennsylvania and The Cuyahoga County Welfare Department, Cuyahoga County, Ohio.

To ensure that food expenditures will be increased, an eligible family is required to purchase stamps equal in amount to what is typically spent on food. The Department of Agriculture supplements the volume of purchased stamps with additional free stamps so that the participant's food budget is more nearly sufficient to purchase a nutritionally-balanced diet. Thus, the volume of free coupons issued varies inversely with the amount of monthly income per family member. In situations where the family has no income, however, the purchasing requirement is waived.

During a five-month period in 1961, food stamp participants in the eight pilot areas in the nation at large purchased an average of $2.8 million worth of stamps a month for which they paid $1.7 million. Based on these figures, participants can be expected to spend an average of $.62 for every $1.00 of food stamps received.(1) Results in the pilot areas indicate that the nutritional level of participants' diets was higher after introduction of the program. For example, almost 50 percent of the households participating in Detroit, Michigan had diets which met recommended levels during the program, as compared with 30 percent before the inauguration of the program. In Fayette County, Pennsylvania, 39 percent of the households had recommended diets during the program; the pre-program figure was 26 percent.(2)

In addition to certification of eligible families, the welfare agencies are also responsible for distributing the coupons to participants. This is the procedure being used in the Ohio and Kentucky program areas of the Fourth District. In the Pennsylvania areas, however, commercial banks have been authorized to distribute stamps when presented with an identification card which shows the number of coupons to be issued and the purchase price.

A participating family spends the food stamps at any retail grocery store which has been authorized to participate in the program by the Department of Agriculture. The food stamps are reedemed by retailers at a commercial bank. The banks receive credit from the Federal Reserve System, which in turn is reimbursed by the U. S. Treasury. The Food Stamp Plan thus utilizes both regular marketing channels and the banking system in its attempt to increase the nutritional level of the diet of low income families.

Program Potential

The Food Stamp Plan, which was initially tested in eight pilot areas and subsequently offered to 39 additional areas, is still in the experimental stage. Results obtained in these trial areas will largely determine whether the Department of Agriculture will offer the program throughout the entire nation. If the program were to be so extended, it has been estimated that four million persons would participate.(3)

(1) *The Food Stamp Program,* U. S. Department of Agriculture, April 1962, p. 5.

(2) Food Consumption and Dietary Levels Under the Pilot Food Stamp Program, *Agricultural Economic Report No. 9,* U. S. Department of Agriculture, pp. 17-18.

(3) The Food Stamp Plan, *Journal of Farm Economics,* May 1962, pp. 598-615.