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TO AUTHORIZE THE UNITED STATES TO PARTICIPATE IN INCREASES
IN THE RESOURCES OF THE ASIAN DEVELOPMENT BANK, THE
INTERNATIONAL MONETARY FUND, AND THE INTERNATIONAL
BANK FOR RECONSTRUCTION AND DEVELOPMENT

GOVERNMENT

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

ON

H.R. 16891

A BILL TO AUTHORIZE UNITED STATES PARTICIPATION IN
INCREASES IN THE RESOURCES OF CERTAIN INTERNATIONAL
FINANCIAL INSTITUTIONS, TO PROVIDE FOR AN ANNUAL
AUDIT OF THE EXCHANGE STABILIZATION FUND BY THE
GENERAL ACCOUNTING OFFICE, AND FOR OTHER PURPOSES

APRIL 16 AND 17, 1970

Printed for the use of the
Committee on Banking and Currency



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TO AUTHORIZE THE UNITED STATES TO PARTICI-
PATE IN INCREASES IN THE RESOURCES OF THE
ASIAN DEVELOPMENT BANK, THE INTERNATIONAL
MONETARY FUND, AND THE INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT

THURSDAY, APRIL 16, 1970

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry S. Reuss presiding.

Present: Representatives Reuss, Barrett, Stephens, Annunzio, Rees, Galifianakis, Bevell, Griffin, Chappell, Harrington, Widnall, Halpern, Johnson, Stanton, Mize, Blackburn, Brown, Williams, and Crane.

Mr. REUSS. Good morning.

The House Committee on Banking and Currency will be in order for hearings on a number of bills regarding international financial institutions, legislation which, if enacted, would authorize the United States to participate in increases in the resources of certain financial institutions, provide for an audit of the Exchange Stabilization Fund by the General Accounting Office, and amend the Gold Reserve Act of 1934.

It should be noted at this time that Congressman Widnall, the ranking minority member, has introduced H.R. 16641 and H.R. 16764, the administration's legislation to provide for a U.S. contribution to the Asian Development Bank and to authorize an increase in the resources of the International Monetary Fund and the International Bank for Reconstruction and Development, which are also before us.

We have with us this morning to begin testimony on H.R. 16891 the Secretary of the Treasury, the Honorable David M. Kennedy; the Under Secretary of the Treasury, the Honorable Paul A. Volcker; and the Assistant Secretary of the Treasury for International Affairs, the Honorable John R. Petty.

I note, too, many of the longstanding friends of the committee from the Treasury staff that the Secretary has with him and take special note of the fact that we also have with us our Ambassador and Executive Director to the Asian Development Bank, the Honorable Bernard Zagorin.

Before the administration witnesses begin their testimony, I would like to briefly summarize what the legislation before us, H.R. 16891, if enacted into law, would accomplish.

(The text of H.R. 16891 follows:)

[H.R. 16891, 91st Cong., second sess.]

A BILL To authorize United States participation in increases in the resources of certain international financial institutions, to provide for an annual audit of the Exchange Stabilization Fund by the General Accounting Office, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Chapter 1.—AMENDMENT OF ASIAN DEVELOPMENT BANK ACT

Sec.

1. Amendment of Asian Development Bank Act.

§ 1. Amendment of Asian Development Bank Act

The Asian Development Bank Act (22 U.S.C. 285–285h) is amended by adding at the end thereof the following new sections:

“Sec. 12. (a) Subject to the provisions of this Act, the United States Governor of the Bank is authorized to enter into an agreement with the Bank providing for a United States contribution of \$100,000,000 to the Bank in three annual installments of \$25,000,000, \$35,000,000, and \$40,000,000, beginning in fiscal year 1970. This contribution is referred to hereinafter in this Act as the ‘United States Special Resources’.

“(b) The United States Special Resources shall be made available to the Bank pursuant to the provisions of this Act and article 19 of the Articles of Agreement of the Bank, and in a manner consistent with the Bank’s Special Funds Rules and Regulations.

“Sec. 13. (a) The United States Special Resources shall be used to finance specific high priority development projects and programs in developing member countries of the Bank with emphasis on such projects and programs in the Southeast Asia region.

“(b) The United States Special Resources shall be used by the Bank only for—

“(1) making development loans on terms which may be more flexible and bear less heavily on the balance of payments than those established by the Bank for its ordinary operations; and

“(2) providing technical assistance credits on a reimbursable basis.

“(c) (1) The United States Special Resources may be expended by the Bank only for procurement in the United States of goods produced in, or services supplied from, the United States, except that the United States Governor, in consultation with the National Advisory Council on International Monetary and Financial Policies, may allow eligibility for procurement in other member countries from the United States Special Resources if he determines that such procurement eligibility would materially improve the ability of the Bank to carry out the objectives of its special funds resources and would be compatible with the international financial position of the United States.

“(2) The United States Special Resources may be used to pay for administrative expenses arising from the use of the United States Special Resources, but only to the extent such expenses are not covered from the Bank’s service fee or income from use of United States Special Resources.

“(d) All financing of programs and projects by the Bank from the United States Special Resources shall be repayable to the Bank by the borrowers in United States dollars.

“Sec. 14. (a) The letters of credit provided for in section 15 shall be issued to the Bank only to the extent that at the time of issuance the cumulative amount of the United States Special Resources provided to the Bank (A) constitute a minority of all special funds contributions to the Bank, and (B) are no greater than the largest cumulative contribution of any other single country contributing to the special funds of the Bank.

“(b) The United States Governor of the Bank shall give due regard to the principles of (A) utilizing all special funds resources on an equitable basis, and (B) significantly shared participation by other contributors in each special fund to which United States Special Resources are provided.

“Sec. 15. The United States Special Resources shall be provided to the Bank in the form of a nonnegotiable, noninterest-bearing, letter of credit which shall be payable to the Bank at par value on demand to meet the cost of eligible goods and services, and administrative costs authorized pursuant to section 13(c) of this Act.

“Sec. 16. The United States shall have the right to withdraw all or part of the United States Special Resources and any accrued resources derived therefrom under the procedures provided for in section 8.03 of the Special Funds Rules and Regulations of the Bank.

"SEC. 17. For the purpose of providing United States Special Resources to the Bank there is hereby authorized to be appropriated \$25,000,000 for fiscal year 1970, \$35,000,000 for fiscal year 1971, and \$40,000,000 for fiscal year 1972, all of which shall remain available until expended."

Chapter 2.—INTERNATIONAL MONETARY FUND

Sec.

21. Amendment of Bretton Woods Agreements Act.

22. Amendment of Special Drawing Rights Act.

§ 21. Amendment of Bretton Woods Agreements Act

The Bretton Woods Agreements Act (22 U.S.C. 286–286k–2) is amended by adding at the end thereof the following new sections:

"SEC. 22. (a) The United States Governor of the Fund is authorized to consent to an increase of \$1,540,000,000 in the quota of the United States in the Fund.

"(b) In order to pay the increase in the United States quota in the Fund provided for in this section, there is hereby authorized to be appropriated \$1,540,000,000, to remain available until expended.

"SEC. 23. (a) The United States Governor of the Bank is authorized (1) to vote for an increase of \$3,000,000,000 in the authorized capital stock of the Bank, and (2) if such increases becomes effective, to subscribe on behalf of the United States to two thousand four hundred and sixty-one additional shares of the capital stock of the Bank.

"(b) In order to pay for the increase in the United States subscription to the Bank provided for in this section, there is hereby authorized to be appropriated \$246,100,000 to remain available until expended."

§ 22. Amendment of Special Drawing Rights Act

Section 6 of the Special Drawing Rights Act (22 U.S.C. 286q) is amended to read as follows:

"SEC. 6. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to allocate in each basic period Special Drawing Rights under article XXIV, sections 2 and 3, of the Articles of Agreement of the Fund so that allocations to the United States in that period exceed an amount equal to the United States quota in the Fund as authorized under the Bretton Woods Agreements Act."

Chapter 3.—AUDIT OF EXCHANGE STABILIZATION FUND

Sec.

31. Annual report.

32. Audit by General Accounting Office.

§ 31. Annual report

The last sentence of section 10(a) of the Gold Reserve Act of 1934 (31 U.S.C. 822a(a)) is amended to read: "The Secretary of the Treasury shall annually make a report on the operations of the fund to the President and to the Congress."

§ 32. Audit by General Accounting Office

Section 10(b) of the Gold Reserve Act of 1934 (31 U.S.C. 822a(b)) is amended by striking "not be subject to review by any other officer of the United States." and inserting in lieu thereof the following: "conclusive upon all officers of the Government; except that the fund shall be audited by the General Accounting Office at such times and in such manner as the Comptroller General of the United States may by regulation prescribe. There shall be furnished to the Comptroller General such information regarding the powers, duties, activities, organization, financial transactions, and methods of business of the Exchange Stabilization Fund as he may from time to time require; and the Comptroller General or any of his representatives shall, for the purpose of securing this information, have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the United States Government that pertain to the operations and financial transactions of the fund and are necessary to facilitate the audit."

Chapter 4.—GOLD PURCHASES

Sec.

41. Gold purchases.

§ 41. Gold purchases

Section 3700 of the Revised Statutes (31 U.S.C. 734) is amended (1) by changing "SEC. 3700. With the approval of the President, the Secretary of the Treasury" to read "SEC. 3700. (a) Except as otherwise provided in this section, the Secretary

of the Treasury with the approval of the President", and (2) by adding at the end thereof the following new subsections:

"(b) The Secretary of the Treasury may not purchase gold from any country which has violated, is violating, or appears to him to be about to violate the March 17, 1968, two-tier gold agreement, as amended by the December 30, 1969, South African gold agreement, unless he determines that it is in the national interest of the United States to do so, and communicates that determination to the Congress no later than the date on which the purchase is to take place.

"(c) Whenever the Secretary of the Treasury has an option in the settlement of any debt due the United States, of receiving gold or Special Drawing Rights, he shall elect to receive Special Drawing Rights."

Chapter 5.—ECONOMIC AND SOCIAL POLICY OF INTERNATIONAL FINANCIAL INSTITUTIONS

Sec.

51. Declaration of policy.

52. Action of United States representatives.

53. Annual report.

§ 51. Declaration of policy

It is hereby declared to be the policy of the United States through participation in the International Bank for Reconstruction and Development, the International Development Association, the Inter-American Development Bank, and the Asian Development Bank.

To assist the people of the less developed countries in their efforts to develop their resources, and to increase their opportunity to participate in sharing in the benefits of economic development.

§ 52. Action of United States representatives

In the consideration of any project or program loan application presented for approval to the governing board of any such international financial institution, the United States representative shall exercise his voting rights in such a way as to maximize the achievement of the above policy.

§ 53. Annual report

The National Advisory Council on International Monetary and Financial Policies shall include in its annual report to the Congress a statement with respect to each such loan application, setting forth a description of the application, the position taken by the United States representative, and a discussion of how said loan application conforms with the above policy.

Mr. REUSS. Chapter I authorizes the United States to pledge a contribution to the Asian Development Bank of \$100 million to the Bank's Special Funds over a 3-year period. It would authorize the appropriation of \$25 million in the present fiscal year and \$35 million and \$40 million, respectively, in the next 2 fiscal years.

It should be noted that section 1(c)(1) provides for an untied procurement from the United States if approved by the U.S. Governor to the Bank, in consultation with the National Advisory Council.

The language contained in chapter 1 of H.R. 16891 concerning the Asian Development Bank is the language as submitted to the Congress by the administration. This is also true of chapter 2.

Chapter 2 of the bill H.R. 16891 authorizes the U.S. Governor of the International Monetary Fund to consent to an increase of \$1,540 million in the quota of the United States in the Fund. Of this amount, 25 percent is equivalent to a general increase and 4.8 percent is equivalent to a selective increase for the United States, taking account of our economic growth during the last 5 years relative to that of other countries.

In addition, the U.S. Governor to the IMF would be authorized by this legislation to vote for allocations of special drawing rights to the United States in any future basic period in an amount equal to the U.S. quota. This proposal follows the precedent of existing legislation which bases the limit on U.S. authority to vote for SDR allocations to the United States upon the size of the U.S. quota in the Fund.

The proposed IMF legislation authorizing the appropriation of \$1,540 million would be payable 25 percent in gold and the remainder in the form of a dollar letter of credit.

Chapter 2 also provides authority for the U.S. Governor to the International Bank for Reconstruction and Development to vote for an increase of \$3 billion in the authorized capital of the Bank and a U.S. contribution thereto of \$246,100,000. Of this amount, 10 percent of the subscription must be paid in, with the remaining 90 percent callable to meet obligations of the Bank.

Chapter 3 of H.R. 16891, if enacted, provides for an audit of the Exchange Stabilization Fund. This Fund, amounting to more than \$2 billion, was created as a result of the Gold Reserve Act of 1934 and has, since that time, been exempt from audit by the General Accounting Office. Expenditures like the purchase of a \$150,000 home in Tokyo, and \$5.6 million in "administrative expenses" in fiscal year 1969, are not audited by the Comptroller General.

Chapter 3 provides for an annual report of the operations of the fund to the President and the Congress and directs the General Accounting Office to annually audit the funds.

In this regard I would like to quote from a letter received by the Chairman of the House Committee on Banking and Currency, the Honorable Wright Patman, from the Comptroller General of the United States, the Honorable Elmer B. Staats, dated April 28, 1967, in which Mr. Staats states as follows:

In a report to the Congress entitled "Purchase of a Residence in Tokyo for Financial Attaché From Exchange Stabilization Fund," B-15406, dated June 28, 1965, we advised that the Secretary of the Treasury had made a broad interpretation of what constitutes "purpose of stabilizing the exchange value of the dollar." As an example, we reported that the Treasury Department used moneys from the fund to purchase a one-family residence in Tokyo, Japan, at a price of \$150,000 for occupancy by the financial attaché stationed there. Because of the Secretary's broad authority under section 10 of the Gold Reserve Act of 1934, he was able to purchase the property without subjecting his proposal to the scrutiny of Congress which approves the acquisition of property overseas for most civilian agencies through Department of State appropriations. Also, we advised that Treasury has used this broad authority to finance activities from the fund, some of which are only slightly related to the stabilization of the exchange value of the dollar. Such activities, not now subject to the traditional budgetary, appropriation, and audit processes, embrace the functions of the Assistant Secretary for International Affairs, the Office of Foreign Assets Control, and the Office of International Tax Affairs, along with elements of the Office of General Counsel and the Office of Administrative Services. Some of these activities were not in existence and possibly not contemplated when the fund was created in 1934. Therefore, it appears that the Secretary of the Treasury has such broad authority under the Gold Reserve Act of 1934 that he may authorize any expenditure from the fund without subjecting his decisions to review by congressional appropriation committees, the Bureau of the Budget, or the General Accounting Office acting as an arm of the Congress if he asserts that such expenditures are related to and necessary for carrying out the purpose of the act. In fiscal year 1966 expenses totaling \$5.4 million were charged to the fund.

It should be noted that under the act an annual audit of the fund is required and a report thereof submitted to the President and the Congress. See 31 U.S.C. 822(a). However, such audit is made by Treasury employees designated by the Secretary and, the Secretary restricts the scope of the audit to a determination of whether expenditures have been authorized or approved by him or persons acting pursuant to his authority.

Insofar as we have been able to determine, no independent audit of the fund has been made since it was created 30 years ago. However, independent reviews of many other activities administered by the Secretary of the Treasury have been made which have been beneficial and have been instrumental in revising practices to achieve economies and operating efficiency of the Department. We believe that it would be desirable to have the fund made subject to an independent audit

which would provide the Congress with an independent opinion of whether the activities of the fund are being carried out in an efficient and economical manner, and whether the expenditures incurred are in furtherance of the objectives of the Gold Reserve Act of 1934.

Chapter 4 prohibits the Secretary of the Treasury from purchasing gold from any country which has violated, is violating, or appears to him to be about to violate the March 1968 IMF two-tier gold agreement, as amended in 1969, unless he determines that it is in the national interest violators should not benefit from U.S. gold price support.

This chapter also directs the Secretary, when he has the option in the settlement of any debt due the United States, to elect to receive special drawing rights in balancing our international credits and debits.

The United States is likely to be presented requests for dollars by countries which, because of balance-of-payments deficits, need such holdings in order to support their currencies. If the country requesting the dollars offers, without option to the United States, gold or SDR's, the United States must take what is offered. But, if the country, as is possible, gives the United States the option to choose either SDR's or gold, this language makes it clear that the United States would be happy to accept SDR's (both up to its compulsory three-times quota level, and beyond). Such a willingness by the United States would indicate we are more interested in enhancing the acceptability of SDR's than in supporting the price of gold at the expense of acquiring excessive amounts of gold. Some months ago, for example, the Federal Republic of Germany, needing dollars because of its payments position, forced \$500 million of gold on the United States. Had the SDR program been in existence at the time, and had the Federal Republic of Germany offered us the option of accepting gold or SDR's, we would have been better off receiving interest-bearing SDR's than gold.

Chapter 5 of H.R. 16891 sets forth a policy directive to the U.S. Governors of all international financial institutions in which the United States participates to follow a policy that will maximize assistance to the people of the less developed countries.

This will insure that loans to developing countries for such projects as irrigation works, or sugar or meat production facilities, shall to the maximum extent redound to the benefit of the average citizen of the developing country, consistent with sound financial policies and consistent with the Articles of Agreement establishing the institution.

This chapter also requires an annual report of each loan application submitted for a vote in which the U.S. Representative participates, indicating in such report the position taken by the Representative, and a discussion of how each such loan application conforms with the above policy. Such a report is necessary if the members of the House Committee on Banking and Currency are to satisfy other Members of Congress that we are currently informed as to the disposition made of U.S. taxpayers' dollars.

I ask unanimous consent that the special reports of the National Advisory Council on International Monetary and Financial Policies, dated January 1970 with respect to the Asian Development Bank, and March 1970 with respect to the IMF and the IBRD, may be made part of the record.

(The documents referred to follow:)

NATIONAL ADVISORY COUNCIL
on International Monetary
and Financial Policies

SPECIAL REPORT

to the President
and to the Congress

ON THE PROPOSED U. S. CONTRIBUTION TO
THE CONSOLIDATED SPECIAL FUNDS
OF
THE ASIAN DEVELOPMENT BANK

January 1970

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REPORT OF THE NATIONAL ADVISORY COUNCIL
ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES
ON PROPOSED U. S. CONTRIBUTION TO THE CONSOLIDATED SPECIAL FUNDS
OF THE ASIAN DEVELOPMENT BANK

I. SUMMARY OF PROPOSAL AND RECOMMENDATIONS

In his foreign aid message to the Congress on May 28, 1969, President Nixon announced his intention to submit to the Congress a new proposal for a United States contribution to the Special Funds of the Asian Development Bank. In that connection the President said:

"I am convinced that a fairly-shared Special Fund, to enable the Bank to provide concessional financing for priority needs, is a necessary supplement to the Bank's ordinary lending facilities. The United States should join with other donor countries in establishing this Special Fund, and strengthen the Bank so that it can better deal with Asia's current development problems and future needs."

The National Advisory Council has examined the progress of the Asian Development Bank over its first three years in operation. The Council has also carefully considered the need for concessional lending in Asia, the potential role of the Asian Development Bank in marshalling resources from various sources to finance such lending, and the question of the United States joining with other donor countries in contributing to the Special Funds of the Asian Development Bank for the purpose of financing such lending. Secretary of the Treasury David M. Kennedy, in his capacity as the United States Governor of the Bank, participated in the Second Annual Meeting of the Board of Governors in Sydney, Australia, in April 1969. His consultation with the officers and other Governors of the Bank led to the formulation of a new modified proposal for United States participation in the Special Funds of the Bank. This Report discusses that proposal.

If the Asian Development Bank is to play an effective role in the peaceful development of Asia, it must have the facilities and resources to provide financing on concessional

as well as conventional terms. The process of economic development requires the financing of infrastructure and other long term projects on easier terms and at lower interest rates than those available from the Bank's ordinary resources. Moreover, a number of the Bank's developing country members are not economically capable of relying primarily on debt repayable on conventional terms to meet their development requirements. To meet this need the Articles of Agreement Establishing the Asian Development Bank empower the Bank to establish and accept for administration Special Funds with which to carry on such concessional financing. The Bank has established the "Consolidated Special Funds of the Asian Development Bank" and has accepted contributions to those Special Funds. Four members have offered to contribute a total of \$128.1 million to the Bank's Consolidated Special Funds; to date \$53.1 million has been made available. In addition the Bank has set aside approximately \$14.5 million from its paid-in ordinary capital for Special Funds purposes.

The proposal outlined in this report would authorize the U. S. Governor to enter into an agreement to contribute \$100 million over a three-year period as the United States' share of contributions to the Bank's Special Funds. The U. S. contribution would constitute a minority share of all contributions and would not be the largest single contribution to the Special Funds. It would be used for loans on concessional terms to meet the priority development financing needs of the developing member countries, with emphasis on projects and programs in Southeast Asia. It would take account of the U. S. balance of payments position. Other features of the proposal would assure that the use of the contribution would be consistent with the multilateral nature of the Special Funds and the objectives of the Bank, to which the United States has already subscribed. The first year's appropriation would be limited to \$25 million for FY 1970. Appropriations of \$35 million and \$40 million for FY 1971 and FY 1972, respectively, are proposed.

This proposal represents a modification of the earlier proposal described in the NAC Report dated September 26, 1967, for a U. S. contribution to the Special Funds of the Asian Development Bank. There are three important changes in the present proposal:

(a) The amount has been changed to \$100 million over three years, from \$200 million over a four-year period in the earlier proposal.

(b) The arrangements for sharing the burden and assuring maximum donor contributions have been modified by the introduction of the requirement that the U. S. contribution will not be the largest single contribution.

(c) The terms and conditions for use of the U. S. contribution would be clearly defined to assure that the funds would revolve and would be used in an appropriate multilateral fashion -- e.g. the funds would be used only for loans and not for grants; in any Special Fund to which our contribution is allocated there would be significantly shared participation by other donors; due regard would be given to the principle of utilizing contributions from all sources on an equitable basis.

In other important respects, features contained in the earlier proposal have been retained -- for example, the emphasis on use of the U. S. contribution in Southeast Asia

The National Advisory Council has carefully considered the present proposal from the standpoint of United States financial and economic objectives in support of the economic development of the countries of Asia. This new proposal is entirely consistent with those objectives. In the Council's view, the proposed United States contribution to the Special Funds of the Asian Development Bank is particularly timely. Like our subscription to the ordinary capital of the Bank, it will further United States interests in promoting expanded cooperation among regional and other interested countries in a multilateral effort to accelerate the economic and social progress of the developing nations of Asia. The Council considers that the Asian Development Bank is well designed to formulate and execute such programs.

The Council believes that an affirmative United States response to the initiative taken by those countries which have already contributed to the Bank's Special Funds is required to encourage other donors to participate in providing concessional aid in Asia -- a region which heretofore has relied predominantly on the United States for assistance. It will demonstrate the United States' strong interest in the peaceful development of Asia and will strengthen the Bank as a multilateral regional institution capable of dealing with current and future development problems in Asia. Therefore, the Council strongly recommends passage of legislation to authorize a United States contribution to the Special Funds of the Asian Development Bank.

II. BACKGROUND

A. Establishment and Membership of the Asian Development Bank

The Asian Development Bank is a regional institution which was established to finance economic development projects and programs in and among the developing countries of Asia. It has now completed its third full year in operation. The Bank's Articles of Agreement came into force on August 22, 1966. The Inaugural Board of Governors Meeting was held in Tokyo, November 24-26, 1966. The first Board of Directors meeting was held at the Bank's headquarters in Manila, and the Bank was declared open for business on December 19, 1966. The first Annual Meeting of the Board of Governors was held in Manila, April 4-6, 1968, and the Second Annual Meeting was held in Sydney, Australia, April 10-12, 1969.

The formation of the Asian Development Bank is the most important single development of the past several years in terms of Asian regional cooperation. The Bank was organized as the direct result of Asian initiative. It climaxed a sequence of events which began with the First Ministerial Conference on Asian Economic Cooperation (confined to regional members of ECAFE) at Manila in December 1963. That Conference recommended establishment of such a bank and set up an Expert Working Group to draw up proposals. The 21st Plenary Session of the United Nations Economic Commission for Asia and the Far East (ECAFE) at Wellington in March 1965 appointed a Consultative Committee representing 9 Asian countries to draw up a draft charter. The subsequent decision of the United States to become a member of a properly conceived Asian Development Bank was decisive in assuring that the Bank would receive major support from outside the region.

The Preparatory Committee on the Asian Development Bank, which was attended by 31 countries (21 ECAFE members and

10 non-members), met at Bangkok, Thailand, from October 21 to November 1, 1965, and drew up draft Articles of Agreement Establishing the Asian Development Bank. The Articles were adopted by the Second Ministerial Conference on Asian Economic Cooperation, which met at Manila, November 29-December 1, 1965, and Manila was chosen as the seat of the Bank. At the Conference of Plenipotentiaries on the Asian Development Bank in Manila, December 2-4, 1965, twenty-two countries signed the Articles and nine more signed in January 1966. In March 1966, the Congress authorized U. S. membership in the Bank. The Articles of Agreement came into force on August 22, 1966, upon ratification by 16 countries, including the United States.

The Bank has 33 members; 20 members are regional, including three developed countries -- Japan, Australia and New Zealand; 13 are developed non-regional countries, including the United States, Canada and 11 European countries. Membership is open to members and associate members of ECAFE and to other regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies.

Table 1 shows the members and their subscriptions:

Table 1 -- ASIAN DEVELOPMENT BANK

Subscriptions to Capital Stock
(in millions of U. S. dollars)

<u>Regional Countries</u>		<u>Non-Regional Countries</u>	
Country	Amount of Subscription	Country	Amount of Subscription
Afghanistan	4.78	Austria	5.00
Australia	85.00	Belgium	5.00
Cambodia	3.50	Canada	25.00
Ceylon	8.52	Denmark	5.00
China, Republic of	16.00	Finland	5.00
Hong Kong	8.00	Germany, Federal	
India	93.00	Republic of	34.00
Indonesia	25.00	Italy	20.00
Japan	200.00	Netherlands	11.00
Korea, Republic of	30.00	Norway	5.00
Laos	0.42	Sweden	5.00
Malaysia	20.00	Switzerland	5.00
Nepal	2.16	United Kingdom	30.00
New Zealand	22.56	United States	200.00
Pakistan	32.00		355.00
Philippines	35.00		
Republic of Viet-			
Nam	12.00		
Singapore	5.00		
Thailand	20.00		
Western Samoa	0.06		
	<u>623.00</u>		
		TOTAL	<u>978.00</u>

B. Capitalization

The authorized capital of the Bank is \$1.1 billion. Of this amount \$978 million has been subscribed, \$623 million by the regional members (including \$200 million by Japan) and \$355 million by the non-regional members (including \$200 million by the United States). Thus, in addition to supplying the impetus for establishing the Bank, the regional members have subscribed 63.7 percent of the Bank's capital.

Half of each member's subscription consists of paid-in shares; the remaining half consists of callable capital to provide backing for future borrowings of the Bank. The paid-in shares are payable in five equal annual installments.^{1/} Half of the paid-in subscriptions must be paid in gold or convertible currency and half may be paid in the national currency of the member in the form of non-negotiable, non-interest-bearing demand obligations which may be drawn when required for the Bank's operations. Of the \$489 million of subscribed paid-in shares, \$388.5 million had been paid by December 31, 1969, and \$100.5 million was not yet due. All members are current in subscription payments.

C. U. S. Membership

The Asian Development Bank Act (P.L. 89-369) of March 16, 1966, authorized U. S. membership in the Bank and authorized the appropriation of the \$200 million U. S. subscription (20.45 percent of the subscribed capital).

The callable portion of the United States subscription (\$100 million) was fully subscribed (no cash payment being required) concurrent with the payment of the first installment on paid-in capital in August 1966. Four of the five installments on the \$100 million of United States paid-in shares have been paid, half in cash and half in non-interest-bearing letters of credit. Thus, to date, the United States has paid a total of \$40 million in cash on its paid-in subscription to the ordinary capital of the Bank and \$40 million in the form of non-interest-bearing letters of credit. The final installment will fall due in August 1970.

^{1/} The paid-in portion of Hong Kong's subscription is payable in four equal annual installments beginning March 27, 1969, the date of Hong Kong's membership.

D. Borrowing by the Bank

The Asian Development Bank has authority to add to its ordinary capital resources by borrowing against its callable capital. Borrowing through the flotation of securities in the private capital market is expected to be the Bank's primary means of increasing its resources for lending from ordinary capital. The Bank's terms for loans from these resources will of necessity reflect the cost of the Bank's borrowings. The callable portion of the subscribed capital constitutes a contingent liability of the subscribing countries which can be called only on a pro-rata basis, and only to the extent necessary to meet obligations of the Bank incurred on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources.

The Bank entered the international capital market September 10, 1969, with the sale of its first bond issue in the Federal Republic of Germany -- DM 60 million (\$15 million) Deutsche Mark Bonds of 1969, bearing interest at 7 per cent per annum, to be redeemed in 10 equal annual installments from September 1, 1975, to September 1, 1984. The bonds were sold to an international syndicate led by the Deutsche Bank, A.G., and were offered to the public at 97 1/2 per cent. The issue was oversubscribed. The bonds are listed on the stock exchanges in Frankfurt am Main, Dusseldorf and Vienna.

The Bank has no present plans for raising capital in the United States. Before selling securities in the territory of a country the Bank must obtain that country's approval.

The Bank may also add to its lendable resources by selling portions of loans from its portfolio. The Bank has sold more than \$3 million of early maturities of loans from its portfolio to over 20 commercial banks in 6 countries.

E. Management and Voting

Each member country is represented on the Bank's Board of Governors by one Governor and one Alternate Governor. The U. S. Governor is the Secretary of the Treasury. The Board of Directors consists of ten members, seven of whom are elected by the Governors representing the regional member countries, and three of whom are elected by the Governors representing the non-regional member countries. The Directors are elected for two-year terms. The U.S., Japan, Australia and India are each represented by a Director and Alternate Director. Each of the other six Directors represents a group of member countries. At the Inaugural Meeting of the Board of Governors, Mr. Takeshi Watanabe of Japan was elected the first President of the Bank for a term of five years. Mr. C. S. Krishna Moorthi of India is Vice President.

As in the other international financial institutions of which the United States is a member, a system of weighted voting is in effect in the Asian Development Bank. Twenty percent of the total votes are distributed equally among the members, the remaining eighty percent being distributed on the basis of the size of the members' subscriptions. On the basis of present subscriptions the United States and Japan each has 16.97 percent of the total vote. The developed country members together hold 63.90 percent of the vote. Table 2 shows the distribution of voting rights in the Bank compared to capital subscriptions:

Table 2 -- ASIAN DEVELOPMENT BANK

Subscription to Capital Stock & Voting Power

<u>Members</u>	<u>Subscribed</u>		<u>Total Votes</u>	<u>% Dist. of Total Voting Rights</u>
	<u>Par Value (in Thousand US\$)</u>	<u>% of Total</u>		
<u>REGIONAL:</u>				
Afghanistan	4,780	.49	1,218	1.00
Australia	85,000	8.69	9,240	7.56
Cambodia	3,500	.36	1,090	.89
Ceylon	8,520	.87	1,592	1.30
China, Republic of	16,000	1.64	2,340	1.91
HongKong	8,000	.82	1,540	1.26
India	93,000	9.51	10,040	8.22
Indonesia	25,000	2.56	3,240	2.65
Japan	200,000	20.45	20,740	16.97
Korea, Republic of	30,000	3.07	3,740	3.06
Laos	420	.04	782	.64
Malaysia	20,000	2.04	3,740	2.24
Nepal	2,160	.22	956	.78
New Zealand	22,560	2.31	2,996	2.45
Pakistan	32,000	3.27	3,940	3.22
Philippines	35,000	3.58	4,240	3.47
Singapore	5,000	.51	1,240	1.01
Thailand	20,000	2.04	2,740	2.24
Viet-Nam, Republic of	12,000	1.22	1,940	1.59
Western Samoa	60	.01	746	.61
Total Regional	623,000	63.70	77,100	63.08
<u>NON-REGIONAL:</u>				
Austria	5,000	.51	1,240	1.01
Belgium	5,000	.51	1,240	1.01
Canada	25,000	2.56	3,240	2.65
Denmark	5,000	.51	1,240	1.01
Finland	5,000	.51	1,240	1.01
Germany	34,000	3.48	4,140	3.39
Italy	20,000	2.04	2,740	2.24
Netherlands	11,000	1.13	1,840	1.51
Norway	5,000	.51	1,240	1.01
Sweden	5,000	.51	1,240	1.01
Switzerland	5,000	.51	1,240	1.01
United Kingdom	30,000	3.07	3,740	3.06
United States	200,000	20.45	20,740	16.97
Total Non-Regional	355,000	36.30	45,120	36.92
GRAND TOTAL	978,000	100.00	122,220	100.00

F. The Bank's Operations to Date

The Asian Development Bank, now in operation three years, is still young, but it has already demonstrated that it is a sound financial institution. It has acquired a competent staff, developed its basic operating policies and procedures, and surveyed the problems of the developing countries of the region. Although still in the preparatory phase it was ready to start lending operations by 1968. In the first part of that year, the Bank made its first loan from ordinary capital -- the equivalent of \$5 million to the Industrial Finance Corporation of Thailand to finance foreign exchange components of loans to the private sector. During the last half of calendar 1968 the Bank made six more loans totalling \$36.6 million.

By December 31, 1969, the Bank had approved 21 loans from Ordinary Capital, totaling \$117.695 million, to Ceylon, China, Korea, Malaysia, Pakistan, Philippines, Singapore and Thailand.^{2/} They include loans to industrial development banks in Pakistan, Philippines, Singapore and Thailand, for highways in China and Korea, tea factory modernization in Ceylon, a water supply system and palm oil mills in Malaysia, a petrochemical plant and fishing vessels in China, and cold storage and marketing facilities for fish and transport and stevedoring facilities in Korea.

The Bank's current rate of interest for loans from ordinary capital is 6-7/8 percent per annum. In addition, the Bank levies a commitment charge of 3/4 of 1 percent on the unwithdrawn portions of its loans. The average maturity of loans from ordinary capital has been about 14 years and has ranged from 12 to 15 years for industrial projects. The longest maturity, 25 years, was for Malaysian port development. The proceeds of loans from Ordinary Capital are to be used for procurement in member countries of goods and services produced in member countries.

^{2/} On June 17, 1969, the Bank made its first loan from Special Funds -- \$990,000 to Indonesia for the Tadjum Irrigation Project in Central Java. (See Section IIID below.)

In recognition of the need of its developing country members for assistance other than capital financing, the Bank has emphasized technical assistance. The Bank may charge the costs of grant technical assistance to net income or, during the first five years of the Bank's existence, may use up to 2 percent of unimpaired paid-in capital for this purpose. To date all technical assistance financed from the Bank's resources has been budgeted against income, none being drawn from capital. The Bank's resources for technical assistance have been supplemented by contributions from member countries, which are accounted for as a part of the Bank's Special Fund for Technical Assistance. The Bank has provided technical assistance missions to prepare feasibility studies and detailed reports for possible future Bank loans, as well as advisory and operational technical assistance missions not directly related to future Bank loans.

The Bank has provided technical assistance to Indonesia in food production and distribution, irrigation, and in rural credit. It has advised and assisted Korea in agriculture and fishery; Laos in agricultural development; Afghanistan in irrigation; Nepal in agricultural development banking and air transport development; Ceylon in fisheries and land development; the Philippines in fisheries port construction and water management; China with a highway feasibility study and engineering; Thailand in rural development; Viet-Nam with respect to development financing institutions; Western Samoa in airport and road construction; and is contributing to a regional research center in vegetable production located in the Republic of China. These projects have been financed both from the Bank's Ordinary Capital resources and from special contributed resources.

The Bank has published the results of its Asian Agricultural Survey, which is generally considered to have added much to knowledge and understanding of the problems of Asian agriculture, and which promises to contribute significantly to its modernization. As a follow-up to this Survey the Bank held an Agricultural Seminar attended by Asian and other officials and experts at the time of its Second Annual Meeting. The Bank has also undertaken a major survey of transport needs in the region, as well as a study of the Economy of Southeast Asia in the 1970s.

As of December 31, 1969, the Bank's assets (Ordinary Capital) totalled \$485.5 million, as compared to \$316 million at the end of 1968. Its net income from ordinary operations during 1969 was \$5.5 million, as compared to \$3.5 million for 1968. The following are the Asian Development Bank's Balance Sheet as of December 31, 1969, and Comparative Statement of Income and Expense for the years ending December 31, 1968 and 1969.

ASIAN DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES

BALANCE SHEET

December 31, 1969

Expressed in United States Dollars

A S S E T S

CASH IN BANKS
Member currencies

INVESTMENTS

Government and government-guaranteed obligations - amortized cost

Maturities not exceeding one year

(Face amount \$40,138,649)

Maturities over one year

(Face amount \$34,697,684)

Time deposits and other assets of deposit

Maturities not exceeding one year

Maturities over one year

Accrued interest

DEMAND OBLIGATIONS OF MEMBERS

Non-negotiable, non-interest-bearing obligations in member currencies

OTHER AMOUNTS RECEIVABLE

FROM MEMBERS

Amount required to maintain value of currency holdings

EFFECTIVE LOANS

Held by Bank

Agreed to be sold

UNAMORTIZED FUNDED DEBT ISSUANCE EXPENSES

OTHER ASSETS

SPECIAL RESERVE FUND ASSETS (Note F)

Cash

Accrued loan commissions

STAFF RETIREMENT PLAN ASSETS

(Especially and held in trust) (Note F)

TOTAL

LIABILITIES, RESERVE, AND CAPITAL

LIABILITIES

Accounts payable

Accrued interest on funded debt

Undersubscribed balance of effective loans

Held by Bank

Agreed to be sold

Funded debt

SPECIAL RESERVE

STAFF RETIREMENT PLAN RESERVE

CAPITAL

Capital stock

Subscribed (87,500 shares)

Less "callable" shares subscribed (87,500 shares)

Less "callable" shares subscribed (87,500 shares)

Less subscription installments matured

Capital authorized to be set aside

Capital for special operations

Ordinary reserves

Net income for the year ended

December 31, 1969 (to be allocated by the Board of Governors)

TOTAL

ASIAN DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
COMPARATIVE STATEMENT OF INCOME AND EXPENSES
For the Years Ended December 31, 1968 and December 31, 1969
Expressed in United States Dollars

	1 9 6 8	1 9 6 9
INCOME		
From investments	\$7,123,644	\$12,372,250
From loan operations		
Interest	12,477	237,550
Commissions	2,124	40,434
Commitment charge	18,727	233,122
From other sources	19,619	96,457
GROSS INCOME	<u>\$7,176,591</u>	<u>\$12,979,813</u>
Deduct commissions appropriated to		
Special Reserve	2,124	40,434
UNAPPROPRIATED GROSS INCOME	<u>\$7,174,467</u>	<u>\$12,939,379</u>
EXPENSES		
Administrative expenses		
Board of Governors	\$ 35,599	\$ 64,892
Board of Directors		
Salaries	\$ 381,052	\$ 440,517
Benefits	67,197	84,772
Travel	88,414	150,897
Staff services	40,367	48,763
Total Board of Directors	<u>\$ 577,030</u>	<u>\$ 724,949</u>
Staff		
Salaries	\$1,369,996	\$ 2,351,370
Benefits	384,513	658,262
Travel	441,386	779,356
Representation	24,754	44,849
Consultants	136,528	159,194
Total Staff	<u>\$2,357,177</u>	<u>\$ 3,993,031</u>
Other administrative expenses		
Communications	\$ 103,425	\$ 163,686
Office occupancy	29,252	63,860
Publications and printing	79,015	105,133
Expendable supplies	74,901	129,168
Furniture and equipment	84,664	160,476
Fees and compensation	102,265	154,613
Miscellaneous	121,864	92,790
Total other administrative expenses	<u>\$ 595,386</u>	<u>\$ 869,726</u>
Total administrative expenses	<u>\$3,565,192</u>	<u>\$ 5,652,598</u>
Services to member countries		
Project preparation and other loan-related		
technical assistance	\$ 46,391	\$ 666,243
Advisory missions and other technical assistance	80,093	319,919
Regional Transport Survey	-	399,604
Asian Agricultural Survey Follow-up Seminars	-	33,470
Other regional services	-	22,341
Total services to member countries	<u>\$ 126,484</u>	<u>\$ 1,441,577</u>
Financial expenses		
Interest on funded debt	\$ -	\$ 317,757
Funded debt issuance and other financial expenses	-	23,545
Total financial expenses	<u>\$ -</u>	<u>\$ 341,302</u>
GROSS EXPENSES	<u>\$3,691,676</u>	<u>\$ 7,435,477</u>
NET INCOME	<u>\$3,482,791</u>	<u>\$ 5,503,902</u>

III. STATUS OF SPECIAL FUNDS OF THE ASIAN DEVELOPMENT BANK

A. Authority for ADB Administration of Special Funds

From the outset the Asian Development Bank was designed to be a financial institution that would have at its disposal resources for lending on both standard and concessional terms; i.e., it would have an "ordinary" operations and a "special" operations window. The Bank's Articles of Agreement endow it with the necessary powers to accept and administer funds with which to carry on special financing operations.

Article 19 authorizes the establishment of Special Funds through (1) the setting aside (by a vote of 2/3 of the Governors representing 3/4 of the total vote of the members) of up to 10 per cent of the Bank's unimpaired paid-in capital, and (2) the acceptance from contributors of Special Funds for administration by the Bank.

Article 20 defines "Special Funds resources" as including set-aside resources, contributed resources, repayment of loans from Special Fund resources, and income from Special Fund operations. 3/

In September 1968, as required by Article 19, the Board of Directors of the Bank adopted Rules and Regulations for the handling of Special Funds. They establish the "Consolidated Special Funds of the Asian Development Bank", which consist of an Agricultural Special Fund, a Technical Assistance Special Fund, a Multi-Purpose Special Fund, and "such other Special Fund or Funds as may be established or accepted by the Bank from time to time". Contributions may be accepted from any country eligible for membership in the Bank. These Rules and Regulations set forth the basic framework for handling the Special Funds of the Bank, and make possible contributions on terms agreed between the Bank and the contributors.

3/ Articles 9 and 10 draw the distinction between Ordinary Capital resources and Special Fund resources and prescribe that these types of resources "shall at all times and in all respects be held, used and committed, invested, or otherwise disposed of entirely separate from each other."

B. Contributions to Special Funds

Canada, Denmark, Japan and the Netherlands have offered to contribute a total of \$128.1 million to the Bank's Consolidated Special Funds. In accordance with Article 19, paragraphs 1(ii) and 3 of the Bank's Articles of Agreement, agreements have been concluded with Japan, Canada, Denmark and the Netherlands, under which \$53.1 million has so far been made available to the Bank. All these contributions, except that of Denmark, are in the form of grants with residual rights.

(1) Japan. At the Bank's First Annual Meeting in April 1968, Japan offered to contribute the equivalent of \$100 million to the Bank's Special Funds. To date a total of \$40 million has been made available to the Bank.

In December 1968, Japan agreed to contribute \$20 million to the Consolidated Special Funds of the Bank to be allocated to the Agricultural Special Fund to be used for loans to finance agricultural development, including forestry, fisheries and agriculturally related industries, principally in Southeast Asia. That contribution is to be used for procurement in Japan of Japanese goods and services, for administrative expenses and, in exceptional cases, for local currency costs.

In November 1969, Japan made a second \$20 million contribution to the Consolidated Special Funds. This contribution is allocated to the Multi-Purpose Special Fund and, unlike the previous contribution, may be used for procurement in the territories of developed member countries which contribute to the Bank's Consolidated Special Funds (except the Technical Assistance Special Fund) and in developing country members of the Bank. The repayments and income from both Japanese contributions may be used for procurement in the territories of all members of the Bank or of any non-member contributors to the Bank's Special Funds.

(2) Canada. At the Bank's First Annual Meeting, Canada pledged a contribution of \$25 million over five years to the Bank's Special Funds. On December 23, 1968, the Bank and Canada concluded an agreement providing for Canada's contribution of \$25 million in five equal annual installments. The first two installments became available in Canadian fiscal years beginning April 1, 1968 and 1969, respectively. This contribution is to the Bank's Multi-Purpose Special Fund and is to be used for concessional financing of projects and programs which the Bank determines to be of high developmental priority. These funds are to be used to finance procurement of Canadian goods and services to the extent "defined from time to time" by Canada, as well as for administrative costs.

(3) Denmark. At the Bank's First Annual Meeting, Denmark offered to contribute \$2 million to the Agricultural Special Fund. On April 1, 1969, the Bank and Denmark concluded an agreement providing for a \$2 million contribution to the Agricultural Special Fund in the form of a non-interest-bearing loan. The contribution is to be used by the Bank for concessional lending, and is to be used for procurement in Denmark of goods produced in Denmark, or to meet expenses for the administration of these funds.

(4) Netherlands. At the Bank's First Annual Meeting the Netherlands offered to contribute \$1.1 million to the Agricultural Special Fund. On May 8, 1969, the Bank and the Netherlands concluded an agreement covering this contribution to be used mainly in Southeast Asia for concessional lending. The contribution is untied insofar as procurement from developing member countries is concerned; as to the developed members of the Bank, it may be used for procurement in those countries which have made contributions on procurement conditions not less liberal than that of the Netherlands. Local costs may be financed in special cases only, to be agreed upon between the Netherlands and the Bank, but not to exceed 20% of the total amount used for the project concerned. The Government of the Netherlands has indicated that this is the first of a number of yearly contributions that the Netherlands intends to make available to the Bank's Special Funds.

(5) Technical Assistance Contributions. To date the Bank has received technical assistance grants from Canada, Denmark, Finland, Germany, Japan, the United Kingdom, and the United States.

(a) Canada made a \$100,000 contribution to the Technical Assistance Special Fund in November 1968. Utilization of the contribution is restricted to Canadian procurement. By September 30, 1969, about \$80,000 had been drawn and used by the Bank.

(b) Denmark made a \$300,000 contribution to the Technical Assistance Special Fund in January 1969. Seventy-five per cent of the contribution is restricted to Danish procurement.

(c) Finland made a formal offer of technical assistance to the Bank in January 1969. The offer specifies no fixed sum, but Finland agrees to consider requests for Finnish technical experts. By September 30, 1969, the Bank had made use of \$7,000.

(d) Germany made a formal offer of technical assistance to the Bank in February 1968. The offer specifies no fixed sum, but Germany has made available about \$40,000 for German technical experts, of which over \$22,000 had been drawn down by the Bank by September 30, 1969.

(e) Japan contributed \$131,278 in 1968 and \$200,000 in June 1969 to the Technical Assistance Special Fund. Utilization of these contributions is tied to Japanese procurement. By September 30, 1969, the Bank had drawn over \$200,000 and expended about \$170,000 of this contribution.

(f) The United Kingdom made a formal offer of technical assistance to the Bank in 1967. The offer specified no fixed sum, but in order to enable the Bank to plan its requests, the United Kingdom indicated that it would consider requests up to \$250,000 for British consultant or specialist services. By September 30, 1969, the Bank had used about \$45,000 of this contribution.

(g) The United States made a technical assistance contribution to the Bank of \$250,000 in June 1967. As of September 30, 1969, \$202,781 of this contribution had been utilized for such purposes as internal management consulting services, library materials, project appraisal missions, project preparation and other loan related technical assistance, and advisory missions on such subjects as agricultural productivity, rural credit, water management, and development financing techniques. In May 1969, the United States also agreed to contribute \$1 million to the Technical Assistance Special Fund to help finance a transport survey in the Southeast Asian region. The total cost of the survey is estimated to be \$2.5 to \$3 million and the balance of the financing is expected to come from the United Nations Development Program and from the Bank's own resources. These contributions are financed from AID funds in accordance with Section 5(c) of the Asian Development Bank Act and are restricted to procurement of U. S. goods and services.

C. ADB Ordinary Capital Set-Aside for Special Funds

Pursuant to Article 19, paragraph 1(i) of the Bank's Articles of Agreement, the Board of Governors of the Bank, at its Second Annual Meeting in April 1969, set aside for Special Fund operations 10 per cent of the convertible currency portion of the paid-in capital which had been paid by members as of that date (\$14.575 million). These funds were allocated to the Multi-Purpose Special Fund to finance special operations of the Bank in accordance with the Bank's Articles of Agreement and its Special Funds Rules and Regulations.

D. First Loans from ADB Special Funds

On June 17, 1969, the Asian Development Bank made its first loan from Special Funds resources. By the end of December 1969, the Bank had made six loans from its Special Funds resources totalling \$22.005 million -- to Indonesia, Ceylon, Nepal, the Philippines and Western Samoa for irrigation, land development, highway and air transport development projects.

IV. ANALYSIS OF THE PROPOSAL

A. Summary

The proposal to be submitted to the Congress would permit the United States to participate, together with other donors, in providing Special Fund resources to the Asian Development Bank. It would enable the Bank to provide financing for high priority development programs and projects in Asia on concessional terms where necessary, to supplement the conventional development financing which the Bank may now provide from its Ordinary Capital resources.

This is a carefully formulated, prudent and realistic proposal:

- It is responsive to the demonstrated priority developmental needs of the Asian region and to the initiatives already taken, both by the Asian Development Bank and by Asian and non-Asian countries, to meet them.

- It is geared to the needs and capabilities of the Bank and will strengthen the Bank as an effective Asian multilateral institution to deal with the current and future development problems of the region.

- It is designed to encourage other donors to contribute to the economic development of Asia -- an area heretofore predominantly dependent on the United States for assistance.

- It further demonstrates the strong interest of the U. S. in the peaceful development of Asia.

- It constitutes another example of U. S. support for a constructive multilateral approach to economic development.

- It takes fully into account the financial and fiscal problems of the United States.

The proposed legislation would authorize the U. S. Governor to conclude an agreement with the Asian Development Bank providing for a U. S. contribution to the Bank's Special Funds of \$100 million to be made available in three annual installments, and would authorize the appropriation of that amount over a period of three years. The first year's appropriation would be limited to \$25 million for FY 1970, with appropriations of \$35 million and \$40 million, respectively, for FY 1971 and FY 1972. (The size and form of the U. S. contribution are discussed in Sections B and C below.)

The proposed legislation sets forth the terms and conditions under which the U. S. contribution can be used. These provisions are designed to assure that the funds are used properly and effectively to achieve the development purposes intended, and are aimed primarily at two objectives:

1. There must be assurance of appropriate sharing of the burden among the contributors to the Special Funds. Accordingly, the legislation stipulates that the U. S. contribution would constitute a minority share of the total contributions by all donor countries contributing to the Special Funds, and that the U. S. contribution would not be the largest single contribution to the Bank's Special Funds.

2. There must be assurance of the appropriate use of the funds on a multilateral basis. To achieve that end the bill provides;

that in the Bank's Special Funds operations due regard should be given to the principle of utilizing contributions available from all sources on an equitable basis;

that in any Special Fund for which our contribution is used there would be significant participation by other donors;

that the funds could be used for loans repayable in dollars and not for grants;

that the Bank would lend the funds on concess-
sionary repayment terms;

that, in general, the U. S. contribution would be
governed by the Bank's Articles of Agreement and
its Rules and Regulations governing Special Funds;

that in the event of dissolution of the Bank's
Special Funds or a U. S. decision to withdraw
from the Fund, the U. S. would have a claim on
the Funds' assets.

Further the legislation provides that the U. S. contri-
bution would be used for the procurement of U. S. goods and
services, but permits the U. S. Governor of the Bank to allow
procurement in other member countries if he, in consultation
with the National Advisory Council, determines that such pro-
curement would materially improve the Bank's ability to carry
out the objectives of its Special Funds operations and would
be compatible with the international financial position of
the United States. The legislation also provides for the
possibility that the U. S. contribution would be used for a
limited amount of administrative expenses.

To assure that the Special Fund resources are applied to
the highest priority development needs of the countries of the
region, the Bank should be permitted a high degree of flexibility
in the determination of the functional areas to which contribu-
ted resources should be allocated. The Council believes that
contributors to the Bank's Special Funds should avoid specify-
ing too narrowly the functional utilization of their contribu-
tions. Therefore, within the burden-sharing requirements out-
lined in Section D below, it is intended that the United States
contribution be allocated mainly to the Bank's Multi-Purpose
Special Fund, where the contribution will be available for a
variety of purposes as determined by the Bank. It is also intend-
ed that there be emphasis on the use of the U. S. contribution
in Southeast Asia, although use in other areas would not be
precluded.

By its participation as a member of the Bank, the
United States has recognized that its national interests
would be served by a multilateral effort to accelerate the
economic and social progress of the developing nations of

Asia, that such progress can best be advanced by the continued and expanded cooperation of regional and other interested countries, and that the Asian Development Bank is well designed to formulate and execute such cooperative programs. The Council believes that U. S. participation at this time in the Bank's Special Funds, as proposed in this Report, will provide needed impetus to expand the Bank's effective role in this important effort.

B. Size of Proposed U. S. Contribution

The United States contribution to the Special Funds of the Asian Development Bank should represent our fair share of total contributions to the Bank's resources for concessional lending over the next few years, in relation to the contributions of other donors. Developments over the past year with respect to pledges and contributions to the Special Funds, as well as the Bank's own lending and other activities, form the basis for a realistic appraisal of what would constitute a reasonable and appropriate U. S. contribution to the Special Funds.

The Bank's loans from Ordinary Capital reached a total of \$117.695 million by December 31, 1969. President Watanabe has stated that he expects the Bank's rate of lending to increase thereafter. These loans have been made to the relatively more affluent of the Bank's developing country members. Although it is not possible to estimate the precise requirements of the poorer member countries for concessional lending from the Bank over the next few years, it is reasonable to assume that they may approach the current rate of the Bank's ordinary lending.

The Council considers it fundamental to assure the multilateral nature of the Bank's operations that the United States contribution constitute a minority share of the total resources contributed to the Special Funds. Moreover, to maintain the truly Asian character of the Bank, the Council also believes that the U. S. contribution should not exceed that of the largest Asian contributor, namely Japan -- as with subscriptions to the Bank's Ordinary Capital.

To date four members (Japan, Canada, Denmark and the Netherlands) have offered to contribute a total of \$128.1 million to the Consolidated Special Funds of the Asian Development Bank. Japan has offered a total of \$100 million, of which \$40 million has been made available. Japan is expected to make the balance of \$60 million available to the Bank within the next three Japanese fiscal years (ending March 31, 1973). We hope that Japan may in fact increase this annual rate of contributions. Canada has offered a total of \$25 million in installments of \$5 million each year from the fiscal year beginning April 1, 1968. Denmark and the Netherlands have made available \$2 million and \$1.1 million respectively. The actions of other donors have been based to some degree on the expectation that the U. S. and other countries will contribute. It is reasonable to expect that additional resources will be contributed over the next few years. Thus, legislation authorizing the United States to contribute a total of \$100 million to the Bank's Special Funds over the next three years would place the United States in a position to contribute its fair share of total prospective contributions to the Special Funds.

Of the total contributions offered to date, \$25 million (\$20 million from Japan and \$5 million from Canada) became available to the Bank during the year ended March 31, 1969. Under agreements currently in force between the Bank and donor countries, an additional \$28.1 million (\$20 million from Japan, \$5 million from Canada, \$2 million from Denmark and \$1.1 million from the Netherlands) has become available to the Bank during the current year. This brings the total contributed resources now available to the Bank's Special Funds to \$53.1 million. The present proposal to limit the first appropriation for the U. S. contribution to \$25 million for FY 1970, with appropriations of \$35 million and \$40 million, respectively, for the next two fiscal years anticipates prospective increases in the availability of resources from Japan and the other donors.

The Council believes that, with the safeguards included in the present proposal, the proposed schedule of appropriations is prudent and reasonable and in keeping with the maintenance of a fair apportionment of contributions to the Bank's Special Funds, and will help to encourage maximum contributions from other donors.

C. Form and Timing of U. S. Contributions

It is planned to seek three annual appropriations to cover the total United States contribution to the Bank's Special Funds. The first year's appropriation would be limited to \$25 million for FY 1970, with subsequent appropriations of \$35 million and \$40 million for FY 1971 and FY 1972, respectively.

As is the case with other similar international financial institutions, United States contributions to the Special Funds of the Asian Development Bank will be in the form of letters of credit and not cash payments. These letters of credit would be drawn on only when cash is required for project disbursements. The letters of credit would only be issued to the extent that contributions made available by other contributing countries meet the conditions of the United States' contribution, as described in this report.

D. Multilateral Nature of Special Funds

This proposal for U. S. participation in the Asian Development Bank's Special Fund operations is in response to initiatives already taken for cooperation in support of concessional lending by the Bank. Contributions to the Bank's Special Funds have already been made by other members of the Bank -- Canada, Denmark, Japan and the Netherlands -- in anticipation of significant United States participation. It is unlikely that contributions from other advanced countries will be forthcoming in the absence of U. S. participation.

The United States response should clearly show its intention to participate in the developmental efforts of the Asian countries and, at the same time, be designed to generate additional contributions by other advanced countries which may not otherwise be willing to participate in concessional lending in Asia.

The Asian Development Bank has already shown itself to be a successful vehicle for encouraging participation in the tasks of economic development in Asia by both regional and nonregional developed countries. Canada and eleven Western European countries are members of the Bank, in addition to the United States, Japan, Australia, and New Zealand.

There is no doubt that the decision of the United States to become a member of the Bank was decisive in assuring major support and membership by other countries outside the region. One of our main objectives is to generate an increasing participation by other advanced countries in support of Asian economic development. Our contribution will be crucial to the attainment of this objective. The Council believes that the most promising means of accomplishing this objective is to link our contribution to the performance of other donors.

Our contribution would be placed only in those Special Funds to which other donors make significant contributions. In this way we would avoid the possibility of establishing within the Asian Development Bank any Special Fund which, in effect, would constitute a wholly United States-financed program.

As stated in Section A above, the United States would express a clear preference for the use of the Multi-Purpose Special Fund to finance the Bank's concessional lending in the hope of discouraging the proliferation of many single-purpose Funds.

We would also ensure in our arrangements with the Bank that contributions from all sources would be utilized on an equitable basis -- so that all contributions would be fully used.

The Council believes that the inclusion of these provisions in our arrangements with the Bank will permit the Congress to be assured that other donors will contribute a substantial and equitable share of the financing for the Bank's concessional lending operations, thereby increasing their total contribution to the development of the Asian region.

Table 3 shows the official bilateral aid to less developed members of the Asian Development Bank by developed members:

Table 3 -- ASIAN DEVELOPMENT BANK
OFFICIAL NET BILATERAL AID TO DEVELOPING MEMBERS OF ASIAN DEVELOPMENT BANK BY DEVELOPED MEMBERS
OF ASIAN DEVELOPMENT BANK, 1967 ^{a/}
(US \$Millions)

	Australia	Austria	Belgium	Canada	Denmark	Germany	Italy	Japan	Nether- lands	Norway	Sweden	Switz- erland	United Kingdom	United States	Total	U.S.% of total
Afghanistan	\$.04			\$.03	\$.01	\$ 9.45	\$.07	\$.09	-	-	\$.04	\$.01	\$.75	\$ 25.00	\$ 35.54	70.3%
Cambodia	.34			.17		.61		.81	-	-		.01			1.94	0
Ceylon	1.02	.03		7.60		9.90	-1.4	2.40	-	.04	.26	.26	11.02	13.00	45.39	28.6%
China (Taiwan)	.01		.02	1.36		.42	1.42	30.71	-	-		.01		47.00	80.95	58.1%
Hong Kong		.01		.05		.08	.01	.04	-	-			.98	1.00	2.17	46.1%
India ^{b/}	21.88	4.65	1.61	93.42	3.65	55.18	8.39	40.27	6.75	1.08	4.06	.71	74.28	827.00	1142.93	72.4%
Indonesia	4.25	-1.17	.01	.50		45.36	5.99	12.93	18.70	-		.03	1.93	41.00	229.53	17.9%
Korea (South)	1.17		.03	.07	.42	12.82	-6.2	53.64	-	.29			1.23	195.00	263.34	74.0%
Leos	1.01		.02	.27		.42		3.24	-	-			4.36	58.00	67.32	86.2%
Malaysia	2.70	.22	.02	2.20		4.13		.59	-				8.97	3.00	21.89	14.0%
Nepal	.08			.01		.40		.07	-		.07	.31	1.14	11.00	13.08	84.1%
Pakistan/ Philippines	1.37	.05	.55	29.29	.25	27.49	6.85	26.44	3.68	-	3.82	.04	27.22	299.00	426.05	53.7%
Singapore	.25		.01	.57		4.19	.13	61.54	-	-			.35	33.00	98.90	33.4%
Thailand	.69		.06	.71	.02	.12	.05	.41	-	-			4.64	-	6.70	0
Viet-Nam (South)	3.60	.24	.05	.85	.09	9.38	-0.7	4.11	-	.03			.02	.71	43.00	61.7%
Western Samoa	2.75		.04	1.09		1.35		.50	-	-	.08	.22	.60	448.00	453.63	98.8%
Totals	40.24	3.16	2.42	137.05	4.44	181.50	22.08	336.79	29.13	1.44	8.62	1.62	138.19	2,044.00	2,950.68	69.3%

a. Includes: Net official grants, grant-like flows (net), repatriation and indemnification payments and net official lending.

b. Including disbursements for Indus Basin Development Fund.
Source: DAC Geographical Distribution of Financial Flows to Developing Countries
Disbursements Data for 1966 and 1967.

NOTE: No comparable data for Finland and New Zealand available.

E. Special Funds and the U. S. Balance of Payments

The present proposal takes account of our balance of payments and also provides sufficient flexibility to permit procurement outside the U. S. in the future should the U. S. Governor in consultation with the Council so desire.

It is intended that at least the first installment of the U. S. contribution to the Special Funds be limited to procurement of U. S. goods and services -- as is the case with the initial contribution of Japan and Canada. In the case of each of the subsequent installments, the Council would review the situation for the purpose of advising the U. S. Governor of the Bank whether the procurement limitation should be continued or whether an increase in member countries eligible as sources of procurement from these installments should be made. In this review consideration would be given to whether widening the area for eligibility for procurement would materially further the development objectives of the Bank, including the flow of similarly unred contributions from other donors to the Bank's Special Funds. The Council also would consider whether such a move would be compatible with the international financial position of the United States.

The U. S. contribution would be used only to meet foreign exchange costs of Bank projects (and possibly a limited amount of administrative expense). The Council does not contemplate its use to finance local costs.

Japan tied its first \$20 million contribution to procurement of Japanese goods and services, but opened its second \$20 million contribution to procurement in all developing country members of the Bank and in those developed country members which have contributed to the Special Funds (except the Technical Assistance Special Fund). The Netherlands contribution may be used for procurement in the developing country members of the Bank and in other donor countries whose contributions are on procurement conditions no less liberal than the Netherlands'. Canada and Denmark have tied their contributions to procurement of their own goods and services.

F. Administration of Special Funds

As is the case with the Bank's ordinary operations and with the other international financial institutions to which the United States subscribes, the United States' influence on Bank decisions regarding the Special Funds will be exercised mainly through its representative on the Board of Directors. In addition, the U.S.

contribution agreement will contain the terms and conditions of the U.S. contribution, and will establish procedures for consultation with the Bank regarding the contribution.

As required by the Bank's Articles of Agreement, the Bank's Management has drawn up the Rules and Regulations for the establishment, administration and use of the Bank's Special Funds. These Rules and Regulations have been approved by the Board of Directors and reviewed by the Board of Governors and constitute the guidelines for the Bank's handling of its Special Fund resources. They were based on the general principle that the Bank's Management must be responsible for the administration of the Special Funds. At the same time, however, it was recognized that countries contributing to the Special Funds may have particular criteria which they may wish to attach to the use of their contribution. Therefore, the Rules and Regulations permit the Bank and each donor country to agree, at the time a contribution is made, on provisions which reflect the special interests and concerns of the donor. Such conditions must, of course, be consistent with the purposes of the Bank, and should not be so restrictive as to impair the effective utilization and vitiate the multilateral character of the Special Funds.

In general the President and the staff of the Bank exercise the same powers and responsibilities with respect to the Bank's Special Funds as in the management of the Bank's ordinary operations, including the selection of projects for submission to the Directors for approval and their implementation following approval.

The Council believes that the interests of the United States as a donor to the Special Funds will be well protected both through its representation in the governing bodies of the Bank and by the terms of its contribution agreement with the Bank.

G. Administrative Costs

The Bank's Special Funds Rules and Regulations provide that administrative expenses appertaining directly to Special Fund operations will be charged, first, to the accrued resources from the service fees assessed on outstanding amounts of loans from Special Fund resources. Any balance would be charged, first, to income arising from the resources which financed the operation and, second, to the principal of such resources. Therefore, during the early stages of Special

Fund operations, pending the accrual of service fees and income it may be necessary for pertinent administrative costs to be paid from the United States contribution. The proposed legislation will specify that the U.S. contribution may be used to defray expenses arising from the use of its contribution only to the extent that such expenses are not paid from service fees and income derived from use of the U. S. contribution.

H. The Need for Concessional Lending by the ADB

Without adequate Special Funds resources the Asian Development Bank is not in a position to assist all of its developing country members or to finance those long-term projects and programs which are essential to the economic growth of the region but which do not yield immediate financial returns.

The average per capital GNP of the 17 developing country members of the Bank (including Hong Kong) is less than \$190. Of these countries, 13 have a per capita GNP of \$180 or less^{4/}-- well below the level of \$300 which presently marks eligibility for IDA financing.

A large number of the developing country members of the Bank have not yet reached an adequate level of development to be in a position to borrow and service significant loans under the terms applied to the Bank's loans from Ordinary Capital. Of the 21 loans from Ordinary Capital the Bank has negotiated to date, most have gone to the relatively richer developing country members. In contrast, the Bank's non-reimbursable technical assistance, and its Special Funds loans have gone to the poorer developing country members.

To serve the purpose for which it was founded, the Asian Development Bank must be in a position to offer financial assistance on softer terms than those permitted for loans from its Ordinary Capital resources. Otherwise, the Bank will not be capable of contributing to the development of those members which are most in need of assistance from the Bank. Those

^{4/} Afghanistan, Cambodia, Ceylon, India, Indonesia, Republic of Korea, Laos, Nepal, Pakistan, the Philippines, Thailand, Republic of Viet-Nam, Western Samoa.

countries (e.g., Afghanistan, Cambodia, Ceylon, Laos, Indonesia, Nepal, Republic of Viet-Nam, Western Samoa) will have few, if any, projects qualified for financing from the Bank's Ordinary Capital. Before reaching a sufficiently high stage of development to productively absorb large sums of capital on conventional terms, these countries need extensive study and technical assistance to determine their most productive investment possibilities. In addition, they need investments in basic infrastructure, such as roads, water supply, education, agriculture, etc., to support the development of market-type economies. This type of investment involves long-term pay-out, and, in many cases, generates essential social and economic benefits the costs of which cannot be allocated within the traditional commercial system.

Only if means can be found to assist these countries on concessional terms can they move toward attainment of a level of self-sustaining growth. As they approach that stage they can increasingly rely on conventional financing from such sources as the Bank's Ordinary Capital.

The Republics of China and Korea, both members of the Bank, are good examples of Asian countries which have benefitted from concessional financing of the type envisaged for the Special Funds of the Asian Development Bank. Less than two decades ago both countries suffered the same relative level of poverty as the poorer countries of South and Southeast Asia. Benefitting from concessional assistance both China and Korea have experienced high rates of economic growth in recent years. U.S. bilateral economic assistance was terminated in China in 1965 and has been sharply reduced in Korea. Neither country is now rich, but both have reached a level of self-sustaining growth that can be maintained without large amounts of concessional financing, and both are now in a position to assist, primarily through technical assistance, their less-affluent neighbors.

This is the objective of the Special Funds operations of the Asian Development Bank -- to help raise its poorer members to a level of self-sustaining growth through investment in projects and programs which are essential to development. This has long been the objective of United States foreign

assistance programs. The Council believes that U. S. participation in the Bank's Special Funds operations will accelerate progress toward the attainment of this common goal.

The Council wishes to emphasize that it considers the Special Funds of the Asian Development Bank to be "special" only with respect to the high priority developmental projects and programs they support and the easier terms of repayment on which they are made available to borrowers. In all other respects the Council expects the Bank's Special Funds lending operations to be carried out under the same rigorous criteria for project selection and procedures for project implementation as are applied to the Bank's Ordinary Capital lending. These criteria are set forth in the Bank's Special Operations Loan Regulations. The Bank's Special Operations Loan Regulations differ importantly from its Ordinary Operations Loan Regulations only in the following regards: no commitment charge is assessed against the unwithdrawn portions of an outstanding loan; a service fee is charged; no premium is charged on prepayments; and the 1 percent commission normally included in interest charges on loans from Ordinary Capital resources is not charged on loans from Special Funds resources.

Table 4 shows selected economic indicators of the less developed members of the Asian Development Bank:

TABLE 4 -- ASIAN DEVELOPMENT BANK

Selected Economic Indicators of Less Developed Country Members
of Asian Development Bank
(\$ millions)

	Population (millions)	GNP per capita	Gross Reserves	Total Imports	Imports from U. S.	Financial Assistance from International Institutions			
	a/ a/	a/ a/	b/ b/	c/ c/	c/ c/	IBRD d/ d/	IFC d/ d/	IDA d/ d/	ADB e/ e/
Afghanistan	15.6	\$ 70	\$ 37	\$ 63.9	\$ 9.9	-	\$ -	\$ 8.50	\$ -
Cambodia	6.4	130	f/	95.7	3.9	-	-	-	-
Ceylon	11.7	160	51	357.8	22.1	46.21	-	6.90	2.00
China	13.1	250	381	801.6	248.4	177.97	-	13.08	20.60
Hong Kong	3.8	620	f/	1,819.0	245.2	-	-	-	-
India	511.1	90	682	2,691.3	1,027.7	-	39.33	1,037.62	-
Indonesia	110.1	100	f/	672.2	75.2	-	-	51.00	-
Korea	29.8	160	409	996.3	305.2	70.00	2.41	43.29	21.30
Laos	2.8	90	f/	37.2	9.2	-	-	-	-
Malaysia	10.1	290	515	701.7	54.1	222.7	6.50	-	10.00
Nepal	10.5	70	65	37.8	1.5	-	-	378.43	-
Pakistan	120.0	90	252	1,098.9	361.1	614.24	28.00	-	10.00
Philippines	34.7	180	161	1,171.8	402.3	158.21	16.36	-	5.00
Singapore	2.0	600	f/	746.7	72.0	98.24	-	-	10.00
Thailand	32.7	130	1,021	1,059.0	176.4	311.86	22.57	-	5.00
Vietnam	17.0	120	279	537.9	174.2	-	-	-	-
Western Samoa	.1	130	f/	f/	f/	-	-	-	-

a/ Source: World Bank Atlas of Per Capita Product and Population, September 1969.

b/ Data for December 31, 1968. Source: IMF International Financial Statistics.

c/ Data for 1967. Source: IMF Direction of Trade, Annual 1963-67.

d/ Source: Annual Reports 1969.

e/ Approved loans from Ordinary Capital as of September 30, 1969; excludes \$990,000 Special Funds loan to Indonesia June 1969.

f/ Not Available.

I. Geographic Emphasis

Basically any developing country member is eligible to receive loans or other assistance from the Bank's Special Funds resources. However, the Special Funds Rules and Regulations permit a donor country to provide that the Bank give emphasis in the utilization of its contribution to particular functional or geographical uses which are consistent with the purposes of the Bank.

With respect to the United States contribution, it is proposed that emphasis be given to the financing of projects and programs in Southeast Asia. It would not be our intention, however, to preclude the use of a portion of the United States contribution to finance high priority needs in small member countries outside Southeast Asia -- e.g., Afghanistan, Ceylon and Nepal. In endorsing this proposal the Council is cognizant of the fact that the Bank's Special Funds Rules and Regulations require the Bank to pay due regard to the ability of a prospective borrower to obtain other financing on reasonable terms and conditions.

J. Projects and Programs To Be Financed

The Management and Board of Directors of the Asian Development Bank will be responsible for the selection of the projects and programs to be financed from the Special Funds. The Bank's decision as to the qualification of a given project for financing from Special Funds resources rather than from the Bank's ordinary resources will be based on the Bank's evaluation of the general economic condition of the borrowing country, including its balance-of-payments position and capacity to service additional long-term external debt, and the estimated internal rate of return on the project itself.

Potential projects for Special Funds financing will emerge through the initiative of the potential recipient with the help of technical assistance by the Bank itself, by other international institutions or by individual countries through their bilateral programs. Often countries which are in great need of concessional development financing are those which most need help in the identification of sound projects and in the preparation of loan applications. Technical assistance projects already underway are expected to yield developmental projects suitable for Special Funds financing.

An example of this type of project development is the Bank's first loan from Special Funds resources -- \$990,000 to Indonesia for the Tadjum Irrigation Project in Central Java, which is expected to increase rice production in a small and populous farming area by 16,000 tons a year. The Bank previously financed two technical assistance missions to Indonesia in the field of food production. This project emerged as one of the results of the broad range of advice given to the Indonesian Government regarding its agricultural needs and the steps which should be taken to meet them; additional agricultural projects are expected to grow out of the Bank's technical advice to Indonesia.

Additional projects in agriculture and other fields are expected to emerge as the result of the technical assistance activities of the Bank as well as of individual donor countries. For example, the United States is financing a number of feasibility studies of transport projects in Southeast Asia. A number of other industrial countries are also providing technical assistance in the region which may produce acceptable project proposals. Among the current technical assistance activities are projects in Nepal, Laos, Philippines and Western Samoa in the fields of transport, agriculture and water development, which are likely to generate applications for loans from Special Funds resources.

In considering and preparing high priority developmental projects the Bank may also build upon the work of other multilateral groups and organizations. For example, as a result of the December 1966 request by the Conference on Southeast Asian Agricultural Development that the Bank consider the establishment of a Special Agricultural Fund, the Bank undertook, completed and published the Asian Agricultural Survey -- a comprehensive study of the needs, problems, opportunities and priorities for agricultural development in Asia. In April 1969 the Bank sponsored a Regional Agricultural Seminar, attended by high level officials and experts from member countries and from other institutions, to explore ways of making the best possible use of the Survey to promote agricultural

development in the region. Thus, the Bank's work in increasing knowledge and awareness of the needs and problems of Asian agricultural development promises to result in a number of agriculture-related development programs and projects, many of which are expected to be appropriate for Special Funds financing.

Another example of the Bank's cooperation with other Asian groups is its decision to undertake a comprehensive survey of transport needs in the region at the request of 8 Southeast Asian countries. This will be a survey of all transport modes in the region. It is expected that, in addition to outlining recommended action programs which should be followed by the countries, the Survey may recommend construction projects, a number of which (e.g. roads and port development) are expected to qualify for Special Funds financing.

The Bank may also be expected to cooperate with interested countries and international agencies in financing projects which may emerge over the years in the development of the Lower Mekong River Basin. The Bank's involvement in Mekong River development is expected to be through financial participation on a project by project basis, where such projects are of priority in the development programs of the riparian countries and appropriate for Special Funds financing. By the nature of the potential projects, as well as the general economic condition of the Mekong riparian countries, such projects may be expected to qualify for Special Fund financing.

In summary, the Council expects that a large proportion of the programs and projects financed from the Asian Development Bank's Special Funds resources will be in the field of agricultural development, water resources development and transportation -- all of which are essential to the economic development of Asia.

V. LEGISLATIVE ACTION REQUIRED

Under the provisions of Section 5 of the Asian Development Bank Act (PL 89-369) the enactment by the Congress of specific legislation is required to authorize a United States contribution to the Special Funds of the Asian Development Bank. Such legislation is desirable at this time to enable the United States to join other donors in providing resources to the Bank's Consolidated Special Funds to permit the Bank to provide concessional financing for high priority developmental programs and projects, to supplement the conventional development financing now available from the Bank's ordinary capital resources.

Draft legislation authorizing a U.S. contribution of \$100 million over a period of three years is being submitted to the Congress. This proposed legislation would authorize the United States Governor to enter into an agreement with the Bank providing for a United States contribution to the Bank's Consolidated Special Funds of \$100 million payable in three annual installments of \$25 million, \$35 million and \$40 million, beginning in fiscal year 1970. It would also authorize the appropriation for this purpose of \$25 million in FY 1970, \$35 million in FY 1971, and \$40 million in FY 1972, all to remain available until expended.

The draft legislation would require that the United States contribution constitute a minority share of all contributions to the Bank's Special Funds and not be the largest single contribution; be allocated only to Funds in which there is significant participation by other donors; and be used for loans on concessional terms -- not grants. The draft legislation would provide that the U. S. contribution be used to finance procurement of U. S. goods and services, except that the U. S. Governor, in consultation with the Council, may allow procurement in other member countries if he determines that such procurement would materially improve the Bank's ability to carry out its objectives and would be compatible with the U. S. international financial position. The draft legislation would also require that measures be taken to assure the equitable utilization of contributions from all sources and would provide that upon dissolution of, or United States withdrawal from, the Bank's Special Funds, the United States would have a claim on a pro-rata share of the assets of the contributed Special Fund resources.

VI. CONCLUSION

The National Advisory Council has carefully examined this new proposal for a United States contribution to the Consolidated Special Funds of the Asian Development Bank of \$100 million over a period of three years. The Council's examination of this proposal has taken into account the progress and activities of the Asian Development Bank over its first three years in operation, the United States interests in the peaceful development of the countries of Asia, the need for concessional financing in Asia, the current and potential role of the Asian Development Bank in marshalling resources for such lending, the current and prospective contributions of other donors to the Bank's Consolidated Special Funds, and the financial and fiscal problems of the United States.

The Council has concluded that a United States contribution at this time to the Asian Development Bank's Consolidated Special Funds, under the provisions of the present proposal, would serve the national interests of the United States. The Council considers this to be a carefully formulated, prudent and realistic proposal. It is responsive to the developmental needs of the Asian region and to the initiatives already taken to meet them. It is designed to fit the Bank's capabilities and will strengthen the Bank as an effective Asian multilateral development financing institution. It will encourage other donors to contribute to the development of Asia. It is an example of effective utilization of the multilateral approach in economic development. It takes account of our fiscal and financial problems. In the light of these conclusions, the National Advisory Council strongly recommends enactment of the necessary legislation to permit a United States contribution of \$100 million over a period of three years to the Consolidated Special Funds of the Asian Development Bank.

ASIAN DEVELOPMENT BANK ACT

Text of Public Law 89-369, 89th Congress, approved March 16, 1966

AN ACT To provide for the participation of the United States in the Asian Development Bank

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Asian Development Bank Act".

ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the Asian Development Bank (hereinafter referred to as the "Bank") provided for by the agreement establishing the Bank (hereinafter referred to as the "agreement") deposited in the archives of the United Nations.

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a Governor of the Bank, an alternate for the Governor, and a Director of the Bank.

(b) No person shall be entitled to receive any salary or other compensation from the United States for services as a Governor or Alternate Governor. The Director may, in the discretion of the President, receive such compensation, allowances, and other benefits as, together with those received by him from the Bank, will equal those authorized for a Chief of Mission, class 2, within the meaning of the Foreign Service Act of 1946, as amended.

SEC. 4. (a) The policies and operations of the representatives of the United States on the Bank shall be coordinated with other United States policies in such manner as the President shall direct.

(b) An annual report with respect to United States participation in the Bank shall be submitted to the Congress by such agency or officer as the President shall designate.

SEC. 5. Unless the Congress by law authorizes such action, neither the President nor any person or agency shall, on behalf of the United States, (a) subscribe to additional shares of stock of the Bank; (b) vote for or agree to any amendment of the agreement which increases the obligations of the United States, or which would change the purpose or functions of the Bank; or (c) make a loan or provide other financing to the Bank, except that funds for technical assistance not to exceed \$1,000,000 in any one year may be provided to the Bank by a United States agency created pursuant to an Act of Congress which is authorized by law to provide funds to international organizations.

DEPOSITORIES

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

PAYMENT OF SUBSCRIPTIONS

SEC. 7. (a) There is hereby authorized to be appropriated, without fiscal year limitation, for the purchase of twenty thousand shares of capital stock of the Bank, \$200,000,000.

(b) Any payment made to the United States by the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

JURISDICTION AND VENUE OF ACTIONS

SEC. 8. For the purpose of any civil action which may be brought within the United States, its territories or possessions, or the Commonwealth of Puerto Rico, by or

against the Bank in accordance with the agreement, the Bank shall be deemed to be an inhabitant of the Federal judicial district in which its principal office or agency in the United States is located, and any such action to which the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States, including the courts enumerated in title 28, section 460, United States Code, shall have original jurisdiction of any such action. When the Bank is a defendant in any action in a State court, it may, at any time before the trial thereof, remove such action into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

STATUS, IMMUNITIES, AND PRIVILEGES

SEC. 9. The agreement, and particularly articles 49 through 56, shall have full force and effect in the United States, its territories and possessions, and the Commonwealth of Puerto Rico, upon acceptance of membership by the United States in, and the establishment of, the Bank. The President, at the time of deposit of the instrument of acceptance of membership by the United States in the Bank, shall also deposit a declaration that the United States retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to its citizens or nationals.

SECURITIES ISSUED BY BANK AS INVESTMENT SECURITIES FOR NATIONAL BANKS

SEC. 10. The last sentence of paragraph 7 of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by striking the word "or" after the words "International Bank for Reconstruction and Development" and inserting a comma in lieu thereof, and by inserting after the words "the Inter-American Development Bank" the words "or the Asian Development Bank".

SECURITIES ISSUED BY BANK AS EXEMPT SECURITIES; REPORT FILED WITH SECURITIES AND EXCHANGE COMMISSION

SEC. 11. (a) Any securities issued by the Bank (including any guarantee by the Bank, whether or not limited in scope) in connection with raising of funds for inclusion in the Bank's ordinary capital resources as defined in article 7 of the agreement and any securities guaranteed by the Bank as to both principal and interest to which the commitment in article 6, section 5, of the agreement is expressly applicable, shall be deemed to be exempt securities within the meaning of paragraph (a) (2) of section 3 of the Act of May 27, 1933, as amended (15 U.S.C. 77c), and paragraph (a) (12) of section 3 of the Act of June 6, 1934, as amended (15 U.S.C. 78c). The Bank shall file with the Securities and Exchange Commission such annual and other reports with regard to such securities as the Commission shall determine to be appropriate in view of the special character of the Bank and its operations and necessary in the public interest or for the protection of investors.

(b) The Securities and Exchange Commission, acting in consultation with such agency or officer as the President shall designate, is authorized to suspend the provisions of subsection (a) at any time as to any or all securities issued or guaranteed by the Bank during the period of such suspension. The Commission shall include in its annual reports to Congress such information as it shall deem advisable with regard to the operations and effect of this section and in connection therewith shall include any views submitted for such purpose by any association of dealers registered with the Commission.

AGREEMENT ESTABLISHING THE ASIAN DEVELOPMENT BANK

THE CONTRACTING PARTIES

CONSIDERING the importance of closer economic co-operation as a means for achieving the most efficient utilization of resources and for accelerating the economic development of Asia and the Far East;

REALIZING the significance of making additional development financing available for the region by mobilizing such funds and other resources from within and outside the region, and by seeking to create and foster conditions conducive to increased domestic savings and greater flow of development funds into the region;

RECOGNIZING the desirability of promoting the harmonious growth of the economies of the region and the expansion of external trade of member countries;

CONVINCED that the establishment of a financial institution that is Asian in its basic character would serve these ends;

HAVE AGREED to establish hereby the Asian Development Bank (hereinafter called the "Bank") which shall operate in accordance with the following

ARTICLES OF AGREEMENT

CHAPTER I

PURPOSE, FUNCTIONS AND MEMBERSHIP

Article 1 PURPOSE

The purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually. Wherever used in this Agreement, the terms "region of Asia and the Far East" and "region" shall comprise the territories of Asia and the Far East included in the Terms of Reference of the United Nations Economic Commission for Asia and the Far East.

Article 2 FUNCTIONS

To fulfil its purpose, the Bank shall have the following functions:

- (i) to promote investment in the region of public and private capital for development purposes;
- (ii) to utilize the resources at its disposal for financing development of the developing member countries in the region, giving priority to those regional, sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole, and having special regard to the needs of the smaller or less developed member countries in the region;
- (iii) to meet requests from members in the region to assist them in the co-ordination of their development policies and plans with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their foreign trade, in particular, intra-regional trade;

(iv) to provide technical assistance for the preparation, financing and execution of development projects and programmes, including the formulation of specific project proposals;

(v) to co-operate, in such manner as the Bank may deem appropriate, within the terms of this Agreement, with the United Nations, its organs and subsidiary bodies including, in particular, the Economic Commission for Asia and the Far East, and with public international organizations and other international institutions, as well as national entities whether public or private, which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance; and

(vi) to undertake such other activities and provide such other services as may advance its purpose.

Article 3 MEMBERSHIP

1. Membership in the Bank shall be open to: (i) members and associate members of the United Nations Economic Commission for Asia and the Far East; and (ii) other regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies.

2. Countries eligible for membership under paragraph 1 of this Article which do not become members in accordance with Article 64 of this Agreement may be admitted, under such terms and conditions as the Bank may determine, to membership in the Bank upon the affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

3. In the case of associate members of the United Nations Economic Commission for Asia and the Far East which are not responsible for the conduct of their international relations, application for membership in the Bank shall be presented by the member of the Bank responsible for the international relations of the applicant and accompanied by an undertaking by such member that, until the applicant itself assumes such responsibility, the member shall be responsible for all obligations that may be incurred by the applicant by reason of admission to membership in the Bank and enjoyment of the benefits of such membership. "Country" as used in this Agreement shall include a territory which is an associate member of the United Nations Economic Commission for Asia and the Far East.

CHAPTER II CAPITAL

Article 4 AUTHORIZED CAPITAL

1. The authorized capital stock of the Bank shall be one billion dollars (\$1,000,000,000) in terms of United States dollars of the weight and fineness in effect on 31 January 1966. The dollar wherever referred to in this Agreement shall be understood as being a United States dollar of the above value. The authorized capital stock shall be divided into one hundred thousand (100,000) shares having a par value of ten thousand

dollars (\$10,000) each, which shall be available for subscription only by members in accordance with the provisions of Article 5 of this Agreement.

2. The original authorized capital stock shall be divided into paid-in shares and callable shares. Shares having an aggregate par value of five hundred million dollars (\$500,000,000) shall be paid-in shares, and shares having an aggregate par value of five hundred million dollars (\$500,000,000) shall be callable shares.

3. The authorized capital stock of the Bank may be increased by the Board of Governors, at such time and under such terms and conditions as it may deem advisable, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

Article 5 SUBSCRIPTION OF SHARES

1. Each member shall subscribe to shares of the capital stock of the Bank. Each subscription to the original authorized capital stock shall be for paid-in shares and callable shares in equal parts. The initial number of shares to be subscribed by countries which become members in accordance with Article 64 of this Agreement shall be that set forth in Annex A hereto. The initial number of shares to be subscribed by countries which are admitted to membership in accordance with paragraph 2 of Article 3 of this Agreement shall be determined by the Board of Governors; provided, however, that no such subscription shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below sixty (60) per cent of the total subscribed capital stock.

2. The Board of Governors shall at intervals of not less than five (5) years review the capital stock of the Bank. In case of an increase in the authorized capital stock, each member shall have a reasonable opportunity to subscribe, under such terms and conditions as the Board of Governors shall determine, to a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total subscribed capital stock immediately prior to such increase; provided, however, that the foregoing provision shall not apply in respect of any increase or portion of an increase in the authorized capital stock intended solely to give effect to determinations of the Board of Governors under paragraphs 1 and 3 of this Article. No member shall be obligated to subscribe to any part of an increase of capital stock.

3. The Board of Governors may, at the request of a member, increase the subscription of such member on such terms and conditions as the Board may determine; provided, however, that no such increase in the subscription of any member shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below sixty (60) per cent of the total subscribed capital stock. The Board of Governors shall pay special regard to the request of any regional member having less than six (6) per cent of the subscribed capital stock to increase its proportionate share thereof.

4. Shares of stock initially subscribed by members shall be issued at par. Other shares shall be issued at par unless the Board of Governors by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, decides in special circumstances to issue them on other terms.

5. Shares of stock shall not be pledged or encumbered in any manner whatsoever, and they shall not be transferable except to the Bank in accordance with Chapter VII of this Agreement.

6. The liability of the members on shares shall be limited to the unpaid portion of their issue price.

7. No member shall be liable, by reason of its membership, for obligations of the Bank.

Article 6 PAYMENT OF SUBSCRIPTIONS

1. Payment of the amount initially subscribed by each Signatory to this Agreement which becomes a member in accordance with Article 64 to the paid-in capital stock of the Bank shall be made in five (5) instalments, of twenty (20) per cent each of such amount. The first instalment shall be paid by each member within thirty (30) days after entry into force of this Agreement, or on or before the date of deposit on its behalf of its instrument of ratification or acceptance in accordance with paragraph 1 of Article 64, whichever is later. The second instalment shall become due one (1) year from the entry into force of this Agreement. The remaining three (3) instalments shall each become due successively one (1) year from the date on which the preceding instalment becomes due.

2. Of each instalment for the payment of initial subscriptions to the original paid-in capital stock:

- (a) Fifty (50) per cent shall be paid in gold or convertible currency; and
- (b) Fifty (50) per cent in the currency of the member.

3. The Bank shall accept from any member promissory notes or other obligations issued by the Government of the member, or by the depository designated by such member, in lieu of the amount to be paid in the currency of the member pursuant to paragraph 2 (b) of this Article, provided such currency is not required by the Bank for the conduct of its operations. Such notes or obligations shall be non-negotiable, non-interest-bearing, and payable to the Bank at par value upon demand. Subject to the provisions of paragraph 2 (ii) of Article 24, demands upon such notes or obligations payable in convertible currencies shall, over reasonable periods of time, be uniform in percentage on all such notes or obligations.

4. Each payment of a member in its own currency under paragraph 2 (b) of this Article shall be in such amount as the Bank, after such consultation with the International Monetary Fund as the Bank may consider necessary and utilizing the par value established with the International Monetary Fund, if any, determines to be equivalent to the full value in terms of dollars of the portion of the subscription being paid. The initial payment shall be in such amount as the member considers appropriate hereunder but shall be subject to such adjustment, to be effected within ninety (90) days of the date on which such payment was due, as the Bank shall determine to be necessary to constitute the full dollar equivalent of such payment.

5. Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its obligations incurred under sub-paragraphs (ii) and (iv) of Article 11 on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources.

6. In the event of the call referred to in paragraph 5 of this Article, payment may be made at the option of the member in gold, convertible currency or in the currency required to discharge the obligations of the Bank for the purpose of which the call is made. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

7. The Bank shall determine the place for any payment under this Article, provided that, until the inaugural meeting of its Board of Governors, the payment of the first instalment referred to in paragraph 1 of this Article shall be made to the Secretary-General of the United Nations, as Trustee for the Bank.

Article 7 ORDINARY CAPITAL RESOURCES

As used in this Agreement, the term "ordinary capital resources" of the Bank shall include the following:

- (i) authorized capital stock of the Bank, including both paid-in and callable shares, subscribed pursuant to Article 5 of this Agreement, except such part thereof as may be set aside into one or more Special Funds in accordance with paragraph 1(i) of Article 19 of this Agreement;
- (ii) funds raised by borrowings of the Bank by virtue of powers conferred by sub-paragraph (i) of Article 21 of this Agreement, to which the commitment to calls provided for in paragraph 5 of Article 6 of this Agreement is applicable;
- (iii) funds received in repayment of loans or guarantees made with the resources indicated in (i) and (ii) of this Article;
- (iv) income derived from loans made from the aforementioned funds or from guarantees to which the commitment to calls set forth in paragraph 5 of Article 6 of this Agreement is applicable; and
- (v) any other funds or income received by the Bank which do not form part of its Special Funds resources referred to in Article 20 of this Agreement.

CHAPTER III OPERATIONS

Article 8 USE OF RESOURCES

The resources and facilities of the Bank shall be used exclusively to implement the purpose and functions set forth respectively in Articles 1 and 2 of this Agreement.

Article 9 ORDINARY AND SPECIAL OPERATIONS

1. The operations of the Bank shall consist of ordinary operations and special operations.
2. Ordinary operations shall be those financed from the ordinary capital resources of the Bank.
3. Special operations shall be those financed from the Special Funds resources referred to in Article 20 of this Agreement.

Article 10 SEPARATION OF OPERATIONS

1. The ordinary capital resources and the Special Funds resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from each other. The financial statements of the Bank shall show the ordinary operations and special operations separately.
2. The ordinary capital resources of the Bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of special operations or other activities for which Special Funds resources were originally used or committed.
3. Expenses appertaining directly to ordinary operations shall be charged to the ordinary capital resources of the Bank. Expenses appertaining directly to special operations shall be charged to the Special Funds resources. Any other expenses shall be charged as the Bank shall determine.

Article 11 RECIPIENTS AND METHODS OF OPERATION

Subject to the conditions stipulated in this Agreement, the Bank may provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region. The Bank may carry out its operations in any of the following ways:

- (i) by making or participating in direct loans with its unimpaired paid-in capital and, except as provided in Article 17 of this Agreement, with its reserves and undistributed surplus; or with the unimpaired Special Funds resources;
- (ii) by making or participating in direct loans with funds raised by the Bank in capital markets or borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources;
- (iii) by investment of funds referred to in (i) and (ii) of this Article in the equity capital of an institution or enterprise, provided no such investment shall be made until after the Board of Governors, by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, shall have determined that the Bank is in a position to commence such type of operations; or
- (iv) by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development participated in by the Bank.

Article 12 LIMITATIONS ON ORDINARY OPERATIONS

1. The total amount outstanding of loans, equity investments and guarantees made by the Bank in its ordinary operations shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for by Article 17 of this Agreement and other reserves not available for ordinary operations.

2. In the case of loans made with funds borrowed by the Bank to which the commitment to calls provided for by paragraph 5 of Article 6 of this Agreement is applicable, the total amount of principal outstanding and payable to the Bank in a specific currency shall not at any time exceed the total amount of the principal of outstanding borrowings by the Bank that are payable in the same currency.

3. In the case of funds invested in equity capital out of the ordinary capital resources of the Bank, the total amount invested shall not exceed ten (10) per cent of the aggregate amount of the unimpaired paid-in capital stock of the Bank actually paid up at any given time together with the reserves and surplus included in its ordinary capital resources, exclusive of the special reserve provided for in Article 17 of this Agreement.

4. The amount of any equity investment shall not exceed such percentage of the equity capital of the entity or enterprise concerned as the Board of Directors shall in each specific case determine to be appropriate. The Bank shall not seek to obtain by such an investment a controlling interest in the entity or enterprise concerned, except where necessary to safeguard the investment of the Bank.

Article 13 PROVISION OF CURRENCIES FOR DIRECT LOANS

In making direct loans or participating in them, the Bank may provide financing in any of the following ways:

- (i) by furnishing the borrower with currencies other than the currency of the member in whose territory the project concerned is to be carried out (the latter currency hereinafter to be called "local currency"), which are necessary to meet the foreign exchange costs of such project; or
- (ii) by providing financing to meet local expenditures on the project concerned, where it can do so by supplying local currency without selling any of its holdings in gold or convertible currencies. In special cases when, in the opinion of the Bank, the project causes or is likely to cause undue loss or strain on the balance of payments of the member in whose territory the project is to be carried out, the financing granted by the Bank to meet local expenditures may be provided in currencies other than that of such member; in such cases, the amount of the financing granted by the Bank for this purpose shall not exceed a reasonable portion of the total local expenditure incurred by the borrower.

Article 14 OPERATING PRINCIPLES

The operations of the Bank shall be conducted in accordance with the following principles:

- (i) The operations of the Bank shall provide principally for the financing of specific projects, including those forming part of a national, sub-regional or regional development programme. They may, however, include loans to, or guarantees of loans made to, national development banks or other suitable entities, in order that the latter may finance specific development projects whose individual financing requirements are not, in the opinion of the Bank, large enough to warrant the direct supervision of the Bank;
- (ii) In selecting suitable projects, the Bank shall always be guided by the provisions of sub-paragraph (ii) of Article 2 of this Agreement;
- (iii) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing;
- (iv) Before a loan is granted, the applicant shall have submitted an adequate loan proposal and the President of the Bank shall have presented to the Board of Directors a written report regarding the proposal, together with his recommendations, on the basis of a staff study;
- (v) In considering an application for a loan or guarantee, the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors;
- (vi) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower and its guarantor, if any, will be in a position to meet their obligations under the loan contract;
- (vii) In making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Bank, appropriate for the loan concerned;
- (viii) In guaranteeing a loan made by other investors, or in underwriting the sale of securities, the Bank shall receive suitable compensation for its risk;
- (ix) The proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank pursuant to paragraph 1 (i) of Article 19, shall be used only for procurement in member

countries of goods and services produced in member countries, except in any case in which the Board of Directors, by a vote of the Directors representing not less than two-thirds of the total voting power of the members, determines to permit procurement in a non-member country or of goods and services produced in a non-member country in special circumstances making such procurement appropriate, as in the case of a non-member country in which a significant amount of financing has been provided to the Bank;

- (x) In the case of a direct loan made by the Bank, the borrower shall be permitted by the Bank to draw its funds only to meet expenditures in connexion with the project as they are actually incurred;
- (xi) The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency;
- (xii) The Bank shall pay due regard to the desirability of avoiding a disproportionate amount of its resources being used for the benefit of any member;
- (xiii) The Bank shall seek to maintain reasonable diversification in its investments in equity capital; it shall not assume responsibility for managing any entity or enterprise in which it has an investment, except where necessary to safeguard its investments; and
- (xiv) The Bank shall be guided by sound banking principles in its operations.

Article 15 TERMS AND CONDITIONS FOR DIRECT LOANS AND GUARANTEES

1. In the case of direct loans made or participated in or loans guaranteed by the Bank, the contract shall establish, in conformity with the operating principles set forth in Article 14 of this Agreement and subject to the other provisions of this Agreement, the terms and conditions for the loan or the guarantee concerned, including those relating to payment of principal, interest and other charges, maturities, and dates of payment in respect of the loan, or the fees and other charges in respect of the guarantee, respectively. In particular, the contract shall provide that, subject to paragraph 3 of this Article, all payments to the Bank under the contract shall be made in the currency loaned, unless, in the case of a direct loan made or a loan guaranteed as part of special operations with funds provided under paragraph 1 (ii) of Article 19, the rules and regulations of the Bank provide otherwise. Guarantees by the Bank shall also provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

2. Where the recipient of loans or guarantees of loans is not itself a member, the Bank may, when it deems it advisable, require that the member in whose territory the project concerned is to be carried out, or a public agency or any instrumentality of that member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.

3. The loan or guarantee contract shall expressly state the currency in which all payments to the Bank thereunder shall be made. At the option of the borrower, however, such payments may always be made in gold or convertible currency.

Article 16
COMMISSION AND FEES

1. The Bank shall charge in addition to interest, a commission on direct loans made or participated in as part of its ordinary operations. This commission, payable periodically, shall be computed on the amount outstanding on each loan or participation and shall be at the rate of not less than one (1) per cent per annum, unless the Bank, after the first five (5) years of its operations, decides to reduce this minimum rate by a two-thirds majority of its members, representing not less than three-fourths of the total voting power of the members.

2. In guaranteeing a loan as part of its ordinary operations, the Bank shall charge a guarantee fee, at a rate determined by the Board of Directors, payable periodically on the amount of the loan outstanding.

3. Other charges of the Bank in its ordinary operations and any commission, fees or other charges in its special operations shall be determined by the Board of Directors.

Article 17
SPECIAL RESERVE

The amount of commissions and guarantee fees received by the Bank pursuant to Article 16 of this Agreement shall be set aside as a special reserve which shall be kept for meeting liabilities of the Bank in accordance with Article 18 of this Agreement. The special reserve shall be held in such liquid form as the Board of Directors may decide.

Article 18
METHODS OF MEETING LIABILITIES OF
THE BANK

1. In cases of default on loans made, participated in or guaranteed by the Bank in its ordinary operations, the Bank shall take such action as it deems appropriate with respect to modifying the terms of the loan, other than the currency of repayment.

2. The payments in discharge of the Bank's liabilities on borrowings or guarantees under sub-paragraphs (ii) and (iv) of Article 11 chargeable to the ordinary capital resources shall be charged:

- (i) First, against the special reserve provided for in Article 17;
- (ii) Then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

3. Whenever necessary to meet contractual payments of interest, other charges or amortization on borrowings of the Bank in its ordinary operations, or to meet its liabilities with respect to similar payments in respect of loans guaranteed by it, chargeable to its ordinary capital resources, the Bank may call an appropriate amount of the uncalled subscribed callable capital in accordance with paragraphs 6 and 7 of Article 6 of this Agreement.

4. In cases of default in respect of a loan made from borrowed funds or guaranteed by the Bank as part of its ordinary operations, the Bank may, if it believes that the default may be of long duration, call an additional amount of such callable capital not to exceed in any one (1) year one (1) per cent of the total subscriptions of the members to such capital, for the following purposes:

- (i) To redeem before maturity, or otherwise discharge, the Bank's liability on all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default; and

- (ii) to repurchase, or otherwise discharge, the Bank's liability on all or part of its own outstanding borrowing.

5. If the Bank's subscribed callable capital stock shall be entirely called pursuant to paragraphs 3 and 4 of this Article, the Bank may, if necessary for the purposes specified in paragraph 3 of this Article, use or exchange the currency of any member without restriction, including any restriction imposed pursuant to paragraphs 2 (i) and (ii) of Article 24.

Article 19
SPECIAL FUNDS

1. The Bank may:

- (i) set aside, by a vote of two-thirds of the total number of Governors, representing at least three-fourths of the total voting power of the members, not more than ten (10) per cent each of the portion of the unimpaired paid-in capital of the Bank paid by members pursuant to paragraph 2 (a) of Article 6 and of the portion thereof paid pursuant to paragraph 2 (b) of Article 6, and establish therewith one or more Special Funds;
- (ii) accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank.

2. Special Funds established by the Bank pursuant to paragraph 1 (i) of this Article may be used to guarantee or make loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those established by the Bank for its ordinary operations. Such Funds may also be used on such other terms and conditions, not inconsistent with the applicable provisions of this Agreement nor with the character of such Funds as revolving funds, as the Bank in establishing such Funds may direct.

3. Special Funds accepted by the Bank under paragraph 1 (ii) of this Article may be used in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the agreement relating to such Funds.

4. The Bank shall adopt such special rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, excepting those provisions expressly applicable only to ordinary operations of the Bank.

Article 20
SPECIAL FUNDS RESOURCES

As used in this Agreement, the term "Special Funds resources" shall refer to the resources of any Special Fund and shall include:

- (a) resources set aside from the paid-in capital to a Special Fund or otherwise initially contributed to any Special Fund;
- (b) funds accepted by the Bank for inclusion in any Special Fund;
- (c) funds repaid in respect of loans or guarantees financed from the resources of any Special Fund which, under the rules and regulations of the Bank governing that Special Fund, are received by such Special Fund;
- (d) income derived from operations of the Bank in which any of the aforementioned resources or funds are used or committed if, under the rules and regulations of the Bank governing the Special Fund concerned, that income accrues to such Special Fund; and
- (e) any other resources placed at the disposal of any Special Fund.

CHAPTER IV BORROWING AND OTHER MISCELLANEOUS POWERS

Article 21 GENERAL POWERS

In addition to the powers specified elsewhere in this Agreement, the Bank shall have the power to:

- (i) borrow funds in member countries or elsewhere, and in this connexion to furnish such collateral or other security therefor as the Bank shall determine, provided always that:
 - (a) before making a sale of its obligations in the territory of a country, the Bank shall have obtained its approval;
 - (b) where the obligations of the Bank are to be denominated in the currency of a member, the Bank shall have obtained its approval;
 - (c) the Bank shall obtain the approval of the countries referred to in sub-paragraphs (a) and (b) of this paragraph that the proceeds may be exchanged for the currency of any member without restriction; and
 - (d) before determining to sell its obligations in a particular country, the Bank shall consider the amount of previous borrowing, if any, in that country, the amount of previous borrowing in other countries, and the possible availability of funds in such other countries; and shall give due regard to the general principle that its borrowings should to the greatest extent possible be diversified as to country of borrowing.
- (ii) buy and sell securities the Bank has issued or guaranteed or in which it has invested, provided always that it shall have obtained the approval of any country in whose territory the securities are to be bought or sold;
- (iii) guarantee securities in which it has invested in order to facilitate their sale;
- (iv) underwrite, or participate in the underwriting of, securities issued by an entity or enterprise for purposes consistent with the purpose of the Bank;
- (v) invest funds, not needed in its operations, in the territories of members in such obligations of members or nationals thereof as it may determine, and invest funds held by the Bank for pensions or similar purposes in the territories of members in marketable securities issued by members or nationals thereof;
- (vi) provide technical advice and assistance which serve its purpose and come within its functions, and where expenditures incurred in furnishing such services are not reimbursable, charge the net income of the Bank therewith; in the first five (5) years of its operations, the Bank may use up to two (2) per cent of its paid-in capital for furnishing such services on a non-reimbursable basis; and
- (vii) exercise such other powers and establish such rules and regulations as may be necessary or appropriate in furtherance of its purpose and functions, consistent with the provisions of this Agreement.

Article 22 NOTICE TO BE PLACED ON SECURITIES

Every security issued or guaranteed by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any Government, unless it is in fact the obligation of a particular Government, in which case it shall so state.

CHAPTER V CURRENCIES

Article 23 DETERMINATION OF CONVERTIBILITY

Whenever it shall become necessary under this Agreement to determine whether any currency is convertible, such determination shall be made by the Bank after consultation with the International Monetary Fund.

Article 24 USE OF CURRENCIES

1. Members may not maintain or impose any restrictions on the holding or use by the Bank or by any recipient from the Bank, for payments in any country, of the following:
 - (i) gold or convertible currencies received by the Bank in payment of subscriptions to its capital stock, other than that paid to the Bank by members pursuant to paragraph 2 (b) of Article 6 and restricted pursuant to paragraphs 2 (i) and (ii) of this Article;
 - (ii) currencies of members purchased with the gold or convertible currencies referred to in the preceding sub-paragraph;
 - (iii) currencies obtained by the Bank by borrowing, pursuant to sub-paragraph (i) of Article 21 of this Agreement, for inclusion in its ordinary capital resources;
 - (iv) gold or currencies received by the Bank in payment on account of principal, interest, dividends or other charges in respect of loans or investments made out of any of the funds referred to in sub-paragraphs (i) to (iii) of this paragraph or in payment of fees in respect of guarantees made by the Bank; and
 - (v) currencies, other than the member's own currency, received by the member from the Bank in distribution of the net income of the Bank in accordance with Article 40 of this Agreement.
2. Members may not maintain or impose any restriction on the holding or use by the Bank or by any recipient from the Bank, for payments in any country, of currency of a member received by the Bank which does not come within the provisions of the preceding paragraph, unless:
 - (i) a developing member country, after consultation with and subject to periodic review by the Bank, restricts in whole or in part the use of such currency to payments for goods or services produced and intended for use in its territory; or
 - (ii) any other member whose subscription has been determined in Part A of Annex A hereof and whose exports of industrial products do not represent a substantial proportion of its total exports, deposits with its instrument of ratification or acceptance a declaration that it desires the use of the portion of its subscription paid pursuant to paragraph 2 (b) of Article 6 to be restricted, in whole or in part, to payments for goods or services produced in its territory; provided that such restrictions be subject to periodic review by and consultation with the Bank and that any purchases of goods or services in the territory of that member, subject to the usual consideration of competitive tendering, shall be first charged against the portion of its subscription paid pursuant to paragraph 2 (b) of Article 6; or
 - (iii) such currency forms part of the Special Funds resources of the Bank available under paragraph 1 (ii) of Article 19 and its use is subject to special rules and regulations.

3. Members may not maintain or impose any restrictions on the holding or use by the Bank, for making amortization payments or anticipatory payments or for repurchasing in whole or in part the Bank's own obligations, of currencies received by the Bank in repayment of direct loans made out of its ordinary capital resources, provided, however, that until the Bank's subscribed callable capital stock has been entirely called, such holding or use shall be subject to any limitations imposed pursuant to paragraph 2 (i) of this Article except in respect of obligations payable in the currency of the member concerned.

4. Gold or currencies held by the Bank shall not be used by the Bank to purchase other currencies of members or non-members except:

(i) in order to meet its obligations in the ordinary course of its business; or

(ii) pursuant to a decision of the Board of Directors adopted by a vote of the Directors representing not less than two-thirds of the total voting power of the members.

5. Nothing herein contained shall prevent the Bank from using the currency of any member for administrative expenses incurred by the Bank in the territory of such member.

Article 25

MAINTENANCE OF VALUE OF THE CURRENCY HOLDINGS OF THE BANK

1. Whenever (a) the par value in the International Monetary Fund of the currency of a member is reduced in terms of the dollar defined in Article 4 of this Agreement, or (b) in the opinion of the Bank, after consultation with the International Monetary Fund, the foreign exchange value of a member's currency has depreciated to a significant extent, that member shall pay to the Bank within a reasonable time an additional amount of its currency required to maintain the value of all such currency held by the Bank, excepting (a) currency derived by the Bank from its borrowings and (b) unless otherwise provided in the agreement establishing such Funds, Special Funds resources accepted by the Bank under paragraph 1 (ii) of Article 19.

2. Whenever (a) the par value in the International Monetary Fund of the currency of a member is increased in terms of the said dollar, or (b) in the opinion of the Bank, after consultation with the International Monetary Fund, the foreign exchange value of a member's currency has appreciated to a significant extent, the Bank shall pay to that member within a reasonable time an amount of that currency required to adjust the value of all such currency held by the Bank excepting (a) currency derived by the Bank from its borrowings, and (b) unless otherwise provided in the agreement establishing such Funds, Special Funds resources accepted by the Bank under paragraph 1(ii) of Article 19.

3. The Bank may waive the provisions of this Article when a uniform proportionate change in the par value of the currencies of all its members takes place.

CHAPTER VI

ORGANIZATION AND MANAGEMENT

Article 26

STRUCTURE

The Bank shall have a Board of Governors, a Board of Directors, a President, one or more Vice-Presidents and such other officers and staff as may be considered necessary.

Article 27

BOARD OF GOVERNORS: COMPOSITION

1. Each member shall be represented on the Board of Governors and shall appoint one Governor and one alternate. Each Governor and alternate shall serve at the pleasure of the appointing member. No alternate may vote except in the absence of his principal. At its annual meeting, the Board shall designate one of the Governors as Chairman who shall hold office until the election of the next Chairman and the next annual meeting of the Board.

2. Governors and alternates shall serve as such without remuneration from the Bank, but the Bank may pay them reasonable expenses incurred in attending meetings.

Article 28

BOARD OF GOVERNORS: POWERS

1. All the powers of the Bank shall be vested in the Board of Governors.

2. The Board of Governors may delegate to the Board of Directors any or all its powers, except the power to:

(i) admit new members and determine the conditions of their admission;

(ii) increase or decrease the authorized capital stock of the Bank;

(iii) suspend a member;

(iv) decide appeals from interpretations or applications of this Agreement given by the Board of Directors;

(v) authorize the conclusion of general agreements for co-operation with other international organizations;

(vi) elect the Directors and the President of the Bank;

(vii) determine the remuneration of the Directors and their alternates and the salary and other terms of the contract of service of the President;

(viii) approve, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the Bank;

(ix) determine the reserves and the distribution of the net profits of the Bank;

(x) amend this Agreement;

(xi) decide to terminate the operations of the Bank and to distribute its assets; and

(xii) exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.

3. The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Directors under paragraph 2 of this Article.

4. For the purposes of this Agreement, the Board of Governors may, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members, from time to time determine which countries or members of the Bank are to be regarded as developed or developing countries or members, taking into account appropriate economic considerations.

Article 29

BOARD OF GOVERNORS: PROCEDURE

1. The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Board of Directors. Meetings of the Board of Governors shall be called, by the Board of Directors, whenever requested by five (5) members of the Bank.

2. A majority of the Governors shall constitute a quorum for any meeting of the Board of Governors,

provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors may by regulation establish a procedure whereby the Board of Directors may, when the latter deems such action advisable, obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

4. The Board of Governors, and the Board of Directors to the extent authorized, may establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the Bank.

Article 30

BOARD OF DIRECTORS: COMPOSITION

1. (i) The Board of Directors shall be composed of ten (10) members who shall not be members of the Board of Governors, and of whom:

- (a) seven (7) shall be elected by the Governors representing regional members; and
- (b) three (3) by the Governors representing non-regional members.

Directors shall be persons of high competence in economic and financial matters and shall be elected in accordance with Annex B hereof.

(ii) At the Second Annual Meeting of the Board of Governors shall review the size and composition of the Board of Directors, and shall increase the number of Directors as appropriate, paying special regard to the desirability, in the circumstances at that time, of increasing representation in the Board of Directors of smaller less developed member countries. Decisions under this paragraph should be made by a vote of a majority of the total number of Governors, representing not less than two-thirds of the total voting power of the members.

2. Each Director shall appoint an alternate with full power to act for him when he is not present. Directors and alternates shall be nationals of member countries. No two or more Directors may be of the same nationality nor may any two or more alternates be of the same nationality. An alternate may participate in meetings of the Board but may vote only when he is acting in place of his principal.

3. Directors shall hold office for a term of two (2) years and may be re-elected. They shall continue in office until their successors shall have been chosen and qualified. If the office of a Director becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be chosen in accordance with Annex B hereof, for the remainder of the term, by the Governors who elected the former Director. A majority of the votes cast by such Governors shall be required for such election. If the office of a Director becomes vacant one hundred and eighty (180) days or less before the end of his term, a successor may similarly be chosen for the remainder of the term, by the Governors who elected the former Director, in which election a majority of the votes cast by such Governors shall be required. While the office remains vacant, the alternate of the former Director shall exercise the powers of the latter, except that of appointing an alternate.

Article 31

BOARD OF DIRECTORS: POWERS

The Board of Directors shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

- (i) prepare the work of the Board of Governors;

- (ii) in conformity with the general directions of the Board of Governors, take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, furnishing of technical assistance and other operations of the Bank;
- (iii) submit the accounts for each financial year for approval of the Board of Governors at each annual meeting; and
- (iv) approve the budget of the Bank.

Article 32

BOARD OF DIRECTORS: PROCEDURE

1. The Board of Directors shall normally function at the principal office of the Bank and shall meet as often as the business of the Bank may require.

2. A majority of the Directors shall constitute a quorum for any meeting of the Board of Directors, provided such majority represents not less than two-thirds of the total voting power of the members.

3. The Board of Governors shall adopt regulations under which, if there is no Director of its nationality, a member may send a representative to attend, without right to vote, any meeting of the Board of Directors when a matter particularly affecting that member is under consideration.

Article 33

VOTING

1. The total voting power of each member shall consist of the sum of its basic votes and proportional votes.

- (i) The basic votes of each member shall consist of such number of votes as results from the equal distribution among all the members of twenty (20) per cent of the aggregate sum of the basic votes and proportional votes of all the members.
- (ii) The number of the proportional votes of each member shall be equal to the number of shares of the capital stock of the Bank held by that member.

2. In voting in the Board of Governors, each Governor shall be entitled to cast the votes of the member he represents. Except as otherwise expressly provided in this Agreement, all matters before the Board of Governors shall be decided by a majority of the voting power represented at the meeting.

3. In voting in the Board of Directors, each Director shall be entitled to cast the number of votes that counted towards his election which votes need not be cast as a unit. Except as otherwise expressly provided in this Agreement, all matters before the Board of Directors shall be decided by a majority of the voting power represented at the meeting.

Article 34

THE PRESIDENT

1. The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members, shall elect a President of the Bank. He shall be a national of a regional member country. The President, while holding office, shall not be a Governor or a Director, or an alternate for either.

2. The term of office of the President shall be five (5) years. He may be re-elected. He shall, however, cease to hold office when the Board of Governors so decides by a vote of two-thirds of the total number of Governors, representing not less than two-thirds of the total voting power of the members. If the office of the President for any reason becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be elected for the unexpired portion of such term.

by the Board of Governors in accordance with the provisions of paragraph 1 of this Article. If such office for any reason becomes vacant one hundred and eighty (180) days or less before the end of the term, a successor may similarly be elected for the unexpired portion of such term by the Board of Governors.

3. The President shall be Chairman of the Board of Directors but shall have no vote, except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote.

4. The President shall be the legal representative of the Bank.

5. The President shall be chief of the staff of the Bank and shall conduct, under the direction of the Board of Directors, the current business of the Bank. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors.

6. In appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of personnel on as wide a regional geographical basis as possible.

Article 35 VICE-PRESIDENT(S)

1. One or more Vice-Presidents shall be appointed by the Board of Directors on the recommendation of the President. Vice-President(s) shall hold office for such term, exercise such authority and perform such functions in the administration of the Bank, as may be determined by the Board of Directors. In the absence or incapacity of the President, the Vice-President or, if there be more than one, the ranking Vice-President, shall exercise the authority and perform the functions of the President.

2. Vice-President(s) may participate in meetings of the Board of Directors but shall have no vote at such meetings, except that the Vice-President or ranking Vice-President, as the case may be, shall cast the deciding vote when acting in place of the President.

Article 36 PROHIBITION OF POLITICAL ACTIVITY: THE INTERNATIONAL CHARACTER OF THE BANK

1. The Bank shall not accept loans or assistance that may in any way prejudice, limit, deflect or otherwise alter its purpose or functions.

2. The Bank, its President, Vice-President(s), officers and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially in order to achieve and carry out the purpose and functions of the Bank.

3. The President, Vice-President(s), officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

Article 37 OFFICE OF THE BANK

1. The principal office of the Bank shall be located in Manila, Philippines.

2. The Bank may establish agencies or branch offices elsewhere.

Article 38 CHANNEL OF COMMUNICATIONS, DEPOSITORIES

1. Each member shall designate an appropriate official entity with which the Bank may communicate in connexion with any matter arising under this Agreement.

2. Each member shall designate its central bank, or such other agency as may be agreed upon with the Bank, as a depository with which the Bank may keep its holdings of currency of that member as well as other assets of the Bank.

Article 39 WORKING LANGUAGE, REPORTS

1. The working language of the Bank shall be English.

2. The Bank shall transmit to its members an Annual Report containing an audited statement of its accounts and shall publish such Report. It shall also transmit quarterly to its members a summary statement of its financial position and a profit and loss statement showing the results of its operations.

3. The Bank may also publish such other reports as it deems desirable in the carrying out of its purpose and functions. Such reports shall be transmitted to the members of the Bank.

Article 40 ALLOCATION OF NET INCOME

1. The Board of Governors shall determine annually what part of the net income of the Bank, including the net income accruing to Special Funds, shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members.

2. The distribution referred to in the preceding paragraph shall be made in proportion to the number of shares held by each member.

3. Payments shall be made in such manner and in such currency as the Board of Governors shall determine.

CHAPTER VII WITHDRAWAL AND SUSPENSION OF MEMBERS, TEMPORARY SUSPENSION AND TERMINATION OF OPERATIONS OF THE BANK

Article 41 WITHDRAWAL

1. Any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office.

2. Withdrawal by a member shall become effective, and its membership shall cease, on the date specified in its notice but in no event less than six (6) months after the date that notice has been received by the Bank. However, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw.

3. A withdrawing member shall remain liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the withdrawal notice. If the withdrawal becomes finally effective, the member shall not incur any liability for obligations resulting from operations of the Bank effected after the date on which the withdrawal notice was received by the Bank.

Article 42 SUSPENSION OF MEMBERSHIP

1. If a member fails to fulfil any of its obligations to the Bank, the Board of Governors may suspend such member by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.
2. The member so suspended shall automatically cease to be a member of the Bank one (1) year from the date of its suspension unless the Board of Governors, during the one-year period, decides by the same majority necessary for suspension to restore the member to good standing.
3. While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

Article 43 SETTLEMENT OF ACCOUNTS

1. After the date on which a country ceases to be a member, it shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member is outstanding; but it shall not incur liabilities with respect to loans and guarantees entered into thereafter by the Bank nor share either in the income or the expenses of the Bank.
2. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country in accordance with the provisions of paragraphs 3 and 4 of this Article. For this purpose, the repurchase price of the shares shall be the value shown by the books of the Bank on the date the country ceases to be a member.
3. The payment for shares repurchased by the Bank under this Article shall be governed by the following conditions:
 - (i) Any amount due to the country concerned for its shares shall be withheld so long as that country, its central bank or any of its agencies, instrumentalities or political subdivisions remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the contingent liability of the country for future calls on its subscription for shares in accordance with paragraph 5 of Article 6 of this Agreement. In any event, no amount due to a member for its shares shall be paid until six (6) months after the date on which the country ceases to be a member.
 - (ii) Payments for shares may be made from time to time, upon surrender of the corresponding stock certificates by the country concerned, to the extent by which the amount due as the repurchase price in accordance with paragraph 2 of this Article exceeds the aggregate amount of liabilities, on loans and guarantees referred to in sub-paragraph (i) of this paragraph, until the former member has received the full repurchase price.
 - (iii) Payments shall be made in such available currencies as the Bank determines, taking into account its financial position.
 - (iv) If losses are sustained by the Bank on any guarantees or loans which were outstanding on the date when a country ceased to be a member and the amount of such losses exceeds the amount of the reserve provided against losses on that date, the country concerned shall repay, upon demand, the amount by which the repurchase price of its

shares would have been reduced if the losses had been taken into account when the repurchase price was determined. In addition, the former member shall remain liable on any call for unpaid subscriptions in accordance with paragraph 5 of Article 6 of this Agreement, to the same extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

4. If the Bank terminates its operations pursuant to Article 45 of this Agreement within six (6) months of the date upon which any country ceases to be a member, all rights of the country concerned shall be determined in accordance with the provisions of Articles 45 to 47 of this Agreement. Such country shall be considered as still a member for purposes of such Articles but shall have no voting rights.

Article 44 TEMPORARY SUSPENSION OF OPERATIONS

In an emergency, the Board of Directors may temporarily suspend operations in respect of new loans and guarantees, pending an opportunity for further consideration and action by the Board of Governors.

Article 45 TERMINATION OF OPERATIONS

1. The Bank may terminate its operations by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.
2. After such termination, the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations.

Article 46 LIABILITY OF MEMBERS AND PAYMENT OF CLAIMS

1. In the event of termination of the operations of the Bank, the liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.
2. All creditors holding direct claims shall first be paid out of the assets of the Bank and then out of payments to the Bank or unpaid or callable subscriptions. Before making any payments to creditors holding direct claims, the Board of Directors shall make such arrangements as are necessary, in its judgment, to ensure a *pro rata* distribution among holders of direct and contingent claims.

Article 47 DISTRIBUTION OF ASSETS

1. No distribution of assets shall be made to members on account of their subscriptions to the capital stock of the Bank until all liabilities to creditors shall have been discharged or provided for. Moreover, such distribution must be approved by the Board of Governors by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.
2. Any distribution of the assets of the Bank to the members shall be in proportion to the capital stock held by each member and shall be effected at such times and under such conditions as the Bank shall deem fair and

equitable. The shares of assets distributed need not be uniform as to type of asset. No member shall be entitled to receive its share in such a distribution of assets until it has settled all of its obligations to the Bank.

3. Any member receiving assets distributed pursuant to this Article shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

CHAPTER VIII STATUS, IMMUNITIES, EXEMPTIONS AND PRIVILEGES

Article 48 PURPOSE OF CHAPTER

To enable the Bank effectively to fulfil its purpose and carry out the functions entrusted to it, the status, immunities, exemptions and privileges set forth in this Chapter shall be accorded to the Bank in the territory of each member.

Article 49 LEGAL STATUS

The Bank shall possess full juridical personality and, in particular, full capacity:

- (i) to contract;
- (ii) to acquire, and dispose of, immovable and movable property; and
- (iii) to institute legal proceedings.

Article 50 IMMUNITY FROM JUDICIAL PROCEEDINGS

1. The Bank shall enjoy immunity from every form of legal process, except in cases arising out of or in connexion with the exercise of its powers to borrow money, to guarantee obligations, or to buy and sell or underwrite the sale of securities, in which cases actions may be brought against the Bank in a court of competent jurisdiction in the territory of a country in which the Bank has its principal or a branch office, or has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities.

2. Notwithstanding the provisions of paragraph 1 of this Article, no action shall be brought against the Bank by any member, or by any agency or instrumentality of a member, or by any entity or person directly or indirectly acting for or deriving claims from a member or from any agency or instrumentality of a member. Members shall have recourse to such special procedures for the settlement of controversies between the Bank and its members as may be prescribed in this Agreement, in the by-laws and regulations of the Bank, or in contracts entered into with the Bank.

3. Property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Article 51 IMMUNITY OF ASSETS

Property and assets of the Bank, wheresoever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Article 52 IMMUNITY OF ARCHIVES

The archives of the Bank and, in general, all documents belonging to it, or held by it, shall be inviolable, wherever located.

Article 53 FREEDOM OF ASSETS FROM RESTRICTIONS

To the extent necessary to carry out the purpose and functions of the Bank effectively, and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Article 54 PRIVILEGE FOR COMMUNICATIONS

Official communications of the Bank shall be accorded by each member treatment not less favourable than that it accords to the official communications of any other member.

Article 55 IMMUNITIES AND PRIVILEGES OF BANK PERSONNEL

All Governors, Directors, alternates, officers and employees of the Bank, including experts performing missions for the Bank:

- (i) shall be immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives the immunity;
- (ii) where they are not local citizens or nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations, and the same facilities as regards exchange regulations, as are accorded by members to the representatives, officials and employees of comparable rank of other members; and
- (iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Article 56 EXEMPTION FROM TAXATION

1. The Bank, its assets, property, income and its operations and transactions, shall be exempt from all taxation and from all customs duties. The Bank shall also be exempt from any obligation for the payment, withholding or collection of any tax or duty.

2. No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to Directors, alternates, officers or employees of the Bank, including experts performing missions for the Bank, except where a member deposits with its instrument of ratification or acceptance a declaration that such member retains for itself and its political subdivisions the right to tax salaries and emoluments paid by the Bank to citizens or nationals of such member.

3. No tax of any kind shall be levied on any obligation or security issued by the Bank, including any dividend or interest thereon, by whomsoever held:

- (i) which discriminates against such obligation or security solely because it is issued by the Bank, or
- (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

4. No tax of any kind shall be levied on any obligation or security guaranteed by the Bank, including any dividend or interest thereon, by whomsoever held:

- (i) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

- (ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Article 57
IMPLEMENTATION

Each member, in accordance with its juridical system, shall promptly take such action as is necessary to make effective in its own territory the provisions set forth in this Chapter and shall inform the Bank of the action which it has taken on the matter.

Article 58
**WAIVER OF IMMUNITIES, EXEMPTIONS
AND PRIVILEGES**

The Bank at its discretion may waive any of the privileges, immunities and exemptions conferred under this Chapter in any case or instance, in such manner and upon such conditions as it may determine to be appropriate in the best interests of the Bank.

CHAPTER IX
**AMENDMENTS, INTERPRETATION,
ARBITRATION**

Article 59
AMENDMENTS

1. This Agreement may be amended only by a resolution of the Board of Governors approved by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. Notwithstanding the provisions of paragraph 1 of this Article, the unanimous agreement of the Board of Governors shall be required for the approval of any amendment modifying:

- (i) the right to withdraw from the Bank;
- (ii) the limitations on liability provided in paragraphs 6 and 7 of Article 5; and
- (iii) the rights pertaining to purchase of capital stock provided in paragraph 2 of Article 5.

3. Any proposal to amend this Agreement, whether emanating from a member or the Board of Directors, shall be communicated to the Chairman of the Board of Governors, who shall bring the proposal before the Board of Governors. When an amendment has been adopted, the Bank shall so certify in an official communication addressed to all members. Amendments shall enter into force for all members three (3) months after the date of the official communication unless the Board of Governors specifies therein a different period.

Article 60
INTERPRETATION OR APPLICATION

1. Any question of interpretation or application of the provisions of this Agreement arising between any member and the Bank, or between two or more members of the Bank, shall be submitted to the Board of Directors for decision. If there is no Director of its nationality on that Board, a member particularly affected by the question under consideration shall be entitled to direct representation in the Board of Directors during such consideration; the representative of such member shall, however, have no vote. Such right of representation shall be regulated by the Board of Governors.

2. In any case where the Board of Directors has given a decision under paragraph 1 of this Article, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the decision of the Board of Governors, the Bank may, so far as it deems necessary, act on the basis of the decision of the Board of Directors.

Article 61
ARBITRATION

If a disagreement should arise between the Bank and a country which has ceased to be a member, or between the Bank and any member, after adoption of a resolution to terminate the operations of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the country concerned, and the third, unless the parties otherwise agree, by the President of the International Court of Justice or such other authority as may have been prescribed by regulations adopted by the Board of Governors. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall be empowered to settle all questions of procedure in an case where the parties are in disagreement with respect thereto.

Article 62
APPROVAL DEEMED GIVEN

Whenever the approval of any member is required before any act may be done by the Bank, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

CHAPTER X
FINAL PROVISIONS

Article 63
SIGNATURE AND DEPOSIT

1. The original of this Agreement in a single copy in the English language shall remain open for signature at the United Nations Economic Commission for Asia and the Far East, in Bangkok, until 31 January 1966 by Governments of countries listed in Annex A to this Agreement. This document shall thereafter be deposited with the Secretary-General of the United Nations (hereinafter called the "Depository").

2. The Depository shall send certified copies of this Agreement to all the Signatories and other countries which become members of the Bank.

Article 64
RATIFICATION OR ACCEPTANCE

1. This Agreement shall be subject to ratification or acceptance by the Signatories. Instruments of ratification or acceptance shall be deposited with the Depository not later than 30 September 1966. The Depository shall duly notify the other Signatories of each deposit and the date thereof.

2. A Signatory whose instrument of ratification or acceptance is deposited before the date on which this Agreement enters into force, shall become a member of the Bank on that date. Any other Signatory which complies with the provisions of the preceding paragraph, shall become a member of the Bank on the date on which its instrument of ratification or acceptance is deposited.

Article 65

ENTRY INTO FORCE

This Agreement shall enter into force when instruments of ratification or acceptance have been deposited by at least fifteen (15) Signatories (including not less than ten (10) regional countries) whose initial subscriptions, as set forth in Annex A to this Agreement, in the aggregate comprise not less than sixty-five (65) per cent of the authorized capital stock of the Bank.

Article 66

COMMENCEMENT OF OPERATIONS

1. As soon as this Agreement enters into force, each member shall appoint a Governor, and the Executive Secretary of the United Nations Economic Commission for Asia and the Far East shall call the inaugural meeting of the Board of Governors.

2. At its inaugural meeting, the Board of Governors:

- (i) shall make arrangements for the election of Directors of the Bank in accordance with paragraph 1 of Article 30 of this Agreement; and
- (ii) shall make arrangements for the determination of the date on which the Bank shall commence its operations.

3. The Bank shall notify its members of the date of the commencement of its operations.

DONE at the City of Manila, Philippines, on 4 December 1965, in a single copy in the English language which shall be brought to the United Nations Economic Commission for Asia and the Far East, Bangkok, and thereafter deposited with the Secretary-General of the United Nations, New York, in accordance with Article 63 of this Agreement.

ASIAN DEVELOPMENT BANK**SPECIAL FUNDS RULES AND REGULATIONS****ARTICLE I****General****Section 1.01 Scope of Rules and Regulations**

(a) The Asian Development Bank (hereinafter called the Bank) is empowered by its Articles of Agreement (hereinafter called the Articles) to carry out special operations financed from Special Funds resources including primarily the making of loans of high development priority, with longer maturities, longer deferred commencement of repayment and/or lower interest rates than those established by the Bank for its ordinary operations, the provision of technical assistance which serves its purpose and comes within its functions, and the provision of development assistance from contributed resources in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the relevant contribution agreement.

(b) These Rules and Regulations are adopted pursuant to Article 19, paragraph 4 of the Articles for the establishment, administration and use of such Special Funds as the Bank may from time to time establish pursuant to Article 19, paragraph 1(i), or accept for administration pursuant to Article 19, paragraph 1(ii), of the Articles.

Section 1.02 Definitions

As used in these Rules and Regulations:

(a) The term "Consolidated Special Funds" refers to the total fund of Special Funds resources available for administration by the Bank pursuant to Article 19 of the Articles, and consisting of "set-aside resources," "contributed resources" and "accrued resources;"

(b) The term "set-aside resources" refers to such Special Funds resources as may be set aside from the paid-in capital of the Bank by vote of the Bank's Board of Governors pursuant to Article 19, paragraph 1(i) of the Articles and includes repayments thereof;

(c) The term "contributed resources" refers to any Special Funds resources accepted by the Bank pursuant to a contribution agreement for inclusion in any Special Fund and, except to the extent that the contribution agreement provides otherwise, includes repayments thereof; where the relevant contribution agreement so provides, income derived by the Bank from contributed resources (other than income derived from the service fee) shall, after meeting any administrative expenses charged thereto pursuant to Section 7.01 hereof and after payment of any interest payable to the contributor, be credited to and form part of such contributed resources.

(d) The term "accrued resources" refers to Special Funds resources derived from the service fee charged by the Bank in its special operations for the purposes of Section 7.01 hereof (herein called "the service fee") and to other income of the Bank derived from Special Funds resources credited, held and administered by the Bank in the Multi-Purpose Special Fund pursuant to Section 5.03 hereof.

Section 1.03 Application of Rules and Regulations

(a) Except as may be otherwise determined by the Bank at the time any resources are set aside pursuant to Article 19, paragraph 1(i) of the Articles, these Rules and Regulations shall apply to all such set-aside resources and accrued resources derived therefrom.

(b) Unless otherwise provided in the relevant contribution agreement, these Rules and Regulations shall apply to all contributed resources and accrued resources derived therefrom.

Section 1.04 Exercise of the Powers of the Bank

(a) Except where otherwise expressly provided in accordance with these Rules and Regulations, any decision, determination, agreement or other exercise of the powers of the Bank with reference to Special Funds or Special Funds resources of the Bank shall involve the same exercise of responsibilities by the Board of Governors, Board of Directors, President and staff of the Bank as would apply in comparable circumstances to the ordinary operations of the Bank.

(b) The procedures adopted for the exercise of such powers shall, where appropriate, be the same as those which apply in comparable circumstances to the ordinary operations of the Bank and may, in addition, include such appropriate arrangements for consultation with contributors as may be adopted from time to time.

Article 2 Special Funds

Section 2.01 Consolidated Special Funds

(a) The Bank is prepared to administer Special Funds resources to be called the "Consolidated Special Funds of the Asian Development Bank" (herein called the Consolidated Special Funds) consisting of:

- (i) an Agricultural Special Fund;
- (ii) a Technical Assistance Special Fund;
- (iii) a Multi-Purpose Special Fund; and
- (iv) such other Special Fund or Funds as may be established or accepted by the Bank from time to time.

(b) The resources of the Agricultural Special Fund shall be available for use by the Bank in financing special operations rela-

ting to agricultural development including forestry, fisheries and agriculturally related industries.

(c) The resources of the Technical Assistance Special Fund shall be available for use by the Bank in financing technical assistance which serves its purpose and comes within its functions.

(d) The resources of the Multi-Purpose Special Fund shall be available for use by the Bank in financing any of its special operations.

Section 2.02 Use and Allocation of Resources

(a) Subject to the provisions of these Rules and Regulations and of the Articles, the Bank may use any of the resources of any Special Fund, singly or in combination with any other resources, for any operation consistent with the purpose of that Fund.

(b) The allocation of Special Funds resources among the respective Special Funds may be varied by the Bank, provided that no reallocation of contributed resources shall be made except as may be provided for in the relevant contribution agreement or as may be specifically agreed between the Bank and the relevant contributor.

Article 3 Contributions to Consolidated Special Funds

Section 3.01 Eligible Contributors

Contributions to the Consolidated Special Funds of the Bank may be accepted from any country eligible for membership in the Bank.

Section 3.02 Form of Contribution

A contribution of Special Funds resources to the Bank may be made in such form and upon such terms as may be agreed between the Bank and the contributor, having regard to the purpose or purposes for which such resources are intended and the nature of the Bank's special operations.

Section 3.03 Contribution Agreements

Upon agreement being reached between the Bank and a contributor as to the terms upon which a contribution to the Consolidated Special Funds is to be made, such terms shall be set forth in a contribution agreement which, in addition to such other matters as the parties may agree, shall normally specify:

- (a) the amount of the contribution;
- (b) the form in which and the terms on which the contribution is to be made; and
- (c) the procedure by which such contribution may be drawn down.

Section 3.04 Use of Contributed Resources

(a) Contributed resources shall be allocated to such Special Fund or Funds as may be specified in the relevant contribution agreement. In the absence of specification, contributed resources shall be allocated to the Multi-Purpose Special Fund.

(b) A contributor may provide that the Bank in using its contribution in a particular Special Fund give emphasis to particular uses consistent with the purpose of such Special Fund.

Section 3.05 Procurement

Contributed resources may be used for procurement in the territories of members of the Bank and, where the contributor of such resources is not a member of the Bank, also in the territories of the contributor, of goods and services produced in such territories, unless (other than for expenses of administration) the relevant contribution agreement restricts the area of procurement or provides otherwise.

Article 4 Special Operations

Section 4.01 Eligible Recipients

Subject to the provisions of these Rules and Regulations and of the Articles, the Bank may provide financing or other assistance from its Special Funds resources to any member of the Bank, or to any agency, instrumentality or political subdivision of any member, or to any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with the economic development of the region of Asia and the Far East as defined in the Articles.

Section 4.02 Methods of Operation

The Bank may carry out its special operations financed from Special Funds resources:

- (a) by making or participating in loans of high development priority, with longer maturities, longer commencement of repayment and/or lower interest rates than those established by the Bank for its ordinary operations.

(b) by providing technical assistance on a reimbursable basis, or on a non-reimbursable basis from any resources available for financing on such basis.

(c) by providing development assistance from contributed resources in any manner and on any terms and conditions not inconsistent with the purpose of the Bank and with the relevant contribution agreement.

Section 4.03 Operating Principles

All decisions on the use of Special Funds resources shall be consistent with the provisions of any relevant contribution agreement and shall take account of the following principles:

(a) Having regard to the provisions of Article 2, paragraph (ii) of the Articles, the special operations of the Bank shall provide principally for the financing of specific projects or programmes, including those forming part of a national, sub-regional, or regional development programme;

(b) The Bank shall not finance any undertaking in the territory of a member if that member objects to such financing;

(c) Before any financing is provided, the applicant shall have submitted an adequate proposal and the President of the Bank (except where, in the case of technical assistance, the Board of Directors has determined otherwise) shall have presented to the Board a written report regarding the proposal, together with his recommendations, on the basis of a staff study;

(d) In considering an application for financing, the Bank shall pay due regard to the ability of the borrower to obtain other financing on terms and conditions that the Bank considers reasonable for the recipient taking into account all pertinent factors;

(e) In considering an application for financing, the Bank shall pay due regard to the relevant self-help measures being taken by the recipient, and, where the recipient is not a member, by both

the recipient and the member or members whose territories the project or programme is intended to serve;

(f) The Bank shall not make any loan unless it is satisfied that the project or programme is sound and that financing the project or programme would thus be consistent with the requirement that the Bank shall be guided by sound banking principles in its operations; and in making a loan, the Bank shall pay due regard to the prospects that the borrower and the guarantor, if any, will be in a position to meet their obligations under the loan contract;

(g) In making a loan, the rate of interest, other charges and the schedule of repayment of principal shall be such as are, in the opinion of the Bank, appropriate in the circumstances;

(h) The recipient shall be permitted by the Bank to draw its funds only to meet expenditures in connection with the project or programme as they are actually incurred;

(i) The Bank shall take the necessary measures in any special operations to ensure that the Special Funds resources from which the special operation is financed are used only for the purposes for which the special operation was undertaken and with due attention to considerations of economy and efficiency;

(j) The Bank shall pay due regard to the desirability of avoiding a disproportionate amount of its Special Funds resources being used for the benefit of any member.

Section 4.04 Provision of Currencies

In its special operations, the Bank may provide financing in the following ways:

(a) by furnishing the recipient with currencies other than the currency of the member in whose territory the project or programme concerned is to be carried out, which are necessary to meet the foreign exchange costs of such project or programme; or

(b) by providing financing to meet local expenditures on the project concerned where it can do so in accordance with the terms of any relevant contribution agreement or the relevant resolution of the Board of Governors under Article 19, paragraph (1) of the Articles.

Section 4.05 Terms and Conditions of Loans

(a) In the case of loans made or participated in by the Bank under these Rules and Regulations, the terms and conditions of the loan contract, including those relating to payment of principal, interest and other charges (including the service fee that shall be charged for the purpose of Section 7.01 hereof at such rate as may be decided by the Bank), maturities and dates of payment shall be established in conformity with the operating principles set forth in Section 4.03 hereof, the other provisions of these Rules and Regulations, and the applicable provisions of the Articles. In particular, the contract shall provide that all payments to the Bank under the contract shall be made in the currency loaned, or with the consent of the Bank, in gold or in any currency determined by the Bank to be convertible.

(b) Where the recipient of a loan made under these Rules and Regulations is not a member, the Bank may, when it deems it advisable, require that the member in whose territory the project or programme concerned is to be carried out, or a public agency or any instrumentality of that member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.

(c) Where the recipient or guarantor of a loan made under these Rules and Regulations is a member, its central bank or any of its agencies, instrumentalities or political subdivisions, the loan or guarantee contract, as the case may be, shall provide:

(i) that if the country concerned ceases to be a member of the Bank, any amount due to it for its shares repurchased by

the Bank shall be withheld so long as that country, its central bank or any of its agencies, instrumentalities or political subdivisions remains liable to the Bank, as recipient or guarantor of a loan made under these Rules and Regulations or a loan made in the ordinary operations of the Bank, and such amount may, at the option of the Bank, be applied on any such liability as it matures; and

(ii) that in the event of a distribution of the assets of the Bank the member shall not be entitled to receive its share in such distribution until it has settled all of its obligations to the Bank.

Article 5 Investment, Repayments, Accruals

Section 5.01 Investment

The Bank may invest any Special Funds resources held by it and not immediately needed for its special operations in any manner in which the Board of Directors has determined that the ordinary capital resources of the Bank may be invested.

Section 5.02 Repayments

Unless in the case of set-aside resources the action to set aside such resources pursuant to Article 19, paragraph 1(i) of the Articles, or in the case of contributed resources a relevant contribution agreement, provides otherwise, all moneys received in repayment of loans made or in reimbursement of technical assistance provided from the resources of any Special Fund shall be held and administered by the Bank in the Multi-Purpose Special Fund and shall be available for further use as part of such Fund, free of any requirement or restriction made pursuant to Sections 3.04 or 3.05 hereof.

Section 5.03 Accruals

(a) The service fee shall be credited to the accrued resources of the Bank to be held and administered by the Bank in the Multi-Purpose Special Fund and shall be used only to meet administrative expenses pursuant to the provisions of Section 7.01 hereof.

(b) Unless in the case of set-aside resources the action to set aside such resources pursuant to Article 19, paragraph 1(i) of the Articles, or in the case of contributed resources a relevant contribution agreement, provides otherwise, all other income derived from Special Funds resources shall, after meeting any expenses charged thereto pursuant to Section 7.01 hereof and after payment of any interest payable to a contributor from income derived from its contributed resources, be credited to the accrued resources of the Bank to be held and administered by the Bank in the Multi-Purpose Special Fund and shall be available for use as part of such Fund, free of any requirement or restriction made pursuant to Sections 3.04 or 3.05 hereof.

Article 6 Accounting and Reports

Section 6.01 Separation of Operations

The Special Funds resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separate from its ordinary capital resources.

Section 6.02 Accounts and Audit

(a) The financial statements of the Bank shall show its ordinary operations and special operations separately.

(b) The Bank shall maintain accounts adequate to record the special operations of the Bank and to reflect in accordance with generally accepted accounting principles the status of the Conso-

lidated Special Funds showing the set-aside resources, the contributed resources and the accrued resources, the operations of each Special Fund and the projects and programmes financed thereby.

(c) The accounts of the Consolidated Special Funds shall be audited at the close of each financial year by the outside auditors of the Bank and shall be subject to the same audit requirements by the Bank's internal and outside auditors as apply to the accounts of the Bank's ordinary capital resources.

(d) The Board of Directors shall submit to the Board of Governors for approval at its Annual Meeting the audited financial statements of the Consolidated Special Funds including a general balance sheet and a statement of income and expenditure together with statements relating to the set-aside resources, the contributed resources and the accrued resources, and each Special Fund.

Section 6.03 Reports

The Bank shall include in its quarterly and annual reports a separate section in respect of the Consolidated Special Funds, and each Special Fund thereunder, containing appropriate information on contributions, projects and programmes financed by the Special Funds resources and the receipts and disbursements of, and the balances in, each Special Fund.

Article 7 Administrative Expenses Losses and Liabilities

Section 7.01 Administrative Expenses of Special Operations

(a) Administrative expenses of the Bank appertaining directly to any special operation shall be charged first to the accrued resources derived from the service fee. Any balance of such expenses shall be charged:

(i) firstly to income arising from the resources from which the operation was financed (namely, income arising from set-aside resources, accrued resources or the particular contributor's contributed resources) and, where the relevant contribution agreement so provides, to all other income arising from the contribution of the relevant contributor to the Consolidated Special Funds; and

(ii) secondly to the principal of the resources from which the operation was financed (namely, set-aside resources, accrued resources or the particular contributor's contributed resources).

Where the financing for such operation was drawn from more than one source, such balance shall be apportioned among the respective sources of Special Funds resources drawn upon in proportion to the amount of financing drawn from each at the completion of drawings and charged first to such income and thereafter to the principal of such resources.

(b) Any other expenses shall be charged as the Bank shall determine.

Section 7.02 Charging for Losses and Liabilities

(a) Any charge to be made for a loss or liability arising out of any special operation shall be made to the Special Funds resources from which such operation was financed. Where the finance for such operation was drawn from more than one source, the charge for loss or liability shall be apportioned among the respective sources of Special Funds resources drawn upon in proportion to the amount of financing drawn from each at the completion of drawings. The Bank will consult with any relevant contributor prior to making a charge for a loss arising from a special operation.

(b) Under no circumstances shall the ordinary capital resources of the Bank be charged with, or used to discharge, any loss or liability arising out of special operations or other activi-

ties for which Special Funds resources were originally used or committed.

Article 8 Termination and Withdrawal

Section 8.01 Termination

(a) The Bank may, after consultation with the relevant contributors, terminate the Bank's administration of one or more of the Special Funds.

(b) The Bank's administration of the Consolidated Special Funds and of every Fund included therein shall terminate automatically upon termination by the Bank of its operations pursuant to Article 45 of the Article.

Section 8.02 Disposal of Resources on Termination

Upon termination of the Bank's administration of any Special Fund the resources of which are not reallocated, or upon termination of the Bank's administration of the Consolidated Special Funds, the Bank shall take the following action with respect to the Special Funds resources affected by such termination:

(a) forthwith cease all activities relating to such resources, except those incident to their orderly realization, conservation and preservation and settlement of the direct or contingent obligations to which they may be subject;

(b) dispose of the balance of any set-aside resources as directed by the Board of Governors;

(c) subject to paragraph (d) of this Section, dispose of the balance of (i) any contributed resources and of (ii) any accrued resources derived therefrom (other than those derived from the service fee) as they become available for disposition, by making pro rata distributions thereof to the relevant contributors proportionate to their respective residual interests in such resources:

(d) dispose, in accordance with such other arrangements for disposition, subject to the continuing application of Sections 7.01 and 7.02 hereof, as may be required by the relevant contribution agreement, of the balance of (i) any contributed resources provided to the Bank in the form of a loan repayable from repayments received by the Bank from recipients in special operations financed from such resources, and of (ii) any accrued resources derived from such contributed resources (other than accrued resources derived from the service fee);

(e) dispose of the balance of any accrued resources derived from set-aside resources and of those derived from the service fee as the Bank shall determine.

Section 8.03 Withdrawal of Contribution

Where a contribution agreement provides that a contributor may after consultation with the Bank withdraw all or part of the balance of (i) its contributed resources and of (ii) any accrued resources derived therefrom (other than those derived from the service fee), the Bank shall upon receipt of notice of withdrawal forthwith cease all activities relating to the resources involved, except those incident to their orderly realization, conservation and preservation, and settlement of the direct or contingent obligations to which they were subject at the date of receipt of such notice. The Bank shall within a reasonable period thereafter (unless such notice is cancelled) transfer to the contributor such of the said resources as are in the possession of the Bank and are not required for the purposes of settlement of any of such obligations, and shall transfer the balance of such resources as and when received by the Bank.

Article 9 Amendments

Section 9.01 Amendments

(a) The Bank may at any time amend or revoke these Rules and Regulations. No such amendment or revocation shall be effective in respect of any prior contribution agreement without the consent of the contributor concerned.

(b) Subject to any provision for amendment contained therein, the Bank and a contributor may at any time by agreement amend a contribution agreement.

Article 10 Arbitration

Section 10.01 Arbitration

If a disagreement outside the scope of Article 60 of the Articles should arise between the Bank and a contributor concerning any matter arising out of or in connection with the contribution agreement between the Bank and that contributor which cannot be settled by consultation between the parties, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators. One of the arbitrators shall be appointed by the Bank, another by the contributor, and the third, unless the parties otherwise agree, by the President of the International Court of Justice, or such other authority as may have been prescribed by regulations adopted by the Board of Governors for the purpose of Article 61 of the Articles. A majority vote of the arbitrators shall be sufficient to reach a decision which shall be final and binding upon the parties. The third arbitrator shall be empowered to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

NATIONAL ADVISORY COUNCIL
on International Monetary
and Financial Policies

SPECIAL REPORT

to the President
and to the Congress

ON INCREASES IN THE RESOURCES OF THE
INTERNATIONAL MONETARY FUND
AND THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MARCH 1970

(77)

NATIONAL ADVISORY COUNCIL
ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES

SPECIAL REPORT

TO THE PRESIDENT AND TO THE CONGRESS
ON INCREASES IN THE RESOURCES OF THE
INTERNATIONAL MONETARY FUND
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MARCH 1970

Members of the Council

Secretary of the Treasury, Chairman
Secretary of State
Secretary of Commerce
Chairman, Board of Governors of the
Federal Reserve System
President and Chairman, Export-Import
Bank of the United States

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"Communication from the President of the United States and Special Report of the Council Relative to Proposed Increases in Quotas of the International Monetary Fund," March 1965. House of Representatives Document No. 121, 89th Congress, 1st Session.

"Special Report to the President and to the Congress on Increases in the Resources of the International Monetary Fund and the International Bank for Reconstruction and Development," February 1959. House of Representatives Document No. 77, 86th Congress, 1st Session.

**SPECIAL REPORT OF THE NATIONAL ADVISORY COUNCIL ON INCREASES
IN THE RESOURCES OF THE INTERNATIONAL MONETARY FUND AND THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

I. INTRODUCTION

The Executive Directors of the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) have proposed increases in the resources of these two institutions. The National Advisory Council, having considered these proposals, believes that increases in the resources of these two outstandingly successful institutions are in the interest of the United States. Accordingly, the Council recommends to the President and to the Congress the enactment of legislation to authorize participation by the United States. The Executive Directors of the International Monetary Fund have recommended that total quotas in that institution be raised from their current level of about \$21.3 billion to approximately \$28.9 billion, an increase of \$7.6 billion. The proposed increase in the United States quota is \$1,540 million. The Executive Directors of the World Bank have recommended that, in accord with long-standing practice, the Bank be authorized to accept special increases in capital subscriptions from 75 member countries paralleling increases in their quotas in the International Monetary Fund. The authorized capital of the Bank would be increased by \$3 billion and the U.S. subscription would be increased by \$246.1 million.

In furtherance of its responsibilities under Section 4(b) (7) of the Bretton Woods Agreements Act, the Council submits this Special Report, recommending that the United States promptly participate in the proposed increase in resources of the International Monetary Fund and World Bank by: (1) consenting to an increase in the United States' quota in the Fund from \$5,160 million to \$6,700 million; (2) agreeing to an increase of \$3 billion in the authorized capital stock of the World Bank; and (3) subscribing to 2,461 additional shares, amounting to \$246.1 million, in the World Bank.

II. THE INTERNATIONAL MONETARY FUND

A. Summary and Recommendations

The National Advisory Council on International Monetary and Financial Policies recommends to the President and to the Congress the enactment of legislation for increasing the quota of the United States in the International Monetary Fund by \$1,540 million, raising the quota from \$5,160 million to \$6,700 million. The Council believes that the proposed expansion of Fund quotas, of which the United States increase would be part, will make an important contribution to international financial stability and to the economic well-being of the Free World.

Submitted with this report is the Report of the Executive Directors to the Board of Governors of the IMF entitled "Increases in Quotas of Members - Fifth General Review," dated December 30, 1969. The Report of the Executive Directors includes a proposal by the Board of Governors for an increase in the quotas of all members of the Fund with the exception of the Republic of China. Should all members accept their increases, aggregate Fund quotas would increase by \$7.6 billion, from the current level of about \$21.3 billion to approximately \$28.9 billion.

Under the Bretton Woods Agreements Act of 1945, as amended, the United States Governor may not "request or consent to any change in the quota of the United States" unless Congress by law authorizes such action. The draft legislation which will be submitted to the Congress will (a) provide the necessary authority for the United States Governor to consent to the increase in the U.S. quota and (b) authorize the appropriation of \$1,540 million. Of the proposed appropriation, \$385 million will cover the required 25 percent gold payment when the United States accepts its quota increase. The balance of the appropriation will permit the United States to issue to the Fund a letter of credit in the amount of \$1,155 million. Both the gold payment and the letter of credit represent monetary transactions and do not constitute budgetary expenditures. The President's Commission on Budget Concepts described United States

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transactions with the International Monetary Fund as, "monetary exchanges through which the United States receives international reserve assets", and recommended that, "Subscriptions, drawings, and other transactions reflecting net changes in the U. S. position with the International Monetary Fund should be excluded from budget receipts and expenditures".

The Fund's proposal for increasing quotas arises from the continuing expansion of world trade and payments. The drafters of the Articles of Agreement recognized that the Fund would have to grow as production and trade expanded and the Articles provide for a review of Fund quotas every five years. In 1958/59 a review led to a general quota increase of 50 percent and selective increases for a few countries to reflect their more rapid rates of growth. The United States accepted the general increase of 50 percent, increasing its quota from \$2,750 million to \$4,125 million. In 1965 the general quota increase was 25 percent and selective increases were again proposed for and accepted by a number of countries. Again the United States accepted the general increase of 25 percent, further increasing its quota to \$5,160 million.

The National Advisory Council has considered the Fund's proposal for another increase in quotas and has concluded that an increase at this time is fully justified in terms of the requirements of the international community for a growth in conditional liquidity which the Fund provides. The Council finds that acceptance of the full quota increase proposed for the United States is clearly in the national interest. Accordingly, the National Advisory Council recommends to the President and to the Congress the enactment of legislation to authorize acceptance of the proposed increase in the quota of the United States.

B. Operations of the Fund

The International Monetary Fund has grown in size and importance since it was established at the close of World War II. At the end of its first full year of operation the Fund had 44 member nations and resources of \$6.5 billion. By the end of 1969 it had grown to a membership of 115 nations and resources of \$21.3 billion.

These resources have been used with increasing effectiveness to promote international monetary cooperation and to facilitate the expansion and balanced growth of international trade which are the primary purposes of the Fund.

Quotas play a vital role in the operations of the Fund. They determine the size and initial composition of Fund resources, fix the relative voting strength of individual members, affect the amounts that members can draw, and determine the distribution of Special Drawing Rights.

In its ordinary credit operations, the Fund utilizes the gold and foreign currencies subscribed by members in the form of quotas. These resources are lent to member countries "to enable countries in deficit to defend exchange rates that are realistic, and to avoid measures, such as restrictions or deflation, that would be harmful to national or international prosperity while at the same time ensuring the adoption of measures designed to correct the disequilibrium within a reasonable period of time".^{1/} The credits extended by the Fund are normally of a medium-term nature, repayable within three to five years, and are made available by permitting a member to draw needed currencies from the Fund in exchange for an equivalent amount of its own currency. Repayments to the Fund consist essentially of a reversal of this procedure; the drawing country is required to repurchase its own currency from the Fund with gold, Special Drawing Rights or convertible currencies acceptable to the Fund. Thus, the assets of the Fund are not reduced when it lends to a member country; only the composition of the Fund's assets is changed.

In addition to the growth in its ordinary credit operations, the Fund's impact on international monetary affairs has expanded in recent years through the establishment of new facilities and new techniques. Brief references are made below to the General Arrangements to Borrow (GAB), the Compensatory Financing of Export Fluctuations and the amendment establishing the facility for Special Drawing Rights (SDR).

^{1/} IMF Annual Report, 1969, p. 29.

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Currently the Executive Directors are studying the balance of payments adjustment process and specifically the mechanism by which exchange rates can be changed. The rapid growth in the size and volatility of short-term capital movements during the past decade has accentuated the severe and sudden pressures that arise from time to time on the exchange rates of major countries. The severe exchange speculations of 1964-69 have raised questions about the functioning of the Fund's par value and exchange rate adjustment system and have led to suggestions for some more flexibility, within narrow limits, in the movement of exchange rates. The Executive Directors are studying the proposals for limited exchange flexibility that have been put forward by a number of economists. At the Annual Meeting of the Fund at the end of September, Mr Schweitzer noted the wide recognition that, "where other measures of adjustment are unlikely to be successful, or could conflict with important policy objectives, exchange rate adjustment should not be ruled out." He noted that controversial questions have been raised as to whether provision should be made for exchange rates to respond at an earlier stage, by modifying in some degree the existing arrangements for exchange rate variation. He suggested that this study could investigate "whether a limited increase in flexibility of exchange rate variation would be desirable and attainable with the necessary safeguards; and through what means any such increased flexibility might be achieved." The comments of Governors at the meeting were taken by the Managing Director as supporting this approach to the study.

Secretary Kennedy was among those Governors who touched on this subject. He welcomed the proposed study and said that the United States would actively participate in it. In his comments, the Secretary stressed that any such plan to remove undesirable rigidities in exchange rates should be based upon responsible and appropriate internal policies, to avoid the need for large discrete changes in parities. He said it was important to the United States that any such plan have safeguards against the possibility of encouraging a bias toward devaluations.

C. Use of Fund Resources

The availability of Fund resources to finance payments imbalances is determined primarily by the Fund's holdings of the major convertible currencies.

Table 1 International Monetary Fund, Currencies Drawn and Repurchases,
March 1, 1947 to November 30, 1969

(Millions of U.S. dollars)

Calendar Years	Drawings			Repayments by Repurchase			
	U.S.		Other Currencies	U.S.		Other	
	Total	%		Total	%	Currencies	Gold
(1947-1969)	20,169	7,312 (36)	12,857	10,309	3,840 (37)	5,421	1,048
1969	2,871	1,341 (47)	1,530	1,585	268 (17)	1,235	82
1968	3,552	806 (23)	2,746	1,286	---	1,201	86
1964-1967	6,666	837 (13)	5,829	2,296	6 *	2,215	81
1959-1963	3,856	1,414 (37)	2,442	3,701	2,469 (67)	774	458
1947-1958	3,224	2,916 (90)	308	1,440	1,097 (76)	---	342

Source: International Financial Statistics
January 1970

* less than one percent

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Its holdings of these currencies change periodically as a result of changing balance of payments circumstances of member countries. During the decade following World War II dollars comprised 90 percent of all currencies drawn from the Fund. As other currencies strengthened and regained convertibility, the percentage of dollars used in Fund drawings gradually declined, as shown in Table 1. The U.S. balance of payments deficit and falling reserves contributed to reduced drawings of dollars so that the dollar comprised only 13 percent of Fund drawings during the four-year period 1964 to 1967. The return to a United States surplus on the official settlements basis during 1968 and 1969 has increased the Fund's use of dollars. By the end of December 1969 the Fund's holdings of U.S. dollars had been reduced to 55 percent of the U.S. quota, thus moving the U.S. back into a "super gold tranche" position. 1/

As a reflection of continuing payments imbalances, particularly among the major industrial countries, recurring uncertainties in foreign exchange markets, and the growing volatility of international capital movements, use of the Fund's resources by member countries has increased sharply in recent years. The biggest increase in the use of Fund resources in 1968 and 1969 has been on the part of the major industrial countries. The Fund's holdings of currencies of the Group of Ten countries increased from 75 percent of quota in December 1964 to 88 percent in December 1969 (Table 2), but the largest part of this growth has occurred during the past two years. From 1960 to 1967 only the United States, the United Kingdom, Canada, and Italy among the larger industrial countries drew from the Fund; only the United Kingdom drew more than once. In 1968 three of the major countries (the United Kingdom, France and Canada), and in 1969 five countries (the United Kingdom, Belgium, France, Denmark and Germany) drew from the Fund. While there has

1/ The "gold tranche" drawing right is the right to draw automatically an amount equal to the gold paid into the Fund by a member in subscription - normally 25 percent of quota, minus cumulative net use of the Fund's resources. The "super gold tranche" represents a further right to draw automatically to the extent of any net creditor position resulting from prior drawings of a given currency by other members. This "super gold tranche", use of which is not subject to repurchase, is measured by the extent to which the Fund's holdings of a member's currency fall below 75 percent of that member's quota.

Table 2 International Monetary Fund Quotas and Holdings of Gold and Member Currencies
(Expressed in millions of U.S. dollars)

Member	December 31, 1969			December 31, 1964			December 31, 1958		
	Quota	Currency Holdings	Percent of Quota	Quota	Currency Holdings	Percent of Quota	Quota	Currency Holdings	Percent of Quota
United States	5,160	2,836	55	4,125	3,356	81	2,750	792	29
United Kingdom	2,440	4,681	192	1,950	2,466	126	1,300	1,618	124
Belgium	422	267	63	338	167	49	225	169	75
France	985	1,484	151	788	268	34	525	787	150
Germany	1,200	898	75	788	55	7	330	183	55
Italy	625	313	50	500	359	72	180	--	--
Netherlands	520	203	39	413	188	45	275	206	75
EC - Subtotal ^{1/}	3,771	3,180	84	2,842	1,049	37	1,545	1,355	88
Canada	740	357	48	550	368	67	300	210	70
Japan	725	256	35	500	300	60	250	188	75
Sweden	225	169	75	150	78	52	100	75	75
G 10 - Subtotal	13,042	11,464	88	10,100	7,603	75	6,235	4,228	68
Other Industrial ^{2/}	507	249	49	320	186	58	178	152	85
Other Developed ^{3/}	1,770	1,314	74	1,264	1,002	79	612	505	83
Less Developed ^{4/}	6,031	5,802	96	4,171	3,807	91	2,168	1,853	85
Total	21,350	18,830	--	15,855	12,598	--	9,193	6,738	--
IMF Gold Account	--	2,310	--	--	2,179	--	--	1,332	--

^{1/} Includes Luxembourg
^{2/} Austria, Luxembourg, Denmark, Norway
^{3/} Countries as shown in IFS
^{4/} 89 countries

Source: IMF, "International Financial Statistics"

been a general improvement in the reserve position of the less developed countries in recent years, they continue to rely upon significant financial assistance from the Fund. As of December 31, 1969, the less developed countries had net drawings outstanding from the Fund in excess of \$1.5 billion.

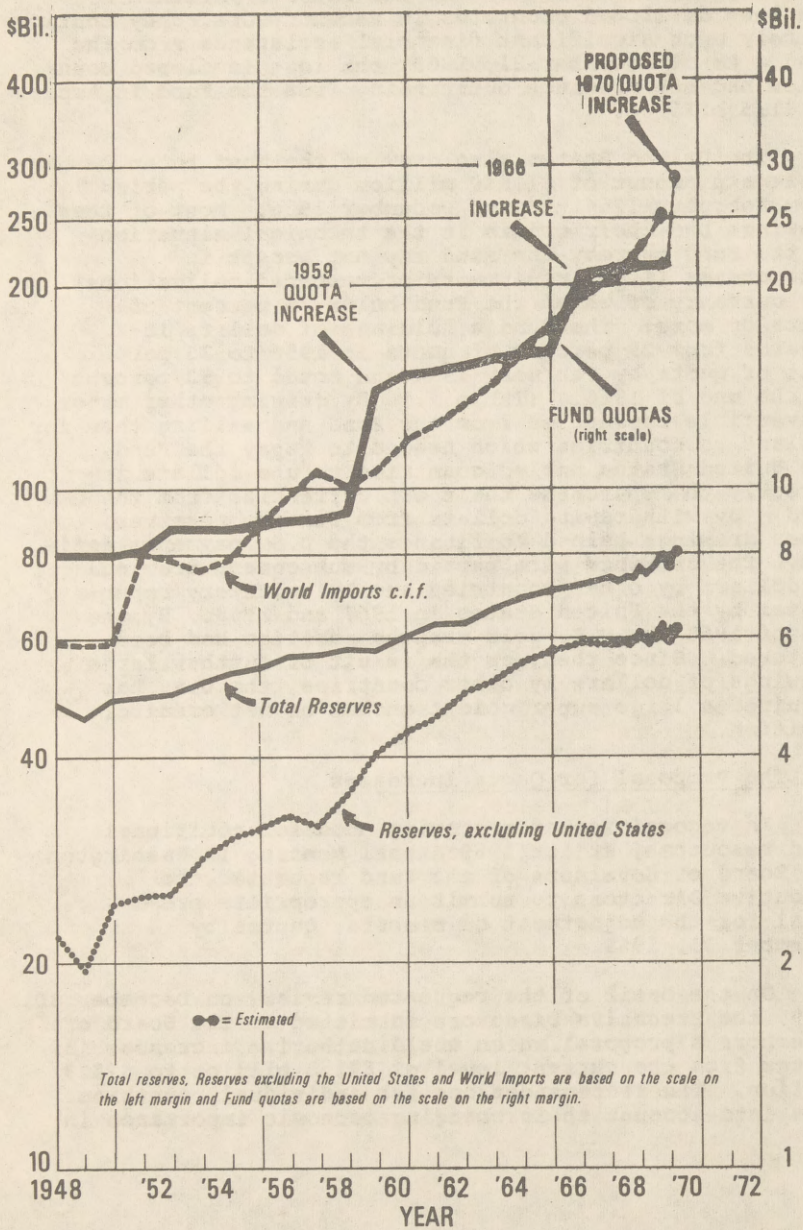
The United States also drew on the Fund to an aggregate amount of \$1,840 million during the period from February 1964 through December 1966. Most of these drawings had their origin in the technical situation in the Fund whereby the Fund may not accept in repurchases (i.e., repayments of members' obligations) any currency of which the Fund holds 75 percent of quota or more. The Fund's holdings of dollars increased from 29 percent of quota in 1958 to 75 percent of quota by February 1964 and moved to 93 percent at the end of 1966. (Table 2.) By drawing other major convertible currencies from the Fund and selling them for dollars to countries which needed to repay the Fund, the United States enabled countries to use dollars indirectly to repurchase their own currencies from the Fund. By withdrawing dollars from foreign reserves, these drawings helped to finance the U.S. payments deficit. The drawings were repaid by subsequent drawings of dollars by other countries and by voluntary repurchases by the United States in 1967 and 1968. By the end of 1968 the U.S. gold tranche position had been restored. Since then, as the result of further large drawings of dollars by other countries, the U.S. has acquired a large super gold tranche, or net creditor position.

D. The Proposal for Quota Increases

In recognition of a growing need for additional Fund resources, at its 1969 Annual Meeting in Washington the Board of Governors of the Fund requested the Executive Directors to submit an appropriate proposal for the adjustment of members' quotas by December 31, 1969.

On the basis of the requested review, on December 30, 1969 the Executive Directors submitted to the Board of Governors a proposal which would authorize increases in quotas from the current level of \$21.3 billion to \$28.9 billion. The recommendations for individual countries take into account their changing economic importance in

WORLD RESERVES, IMPORTS AND FUND QUOTAS 1948 to 1969



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world trade and output. The proposal also provides the less developed countries with somewhat higher quota shares than they would have received under a strict application of a statistical formula. The Executive Directors' proposal is included as an Appendix to this Report.

Article III, Section 2 of the Articles of Agreement of the International Monetary Fund provides: "The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment of the quotas of the members." An 85 percent majority of the total voting power is required for any change in quotas proposed as the result of a general review, and no quota can be changed without the consent of the member concerned. United States legislation requires the specific approval of the Congress before this consent can be given in the case of the United States.

Under this provision of the Articles, the first increase in quotas took place in 1958-59. At that time there was a general increase of 50 percent, which raised the resources of the Fund in gold and member currencies from \$9.2 billion to \$14.3 billion. (See Chart on World Reserves, Imports and Fund Quotas.) As a part of the 1958-59 review, adjustments were also made to a number of individual country quotas, permitting increases larger than 50 percent. This was done to achieve a more satisfactory relative position among member countries, and to take into account the changing situation of different parts of the world during the period 1944 to 1957.

The second increase in quotas took place in 1965-66. This adjustment resulted in a 25 percent enlargement of the Fund. Coincidental with this general increase, 16 member countries were given quota adjustments of larger percentages. One of the main purposes of these selective adjustments in 1965 was to provide the Fund with additional resources in the currencies of Germany, Canada and Japan.

The current proposal of the Executive Directors calls for an increase in resources of the Fund from the current level of \$21.3 billion to \$28.9 billion, or by about 35 percent. On this occasion the distinction between a uniform general increase for all members and additional selective increases for some members was not made so

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clearly as in the past, and the Executive Directors do not draw this distinction in their recommendation. On this occasion a major effort was made to readjust the relative proportions of quotas, since a large number of countries that had not in the past taken full advantage of their potentialities for quota enlargement decided to do so.

The proposed increase in quotas will strengthen the international monetary system by providing the Fund with substantial additional resources, a large part of which will be in currencies which the Fund can now use for drawings. Of the total increase of \$7.6 billion, the United States will provide \$1.54 billion, other members of the Group of Ten \$3 billion, and the rest of the world \$3.1 billion. Thus the Fund will have available approximately 25 percent, or \$1.9 billion,^{1/} of the quota increase in the form of gold, plus \$2.2 billion in the currencies of the highly industrialized countries. In addition, an increasing number of other members of the Fund have reached the stage at which their currencies can also be utilized in the Fund's operations.

The availability of the medium-term credit facilities provided by the Fund provides strong support to the international monetary system. Countries faced with temporary pressure on their balance of payments can bolster their reserve positions by obtaining credit from the Fund, normally with 3 to 5 years repayment terms. These medium-term credit availabilities make it possible for borrowing countries to seek an orderly adjustment in their international accounts. To be effective in coping with exchange speculation, substantial amounts of IMF credit are often needed, as short-term central bank credit facilities may not fully meet the needs of the situation in all cases. Moreover, it may prove advisable to convert the shorter-term facilities first relied upon into medium-term obligations to the Fund. During the past several years it has become increasingly obvious that very large amounts of reserves may be lost within a short time when a major currency is under speculative pressure. Additional IMF resources will clearly be of value in either avoiding or meeting such pressures in the future.

^{1/} This amount will be reduced by the amount of Fund's sales of gold for usable currencies under the mitigation provisions described in Section E.

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The use of IMF resources, particularly in the upper credit tranches, is usually associated with stabilization programs for member countries. Such programs provide conditional credit resources, in some cases make available experienced technical advice and assistance, and bring to bear the weight of international judgment to help countries correct situations of serious inflation and weakening confidence in the member's currency. A number of such programs have been carried out during the past decade, and many of them have scored significant success. The enlarged quotas will enable the Fund to command resources for these programs more commensurate with present and future needs.

As indicated above, the United States share in this overall increase is \$1,540 million, an increase of 29.8 percent over the present U. S. quota of \$5,160 million. Although on this occasion the Fund has not cited a specific figure for the underlying general increase, there is in the current proposals a minimum increase of 25 percent that applies with one or two exceptions. The United States increase, in other words, will thus be larger than that of a number of the member countries. For the first time, the United States will be joining those countries whose quotas are being adjusted by more than the basic minimum general increase. At the same time, the United States is not enlarging its quota by as much as the overall average increase of about 35 percent.

The quota increase proposed for the United States will provide a means of supplementing our reserves in the event of need. During the past two years the United States has had an official settlements surplus in its balance of payments due to very large borrowing abroad by American banks and corporations. Foreign borrowing on this scale cannot be counted on to persist in future years, and the ability to draw on the Fund may again prove useful to the United States, as it did in 1964-66. An enlarged quota would provide additional scope for such drawings if needed.

There are, however, other factors supporting the proposal for raising the U.S. quota in the amount recommended. Application of the so-called "Bretton

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Woods Formula", ^{1/} which is used as a rough statistical guide to the relative size of quotas, would entitle the United States to a substantially larger figure. With industrial countries in general now seeking to bring their quotas closer to their calculated maxima than they have been in the past, it is appropriate for the United States to take a quota increase larger than the basic figure of 25 percent. Quotas determine relative voting power in the Fund, and quotas also fix a country's share in the allocations of Special Drawing Rights. Under the proposed increase, our voting position would remain above 21 percent. ^{2/} The procedure for amending the Articles of Agreement requires the approval of 80 percent of the total voting power. The United States is thus protected against the unlikely possibility of amendments to which it might be strongly opposed. It is also important, however, to maintain without too much change the present balance of voting positions in the Fund, and the size of the proposed increase in the U.S. quota is an important element in maintaining this balance.

Assuming that all countries accept the quotas recommended for them, the U. S. share in total quotas would be 23.2 percent, as against 24.2 percent now. This percentage determines the United States share in new allocations of Special Drawing Rights, and we expect that the new quotas will become effective before the second installment of the first allocation of Special Drawing Rights takes place on January 1, 1971. The United States reserve position steadily declined from 1950 to early 1968. Given the growing size of the United States economy, the rising volume of our trade, and our heavy liabilities as a reserve center, United States reserves have become relatively small and need to be rebuilt. A number of industrial countries now have substantially larger reserves than the United States relative to their IMF quotas. As monetary gold is

^{1/} The revised Bretton Woods formula used by the Fund to calculate approximate relative quota positions for each member is: $(.01Y + .025R + .05M + .2276V) \times (1 + \frac{1}{X})$ where Y is national income, R is reserves, M is imports, V is the variability of exports, and X is exports.

^{2/} Voting power in the Fund is calculated as the sum of the basic vote of 250 and one vote for each part of a country's quota equivalent to \$100,000. For example, the U. S. voting power would be 67,250 or 250 plus 67,000, the U. S. quota of \$6,700 million divided by \$100,000.

TABLE 3. RATIOS OF AGGREGATE FUND QUOTAS AND CREDIT TRANCHE POSITIONS TO IMPORTS,¹ 1952-68
(In per cent)

	Quotas/Imports		Credit Tranche Positions/Imports	
	All members ²	48 members ³	All members ²	48 members ³
1952	10.7	13.9	8.2	11.2
1953	11.6	14.5	9.0	11.8
1954	11.1	14.0	9.5	11.8
1955	9.9	12.6	8.9	11.1
1956	9.1	11.4	7.9	10.0
1957	8.4	10.6	6.9	8.8
1958	9.1	11.2	7.2	9.0
1959	10.9	13.1	9.5	11.5
1960	12.1	14.5	11.2	13.4
1961	12.0	14.6	10.6	13.1
1962	11.4	13.7	9.9	12.0
1963	10.7	12.6	9.4	11.2
1964	9.8	11.4	8.5	10.0
1965	9.1	10.7	7.5	8.6
1966	9.5	11.0	7.8	8.5
1967	10.3	11.7	8.8	9.7
1968	9.4	10.6	7.9	8.6

Source: *International Financial Statistics*.

¹ Quotas and credit tranche positions are averages of beginning-of-year and end-of-year figures.

² Imports are world totals from *International Financial Statistics* rather than imports of all Fund members.

³ Forty-eight members whose membership extended from before January 1, 1952 to after December 31, 1968.

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expected to become a smaller component of world reserves in the future, Special Drawing Rights and claims on the Fund provide the source to which we must mainly look for growth in our reserves. With the proposed increase in quotas, we will continue to be entitled to an appropriate share in the distribution of this new form of reserves.

The overall quota increase of \$7.6 billion recommended by the Executive Directors was based upon several trends and relationships: the rate of growth of world imports, the growth of the basic economic components of a revised Bretton Woods formula, and the appropriate relationship between reserve growth and the growth of conditional liquidity.

The proposed increase in Fund quotas is needed primarily to provide for adequate growth of conditional liquidity along with rapidly rising world trade and output. World imports increased more than 50 percent between 1962 and 1967, the years on which the Fund based its statistical calculations for the proposed quota increases. Table 3 shows the declining ratio of quotas to imports. This ratio fell from 12.1 percent in 1960 to 10.3 percent in 1967 in spite of the 1965-66 quota increase. By 1968, the quota/import ratio had fallen below 10 percent. For 48 countries who were members during the whole period of 1952-68, the corresponding ratios show a somewhat sharper decline from 14.5 percent in 1960 to 10.6 percent in 1968 and an estimated 8.5 percent at the end of 1969. The proposed new quotas, if all countries accepted their increases, would result in an estimated ratio of quotas to imports of about 10.7 percent at the end of 1970.

Table 3 also shows the trend of the ratio of unused Fund credit tranche positions to imports. These unutilized credit tranche positions comprise the conditional credit or liquidity which is actually available to Fund members. ^{1/} Again the ratio has been moving downward, at an even sharper rate as more use has been made of Fund credit resources. This decline would

^{1/} Credit tranche positions are defined as equivalent to quotas less drawings outstanding in the credit tranches or credit tranche use.

TABLE 4 QUOTAS AND VOTING POWER IN THE INTERNATIONAL MONETARY FUND
BY MAJOR COUNTRY AND GROUPINGS

Member	Present Quotas		Quotas		Proposed Quotas		% Increase over Present Quota		Voting Power	
	Millions U.S. \$	Percent Total	Millions U.S. \$	Percent Total	Millions U.S. \$	Percent Total	Present	Proposed	Percent Total	Percent Total
United States	5,160	24.17	6,700	23.16			29.8	21.40	21.15	
United Kingdom	2,440	11.43	2,800	9.68			14.8	10.18	8.88	
Belgium	422	1.98	650	2.25			54.0	1.85	2.12	
France	985	4.61	1,500	5.19			52.3	4.17	4.80	
Germany	1,200	5.62	1,600	5.53			33.3	5.06	5.11	
Italy	625	2.93	1,000	3.46			60.0	2.68	3.22	
Netherlands	520	2.44	700	2.42			34.6	2.25	2.28	
EC - Subtotal <u>1/</u>	(3,771)	(17.66)	(5,474)	(18.93)			(45.2)	(16.19)	(17.53)	
Canada	740	3.47	1,100	3.80			48.6	3.16	3.54	
Japan	725	3.40	1,200	4.15			65.5	3.10	3.85	
Sweden	225	1.05	325	1.12			44.4	1.03	1.10	
G 10 - Subtotal	13,042	61.08	17,575	60.76			34.8	54.88	56.05	
Other Industrial Nations (4) <u>2/</u>	507	2.37	794	2.74			56.6	2.51	2.81	
Other Developed Nations (12) <u>3/</u>	1,770	8.30	2,545	8.82			43.8	8.54	8.94	
Less Developed (89)	6,031	28.25	8,014	27.70			32.9	33.98	32.10	
Total (115)	21,350	100.00	28,928	100.00			35.5	100.00	100.00	

1/ EEC includes Germany, France, Italy, Netherlands, Belgium and Luxembourg. The latter is not included in the G 10.
2/ Other Industrial Nations include Austria, Denmark, Luxembourg and Norway.
3/ Other Developed Nations include Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Spain, Turkey, and Yugoslavia.

Source: International Monetary Fund.

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have been even greater had it not been for the acquisition of many new Fund members over these years. For those countries that have been members since the establishment of the Fund, there has been a steeper secular fall.

The underlying need for larger resources in the Fund is also brought out by the increases that have taken place in the world's income and trade, as measured by the "Bretton Woods formula". Calculations of the growth in the magnitudes of the components of the revised Bretton Woods formula between 1962 and 1967 would, the Fund estimates, result in a 52 percent increase in total calculated Fund quotas, substantially more than the 35.5 percent increase proposed by the Executive Board.

The Executive Directors state that "the increase in Fund quotas which may be appropriate from time to time must be assessed chiefly on the basis of factors affecting the need for international liquidity in general and the need for conditional liquidity in particular." The Fund's Annual Report estimates the needs for reserve growth in all forms at \$4 to \$5 billion a year, or about 5 to 6.5 percent.

The proposed increases in quotas also reflect changes in the relative economic importance of the Fund members. The quota shares of Japan, Italy, France and Canada will increase relative to other Fund members. The quota share of the less developed countries will decrease slightly from 28.3 percent to 27.7 percent but the decrease would have been considerably greater if the purely statistical criteria for determining quotas had been applied mechanically.^{1/} In absolute terms the quotas of the less developed countries will rise from \$6,032 million to \$8,014 million. (See Table 4.) The proposed 29.8 percent increase in the U. S. quota is less than the average increase of 35.5 percent, resulting in a decline in the U. S. quota share from 24.2 percent to 23.2 percent. The present and proposed quotas of each Fund member are listed in Table 5.

^{1/} As noted earlier the Republic of China did not receive any quota increase. Excluding China, the less developed countries' share of quotas increased slightly from 25.7 to 25.8 percent.

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Table 5. Present IMF Quotas and Proposed Maximum Quotas
(In millions of U.S. dollars)

	<u>PRESENT^{1/} QUOTAS</u>	<u>PROPOSED MAXIMUM QUOTA</u>
Total	21,350	28,928
Afghanistan	29	37
Algeria	75	130
Argentina	350	440
Australia	500	665
Austria	175	270
Belgium	422	650
Bolivia	29	37
Botswana	3	5
Brazil	350	440
Burma	48	60
Burundi	15	19
Cambodia	19	19 ^{2/}
Cameroon	18.2	35
Canada	740	1,100
Central African Republic	9.5	13
Ceylon	78	98
Chad	10	13
Chile	125	158
China	550	550
Colombia	125	157
Congo (Brazzaville)	10	13
Congo, Democratic Republic of the	90	113
Costa Rica	25	32
Cyprus	20	26
Dahomey	10	13
Denmark	163	260
Dominican Republic	32	43
Ecuador	25	33
El Salvador	25	35
Ethiopia	19	27

^{1/} As of December 31, 1969

^{2/} Since Cambodia became a new member on December 31, 1969,
no maximum quota was proposed.

Table 5. (continued)

	<u>Present Quotas</u>	<u>Proposed Maximum Quota</u>
Equatorial Guinea	6	8
Finland	125	190
France	985	1,500
Gabon	9.5	15
Gambia, The	5	7
Germany, Federal Republic of	1,200	1,600
Ghana	69	87
Greece	100	138
Guatemala	25	36
Guinea	19	24
Guyana	15	20
Haiti	15	19
Honduras	19	25
Iceland	15	23
India	750	940
Indonesia	207	260
Iran	125	192
Iraq	80	109
Ireland	80	121
Israel	90	130
Italy	625	1,000
Ivory Coast	19	52
Jamaica	38	53
Japan	725	1,200
Jordan	16	23
Kenya	32	48
Korea	50	80
Kuwait	50	114
Laos	10	13
Lebanon	9	56
Lesotho	3	5
Liberia	20	29
Libya	19	67
Luxembourg	19	24
Malagasy Republic	19	26

Table 5. (continued)

	<u>Present Quotas</u>	<u>Proposed Maximum Quota</u>
Malawi	11.25	15
Malaysia	125	186
Mali	17	22
Malta	10	16
Mauritania	10	13
Mauritius	16	22
Mexico	270	370
Morocco	90	113
Nepal	10	14
Netherlands	520	700
New Zealand	157	202
Nicaragua	19	27
Niger	10	13
Nigeria	100	135
Norway	150	240
Pakistan	188	235
Panama	28	36
Paraguay	15	19
Peru	85	123
Philippines	110	155
Portugal	75	117
Rwanda	15	19
Saudi Arabia	90	134
Senegal	25	34
Sierra Leone	15	25
Singapore	30	62
Somalia	15	19
South Africa	200	320
Southern Yemen	22	29
Spain	250	395
Sudan	57	72
Swaziland	6	8
Sweden	225	325
Syria	38	50
Tanzania	32	42

Table 5. (continued)

	<u>Present Quotas</u>	<u>Proposed Maximum Quota</u>
Thailand	95	134
Togo	11.25	15
Trinidad and Tobago	44	63
Tunisia	35	48
Turkey	108	151
Uganda	32	40
United Arab Republic	150	188
United Kingdom	2,440	2,800
United States	5,160	6,700
Upper Volta	10	13
Uruguay	55	69
Venezuela	250	330
Viet-Nam	39	62
Yugoslavia	150	207
Zambia	50	76

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In its recommendation for quota increases, the Fund did not explicitly distinguish between general and special increases as it has on previous occasions. However, Fund calculations of the relative quota shares for member countries were based on a modified version of the original Bretton Woods formula and, in fact, include special increases for most countries. The first element of the calculations was a general increase of 25 percent. (No quota increase was proposed for the Republic of China because its present quota is high in relation to trade and output.) The second element consisted of additional "special increases" increases over and above 25 percent to those countries with more rapid rates of growth of trade and output. Traditionally countries which have accepted "special increases" in their IMF quotas have also made corresponding increases in their subscriptions to the capital of the World Bank. The Executive Directors of the World Bank have recommended that this practice be continued in respect of the present quota adjustment.

Voting power shares in the Fund would be altered slightly as a consequence of the proposed quota increases. (Table 4.) The U. S. voting power share would be reduced slightly from 21.4 percent to 21.2 percent, and the share of the less developed countries would decline from 34.0 percent to 32.1 percent of the total, 1/ while Japan, Canada, France and Italy would experience increases. Since the proposed changes are small, they would not alter significantly the current voting power structure in the Fund.

The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow supported an increase in Fund quotas in a statement following their meeting in Washington on October 1, 1969. Their statement is as follows: "The Ministers and Governors also expressed their willingness to support, during the forthcoming quinquennial review, an appropriate adjustment of the quotas of members of the IMF. They will support general increases of reasonable size and such selective adjustments as may be agreed for the purpose of bringing the relative size of quotas more into line with the present economic relationships between IMF members."

1/ Excluding the Republic of China, which will not receive a quota increase, the voting power shares of the less developed countries decreased from 31.6 percent to 30.3 percent.

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E. Gold Payments to the Fund

The proposed increase in Fund quotas of \$7,600 million will require an equivalent increase in subscriptions of which 25 percent will be in gold and the balance in the currency of the subscribing member. In the Fund Articles, Article II, Section 4 (a) permits a discretionary reduction of this 25 percent gold percentage when a country's reserves are less than the quota proposed for that country. This authority has not previously been exercised, but for the current quota review the Fund has recommended that, if on the date when the member consents to an increase in its quota, its international reserves are less than its new quota, it will be permitted to pay in gold only that proportion of 25 percent of the increase in quota which the member's reserves bear to its new quota. When paying less than 25 percent of the increase in its subscription in gold, a member must undertake to repurchase its additional currency subscription beyond 75 percent of the increase in quota in five equal annual installments.

The gold payments to the Fund will affect the United States gold stock both directly in financing the U.S. gold subscription and indirectly in sales of gold to countries which do not have adequate gold stocks to finance their own subscription. The proposed quota increase for the United States of \$1,540 million will mean a United States gold subscription of \$385 million. This gold payment will have no impact on total U.S. international reserves since the U.S. will receive in return an equivalent reserve asset in the form of an automatic drawing right in the Fund, that is, an increased "gold tranche." The "gold tranche" in the Fund is recognized as a reserve asset and is so defined in all Fund statistics.

Many members will, like the United States, pay their gold subscriptions from their own gold stocks. Members which are not able to cover their gold subscription from their own gold stocks will purchase gold from the United States or other members. Unlike the direct contribution

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of U.S. gold to the Fund to cover the U.S. gold subscription the secondary sale of gold to other members entails a direct loss of U.S. international reserves and of total international liquidity. This occurs because, when a Fund member buys gold from the U.S. with dollars, U.S. gold stocks are reduced without an increase in any other U.S. reserve asset. To offset, or mitigate, the impact of these gold purchases, the Fund has proposed that the Fund sell gold under the provisions of its Articles up to a maximum amount equivalent to \$700 million when the Fund needs to replenish its holdings of the currencies of members from which gold has been purchased by other members.

Details of Fund arrangements to mitigate the effect of these gold payments will be found in paragraphs 15 to 19 of the appended report of the Executive Directors.

U. S. representatives have discussed these arrangements to mitigate the secondary impact on the reserves of the United States with the management and Board of Executive Directors of the Fund and believe they will prove adequate to offset over time the full amount of secondary gold losses by the United States.

F. Entry into Force

Any proposal for changes in the Fund member quotas under the Fund's Articles of Agreement, as revised, must be approved by a qualified majority of the Board of Governors comprising 85 percent of the total voting power in the Fund. Exercise of the power to reduce gold payments in connection with increases in subscriptions, and measures to mitigate the secondary impact of gold payments, also require a majority of 85 percent of the total voting power. Other provisions for putting the proposed quota increases into effect are:

a. That a member accepting the proposed increase notify the Fund of its consent to the quota increase and pay for its enlarged quota;

b. That no increase in quota shall become effective before October 30, 1970;

c. That a member may accept a quota less than its proposed quota, and may increase this amount up to the quota proposed at any time not later than November 15, 1971.

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Acting after having received the advice of the National Advisory Council, Secretary of the Treasury Kennedy, as the U.S. Governor of the Fund, on January 19, 1970, voted in favor of the resolution providing for the increase in quotas. In voting for the resolution the U.S. Governor formally recorded that he was not requesting or consenting to an increase in the U.S. quota and that such action requires the approval of the United States Congress.

G. Other Aspects of Fund Operations

General Arrangements to Borrow - In the world of widespread currency convertibility that has existed since the late 1950's, the growth of the Euro-dollar market and the rise of the multi-national corporation have been accompanied by sharp increases in the size and volatility of capital movements which in turn have created large and volatile swings in the balance of payments of Fund members. As early as 1961 it was recognized that Fund holdings of convertible currencies might not be sufficient to cover the needs of members faced with sizable capital outflows. In that year the ten major industrial members of the Fund (Group of Ten) agreed upon arrangements for lending to the Fund up to a total of \$6 billion in their respective currencies. The currencies made available under the General Arrangements to Borrow (GAB) may be used by the Fund for drawings by members of the Group of Ten when needed to forestall or cope with an impairment of the international monetary system. The GAB does not, however, increase the amounts which an individual member of the GAB may borrow from the Fund. These amounts are still determined by their respective quotas and credit positions in the Fund. Larger quotas would, accordingly, permit greater use of the GAB should such use prove necessary.

From October 24, 1962, when the General Arrangements to Borrow became effective, to September 1969 the Fund borrowed \$2,062 billion from the GAB. As of December 10, 1969, Fund borrowings from GAB members were outstanding in the amount of \$721.5 million and the balances available under the GAB, \$5,167.4 billion, were distributed as follows:

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(in millions of U.S. dollar equivalents)

	<u>Fund Borrowings</u>	<u>Balances Available</u>
United States	-	\$2,000.0
United Kingdom	-	857.1
Belgium	-	150.0
Canada	95.5	104.5
Deutsche Bundesbank	-	1,092.9
France	-	488.9
Italy	300.5	249.5
Japan	158.0	92.0
Netherlands	122.5	77.5
Sveriges Riksbank	45.0	55.0
	<u>721.5</u>	<u>\$5,167.4</u>

Source: IMF Press Release No. 769, December 10, 1969.

Compensatory Financing - The Fund's Compensatory Financing facility has provided an increased amount of credit to the primary producing countries in addition to the credits available under the Fund's regular quota operations. This facility, established in 1963 and enlarged in September 1966, offers assured credit assistance to primary product exporting countries that encounter payments difficulties resulting from temporary short-falls in receipts from exports. In the Fund's fiscal year ending in April 1968, 12 countries availed themselves of this facility to an amount of \$219.7 million. (Table 6.) In the fiscal year ending in April 1969 only two countries, Afghanistan and Iceland, drew on this facility as world market prices of primary commodities showed a strengthening trend. As noted earlier, the less developed countries experienced increases in export earnings and reserves during 1969 which also reduced their ordinary drawings from the Fund.

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Table 6

Purchases of Currencies from The Fund under
Decision on Compensatory Financing

(In millions of U.S. dollars)

	Fund Fiscal Year Ending April 30					
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Afghanistan						4.80
Brazil	60.00					
UAR	16.00				23.00	
Sudan			11.25			
Ceylon				19.50	19.30	
Colombia				18.90	1.90	
Dominican Republic				6.60		
Ghana				17.25		
Burma					7.50	
Guatemala					6.25	
Haiti					2.30	
Iceland					3.75	3.75
India					90.00	
Iraq					17.50	
New Zealand					29.20	
Syrian Arab Republic					9.50	
Uruguay					9.50	
Total	76.00	--	11.25	62.25	219.70	8.55

Source: IMF Annual Reports 1966 - 1969

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Supplementary Short-term Reserve Credits - The large expansion in supplementary international credit facilities during the decade of the Sixties has provided further cushioning for international liquidity needs. The United States network of swap facilities has been built up to a total of about \$11 billion. Other arrangements have been made through the Bank for International Settlements and between individual countries which total about \$6 billion. (Table 7.) The most recent was the short-term credit line of \$2 billion among the Central Banks of the European community, approved January 1970. These credit arrangements outside the Fund amount to about three-fourths of the Fund's ordinary resources. Most of them are intended to be primarily short-term facilities; should the need for credit assistance prove to be more long-lasting, the debtor would in many cases draw on the resources of the Fund to repay these short-term central bank credits.

SDR Activation - Under the recent decision to allocate \$9.5 billion of SDR's over the next three years, international reserves have been created for the first time by conscious international decision, rather than relying on gold and reserve currencies. Approximately \$3.4 billion of SDR's were issued on January 1, 1970, and \$3 billion more will be issued at the beginning of 1971 and 1972. 1/

The two forms of liquidity, the SDR or unconditional liquidity and Fund credits or conditional liquidity, are to some extent interrelated. However, the SDR's are intended to provide for a secular growth in global reserves of a permanent character. Their distribution is based on a fixed formula which does not take account of current balance of payments needs of individual countries. The Fund quota increase is designed to provide a larger reserve of conditional credit from which members may seek medium-term assistance as their individual circumstances require. Additions to both types of liquidity are needed as world trade and investment transactions rise.

1/ A detailed description of the Special Drawing Rights facility is included in National Advisory Council on International Monetary and Financial Policies, "Special Report to the President and to the Congress on the proposed establishment of a Facility based on Special Drawing Rights in the International Monetary Fund", April 1968. The allocation of SDR's to the United States on January 1, 1970, amounted to \$867 million.

INTERNATIONAL LIQUIDITY AND THE ADJUSTMENT PROCESS

TABLE 7. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEAR, 1951-68
(In billions of U.S. dollars)

End of Year	Gold	Foreign Exchange ¹	Reserve Positions in Fund	Total Reserves Adjusted ¹	Credit Tranche Positions in Fund	Other Unused Credit Facilities ²
1951	33.9	15.1	1.7	50.8	6.5	—
1952	33.9	15.6	1.8	51.3	6.5	—
1953	34.3	17.0	1.9	53.2	7.1	—
1954	34.9	18.1	1.8	54.9	7.9	—
1955	35.4	18.4	1.9	55.7	7.9	—
1956	36.1	19.2	2.3	57.5	7.5	—
1957	37.3	18.4	2.3	58.0	7.2	—
1958	38.0	18.5	2.6	59.1	7.2	—
1959	37.9	17.5	3.3	58.7	12.8	—
1960	38.0	20.0	3.6	61.6	13.6	—
1961	38.9	20.6	4.2	63.6	12.8	1.7
1962	39.3	21.2	3.8	64.2	13.4	1.4
1963	40.2	23.4	3.9	67.6	13.5	2.0
1964	40.8	24.6	4.2	69.6	13.8	5.8
1965	41.9	23.8	5.4	71.0	12.5	3.8
1966	40.9	23.8	6.3	71.1	17.3	4.7
1967	39.5	25.9	5.7	71.2	18.3	5.7
1968	38.9 ^a	27.5 ^a	6.5	72.9	17.2	13.5
1969	38.4 ^a	27.4	6.7	75.5 ^a	17.4	17.0 ^a
<i>Annual percentage changes</i>						
1952	—	3.3	5.9	1.0	—	—
1953	1.2	9.0	5.6	3.7	9.2	—
1954	1.7	6.5	-5.3	3.2	11.3	—
1955	1.4	1.7	5.6	1.5	—	—
1956	2.0	4.3	21.1	3.2	-5.1	—
1957	3.3	-4.2	—	0.9	-4.0	—
1958	1.9	0.5	13.0	1.9	—	—
1959	-0.3	-5.4	26.9	-0.7	77.8	—
1960	0.3	14.3	9.1	4.9	6.3	—
1961	2.4	3.0	16.7	3.2	-5.9	—
1962	1.0	2.9	-9.5	0.9	4.7	-17.6
1963	2.3	10.4	2.6	5.3	0.7	42.9
1964	1.5	5.1	7.7	3.0	2.2	190.0
1965	2.7	-3.3	28.6	2.0	-9.4	-34.5
1966	-2.4	—	16.7	0.1	38.4	23.7
1967	-3.4	8.8	-9.5	0.1	5.8	21.3
1968	-1.5	5.8	14.0	2.4	-6.0	136.8
1969	0.0	1.5	3.1	0.1	2.3	259
Annual average percentage change	0.8	3.7	8.8	2.2	7.4	—

Source: *International Financial Statistics*.¹ Excluding U.S. holdings of foreign exchange and including U.K. dollar portfolio; see text.² Utilized drawing facilities under swap arrangements and related credit arrangements between central banks and treasuries.^a Partly estimated.^a A percentage change cannot be calculated for 1960 to 1961, the base number being zero.^s Estimated.

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The draft legislation to be submitted to the Congress also provides authority for the United States to vote for allocations of SDR's to the United States in any future basic allocation period in an amount equal to the U. S. quota as authorized by Congress. Existing legislation authorizes the United States to vote for cumulative SDR allocations to the United States up to the amount of the present U. S. quota in the Fund - \$5,160 million. The proposed new limit would set the new U. S. quota or any increased U. S. quota subsequently approved by Congress as the amount of SDR allocations to the United States which the United States Governor of the Fund could vote to create in any basic allocation period. A vote for any additional amount would require Congressional authorization.

H. Conclusions

The proposal of the Executive Directors to increase the resources of the International Monetary Fund is in response to a resolution adopted by the Board of Governors at the 1969 Annual Meeting in Washington, "That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969."

The proposed increase in Fund quotas will give the member nations, now grown to 115, more scope to redress temporary balance of payments disequilibria in an orderly fashion. During the 25 years of its existence, the Fund has played a key role in improving the balance of payments adjustment mechanism and in helping member countries to adjust to disequilibria. During these 25 years the world has experienced an unprecedented expansion in world trade and investment. The continued growth in the world economy and world trade, and the increased volatility of short-term capital movements, broaden the scope of potential payments imbalances and thus require a further expansion of conditional liquidity.

After thorough consideration of the needs of the world economy for conditional liquidity and the proposal of the Executive Directors to increase the resources of the Fund, the National Advisory Council strongly recommends to the President and to the Congress the adoption of legislation to authorize acceptance of the proposed increase in the quota of the United States.

III. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

A. Summary and Recommendations

The Executive Directors of the International Bank for Reconstruction and Development (the World Bank) have recommended that the Bank be authorized to accept special increases in capital subscriptions from 75 member countries in amounts corresponding to the increases considered special in their quotas in the International Monetary Fund. This is in accord with a long-standing practice of member countries to take parallel action on special increases in the two institutions reflecting changes in relative economic strength of the member countries.

The additional subscription (2,461 shares) which the United States would take under the resolution amounts to \$246.1 million, 10 percent of which will be paid in. This additional U.S. subscription represents approximately 11 percent of the total special increases proposed. Because the unsubscribed portion of the Bank's presently authorized capital (\$24 billion) is insufficient to allow for the proposed increases, the Executive Directors also have recommended that the authorized capital of the Bank be increased by \$3 billion.

United States membership in the World Bank was authorized by the Bretton Woods Agreement Act (P.L. 79-171 of July 31, 1945). This Act, as amended, provides that the U.S. Governor of the Bank may not vote for an increase in the Bank's capital involving an increase in the U.S. subscription, or subscribe to additional shares of the Bank's capital, without Congressional authorization.

The National Advisory Council believes that favorable action by the U. S. Governor on the proposed increase in the capital stock of the Bank and the proposed special increases in subscriptions, including the additional U. S. subscription, is clearly in the interests of United States international financial policy.

Accordingly, the National Advisory Council recommends to the President and to the Congress the enactment of legislation authorizing the United States Governor of the

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Bank (1) to vote for an increase of \$3 billion in the authorized capital stock of the Bank, and (2) to agree to an additional subscription by the United States of 2,461 shares amounting to \$246.1 million.

B. The Bank's Lending Operations

The World Bank was founded 25 years ago to help restore economies disrupted or destroyed by war and to encourage the development of productive facilities and resources in less developed countries. Since the reconstruction of Europe, the Bank has operated primarily in the developing nations of the world. The Bank makes loans for specific projects and programs directly to member governments and to public or private entities (with government guarantee) in the territories of its members.

Through the end of calendar year 1969 the Bank had signed agreements providing for loans of over \$13.4 billion, of which \$9.9 billion had been disbursed. Recently the Bank has greatly increased its lending activities in line with expanding opportunities for productive use of capital in the developing countries. Loan agreements committing over \$1.8 billion were concluded between July 1, 1968 and December 31, 1969. In this eighteen month period 36 loans were made in Africa totaling \$408 million; 28 were made in Asia and the Middle East totaling \$606 million; 30 were made in Central and South America totaling \$603 million; and 11 were made in Europe (Cyprus, Finland, Ireland, Spain, Turkey and Yugoslavia) totaling \$197 million.

The greater part of the World Bank's lending activities have been designed primarily to help provide developing countries with the physical infrastructure essential to development. Of total loans made during fiscal year 1969, 54% went to transportation (roads, railways and ports) and electric power, 20% went to agriculture (e.g., irrigation, livestock production and fisheries), and 17% went to industry (largely through development finance companies). The remainder was devoted to education, telecommunications, and water supply and sewerage systems.

It has been recognized that in most developing countries development in the fields of agriculture and education is indispensable to general economic growth and improved living standards. Accordingly, these areas have recently been receiving greater emphasis in the Bank's lending program. In the past the largest share of agricultural loans has gone into irrigation projects. Today crop diversification, seed production, livestock development, and the establishment and improvement of food processing industries are areas of growing importance. In education, where the Bank has made loans for high priority purposes since 1964, assistance is concentrated on projects which increase the availability of trained industrial, technical, administrative and agricultural manpower.

An important aspect of the Bank's activities is fostering an economic climate attractive to private capital, foreign and domestic. Loans to local development finance companies play an important role. These companies help bring together foreign and local capital, mobilize domestic savings for investment, and supply local industry with capital and technical and managerial assistance. The Bank has worked closely with these companies to improve the quality and soundness of their operations. The International Finance Corporation (IFC), an affiliate of the Bank whose activities are concentrated exclusively on encouraging the growth of private enterprise and investment, supplements the Bank's efforts in this field. Another and newer institution connected with the Bank, the International Centre for Settlement of Investment Disputes, seeks to facilitate foreign private investment in member developing countries through providing a forum for prompt settlement of investment disputes.

C. The Bank's Resources

The World Bank's principal sources of funds (as of June 30, 1969) have been borrowings (38%), loan sales (20%), capital subscriptions (17%), loan repayments (16%), and retained income (9%). The Bank today derives the bulk of its resources from the sale of securities to investors through the world's financial markets. In fiscal year 1969, the Bank borrowed \$1,224 million (U.S. dollar equivalent).

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This included \$851 million of obligations sold to raise new funds to finance expanded lending operations and \$373 million of obligations placed to refund maturing issues. Four-fifths (\$1 billion) of the total was borrowed from sources outside the United States.

The largest supplier of borrowed funds to the Bank during fiscal year 1969 was the German market, where sales of bonds and notes amounted to \$561 million. In its recent borrowing operations the Bank has sought with increasing success to tap new sources of funds. For example, in 1969 the Bank made its first public offering of an issue in the Middle East. This issue, placed in Kuwait, amounted to the equivalent of U.S. \$42 million and was fully subscribed. More recently the Bank placed its first borrowing in Japan denominated in yen in an amount equivalent to \$100 million.

The ability of the Bank to borrow is to an important extent dependent upon its capital structure. The capital subscribed by the Bank's 112 members (as of December 31, 1969) is \$23.1 billion. Of this amount, ten percent, or \$2.3 billion, has been paid in. The balance, \$20.8 billion, is subject to call if needed to meet the Bank's liabilities.

The initial authorized capital of the Bank, provided for in Article II, Section 2, of the Articles of Agreement, was \$10 billion, divided into 100,000 shares having a par value of \$100,000 each. A total of \$7,670 million of this authorized capital was subscribed by June 30, 1946. The initial United States subscription was \$3,175 million. On September 1, 1959, the authorized capital of the Bank was increased to \$21 billion (see National Advisory Council Special Report on Increases in the Resources of the International Monetary Fund and the International Bank for Reconstruction and Development, H. Doc. No. 77, 86th Cong., 1st Sess., February, 1959). Of this \$11 billion increase in authorized capital, \$10 billion was provided to permit a doubling of all existing subscriptions, including that of the United States, and \$1 billion was provided to accommodate the subscription of new members and members taking special increases in their subscriptions. Further additions to capital to cover new admissions and individual increases were authorized on December 31, 1963, in the amount of \$1 billion, and again on August 25, 1965, in the amount of \$2 billion. (See National Advisory Council Special Reports

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printed as H. Doc. No. 154, 88th Cong., 1st Sess., May 20, 1963; and H. Doc. No. 198, 89th Cong., 1st Sess., June 3, 1965.) The latter increase brought the Bank's authorized capital to its present level of \$24 billion.

Prior to the doubling of capital subscriptions in 1959, members of the Bank paid 2% of their subscriptions in gold or dollars and 18% in their own currencies. The remaining 80% was callable capital, to be called only if needed to meet the Bank's liabilities on borrowings and guarantees. When subscriptions were doubled in 1959, no additional paid-in capital was provided. The entire increase took the form of callable capital. Hence, the paid in portion of subscriptions in effect was reduced to 10% -- 1% payable in gold or U.S. dollars, and 9% payable in the member's own currency.

While the portion of members' subscriptions paid in gold or U. S. dollars may be used freely by the Bank in its operations, the portion paid by each member in its own currency is available for use by the Bank in its lending operations only with the member's consent. In the early years of the Bank very little of the latter portion was actually released for the Bank's use. In more recent years, however, the bulk of it has been. By June 30, 1969, 81% (\$1.7 billion) had been released, including the entire amount provided by the economically advanced member countries (i.e., those that contribute to replenishments of the Bank's affiliate, the International Development Association, which lends to member developing countries on concessional terms). Together with the gold or dollar portion of subscriptions, this brought the total subscribed capital available to the Bank for lending operations as of June 30, 1969 to \$1.91 billion.

In addition to its paid in capital the Bank has built up substantial reserves from commissions and retained earnings. As of December 31, 1969 these reserves, most of which have been utilized in the financing of new loan operations, amounted to \$1.33 billion. The Bank's net earnings have risen steadily since the Bank was first established. Net earnings for fiscal 1969 amounted to \$171.4 million.

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The record of repayment on Bank loans has been excellent. No default has occurred. The Bank consequently has met its own debt obligations as they fell due, and has not had to call upon its callable capital.

D. The Proposed Increase in Bank Resources

The first of the resolutions submitted to the Bank's Board of Governors by the Executive Directors (Appendix D) would authorize acceptance by the Bank of special increases in capital subscriptions from 75 member countries receiving quota increases in the IMF. As only that part of a member's quota increase in excess of 25% of its present quota affects the member's relative position in the Fund, it is this part of the increase in Fund quotas which is used as the basis for the proposed special increase in Bank subscriptions. As stated in paragraph 4 of the report of the Executive Directors on the proposed resolution (Appendix C), members are expected in accordance with traditional practice to take parallel action on special increases in the two institutions. The total new capital which will be subscribed by the 75 members is \$2,222 million, of which \$222.2 million will be paid in.

Since the United States' quota in the Fund will be increased by 29.84%, 4.84% of the present quota, which comes to \$250 million, is the base for the proposed special increase in the U.S. subscription to the Bank. Since members do not have exactly the same percentage shares in the Fund and the Bank, and since in the Fund -- but not in the Bank -- the special increases in quota are being made on top of a 25% general increase, the special increases in the two institutions are not the same. The proposed increase in the U.S. subscription to the Bank - \$246.1 million - is determined in accordance with the formula applied uniformly to each of the 75 members receiving special increases in the Fund to determine their corresponding increases in the Bank.^{1/}

Each member that increases its subscription in the Bank will pay in 10% of the increase. The remaining 90% will be subject to call. As explained above, this has

^{1/} The formula used to determine the special increase in the Bank of a member receiving a special increase in the IMF is as follows:

$$\text{Special increase in the IBRD} = \frac{\text{special increase in the IMF}}{125\% \text{ of present IMF quota}} \times \frac{\text{present IBRD Subscription}}{\text{Subscription}}$$

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TABLE 8

STATEMENT OF CUMULATIVE SPECIAL INCREASES
IN SUBSCRIPTIONS OF INDIVIDUAL MEMBER COUNTRIES
THROUGH DECEMBER 31, 1969 (in \$ millions)

<u>Member</u>	<u>Past Specials (\$m)</u>	<u>Member</u>	<u>Past Specials (\$m)</u>
Afghanistan	10.0	Italy	306.0
Argentina	73.3	Jamaica	5.3
Australia	133.0	Japan	272.6
Austria	86.7	Jordan	10.3
Bolivia	7.0	Korea	28.3
Brazil	118.3	Liberia	6.3
Burma	20.7	Libya	10.0
Canada	142.0	Malaysia	83.3
Ceylon	52.7	Mexico	78.0
Chile	23.3	Morocco	26.0
Colombia	23.3	Nicaragua	4.2
Costa Rica	6.7	Norway	60.0
Cyprus	6.3	Panama	8.6
Denmark	37.3	Paraguay	2.2
Dominican Republic	7.3	Peru	28.5
Ecuador	7.5	Philippines	52.3
El Salvador	6.7	Saudi Arabia	76.0
Ethiopia	4.0	South Africa	13.3
Finland	57.3	Spain	66.7
France	75.0	Sudan	40.0
Germany	620.0	Sweden	40.0
Ghana	43.4	Syrian Arab Republic	27.0
Greece	16.7	Thailand	76.3
Guatemala	6.7	Trinidad and Tobago	20.0
Haiti	5.5	Tunisia	13.3
Honduras	4.0	Turkey	29.0
Iceland	13.0	United Arab Republic	48.8
Iran	71.0	Uruguay	7.0
Iraq	52.0	Venezuela	165.7
Ireland	25.3	Viet-Nam	17.7
Israel	83.9	Yugoslavia	26.7
		TOTAL	3,489.3m

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been the case with all subscriptions since the 1959 general increase. Thus, the paid in portion of the increase in the U.S. subscription will be 10% of the total increase of \$246.1 million, or \$24.61 million. The new subscriptions cannot be accepted by the Bank until after the two resolutions in the Bank, as well as the resolution on adjustment of IMF quotas, have been approved by the Board of Governors of the respective institutions. (The Fund quota resolution was approved on February 9, 1970.) Votes on the IBRD resolutions must be cast by June 30, 1970. Once the resolutions in both the Fund and the Bank have been approved, the Bank can accept the new subscriptions at any time after October 30, 1970 and before November 16, 1971. The final dates both for voting on the resolutions and acceptance of the new subscriptions can be extended by the Executive Directors.

The policy of parallel special increases in the two institutions is based fundamentally on the view that members whose relative economic strength has increased, as reflected by their receiving a larger share in IMF quotas, can appropriately be expected to take a corresponding increase in their subscriptions to the capital of the World Bank. The policy also has had the effect of maintaining members' relative voting strength in the two institutions at approximately the same level.

While the United States did not receive special increases in the Fund on the occasion of previous quota adjustments, and hence did not participate in parallel action in the Bank, it always joined with others in strong support of this policy. It has been beneficial to the Bank, and was completely consonant with U.S. international financial policy. Since 1947, there have been approximately 96 special increases in Bank subscriptions taken by 62 countries, each of which had received an increase in its IMF quota. (See Table 8.) These special increases have amounted to almost \$3.5 billion. The largest individual contributions have been made by other developed countries which have undergone rapid economic growth in recent years, e.g., Germany, Italy and Japan.

In the present round of IMF quota adjustments the U.S. will receive its first special increase. Hence, the policy of parallel action in the two institutions for the first

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TABLE 9
PROPOSED SPECIAL INCREASES
IN IBRD CAPITAL SUBSCRIPTIONS
(\$ millions)

<u>Member</u>	<u>Proposed Special Increase</u>	<u>Member</u>	<u>Proposed Special Increase</u>
Algeria	30.9	Japan	250.4
Australia	34.1	Jordan	2.4
Austria	43.7	Kenya	6.7
Belgium	104.5	Korea	14.9
Botswana	1.1	Kuwait	55.0
Cambodia	1.1 ^{a/}	Lebanon	35.8
Cameroon	9.5	Lesotho	1.1
Canada	149.8	Liberia	3.4
Chile	1.0	Libya	36.4
Congo (Brazzaville)	.4	Malagasy Republic	1.9
Cyprus	.9	Malaysia	25.4
Denmark	47.8	Mauritius	1.7
Dominican Republic	1.0	Mexico	20.0
Ecuador	1.0	Nepal	1.2
El Salvador	1.3	Netherlands	42.3
Ethiopia	1.4	New Zealand	4.9
Finland	28.8	Nicaragua	1.1
France	229.2	Nigeria	8.5 ^{b/}
Gabon	2.0	Norway	44.8
Germany	85.3	Panama	.5 ^{c/}
Greece	6.9	Peru	10.0
Guatemala	1.6	Philippines	14.9
Guyana	1.1	Portugal	19.8
Honduras	.4	Saudi Arabia	18.3
Iceland	3.4	Senegal	2.9
Iran	29.4	Sierra Leone	5.0
Iraq	5.8	Singapore	20.9
Ireland	17.9	South Africa	59.7
Israel	14.9	Southern Yemen	1.3
Italy	186.5	Spain	70.4
Ivory Coast	23.8	Swaziland	.4
Jamaica	4.6 ^{b/}	Sweden	37.3

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<u>Member</u>	<u>Proposed Special Increase</u>	<u>Member</u>	<u>Proposed Special Increase</u>
Syria	2.1	United States	246.1
Tanzania	1.7	Venezuela	10.5
Thailand	13.0	Viet Nam	11.6
Trinidad & Tobago	6.8	Yugoslavia	11.1
Tunisia	3.6	Zambia	<u>11.5</u>
Turkey	13.6		
		TOTAL	2,220.0

- a/ Membership approved by Board of Governors, but not yet effective. The number of shares shown represents the increase over and above the presently authorized number of shares.
- b/ In addition to an increased subscription approved but not yet effective.
- c/ In addition to 86 shares to which Panama has indicated an intention to subscribe as a result of an earlier increase in its IMF quota.

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time requires an increase in the U.S. subscription to the Bank. Once again, however, the policy will be advantageous for the U.S. from a burden sharing point of view. The proposed special increases amount in total to \$2,222 million, of which the U.S. increase (\$246.1 million) represents only 11%. (See Table 9.) The policy calls for several other developed countries to increase their subscriptions by a much larger percentage than the U.S. In the aggregate other developed countries will subscribe \$1.4 billion, approximately 63% of the total increase. The largest subscriptions by other developed countries will be made by Japan (\$250 million), France (\$229 million), Italy (\$186 million), Canada (\$150 million) and Belgium (\$104 million).

It is therefore fully in the U.S. interest to continue its past support of the policy of parallel action on special increases and to take the additional U.S. capital subscriptions to the Bank which the policy requires on this occasion. The total increase in capital which will be provided to the Bank will help to sustain the increased lending which the Bank foresees over the next five years.

The U.S. voting strength in the Bank will drop from 24.65% to 23.57%, reflecting the relatively small U.S. share of the total special subscriptions proposed. As a result of the special increases, the U.S. share in total subscriptions, now 27.48%, will fall to 26.04%. Each member of the Bank has 250 votes plus one additional vote for each share of stock held (\$100,000 per share par value). If the U.S. did not take its special increase, the U.S. voting strength would fall to 22.90%.

The Bank does not presently have sufficient authorized capital to permit the proposed special increases. As of December 31, 1969 the subscribed capital of the Bank was \$23,066.3 million, only \$933.7 million short of the authorized capital of \$24 billion. Therefore, in order to accommodate the proposed increases in subscriptions (\$2,222 million) as well as provide a sufficient margin of unsubscribed capital for new members and future individual increases, the Executive Directors also have recommended to the Board of Governors an increase in authorized capital of \$3 billion. (See Appendices E and F.)

E. Proposed Legislation

Section 5 of the Bretton Woods Agreements Act, as amended, provides that "Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank" The section also provides that "Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank, if such increase involves an increased subscription on the part of the United States."

The doubling of the United States subscription in 1959, from \$3,175 million to \$6,350 million, was authorized by Public Law 86-48. (Prior to its being amended in 1965, the Bretton Woods Act required Congressional authorization for the U.S. Governor to vote in favor of an increase in the Bank's authorized capital whether or not an increase in the U.S. subscription was involved. The U.S. Governor's vote for the 1963 increase in authorized capital, which did not affect the U.S. subscription, was authorized by P.L. 88-178.)

With respect to the resolutions now recommended to the Board of Governors, legislation will be submitted to the Congress to authorize the United States Governor (1) to vote for the \$3 billion increase in the authorized capital of the Bank, and (2) to subscribe to 2,461 additional shares, amounting to \$246.1 million, on behalf of the U.S. The legislation would also authorize an appropriation of \$246.1 million, the sum to remain available until expended. Although only \$24.61 million will be paid in, an appropriation of the total amount is needed in order to fulfill U.S. obligations to the Bank. The Bank's Articles of Agreement require that the callable portion of members' subscriptions shall be available upon call by the Bank. To assure that the U.S. could meet this requirement in the event it were ever necessary, the full amount of the additional U.S. subscription needs to be appropriated.

U.S. budget outlays will be limited to the 10 percent of the U.S. subscription which will be paid in, i.e., \$24.6 million. The ninety percent callable portion (\$221.5 million) will not result in budgetary outlay as long as no call is made upon it.

A favorable vote by the United States is, as a practical matter, necessary to bring the increase in capital into effect. The proposed Resolutions require a 75 percent vote of the total voting power of the Board of Governors. Since the United States presently has 24.65 percent of total votes, it would be difficult, and probably impossible, to obtain the required 75 percent vote without the vote of the United States.

F. Conclusions

The World Bank has earned a high reputation in the United States and abroad for its contributions to the economic development of the less developed countries. Its competence, expertise, and sound advice have made it an outstanding force for promoting sound development policies. The United States took the lead in the planning and negotiations which led to the establishment of the Bank, and in subsequent years we have effectively supported its expanding operations.

In the past the United States has strongly and consistently supported the policy of parallel action by member countries on special increases in the two Bretton Woods institutions. The Bank has benefited greatly from this policy, receiving over \$3.5 billion in special subscriptions. Since it is now for the first time proposed that the United States accept a special increase in its fund quota, it is appropriate that we continue our support of this policy by taking a special increase in our subscription to the Bank. The special increases of the United States and 74 other countries will provide new resources to the Bank during a period when the Bank's need for new funds to sustain a rising volume of operations is increasing. Prompt legislation authorizing the United States Governor to vote for the Resolutions would demonstrate effective U.S. leadership in support of a significant expansion of multilateral assistance on a burden sharing basis favorable to the United States.

For these reasons, the National Advisory Council strongly recommends that the Congress approve the proposed legislation authorizing an affirmative vote by the U.S. Governor on the proposed Resolutions and an increase of \$246.1 million in the United States subscription to the Bank's capital stock.

Appendix A

INCREASES IN QUOTAS OF MEMBERS--FIFTH GENERAL REVIEW
REPORT OF THE EXECUTIVE DIRECTORS TO THE BOARD OF GOVERNORS

1. At its 1969 Annual Meeting in Washington, the Board of Governors adopted the following Resolution:

WHEREAS the Executive Directors have been considering the question of an appropriate adjustment of the quotas of Fund members; and

WHEREAS the Executive Directors have been considering this question in relation to the allocation of special drawing rights; and

WHEREAS the Board of Governors has adopted a Resolution on the allocation of special drawing rights for a first basic period of three years beginning on January 1, 1970; and

WHEREAS the Fifth Quinquennial Review of Quotas is to begin not later than the end of 1969; and

WHEREAS Governors have expressed their views on the Fifth Quinquennial Review and the adjustment of quotas;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969.

2. Pursuant to the foregoing Resolution the Executive Directors have considered the adjustment of the quotas of members and recommend that the Board of Governors propose to members the increases in quotas set forth in the Annex to the proposed Resolution which is attached to this Report. The reasons for this recommendation are outlined in this Report.

3. Article III, Section 2, of the Articles of Agreement states in part that:

"The Fund shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members."

The periodic general review of quotas which is required by this provision facilitates an adjustment of the size of the Fund to the growth of the world economy; it also offers an opportunity to adjust individual quotas to reflect changes in the position of members in the world economy.

4. The increase in Fund quotas which may be appropriate from time to time must be assessed chiefly on the basis of factors affecting the need for international liquidity in general and the need for conditional liquidity in particular. In connection with the Managing Director's Proposal on the Allocation of Special Drawing Rights for the First Basic Period, certain quantitative studies were undertaken that have a bearing on these questions. As was noted in the 1969 Annual Report of the Executive Directors, conditional and unconditional liquidity, although serving to some extent the same broad purpose, cannot be freely or fully substituted for each other. Decisions with respect to the creation of conditional liquidity should, therefore, be taken in the light of developments and decisions in the area of unconditional liquidity.

5. In the light of these considerations the Executive Directors propose increases in Fund quotas which, if all members were to avail themselves of the opportunity to increase their quotas to the maximum proposed to them, would bring Fund quotas to an approximate total of \$28,900 million.

6. The individual quota adjustments that are recommended have been determined by the kind of considerations that have been applied by the Fund in the past. These considerations will be reviewed for the purpose of future adjustments. Changes in the economic and financial position of members have been taken into account in arriving at the proposed adjustments, as well as the maintenance of a balanced distribution of quotas within the whole membership of the Fund.

7. Under the proposed Resolution, a member will be able to consent to the increase in its quota at any time on or before November 15, 1971. Therefore, unless this period is extended by the Executive Directors, members will have until November 15, 1971 to take whatever action may be necessary under their laws to enable them to give their consent.

8. The increase in a member's quota under the Resolution will take effect when the member has consented to the increase in quota and has paid the increase in subscription, provided that no increase will take place before October 30, 1970. In other words, the increase in a member's quota will take effect on the latest of the following three dates:

- (a) the date on which the Fund receives the member's consent to the increase in quota,
- (b) the date of the payment of the increase in subscription,
- (c) October 30, 1970.

9. Under the Resolution, a member may pay the increase in its subscription at any time before it is due. If a member pays before the increase in its quota takes effect, the increase in subscription will be kept in a separate suspense account of the Fund. A member is required to pay its

increase in subscription not later than 30 days after the later of (a) the date of its consent to its quota increase and (b) October 30, 1970.

10. The increased quotas recommended in the attached Resolution are the maximum amounts to which quotas could be increased under the Resolution. Any member consenting to an increase under the Resolution may consent to a smaller increase in its quota than the amount shown against its name but the quota consented to should be a whole number in millions of U.S. dollars. At any time not later than November 15, 1971, or any later date to which the Executive Directors extend the period for consent, a member may consent to further increases up to the amount shown in the attached Resolution if it has not yet consented to the full increase.

11. Under the proposed Resolution, any member consenting in one step to the full increase in its quota as shown against its name in the Annex may consent to the increase by installments. Any member consenting to an increase by installments must pay an initial installment of the increase in subscription, and an installment in each period of 12 months thereafter. Each installment will be not less than one fifth of the full increase, but members may accelerate payment under this installment schedule. Each installment of the increase in quota would correspond to the amount of gold and currency paid by the member as an increase in subscription.

12. The maximum quotas recommended in the attached Resolution take account of the special adjustment of their present quotas that a few members could still obtain under the Fund's Decision on "Compensatory Financing of Export Fluctuations" (Executive Board Decision No. 1477-(63/8), February 27, 1963). Therefore, the policy on the special adjustment of quotas under that Decision together with the related Executive Board Decision (No. 1529-(63/33), June 14, 1963) will be regarded as having been superseded by the terms of the attached Resolution in those cases in which increases under Decision No. 1477 have not yet been approved by the Board of Governors.

13. Under Article III, Section 4(a) each member increasing its quota must pay an increase in its subscription equal to the increase in quota, of which 25 per cent must be in gold and the balance in the member's currency. Payment of both portions of the increase in subscription must be made before the increase in a member's quota can become effective, even if, under a Membership Resolution, the member has not yet been required to pay its original subscription.

14. Article III, Section 4(a), provides in part that "If, ...on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold." The date for the calculation referred to in the provision is the date on which the member consents to the increase even if the increase will not become effective until later. The Executive Directors have again considered whether the Fund should exercise its discretion under the provision to reduce the portion of the increases in subscriptions payable

in gold. The Executive Directors have concluded that on this occasion it would be desirable to exercise this discretion and that any member that would qualify should be permitted to pay in gold only that proportion of 25 per cent of the increase in quota which the member's monetary reserves bear to the increased quota to which the member has consented and the balance of the increase in quota in currency. If a member wishes to pay in currency more than 75 per cent of the increase in its subscription in accordance with this paragraph, the Fund will calculate the member's monetary reserves as of the date of each consent to an increase in quota, whether it be to an increase to the maximum amount, or to an increase less than the maximum amount, or to increases by successive amounts (see paragraph 10), or to increases by installments (see paragraph 11).

15. In connection with paragraph 14, the Executive Directors have felt that, as a condition of the exercise of the power to reduce the gold payment, the Fund should require that any additional currency subscription beyond 75 per cent of the increase in quota be repurchased by the member unless the Fund's holdings of that currency are otherwise reduced. Repurchase must be made in five equal annual installments commencing one year after the date on which the quota increase becomes effective. When paying less than 25 per cent of its subscription in gold a member must undertake to repurchase in accordance with this paragraph. Members will be able to discharge these repurchases in the same reserve assets as may be used in other repurchases.

16. Many members will pay the increases in their gold subscriptions from their own gold holdings, but it is likely that in some cases members will purchase gold from other members. In order to mitigate the impact of these gold purchases, the Executive Directors believe that the Fund should take the action which is indicated in the following paragraphs and for which appropriate provision is made in the attached Resolution.

17. In connection with purchases of gold by members for the purpose of paying their increases in subscription under the proposed Resolution, it will be the policy of the Fund to sell gold under Article VII, Section 2 of the Articles of Agreement up to a maximum amount equivalent to US\$700 million when the Fund needs to replenish its holdings of the currencies of members from which gold has been purchased by other members. As in the past, it may be expected that most members wishing to purchase gold for the purpose of paying their increases in subscription will buy that gold from the United States and that, therefore, to a very large extent the sale of gold by the Fund will be for the purpose of replenishing its holdings of U.S. dollars. To the extent that the Fund does not have a need to replenish its holdings of U.S. dollars, it will be suggested to members that they purchase the gold needed for the payment of their increases in subscription from members which agree to sell gold and the currencies of which the Fund needs to replenish.

18. Replenishment by the Fund of its holdings of the currency of a member in accordance with paragraph 17 above would normally take place on the same value date as the sale of gold by that member. Alternatively,

this replanishment of a currency could take place on the occasion of sales of that currency to other members.

19. Under Article XII, Section 2(b)(ii), the power to take the action with respect to the payment of increases recommended in paragraphs 14 and 15 is reserved to the Board of Governors, and under Article III, Section 4(c) exercise of the power requires a majority of eighty-five per cent of the total voting power. The same rules apply to the action recommended in paragraphs 16 and 17 for the purpose of mitigating the effects of providing gold for payment of the gold portion of increases in the subscriptions of other members. Appropriate provision has been made in the attached Resolution for the Board of Governors to take the necessary action to give effect to these recommendations.

20. The Executive Directors recommend the adoption of the attached Resolution. This Resolution is designed to enable the Board of Governors to vote at one time on all matters connected with the increases in quotas under the Resolution, including those referred to in paragraph 19, which, under the Articles of Agreement, as amended, are reserved to the Board of Governors. To be adopted, the Resolution will need to receive the affirmative vote of eighty-five per cent of the total voting power of members. To be valid, votes on the Resolution as a whole must be received at the seat of the Fund on or before February 9, 1970.

Attachment

PROPOSED RESOLUTION OF THE BOARD OF GOVERNORS

WHEREAS the Executive Directors have considered the adjustment of the quotas of members in accordance with the Resolution of the Board of Governors of the International Monetary Fund at its 1969 Annual Meeting:

That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969;

WHEREAS the Executive Directors have submitted to the Board of Governors a Report entitled "Increases in Quotas of Members--Fifth General Review"; and

WHEREAS the Executive Directors have recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the fifth general review of quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors, noting the said Report of the Executive Directors, hereby resolves that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution, provided that any member (a) may consent to an increase in its quota which is smaller than that shown in the said Annex and (b) may consent thereafter to further increases up to the said amount.
2. An increase in a member's quota under this Resolution shall become effective when the member has notified the Fund that it consents to the increase and has paid in full the increase in the quota, provided, however, that no increase in quota shall become effective before October 30, 1970. The increase in the quota of a member which has notified the Fund of its consent and has completed payment of the increase at any time prior to October 30, 1970, shall become effective on that date.
3. Notices in accordance with paragraph 2 shall be executed by a duly authorized official of the member.
4. Notices in accordance with paragraph 2 shall be received in the Fund not later than November 15, 1971, provided that the Executive Directors may extend this period as they may determine.

5. Subject to paragraph 6(b), each member shall pay to the Fund the increase in its quota within 30 days after the date on which it notified the Fund of its consent or October 30, 1970, whichever is later. Twenty-five per cent of the increase shall be paid in gold and the balance in the member's currency, provided, however, that, if on the date when a member consents to any increase under paragraph 1 or paragraph 6 its monetary reserves are less than the new quota to which it has consented, the member may pay in gold that proportion of 25 per cent of the increase in quota which the member's monetary reserves on the date of consent bear to the quota to which the member has consented and the balance of the increase in quota shall be paid in currency. A member which, in accordance with this paragraph, pays more than 75 per cent of the increase in currency shall undertake to repurchase the currency paid in excess of 75 per cent of the increase. Unless the Fund's holdings resulting from such payment are otherwise reduced, repurchase shall be completed in five equal annual installments commencing one year after the date on which the increase becomes effective.
6. (a) In giving notice in accordance with paragraph 2, any member consenting to the increase in its quota to the full amount shown against its name in the Annex to this Resolution may consent to that increase as increases by installments.
- (b) Notwithstanding paragraph 2, a member increasing its quota by installments shall pay not less than one fifth of the increase in gold and currency in accordance with paragraph 5 within 30 days after the date on which it notified the Fund of its consent or October 30, 1970, whichever is later, and shall pay further installments of gold and currency of not less than one fifth of the increase in each twelve months after the first payment until the full amount has been paid. For the purpose of determining under paragraph 5 the gold and currency portions of an installment subsequent to the initial installment, a member shall be deemed to have consented to the increase in its quota equivalent to the installment 30 days before it pays the installment.
- (c) Subject to paragraph 2, on the completion of the payment of each installment of the increase, the member's quota shall be increased by an amount equal to the installment.
7. The Fund shall replenish its holdings of the currencies of members which sell gold to other members to enable the latter members to pay the increases in their quotas under this Resolution. Replenishment under this paragraph shall be by the sale of gold in accordance with the provisions of Article VII, Section 2 and shall not exceed an amount equivalent to US\$700 million.

ANNEX TO RESOLUTION

	Proposed <u>Maximum Quota</u> (In millions of U.S. dollars)
1. Afghanistan	37
2. Algeria	130
3. Argentina	440
4. Australia	665
5. Austria	270
6. Belgium	650
7. Bolivia	37
8. Botswana	5
9. Brazil	440
10. Burma	60
11. Burundi	19
12. Cameroon	35
13. Canada	1,100
14. Central African Republic	13
15. Ceylon	98
16. Chad	13
17. Chile	158
18. China	550
19. Colombia	157
20. Congo (Brazzaville)	13
21. Congo, Democratic Republic of	113
22. Costa Rica	32
23. Cyprus	26
24. Dahomey	13
25. Denmark	260
26. Dominican Republic	43
27. Ecuador	33
28. El Salvador	35
29. Ethiopia	27
30. Equatorial Guinea	8
31. Finland	190
32. France	1,500
33. Gabon	15
34. Gambia, The	7
35. Germany, Federal Republic of	1,600

ANNEX TO RESOLUTION (continued)

	Proposed <u>Maximum Quota</u>
	(In millions of U.S. dollars)
36. Ghana	87
37. Greece	138
38. Guatemala	36
39. Guinea	24
40. Guyana	20
41. Haiti	19
42. Honduras	25
43. Iceland	23
44. India	940
45. Indonesia	260
46. Iran	192
47. Iraq	109
48. Ireland	121
49. Israel	130
50. Italy	1,000
51. Ivory Coast	52
52. Jamaica	53
53. Japan	1,200
54. Jordan	23
55. Kenya	48
56. Korea	80
57. Kuwait	114
58. Laos	13
59. Lebanon	56
60. Lesotho	5
61. Liberia	29
62. Libya	67
63. Luxembourg	24
64. Malagasy Republic	26
65. Malawi	15
66. Malaysia	186
67. Mali	22
68. Malta	16
69. Mauritania	13
70. Mauritius	22

ANNEX TO RESOLUTION (continued)

	<u>Proposed Maximum Quota</u>
	(In millions of U.S. dollars)
71. Mexico	370
72. Morocco	113
73. Nepal	14
74. Netherlands	700
75. New Zealand	202
76. Nicaragua	27
77. Niger	13
78. Nigeria	135
79. Norway	240
80. Pakistan	235
81. Panama	36
82. Paraguay	19
83. Peru	123
84. Philippines	155
85. Portugal	117
86. Rwanda	19
87. Saudi Arabia	134
88. Senegal	34
89. Sierra Leone	25
90. Singapore	62
91. Somalia	19
92. South Africa	320
93. Southern Yemen	29
94. Spain	395
95. Sudan	72
96. Swaziland	8
97. Sweden	325
98. Syrian Arab Republic	50
99. Tanzania	42
100. Thailand	134
101. Togo	15
102. Trinidad and Tobago	63
103. Tunisia	48
104. Turkey	151
105. Uganda	40

ANNEX TO RESOLUTION (concluded)

	Proposed Maximum Quota
	(In millions of U. S. dollars)
106. United Arab Republic	188
107. United Kingdom	2,800
108. United States	6,700
109. Upper Volta	13
110. Uruguay	69
111. Venezuela	330
112. Viet-Nam	62
113. Yugoslavia	207
114. Zambia	76

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

January 6, 1970

REPORT OF THE EXECUTIVE DIRECTORS
TO THE BOARD OF GOVERNORSSpecial Increases in Subscriptions to Capital Stock of the
Bank

1. Pursuant to a resolution adopted at the 1969 Annual Meeting of the Board of Governors of the International Monetary Fund, the Executive Directors of the Fund have submitted to the Fund Board of Governors a report dated December 24, 1969, entitled "Increases in Quotas of Members - Fifth General Review", together with a draft resolution which would provide for increases in the present quotas of members of the Fund.
2. It is a long-standing policy of the Bank that individual members consenting to increases in their quotas in the Fund are expected to request special increases in their subscriptions to the capital of the Bank. The Executive Directors are of the opinion that the Bank should continue to adhere to this policy and recommend accordingly.
3. In formulating specific recommendations to this end, the Executive Directors have considered that of the maximum quota increases proposed for members of the Fund, only the part in excess of 25% of each member's present quota should be regarded as a special quota increase, since under the terms of the Fund proposal it is primarily that excess which affects that member's proportionate share of the aggregate of all Fund quotas. Thus, the increase of quotas in excess of 25% of present quotas has been taken as the basis for special increases in Bank subscriptions, in keeping with past practice. (Where this excess is due only to simple rounding of quotas, it has been disregarded.)
4. The Fund resolution provides for maximum amounts of quota increases to which a member may consent. The member may consent to the full amount of the increase; it may accept less than the full amount of the increase authorized for it; or it may initially accept only part of the proposed quota increase but subsequently consent to additional increases up to the maximum. Accordingly, the proposed Bank resolution also authorizes a maximum subscription for each member, which may be taken up by that member either in whole, or in part from time to time subject to the maximum. It is expected that members will take parallel action in the two institutions.
5. The Executive Directors have noted that the Report of the Executive Directors of the Fund states: "The individual quota adjustments that are recommended have been determined by the kind of considerations that have been applied by the Fund in the past. These considerations will be reviewed for the purpose of future adjustments." The Executive Directors have decided that a review should similarly be undertaken in the Bank of the considerations that might be applied in future increases in the capital of the Bank and the individual subscriptions therein.
6. The Executive Directors recommend that the Board of Governors adopt the attached resolution.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(Draft)

RESOLUTION NO.Special Increases in Subscriptions to Capital Stock of the Bank

WHEREAS the Executive Directors of the International Monetary Fund in their report to the Fund Board of Governors dated December 24, 1969 and entitled "Increases in Quotas of Members - Fifth General Review" have proposed increases in the quotas of members up to certain maximum amounts and have submitted to the Board of Governors a Resolution to that effect (hereinafter called the Fund Resolution);

WHEREAS, in accordance with past practice, members accepting increases in their quotas which have the effect of increasing their proportionate share of the aggregate of all Fund quotas (sometimes referred to as special increases) are expected to request corresponding increases in their capital subscriptions in the Bank; and

WHEREAS the Executive Directors believe that for this purpose only quota increases under the Fund Resolution in excess of 25% of present quotas should be taken into account;

RESOLVED THAT:

Pursuant to Article II, Section 3(b) of the Articles of Agreement of the Bank, the Board of Governors hereby authorizes the acceptance by the Bank of subscriptions to shares of the capital stock of the Bank upon the following conditions:

1. Each of the members of the Bank listed below may subscribe from time to time prior to November 16, 1971 (or such later date as the Executive Directors may determine) up to the maximum number of shares of stock of the Bank set forth opposite its name:

<u>Member</u>	<u>Maximum Number of Shares</u>	<u>Member</u>	<u>Maximum Number of Shares</u>
Algeria	309	Australia	341
Austria	437	Belgium	1,045
Botswana	11	Cambodia	11 a/
Cameroon	95	Canada	1,498
Chile	10	Congo (Brazzaville)	4
Cyprus	9	Denmark	478
Dominican Republic	10	Ecuador	10
El Salvador	13	Ethiopia	14
Finland	288	France	2,292

Member	Maximum Number of Shares	Member	Maximum Number of Shares
Gabon	20	Germany	853
Greece	69	Guatemala	16
Guyana	11	Honduras	4
Iceland	34	Iran	294
Iraq	58	Ireland	179
Israel	149	Italy	1,865
Ivory Coast	238	Jamaica	46 <u>b/</u>
Japan	2,504	Jordan	24
Kenya	67	Korea	149
Kuwait	550	Lebanon	358
Lesotho	11	Liberia	34
Libya	364	Malagasy Republic	19
Malaysia	254	Mauritius	17
Mexico	200	Nepal	12
Netherlands	423	New Zealand	49
Nicaragua	11	Nigeria	85 <u>b/</u>
Norway	448	Panama	5 <u>c/</u>
Peru	100	Philippines	149
Portugal	198	Saudi Arabia	183
Senegal	29	Sierra Leone	50
Singapore	209	South Africa	597
Southern Yemen	13	Spain	704
Swaziland	4	Sweden	373
Syria	21	Tanzania	17
Thailand	130	Trinidad & Tobago	68
Tunisia	36	Turkey	136
United States	2,461	Venezuela	105
Viet Nam	116	Yugoslavia	111
Zambia	115		

- a/ Membership approved by Board of Governors, but not yet effective. The number of shares shown represents the increase over and above the presently authorized number of shares.
- b/ In addition to an increased subscription approved but not yet effective.
- c/ In addition to 86 shares to which Panama has indicated an intention to subscribe as a result of an earlier increase in its IMF quota.

2. Each subscription authorized pursuant to paragraph 1 above shall be on the following terms and conditions:

- a) The subscription price per share shall be \$100,000 in terms of United States dollars of the weight and fineness in effect on July 1, 1944;

- b) With respect to the subscription price of one-half of such shares, the 2% portion payable in gold or United States dollars and the 18% portion payable in the currency of the member shall be left uncalled on the conditions set forth in Resolution No. 129 as governing subscriptions made pursuant to Resolution No. 128 of the Board of Governors; and
- c) Before any subscription shall be accepted by the Bank, the following action shall have been taken:
 - i) the member shall have taken all action necessary to authorize such subscription and shall furnish to the Bank such information thereon as the Bank may request;
 - ii) with respect to and on account of the subscription price of one-half of such shares, the member shall pay to the Bank gold or United States dollars equal to 2% of such price; and an amount in its own currency equal to 18% of such price;
 - iii) the increase in authorized capital stock of the Bank proposed in the Report of the Executive Directors dated January 6, 1970 and entitled "Increase in Authorized Capital Stock" shall have been approved by the Board of Governors of the Bank; and
 - iv) the Fund Resolution shall have been approved by the Board of Governors of the International Monetary Fund;

provided, further, that the Bank shall not accept any subscription prior to October 30, 1970.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

January 6, 1970

REPORT OF THE EXECUTIVE DIRECTORS
TO THE BOARD OF GOVERNORSIncrease in Authorized Capital Stock

1. The initial authorized capital stock of the Bank was \$10,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944. Article II, Section 2(b) of the Articles of Agreement provides that the capital stock may be increased by a three-fourths majority of the total voting power.
2. Authorized capital was increased by \$10,000 million in 1959 to provide for the doubling of members' subscriptions, and was increased by a further \$1,000 million in 1959, by \$1,000 million in 1963 and by \$2,000 million in 1965 to provide shares for new members' subscriptions and for increases in existing subscriptions. It now stands at \$24,000 million.
3. As of December 22, 1969 member countries had subscribed \$23,066.3 million, leaving an unsubscribed balance of \$933.7 million, of which \$140.9 million will be required for pending memberships and increases in subscriptions already in process.
4. The Executive Directors of the Fund have recommended to the Fund's Board of Governors the adoption of a resolution proposing the adjustment of quotas of individual members.
5. In accordance with past practice, the Executive Directors of the Bank are recommending to the Bank's Board of Governors the adoption of a resolution authorizing the Bank to accept special subscriptions from members aggregating \$2,222.0 million. The potential shortage in Bank authorized capital stock would thus be in excess of \$1,400 million.
6. In view of the foregoing, the Executive Directors recommend that the authorized capital stock of the Bank be increased by \$3,000 million, to accommodate the increases in subscriptions being recommended to the Board of Governors and leave available sufficient unsubscribed capital for new members' capital subscriptions and future increases in the capital subscriptions of individual members. It is assumed that members will not wish to exercise their right under Article II, Section 3(c) of the Articles of Agreement to subscribe pro rata to an increase in the authorized capital stock of the Bank.
7. The Executive Directors recommend that the Board of Governors adopt the attached resolution.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(DRAFT)

RESOLUTION NO.Increase of \$3,000 Million in Authorized Capital Stock

WHEREAS the original capital stock of the Bank amounted to \$10,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944;

WHEREAS the Board of Governors, by Resolutions Nos. 128, 131, 194 and 222 increased the authorized capital stock to \$24,000 million;

WHEREAS it is desirable further to increase the authorized capital stock of the Bank by \$3,000 million in order to provide for the admission of new members and for future increases in members' subscriptions;

WHEREAS the Board of Governors expects that in the circumstances members will not wish to avail themselves of their right to subscribe a proportionate share of such increase pursuant to Article II, Section 3(c) of the Articles of Agreement of the Bank:

NOW THEREFORE the Board of Governors hereby resolves as follows:

1. The authorized capital stock of the Bank shall be increased by \$3,000 million in terms of United States dollars of the weight and fineness in effect on July 1, 1944, divided into 30,000 shares having a par value of \$100,000 each.

2. In absence of notice to the contrary from any member on or before January 22, 1970, such member will be deemed to have waived its right to subscribe its proportionate share of such increase.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Memorandum Relating to the Financial Statements

DECEMBER 31, 1969

Attached hereto are the following statements of the Bank:

Balance Sheet	Appendix	G-1
Statement of Income and Expenses for the Six Months Ended December 31, 1969 and December 31, 1968	Appendix	G-2
Statement of Subscriptions to Capital Stock and Voting Power	Appendix	G-3
Summary Statement of Loans	Appendix	G-4
Summary Statement of Funded Debt	Appendix	G-5
Notes to Financial Statements	Appendix	G-6

Summary data on certain aspects of the Bank's activities are set forth below:

(Expressed in Millions of United States Dollars)

1. LOAN AGREEMENTS SIGNED		
July 1, 1969 to September 30, 1969		\$189.8
October 1, 1969 to December 31, 1969		
639 KE KENYA	\$ 23.5	
640 UNI NIGERIA	10.6	
641 KE KENYA	2.6	
642 MOR MOROCCO	7.3	
643 MOR MOROCCO	46.0	
644 AR ARGENTINA (Guarantor)		
645 ZA ZAMBIA	60.0	
646 DO DOMINICAN REPUBLIC (Guarantor)	9.3	
647 SI SINGAPORE (Guarantor)	25.0	
648 TUN TUNISIA (Guarantor)	11.0	
649 CY CYPRUS (Guarantor)	10.0	
650* IFC INTERNATIONAL FINANCE CORPORATION	100.0	
651 CO COLOMBIA	18.3	324.6
Loans Signed in Fiscal Year to Date		\$514.4

* Loan No. 472 IFC for \$100,000,000 made in 1968 was consolidated into a single Loan No. 840 IFC for \$200,000,000.

2. LOAN DISBURSEMENTS, REPAYMENTS AND SALES		
	Quarter Ended	5 1/2 Months Ended
	December 31, 1969	
Disbursements (Total Disbursed \$9,943.2)	\$209.4	\$360.3
Repayments:		
To Bank	\$ 79.5	\$155.8
To Others	25.2	61.5
	\$104.7	\$217.3
Loans Sold or Agreed to be Sold	\$165.0	\$166.0

3. CUMULATIVE LOAN DATA FROM BEGINNING OF OPERATIONS TO DECEMBER 31, 1969

	Total	Portion Sold or Agreed to be Sold	Portion Retained by Bank
Loans Signed	\$13,431.1		
Cancellations, Refundings and Exchange Adjustments	<u>246.3</u>	\$13,174.6	\$2,343.4
Repayments (To Bank and Others)		3,537.8	1,584.4
Net Loans Signed		\$ 9,636.8	\$ 759.0
Loans Not Yet Effective		340.4	.3
Net Loans Effective		<u>\$ 9,296.4</u>	<u>\$ 758.7</u>
Undisbursed Balance:			
Loans Effective		\$ 2,831.4	\$ 22.5
Loans Not Yet Effective		340.4	.3
		<u>\$ 3,171.8</u>	<u>\$ 22.8</u>
			<u>\$ 3,149.0</u>

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Memorandum Relating to the Financial Statements (continued)

DECEMBER 31, 1969

4.

FUNDED DEBT

Outstanding July 1, 1969		\$4,081.2
Net Increase July 1, 1969 to September 30, 1969		142.7
Changes: October 1, 1969 to December 31, 1969		
Increases:		
New Issues:		
Privately Placed:		
7-7/8% Notes of 1969, due 1974 (DM64,000,000).	\$16.0	
Revaluation of Outstanding Issues:		
Deutsche mark bonds and notes from DM 4.00 = US\$ 1.00 to DM3.66=US\$ 1.00	90.3	\$106.3
Decreases:		
5-1/8% Notes of 1967, matured October 1, 1969.	\$ 8.0	
5-1/8% Notes of 1967, matured October 1, 1969 (DM32,000,000).	8.0	
Purchases for Sinking and Purchase Funds	11.1	27.1
Outstanding December 31, 1969		<u>\$4,302.7</u>

Controller's Department
January 22, 1970

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Balance Sheet

DECEMBER 31, 1969

EXPRESSED IN UNITED STATES CURRENCY—See Notes to Financial Statements, Appendix F

ASSETS

	1969	1968
DUE FROM BANKS AND OTHER DEPOSITORIES		
Member currencies		
Unrestricted	\$ 20,159,246	\$ 20,169,469
Subject to restrictions—Note B	80,932,494	82,529,168
	\$ 101,151,740	110,718,627
Non-member currency (Swiss francs)	1,088,207	2,338,098
	\$ 102,240,247	114,056,725
INVESTMENTS		
Obligations of governments and their instrumentalities (At cost or amortized cost; face amount \$844,736,598-1969, \$617,516,831-1968)	\$ 827,995,521	606,768,433
Time deposits	742,643,819	589,643,865
Accrued interest	48,035,957	30,876,767
	1,618,695,297	1,226,179,065
RECEIVABLE ON ACCOUNT OF SUBSCRIBED CAPITAL (See Appendix C)—Note B		
Non-negotiable, non-interest-bearing, demand notes	\$ 363,357,500	377,764,711
Amounts required to maintain value of currency holdings	6,983,230	6,166,630
	370,340,730	383,931,344
EFFECTIVE LOANS HELD BY BANK (See Appendix D) (Including undisbursed balance \$2,808,915,689-1969, \$2,089,417,633-1968)	8,537,711,919	7,664,070,535
ACCRUED CHARGES ON LOANS	95,378,851	86,749,848
RECEIVABLE FROM PURCHASERS ON ACCOUNT OF EFFECTIVE LOANS AGREED TO BE SOLD (Including undisbursed balance \$22,450,978-1969, \$47,851,077-1968)	32,578,887	53,743,165
UNAMORTIZED BOND ISSUANCE COSTS	35,788,430	31,606,793
LAND AND BUILDINGS	\$ 39,597,516	35,427,393
Less—Reserve for depreciation	3,708,155	3,774,132
	35,893,361	31,653,261
OTHER ASSETS (Including special deposits \$8,663,213-1969, \$12,679,213-1968)—Note D	26,650,388	29,012,669
SPECIAL RESERVE FUND ASSETS —Note D		
Due from Banks—member currency—United States	\$ 541	300
Investment securities—Obligations of United States Government and its instrumentalities (At cost or amortized cost; face amount \$292,380,000-1969, \$286,339,000-1968)	291,553,129	291,061,401
Accrued loan commissions	153,693	195,200
	291,707,363	291,278,901
STAFF RETIREMENT PLAN ASSETS (Segregated and held in trust)	46,805,512	40,266,846
TOTAL	\$11,193,790,985	\$ 9,816,134,022

LIABILITIES, RESERVES AND CAPITAL

LIABILITIES		
Accrued interest on borrowings	\$ 85,461,673	\$ 66,431,402
Accounts payable and other liabilities	7,342,487	7,069,920
Due to International Development Association	179,100,000	117,700,000
Undisbursed balance of effective loans (See Appendix D)		
Held by Bank	\$ 2,808,915,689	2,089,417,633
Agreed to be sold	22,450,978	40,651,077
	2,831,366,667	2,140,068,710
Funded debt (See Appendix E) (Including amount due within one year \$443,873,966-1969, \$451,007,129-1968)	4,302,691,034	3,802,812,216
RESERVES		
Special reserve—Note D	\$ 291,707,363	291,278,901
Supplemental reserve against losses on loans and guarantees and from currency devaluations—Note E	1,036,858,375	967,890,283
	1,328,565,738	1,259,169,184
STAFF RETIREMENT PLAN RESERVE	46,805,512	40,266,846
CAPITAL		
Capital stock (See Appendix C)—Note F		
Authorized 240,000 shares of \$100,000 par value each	\$23,066,300,000	23,991,700,000
Subscribed 230,463 shares-1969, 229,917 shares-1968	20,759,670,000	20,625,630,000
Less—Uncalled portion of subscriptions—Note G		
	2,306,630,000	2,299,170,000
Payments on account of pending subscriptions	4,078,000	2,476,000
Net income —Note E		
Fiscal year to date (See Appendix B)	101,749,874	83,983,844
TOTAL	\$11,193,790,985	\$ 9,816,134,022

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Income and Expenses

FOR THE SIX MONTHS ENDED DECEMBER 31, 1969 AND DECEMBER 31, 1968

EXPRESSED IN UNITED STATES CURRENCY—See Notes to Financial Statements, Appendix F

	July 1 - December 31	
	1969	1968
INCOME		
Income from investments	\$ 65,704,763	\$ 38,834,069
Income from loans:		
Interest	161,383,238	147,893,603
Commitment charges	8,012,790	4,802,837
Commissions	203,828	256,556
Service charges	26,126	34,393
Other income	4,781,156	3,710,288
Gross Income	\$240,111,901	\$196,422,745
Deduct—Amount equivalent to commissions appropriated to Special Reserve—Note D	203,828	256,556
Gross Income Less Reserve Deduction	\$239,908,073	\$196,166,189
EXPENSES		
Administrative expenses (including International Development Association) (1):		
Personal services	\$ 15,137,833	\$ 11,408,774
Contributions to staff benefits	2,324,844	1,780,994
Fees and compensation	1,651,972	766,688
Representation	211,101	159,507
Grants to member countries	104,832	361,929
FAO and Unesco cooperative programs	954,669	706,198
Travel	4,339,309	2,940,538
Supplies and material	238,533	139,165
Office occupancy	1,788,943	1,084,293
Communication services	781,013	670,218
Furniture and equipment	494,956	293,836
Books and library services	198,036	171,148
Printing	330,838	231,275
Insurance	21,731	70,747
Other expenses	32,708	23,476
Total	\$ 28,591,318	\$ 20,780,874
Deduct—Management Fee charged to International Development Association	7,900,004	2,100,000
Total administrative expenses	\$ 20,691,314	\$ 18,680,874
Interest on borrowings	115,701,162	80,960,063
Bond issuance and other financial expenses	1,755,177	1,362,237
Discount on sale of loans	10,546	169,171
Gross Expenses	\$138,158,199	\$111,172,345
NET INCOME—Note E	\$101,749,874	\$ 83,993,844

(1) The amount previously reported as "Services to member countries" for the six months ended December 31, 1968 has been included in "Administrative expenses" for that period.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Subscriptions to Capital Stock and Voting Power

DECEMBER 31, 1949

EXPRESSED IN UNITED STATES CURRENCY (IN THOUSANDS)—See Notes to Financial Statements, Appendix F

Member	Subscriptions			Amounts Paid in			Voting Power		
	Shares	Percent of total	Amount (New \$)	In United States dollars (New \$)	In currency of member other than United States (New \$)	In non-negotiable, non-interest-bearing notes (New \$)	Number of votes	Percent of total	
Afghanistan	500	.13	20,000	5,000	1,200	1,200	27,000	850	.21
Algeria	800	.35	80,000	800	72	72	72,000	1,050	.41
Argentina	3,753	1.62	375,300	10,253	1,099	25,078	335,370	5,983	1.34
Australia	5,130	2.31	513,000	5,130	47,970	47,970	479,700	5,580	2.36
Austria	1,867	.81	186,700	1,867	10,803		168,030	2,117	.82
Belgium	4,500	1.96	450,000	4,500	40,500		405,000	4,750	1.84
Bolivia	210	.09	21,000	210	13	1,877	19,000	460	.18
Bosnia	32	.01	3,200	32	18		3,000	882	.11
Brazil	3,753	1.62	375,300	3,753	33,197		331,970	5,983	1.56
Bulgaria	150	.07	15,000	150	1,207	3,556	45,430	737	.29
Canada	200	.09	20,000	200	15	1,315	15,900	400	.16
Ceylon	200	.09	20,000	200	29	1,573	18,000	450	.17
Central African Republic (1)	100	.04	10,000	100	71,280	38	712,800	8,170	3.16
China	827	.36	82,700	827	908	6,535	9,000	350	.14
Chad	100	.04	10,000	100	876		74,430	1,077	.42
Chile	933	.40	93,300	933	8,907	933	83,970	1,183	.46
Colombia	1,750	0.75	175,000	1,750	6,043	16,457	475,700	2,115	.80
Congo (Brazzaville) (1)	933	.40	93,300	9,330	19	783	83,970	1,183	.46
Congo (Kinshasa) (1)	100	.04	10,000	100	604		9,000	250	.10
Congo, Democratic Rep. of (1)	600	.26	60,000	600	604		54,000	800	.30
Costa Rica	107	.05	10,700	467	603		9,438	317	.14
Cyprus	213	.09	21,300	213	4	1,903	19,170	383	.18
Dahomey (1)	100	.04	10,000	100	51	771	9,000	350	.14
Dominican Republic	133	.06	13,300	1,753	15,597		115,970	1,063	.40
Ecuador	171	.07	17,100	1,710	483	714	11,970	383	.15
El Salvador	107	.05	10,700	783			15,980	421	.16
Ethiopia	100	.04	10,000	1,000			9,000	368	.14
Finland	1,333	.58	133,300	1,333	11,997		119,970	1,563	.60
France	10,500	4.55	1,050,000	10,500	94,980		945,000	10,750	4.16
Gabon (1)	100	.04	10,000	100	24	778	9,000	360	.14
Gambia, The	53	.02	5,300	53	4	473	4,770	303	.12
Germany (1)	11,880	5.15	1,188,000	12,800	103,888	11,312	1,152,000	13,050	5.05
Ghana	100	.04	10,000	100	1,882	7,414	46,000	594	.24
Greece	667	.28	66,700	667	8,003		60,838	917	.35
Guatemala	107	.05	10,700	467	683		9,438	367	.14
Guinea	200	.09	20,000	200	1,800		18,000	450	.17
Guyana	100	.04	10,000	100	15	1,425	14,000	418	.18
Haiti	150	.07	15,000	150	41	1,308	13,000	400	.15
Honduras	80	.03	8,000	620		180	7,200	338	.13
Iceland	100	.04	10,000	1,000	23,951	48,049	720,000	8,258	3.19
India	8,800	3.47	880,000	8,800	88,102	158,000	1,040,000	12,480	.95
Indonesia	1,280	.56	128,000	1,280	8,100	24,774	111,140	1,538	.58
Iran	640	.28	64,000	640	1,550	4,410	57,400	899	.34
Iraq	853	.37	85,300	853	1,520	1,747	76,770	1,103	.43
Israel	959	.42	95,900	2,023	1,843	5,724	62,510	1,209	.47
Italy	6,460	2.89	646,000	6,460	59,460		599,400	6,919	2.67
Ivory Coast (1)	200	.09	20,000	200	1,130	576	18,000	450	.17
Jamaica (1)	320	.14	32,000	1,965	22	1,213	28,800	570	.22
Japan	7,776	3.35	777,600	7,776	69,534		695,534	7,874	3.08
Jordan	165	.07	16,500	165	61	1,406	14,470	413	.16
Korea	333	.14	33,300	333	1,151	1,886	29,970	383	.15
Korea	533	.23	53,300	533	3,130	3,687	47,970	783	.30
Kuwait	667	.29	66,700	667	6,003		60,838	917	.35
Laos	100	.04	10,000	100	900		9,000	350	.14
Lebanon	90	.04	9,000	900			8,100	340	.13
Lesotho	32	.01	3,200	32	1	285	2,880	281	.11
Liberia	213	.09	21,300	213	13	1,904	19,170	463	.18
Lithuania	200	.09	20,000	2,000			18,000	450	.17
Luxembourg	200	.09	20,000	200	1,800		18,000	450	.17
Malaysia	150	.07	15,000	150	37	1,566	18,000	450	.17
Malawi	150	.07	15,000	150	1	1,511	14,000	400	.15
Malaya	1,333	.58	133,300	1,333	10,560	497	139,970	1,583	.61
Mali	171	.07	17,100	171	1,557		15,970	423	.16
Mauritania (1)	100	.04	10,000	100	36	776	9,000	350	.14
Mauritius	171	.07	17,100	171	36	1,523	15,900	421	.16
Mexico	2,480	.90	248,000	2,480	18,720		187,200	2,350	.90
Morocco	960	.42	96,000	960	99	8,541	86,400	1,210	.47
Nepal	100	.04	10,000	100	8	881	9,000	350	.14
Netherlands	5,500	2.38	550,000	5,500	49,500		495,000	5,750	2.22
New Zealand	1,667	.72	166,700	1,667	120	14,874	150,250	1,671	.64
Nicaragua	80	.03	8,000	80	723		7,200	330	.13
Niger (1)	100	.04	10,000	100	25	776	9,000	350	.14
Nigeria (1)	667	.29	66,700	667	256	5,767	60,030	917	.35
Norway	1,400	.60	140,000	1,400	14,400		144,000	1,820	.72
Pakistan	2,000	.87	200,000	2,000	2,049	19,951	180,000	2,200	.87
Panama	90	.04	9,000	126	540	774	8,100	360	.13
Paraguay	60	.03	6,000	60			5,400	310	.12
Peru	655	.28	65,500	3,785	26	2,539	57,150	885	.34
Philippines	1,173	.51	117,300	3,473	6,500	1,587	101,170	1,423	.55
Portugal	800	.35	80,000	800	9,760	1,440	77,000	1,000	.41
Rwanda	150	.07	15,000	150	1,350		13,000	400	.15
Saudi Arabia	960	.42	96,000	960	22	8,818	86,400	1,210	.47
Senegal (1)	333	.14	33,300	333	37	2,650	29,970	383	.15
Sierra Leone	150	.07	15,000	150	16	1,354	15,000	400	.15
Singapore	320	.14	32,000	320	1,778		32,000	570	.22
Somalia	150	.07	15,000	150	14	1,356	15,000	400	.15
South Africa	4,133	1.82	413,300	4,133	18,197	21,131	397,970	2,343	.92
Southern Yemen	255	.10	25,500	255	22	2,093	21,150	485	.19
Spain	2,667	1.18	266,700	2,667	21,602	2,401	240,050	2,817	1.13
Sri Lanka	100	.04	10,000	100	1,800		18,000	450	.17
Switzerland	64	.03	6,400	64	560	370	5,760	314	.12
Tanzania	2,400	1.04	240,000	2,400	21,000		210,000	2,450	1.02
Togo	400	.17	40,000	400	44	3,556	36,000	650	.25
Tunisia	333	.14	33,300	333	78	2,919	29,970	383	.15
Thailand	1,011	.44	101,100	6,413	54	1,083	11,170	1,263	.49
Togo (1)	150	.07	15,000	150	35	1,168	15,000	400	.15
Trinidad and Tobago	667	.29	66,700	667	24	1,700	24,000	717	.28
Tunisia	373	.16	37,300	373	74	3,383	33,570	625	.24
Turkey	1,150	.50	115,000	1,150	171	10,070	103,500	1,400	.54
Uganda	333	.14	33,300	333	78	2,919	29,970	383	.15
United Arab Republic	1,421	.62	142,100	1,421	245	12,464	127,890	1,671	.65
United Kingdom (1)	11,173	4.97	1,117,300	11,173	232,412		1,240,000	26,350	10.65
United States	63,500	27.53	6,350,000	635,000			5,715,000	63,750	24.65
Upper Volta (1)	100	.04	10,000	100	38	776	9,000	350	.14
Uruguay (2)	280	.12	28,000	1,792	63	945	25,000	350	.18
Yugoslavia	1,867	.81	186,700	17,969	701		164,030	2,117	.82
Zambia	427	.19	42,700	427	3,843		38,430	677	.26
Zimbabwe	1,067	.46	106,700	9,373	1,297		96,030	1,317	.51
Zambia	533	.23	53,300	533	48	4,749	47,970	783	.30
Total	230,663	100.00	\$73,066,300	\$866,571	\$1,068,756	\$65,358	\$70,759,670	758,663	100.00

(1) Amounts aggregating the equivalent of \$7,944,705 receivable and of \$961,475 payable as a result of revaluation of these currencies, are not included in the "Amount Paid in" column.

(2) The equivalent of \$3,811,000 has been received on account of increases in subscriptions which are in process of completion.

General: \$64,000 from Equatorial Guinea and \$205,000 from Cambodia have been received on account of their capital subscriptions pending admission to membership.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Summary Statement of Loans

DECEMBER 31, 1969

EXPRESSED IN UNITED STATES CURRENCY—See Note to Financial Statements, Appendix F

Members in whose territories loans have been made ⁽¹⁾	Effective loans held by Bank			Loans not yet effective ⁽²⁾
	Disbursed portion	Undisbursed portion ⁽³⁾	Total ⁽⁴⁾	
Algeria	\$ 11,433,000	-	\$ 11,433,000	-
Argentina	150,484,847	95,781,157	246,446,004	85,000,000
Australia	149,286,713	6,723,086	156,009,799	-
Austria	50,163,528	-	50,163,528	-
Belgium	27,696,877	-	27,696,877	-
Brazil	196,451,108	283,230,414	479,710,522	23,750,000
Burma	18,377,567	-	18,377,567	-
Cameroon	17,726,343	-	17,726,343	-
Ceylon	26,377,997	15,524,053	41,902,050	21,000,000
Chile	91,526,526	60,436,860	151,963,386	-
China	55,640,227	105,435,197	161,075,424	-
Colombia	310,431,118	167,966,978	478,398,097	18,300,000
Congo (Brazzaville)	20,000,000	-	20,000,000	-
Costa Rica	21,011,103	21,416,139	42,427,242	-
Cyprus	16,854,214	12,135,988	28,990,202	5,000,000
Denmark	36,041,484	-	36,041,484	-
Dominican Republic	-	-	-	25,000,000
Ecuador	33,185,656	8,884,353	42,070,009	-
El Salvador	25,458,271	7,633,363	33,091,634	-
Ethiopia	42,996,005	26,933,335	69,929,340	-
Finland	119,585,449	17,182,100	136,767,549	-
France	11,998,457	-	11,998,457	-
Gabon	12,121,335	6,723,765	18,845,100	-
Ghana	44,111,044	6,095,956	50,207,000	-
Greece	51,497,466	7,598,594	59,096,060	-
Guatemala	15,140,719	18,535,281	33,676,000	-
Guinea	5,149,217	59,326,463	64,475,680	-
Guyana	13,346	7,704,654	7,718,000	-
Haiti	65,000	-	65,000	-
Honduras	19,996,478	17,485,522	37,482,000	-
Iceland	19,321,921	819,888	20,141,809	-
India	491,716,182	141,436,212	633,152,394	-
Indonesia	143,884,735	126,346,197	270,230,932	-
Iraq	10,351,349	12,178,631	22,529,980	-
Ireland	61,005	13,513,256	13,574,261	-
Israel	85,164,313	4,985,397	90,149,710	-
Italy	143,560,274	21,843,913	165,404,187	-
Ivory Coast	1,054,087	-	1,054,087	-
Jamaica	22,480,873	18,220,639	40,701,512	-
Japan	490,464,154	-	490,464,154	-
Kenya	40,951,844	23,500,000	64,451,844	-
Korea, Republic of	43,684,154	-	43,684,154	1,600,000
Korea	2,256,512	22,743,488	24,999,999	-
Labrador	18,476,086	-	18,476,086	-
Liberia	3,312,077	2,237,736	5,549,813	-
Malaysia	320,454	10,879,548	11,200,000	-
Mexico	126,776,783	80,884,777	207,661,560	-
Morocco	499,189,653	148,829,025	648,018,678	-
Norway	46,208,510	18,430,127	64,638,637	53,300,000
New Zealand	81,993,396	7,422,399	89,415,795	-
Nicaragua	20,480,465	17,488,505	37,968,970	-
Nigeria	137,467,232	32,622,768	170,090,000	10,600,000
Norway	85,540,817	-	85,540,817	-
Pakistan	282,457,581	184,444,822	466,902,403	-
Panama	7,989,000	-	7,989,000	-
Paraguay	7,978,125	6,470,875	14,449,000	-
Peru	119,236,848	38,366,203	157,603,051	-
Philippines	104,953,099	88,924,980	193,878,079	-
Portugal	51,663,855	3,480,890	55,144,745	-
Senegal	1,037,067	6,038,272	7,075,339	-
Singapore	3,346,517	3,448,483	6,795,000	-
South Africa	26,972,776	44,478,224	71,451,000	11,000,000
Spain	9,345,217	-	9,345,217	-
Sudan	140,557,856	38,988,740	179,546,596	25,000,000
Tanzania	85,141,478	28,234,522	113,376,000	-
Thailand	2,387,290	9,722,710	12,110,000	-
Trinidad and Tobago	143,980,678	56,997,504	200,978,182	-
Tunisia	1,444,921	21,286,078	22,730,999	-
Turkey	17,653,248	47,237,364	64,890,612	10,000,000
United Arab Republic	38,309,346	67,107,401	105,416,747	-
United Kingdom	27,500,000	-	27,500,000	-
Uruguay	51,424,444	3,456,336	54,880,780	-
Venezuela	206,444,444	70,551,556	276,996,000	-
Yugoslavia	213,844,809	113,798,330	327,643,139	-
Zambia	17,671,774	35,328,219	52,999,993	5,300,000
Sub-Total members (1)	\$5,669,163,498	\$2,606,915,689	\$8,276,079,187	\$340,330,000
International Finance Corporation	-	100,000,000	100,000,000	-
Totals	\$5,669,163,498	\$2,706,915,689	\$8,376,079,187	\$340,330,000
Plus: Exchange adjustments	59,632,732	-	59,632,732	-
	\$5,728,796,230	-	\$8,435,711,919	-

SUMMARY OF CURRENCIES REPAYABLE ON EFFECTIVE LOANS HELD BY BANK

Currency	Amount		Amount
	Disbursed portion	Undisbursed portion	
Argentine pesos	\$ 995,815	-	\$ 995,815
Australian dollars	78,800,669	-	78,800,669
Austrian schillings	26,971,691	-	26,971,691
Belgian francs	74,362,562	-	74,362,562
Burmese kyats	1,502,522	-	1,502,522
Canadian dollars	145,977,969	-	145,977,969
Ceylon rupees	293,105	-	293,105
Danish kroner	22,076,122	-	22,076,122
Deutsche mark	1,127,367,232	-	1,127,367,232
Finnish markka	13,940,400	-	13,940,400
French francs	153,352,486	-	153,352,486
Ghana new cedis	2,360,460	-	2,360,460
Indian rupees	42,444,635	-	42,444,635
Irish pounds	12,812,697	-	12,812,697
Israeli pounds	2,103,815	-	2,103,815
Israeli pounds	5,443,693	-	5,443,693
Japanese yen	1,888,493	-	1,888,493
Italian lire	113,078,344	-	113,078,344
Japanese yen	113,412,884	-	113,412,884
Kenya shillings	46,470,132	-	46,470,132
Lebanese pounds	1,020,283	-	1,020,283
Malaysian dollars	13,819,715	-	13,819,715
Mexican pesos	26,194,861	-	26,194,861
Netherlands guilders	111,997,282	-	111,997,282
Norwegian kroner	22,361,393	-	22,361,393
Portuguese escudos	6,340,351	-	6,340,351
Pounds sterling	235,612,065	-	235,612,065
Singapore dollars	1,851,256	-	1,851,256
South African rand	36,035,370	-	36,035,370
Swiss francs	28,229,262	-	28,229,262
Taiwan dollars	4,835,881	-	4,835,881
Swedish kronor	65,021,923	-	65,021,923
Swiss francs	202,946,911	-	202,946,911
New Taiwan dollar	3,831,002	-	3,831,002
United States dollars	2,824,410,488	-	2,824,410,488
Disbursed portion of effective loans held by Bank	\$5,669,163,498	-	\$5,669,163,498
Plus: Exchange adjustments	59,632,732	-	59,632,732
	\$5,728,796,230	-	\$5,728,796,230
Undisbursed portion of effective loans held by Bank	-	\$2,606,915,689	\$2,606,915,689
Effective loans held by Bank	\$5,728,796,230	\$2,606,915,689	\$8,335,711,919

(1) Loans are made (a) to the member or (b) to a political subdivision or a public or a private enterprise in the territories of the member with the member's guarantee. A loan has also been made to International Finance Corporation.

(2) This does not include \$12,450,978 of effective loans which the Bank has agreed to sell. Of the undisbursed balance, the Bank has entered into irrevocable commitments to disburse \$36,248,673.

(3) Original principal amount of loans signed \$13,431,127,993

Deduct:

(a) Cancellations, terminations and refundings \$ 316,713,042

(b) Principal repayments to the Bank 1,953,984,686

(c) Loans sold or agreed to be sold of which \$12,450,978 has not yet been disbursed 2,343,126,978

(d) Loans not yet effective 340,330,000

4,953,048,706

Plus: Exchange adjustments \$ 8,478,079,187

59,632,732

Effective loans held by Bank \$ 8,335,711,919

(4) Agreements providing for these loans have been signed, but the loans do not become effective and disbursements thereunder do not start until the borrowers and guarantors, if any, take certain action and furnish certain documents to the Bank. The Bank has agreed to sell \$250,000 of a loan not yet effective and thus the total of effective and non-effective loans sold or agreed to be sold is the equivalent of \$2,343,126,978.

(5) Loan shared by members shown.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Summary Statement of Funded Debt

DECEMBER 31, 1969

EXPRESSED IN UNITED STATES CURRENCY—See Notes to Financial Statements, Appendix F

<i>Payable in</i>	<i>Weighted average interest rates</i>	<i>Due dates</i>	<i>Principal outstanding(1)</i>
Canadian dollars	5.95%	1990-1993.	\$ 73,352,573
Deutsche mark	6.07%	1970-1985.	1,061,895,082
Italian lire.	5.00%	1976	24,000,000
Kuwaiti dinars	6.50%	1988	42,000,000
Netherlands guilders	5.02%	1975-1988.	39,877,348
Pounds sterling.	4.41%	1971-1982.	31,950,975
Swedish kronor	6.00%	1992	14,497,768
Swiss francs.	4.39%	1970-1985.	182,602,288
United States dollars (2)	5.34%	1970-1994.	2,832,515,000
Total			\$4,302,691,034

(1) The following table shows the aggregate principal amount of the maturities, sinking fund requirements, and in the case of certain Canadian issues, non-cumulative purchase fund requirements each year for the five years following the date of this statement:

<i>Period</i>	<i>Amount</i>
January 1, 1970 to December 31, 1970	\$ 443,873,966
January 1, 1971 to December 31, 1971	595,504,770
January 1, 1972 to December 31, 1972	317,862,964
January 1, 1973 to December 31, 1973	277,405,348
January 1, 1974 to December 31, 1974	207,772,449
Total	\$1,842,419,497

(2) The Bank has entered into agreements to sell additional bonds totaling \$92,600,000 of certain outstanding issues. These agreements provide for the delivery of such bonds to be made against payment therefor on various dates to and including July 8, 1970.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Notes to Financial Statements

DECEMBER 31, 1969

NOTE A

Amounts in currencies other than United States dollars have been translated into United States dollars:

(i) In the cases of 81 members, at the par values as specified in the "Schedule of Par Values", published by the International Monetary Fund;

(ii) In the cases of the remaining 31 members (Algeria, Argentina, Bolivia, Brazil, Cameroon, Central African Republic, Chad, Chile, China, Colombia, Congo (Brazzaville), Democratic Republic of Congo, Dahomey, Gabon, Guinea, Indonesia, Ivory Coast, Korea, Laos, Malagasy Republic, Mali, Mauritania, Mauritius, Niger, Paraguay, Peru, Senegal, Southern Yemen, Togo, Upper Volta and Viet-Nam), at the rates used by such members in making payments of capital subscriptions to the Bank; and

(iii) In the case of Swiss francs, non-member currency, at the rate of 4.2975 Swiss francs to 1 United States dollar.

See also Note B.

No representation is made that any currency held by the Bank is convertible into any other currency at any rate or rates.

NOTE B

These currencies of the several members, and the notes issued by them in substitution for any part of such currencies as permitted under the provisions of Article V, Section 12 of the Articles of Agreement of the Bank, are derived from the portion of the subscriptions to the capital stock of the Bank which is payable in the currencies of the respective members (such portion being hereinafter called restricted currency). Such restricted currencies may be loaned by the Bank, and funds received by the Bank on account of principal of loans made by the Bank out of such restricted currencies may be exchanged for other currencies or reloaned, only with the approval in each case of the member whose restricted currency is involved; provided, however, that, if necessary, after the Bank's subscribed capital is entirely called, such restricted currencies may, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings or to meet the Bank's liabilities with respect to contractual payments on loans guaranteed by it.

Under Article II, Section 9, each member is required, if the par value of its currency is reduced or if the foreign exchange value of its currency depreciates to a significant extent in its territories, to maintain the value of the Bank's holdings of its restricted currency, including the principal amount of any notes substituted therefor, and the Bank is required, if the par value of a member's currency is increased, to return to the member the increase in the value of such restricted currency held by the Bank. Pursuant to the above provisions, the equivalent of \$7,944,705 is receivable from 14 members, and the equivalent of \$961,475 is payable to one member, resulting in a net amount receivable equivalent to \$6,983,230 on account of restricted currencies held by the Bank.

To the extent such restricted currencies are out on loan, the Bank and the members are obligated to make payments under Article II, Section 9 only when

such restricted currencies are recovered by the Bank. If such currencies had been recovered at December 31, 1969, pursuant to the above provisions, the equivalent of \$43,195,280 would be receivable from three members, and the equivalent of \$9,740,164 would be payable to one member.

Some members have converted part or all of the Bank's holdings of their restricted currency into United States dollars to be used and reused as United States dollars in the Bank's operations, subject to the right of the Bank or the member to reverse the transactions at any time, with immediate effect as to dollars then held by the Bank, and, as to dollars loaned, upon repayment of the loans. Such dollars while held by the Bank or on loan are not subject to the provisions of Article II, Section 9. Such dollars held by the Bank or repayable on loans are shown in these financial statements under "United States dollars" and, where relevant, as "unrestricted".

NOTE C

The Bank has two interest-bearing demand deposit accounts with the Reserve Bank of India denominated in US dollars and Deutsche mark. The Bank intends to withdraw these funds by February 16, 1970.

NOTE D

Amounts of commissions set aside pursuant to Article IV, Section 6, as a Special Reserve to be held in liquid form and to be used only for the purpose of meeting liabilities of the Bank on its borrowings and guarantees.

NOTE E

Consistent with past practice, the Supplemental Reserve Against Losses on Loans and Guarantees and from Currency Devaluations has been charged and credited during the current fiscal year with the undermentioned amounts representing a net gain to the Bank as a result of the revaluation of the amounts of earnings held by the Bank at the respective dates of revaluation in the currencies indicated:

Currency	Gain(Loss) on Revaluation	Date of Revaluation
French francs . . .	\$ (5,725,902)	August, 1969
Deutsche mark . . .	8,256,239	October, 1969
Total . . .	\$ 2,530,337	

NOTE F

In terms of United States dollars of the weight and fineness in effect on July 1, 1944.

NOTE G

Subject to call by the Bank only when required to meet the obligations of the Bank created by borrowing or by guaranteeing loans. As to \$18,453,040,000 the restriction on calls is imposed by the Articles of Agreement; as to \$2,306,630,000 by resolutions of the Board of Governors.

GENERAL

On January 6, 1970 the Executive Directors recommended to the Board of Governors that the Bank's authorized capital be increased from \$24,000,000,000 to \$27,000,000,000 and that a number of members be authorized to subscribe to additional capital.

Mr. REUSS. Would you now, Mr. Secretary, proceed with your statement.

Mr. Secretary, your full statement and attachments, will be incorporated in full in the record, without objection. We would now like to ask you to proceed in whatever way you choose.

STATEMENT OF HON. DAVID M. KENNEDY, SECRETARY OF THE TREASURY; ACCOMPANIED BY HON. PAUL M. VOLCKER, UNDER SECRETARY; HON. JOHN R. PETTY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS; HON. BERNARD ZAGORIN, AMBASSADOR AND EXECUTIVE DIRECTOR TO THE ASIAN DEVELOPMENT BANK; HON. WILLIAM B. DALE, U.S. EXECUTIVE DIRECTOR, INTERNATIONAL MONETARY FUND; AND HON. ROBERT E. WIECZOROWSKI, EXECUTIVE DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Secretary KENNEDY. Mr. Chairman and members of the committee, it is a pleasure for me to be here in support of the bills to which you referred, Mr. Chairman.

I appear today to support authorization for the United States to:

Accept an increase in its quota in the International Monetary Fund;

Provide for a related adjustment in the capital subscription of the United States to the International Bank for Reconstruction and Development;

Contribute to the Asian Development bank special funds.

Legislation to implement authorizations for these three institutions was introduced as H.R. 16891. Separate authorization bills were also introduced on the Asian Development Bank (H.R. 16641), and on the Fund and Bank (H.R. 16764). Since the authorization provisions of the three bills on the IMF, IBRD, and ADB are almost identical, I have not drawn any distinction among them in my testimony today. I will address myself specifically to the three additional provisions in H.R. 16891 at the conclusion of my remarks.

The International Monetary Fund has recently assumed additional responsibilities in administering the new special drawing rights and is steadily growing in influence and importance as the primary institution for multilateral cooperation and action in international monetary matters. The World Bank fulfills a similar role in multilateral financing of economic development.

On the regional level, it is timely for the United States to join with other countries in strengthening the ability of the Asian Bank to meet a wider range of Asian development needs than it can satisfy from its ordinary lending window.

Approval of legislation necessary to carry out these purposes will permit the United States to maintain a role within these multilateral financial institutions that is in keeping with its economic and financial position among the nations of the free world.

PROPOSED LEGISLATION

The proposed legislation before the committee would amend the Bretton Woods Agreements Act of 1945 essentially in two respects:

First, it would authorize the U.S. Governor of the Fund to consent to an increase of \$1,540 million in the U.S. quota in the International Monetary Fund and authorize an appropriation for that purpose.

Second, it would authorize the U.S. Governor of the Bank to vote for a \$3 billion increase in the capital stock of the Bank; subscribe to 2,461 additional shares of the Bank's capital; and authorize an appropriation of \$246.1 million for this purpose.

In addition, the Special Drawing Rights Act would be amended to provide authority for the U.S. Governor of the Fund to vote for allocations of Special Drawing Rights to the United States in any future basic period in an amount equal to the U.S. quota in the International Monetary Fund.

The background of the proposed increase in resources is described in the special report of the National Advisory Council on International Monetary and Financial Policies which has been presented to you and has now been incorporated in the record. Included in that report are the reports of the executive directors of the Fund and the Bank to the Boards of Governors of their respective institutions.

Finally, the Asian Development Bank Act would be amended by authorizing the United States to enter into an agreement with the Bank providing for a U.S. contribution of \$100 million to the special funds of the Bank.

PROPOSAL TO INCREASE FUND QUOTAS

This is the third occasion on which a proposal to increase the quotas in the Fund has been put before the member governments. The Fund agreement entered into force in December 1945 with total quotas of approximately \$7.2 billion. Although the articles of agreement provide for a general review of the adequacy of quotas every 5 years, there was no general increase in quotas of the Fund until 1958-59. At that time, there was a general upward revision of quotas by 50 percent. Special quota adjustments were also made for a small number of countries at that time. The total size of the Fund after these adjustments, and after taking into account the quotas of a number of new members, was \$15.2 billion at the end of 1962.

In 1965-66, a second decision was taken to revise all quotas upward by 25 percent and to provide additional selective increases for 16 member countries.

In both the first and second enlargements of the Fund, the United States accepted its share of the general increases of 50 and 25 percent respectively. On this third occasion, the proposed legislation recommends that the United States accept an increase of \$1,540 million, raising the U.S. quota to \$6,700 million. In this instance the United States would participate not only in the general increase, but also in the additional increases being provided for a number of countries in order to establish a better alinement between IMF quotas and the relative economic and financial positions of the respective member countries.

If all countries were to accept the quotas proposed for them, the total increase in the Fund's resources would be \$7,577 million, raising the aggregate size of the Fund to \$28.9 billion. This represents an enlargement of about 35 percent in the Fund's medium-term credit facilities.

The proposed increase in the Fund's conditional medium-term credit resources is needed at this time to keep pace with the growth in the world economy and world trade, and to provide larger drawing rights on these resources to member countries that have to cope with larger imbalances in their international payments as international transactions continue their rapid rise.

The two previous enlargements in IMF quotas have kept pace with the postwar expansion of world trade. The chart that follows (fig. 1) shows graphically the size of the Fund in relation to the upward curve of world imports, which have grown from \$100 billion in 1958 to an annual rate of \$250 billion in mid-1969. Once again, as in 1958 and 1965, the line representing Fund quotas has fallen below the rising curve of world imports. The proposed increases will restore a more appropriate relationship.

In recent years, we have also witnessed a rapid expansion in the size and volatility of international capital movements. To protect their economies from these sharp and sudden swings in capital, Fund members, especially the major industrial countries, have come to rely increasingly on the Fund's medium-term credit facilities. In the 6 years since the end of 1963, drawings on the Fund aggregated \$13.1 billion, almost twice the amount (\$7.1 billion) drawn in the previous 16 years (1947 to 1963), and drawings by the industrial countries have risen at an even faster rate. Since these drawings are limited by each country's quota, the proposed increase in quotas would permit an expansion of the Fund's credit operations and thus provide more scope to redress payments imbalances without resort to undesirable restrictive practices.

The quota adjustments recommended by the executive directors of the Fund consist of increases of 25 percent or more for nearly all countries. On this occasion, a major effort is being made to readjust the relative proportions of quotas of countries which had not been appropriately aligned. To provide an initial guide to the relative quota positions, the Fund has used a number of revisions of the so-called Bretton Woods Formula.

This formula takes account of national income, reserves, imports, exports, and the variability of exports. Among the largest percentage increases, ranging beyond 50 percent, are those for Belgium, France, Italy, and Japan, as is shown in table 4 of the special report. The new quota distribution will broaden the support on which the Fund can call to provide medium-term reserve credit.

The overall increase proposed for the United States is 29.8 percent, of which 25 percent is equivalent to a general increase and the remaining 4.8 percent, to a special increase. As the addition to the U.S. quota is less than the proposed overall increase of 35.5 percent, the U.S. share of total Fund quotas would be reduced from the present level of 24.3 percent to about 23.3 percent. (See table 4 of the special report.)

The resolution providing for an increase in quotas has been approved by Governors casting the required 85 percent of weighted votes. On the advice of the National Advisory Council, I cast the U.S. vote January 19, 1970, in favor of the resolution, while formally recording that I was not requesting or consenting to an increase in the U.S. quota.

RESERVES, IMPORTS AND FUND QUOTAS 1948 to 1969

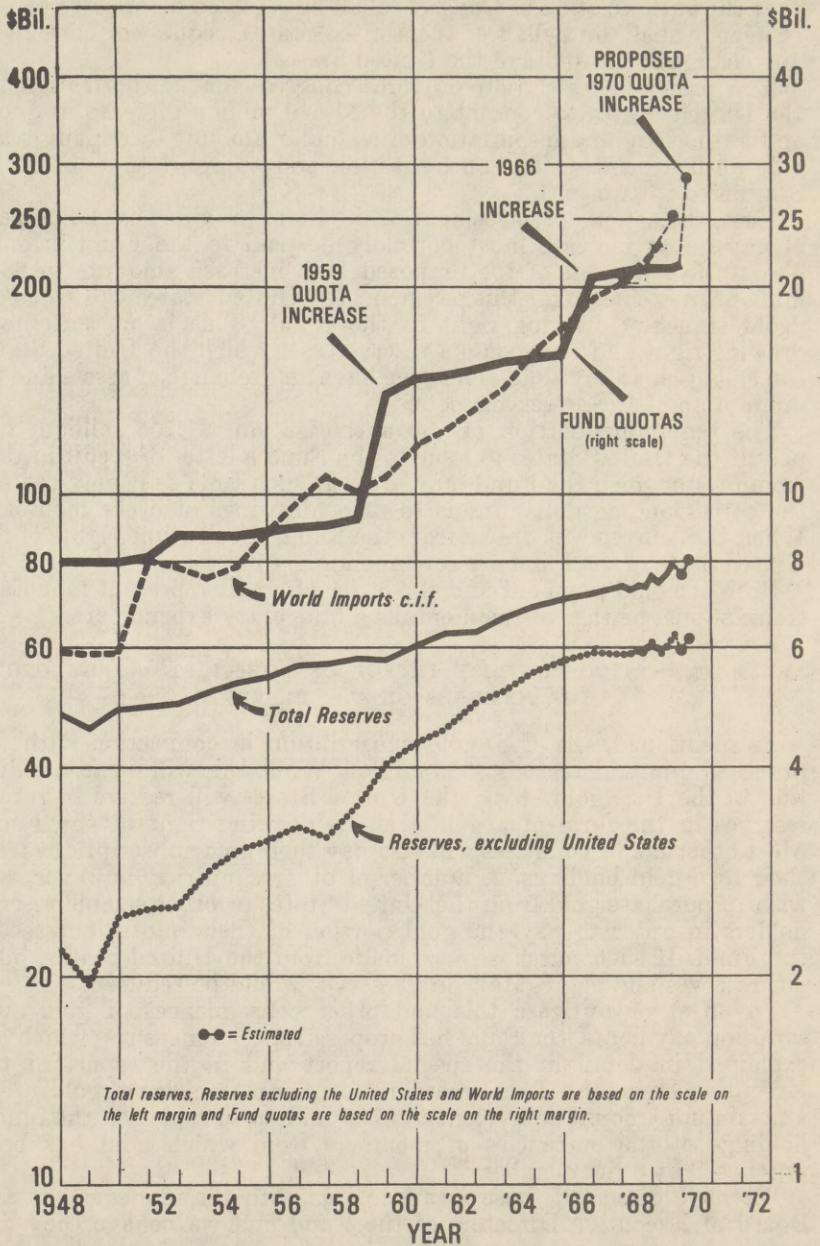


FIGURE 1

The proposed quota increases will come into effect on October 30, 1970, for those members which have accepted their proposed increases by that date. The Bretton Woods Agreements Act (section 5) provides that the authorization of Congress shall be received before any person or agency shall, on behalf of the United States, request or consent to any change in the quota of the United States.

The proposed legislation provides congressional authorization for the United States to consent to the \$1,540 million increase in quota and authorizes an appropriation of a similar amount to remain available until expended. The authorization and appropriation should be considered in two parts:

First, the articles of agreement of the Fund provide that 25 percent of any quota increase must normally be paid to the Fund in gold. Twenty-five percent of the proposed U.S. increase amounts to \$385 million. In exchange for this payment, the United States will receive a "gold tranche" drawing right in the Fund. This is an automatic drawing right and represents a reserve asset which the United States can call upon at any time. Thus, we have an exchange of assets and no diminution of U.S. reserve assets.

The remaining portion of the authorization, \$1.155 million, will permit the United States to issue to the Fund a letter of credit in that amount, on which the Fund may draw at such time as it may require the corresponding dollar funds to meet drawings of other members. When U.S. currency is drawn from the Fund, the drawing rights of the United State in the Fund are correspondingly increased.

Both the gold payment and the letter of credit represent monetary transactions; neither of them entails a budgetary expenditure.

ARRANGEMENTS TO MINIMIZE IMPACT OF SUBSCRIPTIONS BY OTHER IMF MEMBERS ON U.S. RESERVES

As mentioned, the U.S. gold subscription in connection with the proposed quota increase is \$385 million. While this will mean a reduction in the U.S. gold stock, the United States will receive in return reserves in the form of a gold tranche drawing right at the Fund. Most other major countries will also pay their gold subscriptions from their own gold holdings. A number of other countries, however, will wish to purchase gold from the United States or other sizable reserve holders in order to pay the gold portion of their quota increase to the Fund. If such purchases are made from the United States, both our reserves and aggregate world reserves would be reduced.

To offset or mitigate this and other consequences of gold subscription payments, the Fund has proposed special measures which are explained in detail in the special report and in the report of the Executive Directors. These measures contemplate sales of gold up to a maximum amount equivalent to \$700 million to replenish the fund's holdings of the currencies of members from which gold has been purchased by other members.

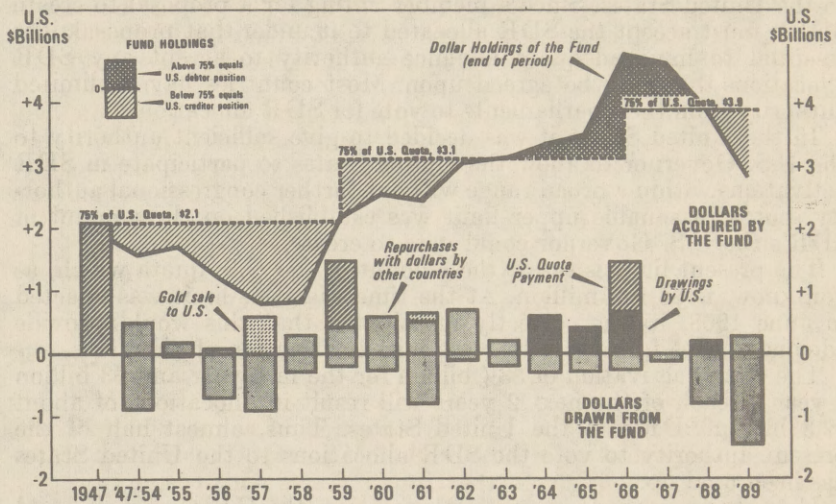
We have discussed these arrangements with the management and Board of Executive Directors of the Fund and we believe they will prove adequate to offset over time the full amount of secondary gold and reserve losses by the United States.

USE OF FUND RESOURCES BY THE UNITED STATES

The United States currently has a large "super gold tranche" position in the Fund. As of February 28, 1970, the Fund holdings of dollars were 51 percent of the U.S. quota. This means that, as of that date, other Fund members had drawn over \$1 billion from the U.S. dollar subscription, adding a similar amount to U.S. international reserves.

As shown in the chart that follows from early 1964 to December 1966, the United States drew on the Fund to an aggregate amount of \$1,840 million and Fund holdings of dollars reached 93 percent of quota at the end of 1966. (See fig. 2). Large borrowing abroad by

UNITED STATES POSITION IN THE INTERNATIONAL MONETARY FUND



Note: Fund holdings of dollars equal to 75% of the U.S. quota represents a balanced position - the U.S. neither is a creditor nor a debtor vis a vis the Fund.
Source: International Monetary Fund, "International Financial Statistics"

FIGURE 2

American banks and corporations, during the past 2 years, tended to draw down dollar holdings of foreign central banks, and thus to provide the United States with official settlements surpluses. These surpluses permitted the United States to acquire a large super gold tranche, or net creditor position in the Fund.

Foreign borrowing on the scale of the past 2 years may be replaced by net repayments to foreign countries in the future; in this event, the ability to draw on the Fund could prove useful to the United States. An enlarged quota will provide additional scope for such drawings if needed.

VOTING SHARES AND SDR ALLOCATIONS

In addition to establishing drawing rights in the Fund, the quotas determine the relative voting power of Fund members and fix the relative shares in the allocations of Special Drawing Rights. The

proposed new quota distribution involves a moderate decline in the U.S. voting position, but it would still remain above 21 percent.

Since the procedure for amending the articles of agreement requires, *inter alia*, the approval of 80 percent of the total voting power, the United States is protected against the possibility, however unlikely, of amendments to which we might be strongly opposed.

The allocation of SDR's is also based on relative quota shares. Failure to consent to an increase in the U.S. quota would reduce the U.S. share in the next allocation of SDR's on January 1, 1971, and on the following January 1 by about \$130 million.

SDR LIMITATION PROPOSAL

Section 2 of the bill would provide a new limit on the amount of Special Drawing Rights that the U.S. Governor can vote to allocate to the United States. Since a member voting for a proposal to create SDR's must accept the SDR allocated to it under that proposal, it is essential to have adequate advance authority to accept any SDR allocations that may be agreed upon. Most countries have unlimited authority from their parliaments to vote for SDR allocations.

In the United States it was decided to give sufficient authority to the U.S. Governor to allow the United States to participate in SDR activations within a broad range without further congressional authority, but a reasonable upper limit was established on the amount of SDR's the U.S. Governor could vote to create.

The present limit is set at the amount of the U.S. quota which, as you know, is \$5,160 million. At the time that this limit was enacted in June 1968, it was correctly anticipated that this would provide adequate scope for negotiating the initial activation of SDR's.

The actual activation of \$3½ billion for the first year and \$3 billion a year in each of the next 2 years will result in allocations of about \$2.3 billion SDR's to the United States. Thus, almost half of the present authority to vote the SDR allocations to the United States has been used up.

If no change is made in existing legislation, the U.S. Governor could vote for further total allocations to all countries of about \$12 billion. I would expect that this amount would be clearly inadequate in any future activation decision.

The proposed bill would retain the concept of relating the authorized limit, for allocation of SDR's to the U.S. quota in the Fund as it may be in effect from time to time. This would be \$6,700 million should Congress approve the present proposed increase. However, unlike the present limit which is cumulative, the proposal would allow the U.S. Governor to vote for an amount of SDR's up to the congressionally authorized U.S. quota in the Fund in each basic period for allocation of SDR's. This formula thus allows the U.S. Governor flexibility in each basic period to vote for SDR's allocated to the United States up to an amount equal to the U.S. quota. Further congressional action would be required to authorize any amounts allocated to the United States in excess of the U.S. quota.

U.S. CAPITAL SUBSCRIPTION TO THE IBRD

I turn now briefly to the proposed increase in the capital of the World Bank. This proposed increase in the U.S. subscription, amount-

ing to \$246.1 million, will enable the United States to do its part in carrying out a longstanding practice of member countries of the Bank to take parallel action on special increases received in the Fund. Only 10 percent—or \$24.6 million—of the U.S. subscription will be paid in, and hence result in a U.S. budget outlay. The remaining 90 percent—or \$221.5 million—will add to the U.S. subscription of callable capital. The latter amount will not result in budget expenditure unless—and this is most unlikely—a call should be made upon it in the future for the purpose of meeting the Bank's debt obligations.

The increase in the U.S. subscription to the Bank corresponds to that portion of the increase in the U.S. quota in the IMF which exceeds the 25 percent general increase in quotas for all members. No general increase in capital subscriptions to the IBRD is proposed at this time.

The policy of parallel special increases in the World Bank carries forward the principle I described as applied to the IMF of establishing a better alinement between subscriptions and the relative economic and financial positions of the respective member countries. The policy also has the effect of retaining a relative alinement in voting strength of members in the two institutions.

Since this is the first occasion on which the United States will receive a special increase in its IMF quota, it is also the first occasion on which the policy of parallel action in the two institutions calls for an increase in the paid-in portion of the U.S. subscription to the Bank. The only previous increase in the initial U.S. subscription to the Bank of \$3,175 million was in 1959 when there was a general increase of 100 percent in the subscriptions of all members. That took the form entirely of an increase in callable capital.

The United States has strongly supported the policy of parallel action in the IMF and IBRD in the past when its financial impact has fallen entirely on other members. It is appropriate that we continue that support and that the United States now accept the special increase called for in that policy.

The policy has been beneficial to the Bank and fully consonant with U.S. international financial policy. Up to the present time, there have been approximately 96 special increases in Bank subscriptions taken by 62 countries, each of which had received a similar increase in its IMF quota.

These special increases have brought almost \$3.5 billion of additional capital to the Bank. The largest individual increases have come from other developed countries such as Germany, Italy, and Japan which have undergone rapid economic growth in recent years.

While the present round of special increases for the first time entails an increase in the U.S. subscription, the policy of parallel action continues to have strong advantages for the United States from a burden-sharing point of view. Special increases in capital subscriptions to the Bank are proposed for 75 member countries. In total, they amount to over \$2.2 billion, of which the U.S. increase—\$246 million—represents only 11 percent. Several other developed countries will increase their subscriptions by a much larger percentage than the United States.

As a result of the relatively small U.S. share of the total special increases proposed, the U.S. share in total subscriptions to the Bank,

now 27.48 percent, would fall to 26.04 percent. This will also mean that the U.S. voting share in the Bank, which is now 24.65 percent will fall by approximately 1 percent.

The World Bank recently has greatly increased its lending activities in line with expanding opportunities for productive use of capital in the developing countries. New loans exceeding \$1.8 billion were extended over an 18-month period between July 1, 1968, and December 31, 1969. The Bank's need for funds to sustain a continued high level of activity is substantial. The \$222 million of additional paid-in capital and the \$2 billion of additional callable capital which will be provided in total by the 75 countries for which special increases are proposed will further strengthen the Bank's resources. It will facilitate Bank borrowings in world capital markets. Such markets have been and will continue to be the Bank's main source of new funds.

In summary, Mr. Chairman, I believe the proposed increase in authorized capital and the special increase in the U.S. subscription serve the U.S. national interest. The World Bank is an outstanding institution. It has a central role in the administration's wish to place greater emphasis on the multilateral financial institutions in our development assistance efforts. I therefore, urge the Congress to take prompt, affirmative action on the legislation requested.

ASIAN DEVELOPMENT BANK SPECIAL FUNDS

Finally, I turn to the proposal for a U.S. contribution to the consolidated special funds of the Asian Development Bank. The President's message to the Congress requesting this action highlighted the objectives of this proposal. It has the full support of the National Advisory Council, and the Council's special report, which is before you, describes it in detail.

Both the Asian Development Bank and its special funds are well known to this committee. In 1966, with strong bipartisan support, the Congress authorized the United States to join the Bank and to subscribe to its ordinary capital. That action by the Congress was decisive in assuring that the Bank would receive major support from outside the Asian region.

The Bank is now firmly established. It has demonstrated its ability to marshal resources from Europe, Asia, and North America and these resources are being effectively committed to help meet Asia's development needs.

Thus far, most of the Bank's commitments have been from its ordinary capital resources and on relatively hard repayment terms. Such lending, while critically important, cannot meet the full range of Asia's development financing needs.

The Bank must also be able to provide financing on concessional terms—that is, at very low interest rates and with long maturities. Without such concessional facilities, the Bank could not adequately assist those developing country members who have very limited external debt servicing capability but still have a need to finance long-term projects which are essential to their economic growth and at the same time meet the Bank's normal rigorous criteria for project selection.

Accordingly, the Bank's articles of agreement provide for special funds for lending on concessional terms, separate from and supplementary to the Bank's ordinary capital.

The President's proposal would respond to the Asian desire—which we fully share—to strengthen the Bank as a multilateral regional institution, capable of dealing with a broad range of current and future development problems in Asia. It would authorize a U.S. contribution of \$100 million to the Bank's special funds over the 3-year period beginning with \$25 million in fiscal year 1970, \$35 million in 1971, and \$40 million in 1972.

The proposal is designed to encourage other advanced nations to share fairly the burden of contributions to the Bank's special funds. The U.S. contribution would be a minority share of total contributions by all donors. It would not constitute the largest single contribution.

In effect, the U.S. contribution would be either exceeded or matched dollar for dollar by Japan, the Bank's other largest subscriber, which has already made a substantial pledge to the special resources. This is a logical and reasonable sharing arrangement which reflects the important but minority role of the United States in the Bank.

In this and other provisions of the proposal, there would be assurance of the advantages of true multilateral support. It should be noted that the proposal does not have any early budgetary impact in the United States as we make payment in the form of letters of credit. This procedure permits the Bank to make loan commitments against these additional resources, but the natural time lag in project construction delays the budgetary expenditure.

At the same time, the proposal reflects our assessment of the Bank's present needs and its ability effectively to utilize special fund resources. It represents a U.S. contribution appropriate to the probable size and timing of contributions by other donors, and phased over time.

The legislation that President Nixon has submitted outlines the terms and conditions of our participation. These are analyzed and described further in the special report of the National Advisory Council before you. In formulating this proposal, we have been able to take account of the Bank's 3 years of experience.

We have also benefited from the views of the members of this committee and from the Senate Foreign Relations Committee expressed during their consideration of an earlier proposal.

I have just returned from the annual meeting of Governors of the Asian Development Bank held in Seoul, Korea. Together with some members of this committee, I have again had the opportunity to hear first hand of the hopes and plans from the Bank's officers and my fellow Governors for the special funds. At that meeting Australia and the United Kingdom made specific offers to contribute to the special funds, joining Japan, Canada, Denmark and The Netherlands who are already contributing.

In addition there were indications of possible contributions from other donors. My belief has been reconfirmed that the United States should now act promptly to provide a contribution and help to assure that the special fund facility can be placed on a firm and multilateral long-term basis.

H.R. 16891, unlike H.R. 16764, includes three unrelated provisions concerning the Exchange Stabilization Fund, monetary gold purchases, and the economic and social policy of international financial institutions.

As best I understand the purposes of these provisions, they are already being effectively achieved. Therefore, I do not believe a positive purpose would be served by their enactment. At the same time, these proposals would present a difficult and serious practical problem that would jeopardize the effectiveness of our efforts. I therefore strongly urge that these provisions not be enacted.

Taken as a whole, these provisions would significantly change the longstanding approach by the Congress in the area of international financial affairs by reducing the flexibility and confidentiality with which the Secretary of the Treasury must act in pursuit of broad policy objectives.

In the case of the Exchange Stabilization Fund, the Congress has consistently recognized the confidential, sensitive, and frequently urgent nature of the transactions of the Fund, by providing the Secretary with full authority, subject to a full annual audit report which the Congress has received since 1939. Concerning gold purchases, the provision would impose unworkable and unnecessarily rigid limitations on official dealings in monetary gold under specified conditions.

The expression of the third provision in legislation could appear to other nations as an attempt by the United States by unilateral action to determine policy of the multilateral lending institutions, rather than by trying to negotiate the acceptance of the principle by all members of the institutions concerned.

I therefore recommend that the legislation be approved without these three amendments.

Mr. Chairman, that completes my formal statement.

Mr. REUSS. Thank you very much, Mr. Secretary.

We will proceed—and I am delighted there are some members here—under the 5-minute rule, rigorously applied. And then we will have an opportunity to have a second or as many go-arounds as we need.

As you know, Mr. Secretary, I am enthusiastically in favor of this legislation, so you will not misinterpret the question I am about to ask.

On page 12 of your statement you have just given us you discuss the allocation of special drawing rights, and you say: "The allocation of SDR's is also based on relative quota shares. Failure to consent to an increase in the U.S. quota would reduce the U.S. share in the next allocation of SDR's on January 1, 1971, and on the following January 1, by about \$130 million." I am not sure I quite understand this. On January 1, 1971, the International Monetary Fund is about to dish out \$3 billion worth of SDR's, and they have to be divided up among the member countries.

Now, since our total share of the quotas goes down from 24.3 percent, which it is now, to 23.3 percent, I would think we would get a little less rather than more. I hasten to add, there is nothing wrong with this, I just want to be sure that this committee understands the arithmetic.

Mr. VOLCKER. If I may answer this, Mr. Reuss, this \$130 million that is mentioned in the testimony perhaps should be followed by the words \$130 million less than it otherwise would be." You are right. It will be reduced for two reasons already next January 1.

Mr. REUSS. That is quite different. Am I not right, is it not a fact that the United States will get fewer special drawing rights next January, and on January 1, 1972, than it would if we rejected this legislation?

Secretary KENNEDY. That is right.

Mr. VOLCKER. Let me explain. There are three elements here.

Mr. REUSS. There is a \$3 billion allocation each year. And as our percentage of the quotas goes down, it seems that we get less—not that there is anything wrong with that.

Mr. VOLCKER. Right. We get less for two reasons in any event, and this would be a third reason. The first allocation is \$3½ billion in total. And even if our proportionate share remains the same we would get less.

Mr. REUSS. Just a minute on that. Less than if we had gotten more?

Mr. VOLCKER. Precisely.

Mr. REUSS. But the deal was 3½, 3, 3.

Mr. VOLCKER. We would get something like 1 percent less because of the decline in our share of quotas, even if you pass this legislation. If you do not pass this legislation so that our quota does not go up by a billion and a half, then our share would be reduced by this further \$130 million of SDR's, because our percentage in the fund would then be substantially lower.

Mr. REUSS. I think that clarifies it. And I thank you both.

I guess I will have to say, Mr. Secretary, I was disappointed in your reaction to the three well-meaning aids to the Treasury that we were trying to improve our bill with. You say on page 22 that these purposes "are already being effectively achieved," but you say that they would "reduce the flexibility with which the Secretary of the Treasury may conduct himself."

Well, that is true. But very frankly, we wanted to reduce the flexibility of the Secretary of the Treasury to escape a GAO audit which everybody else has to go through. That is why we set up the Comptroller General. We wanted to reduce the flexibility of the Secretary of the Treasury to reduce his SDR's, which pay interest and which we are anxious to support, and instead take gold, which does not pay interest.

And finally, we wanted to reduce the flexibility of the Secretary of the Treasury to OK loans by one of these international agencies that, far from doing any good for the people just help the people at the top.

I do not really think, Mr. Secretary, that in your heart you oppose what we are trying to do. And I cannot for the life of me see why you do not welcome this support of Congress to what you say you are doing anyway.

Secretary KENNEDY. I do not oppose the objectives of what you are trying to do. I do think that they are being done. We do have an audit. We are reporting to Congress. We will continue to keep the Congress advised. But in the operation of these funds and because of the sensitivity of these matters we have to act promptly. We have to give not only quick but responsive action. Any information that might come out prematurely could very well not only hurt us but hurt some of the other countries involved.

There is more to this, Mr. Chairman than just a question of the objectives involved. And the objectives I agree with 100 percent.

Mr. REUSS. Talking about this audit, is there any difference between the Treasury buying a house in Tokyo for its excellent Treasury man there, and let us say, for the State Department to buy a house in Tokyo across the street for its excellent State Department opposite number? The State Department is subject to a GAO audit; the Treasury is not.

You are flanked by some admirable public servants.

I believe their salaries and administrative expenses are not subject to an audit. Without the slightest criticism on my part of them or their conduct, why should they be exempted?

Secretary KENNEDY. They are included in the audit, Mr. Chairman. And they are presented to the Congress. This Tokyo house to which you refer was reported in an audit. And it is a very small figure involved. It was a reasonable business transaction. Actually it has gone up in value. And if we did not have the house we would have to pay a very substantial housing allowance to take care of our man living in Tokyo.

Mr. REUSS. Is it not true, Mr. Secretary, that that audit is a Treasury audit made by people who themselves are not subject to audit?

Secretary KENNEDY. No. They are outside of the field of the exchange stabilization fund completely. It is completely independent, and they report directly to me on it, as anyone would. And it comes to the Congress. You have the full details.

Mr. REUSS. In the last report of the exchange stabilization fund for the fiscal year ending June 30, 1969, you set up a committee to make the audit.

I will ask unanimous consent, incidentally, that the U.S. Treasury Department Exchange Stabilization Fund audit of June 30, 1969, and the Comptroller General's Report of June 1965, be made a part of the record.

(The documents referred to follow:)

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THE CREATION AND ACTIVITIES OF THE
EXCHANGE STABILIZATION FUND
 (See note on page 3)

The Gold Reserve Act of January 30, 1934 (31 U.S.C. 822a), authorized the establishment in the Treasury of a stabilization fund to be operated under the exclusive control of the Secretary of the Treasury, with the approval of the President, for the purpose of stabilizing the exchange value of the dollar. Section 10 of the Act provides that "The Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the Fund established in this Section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this Section."

To enable the Secretary of the Treasury to carry out the provisions of Section 10, Congress appropriated the sum of \$2,000,000,000 out of the increment resulting from the reduction in the weight of the gold dollar. This amount was deposited with the Treasurer of the United States and the fund began operations in April of 1934. Operation of the fund was authorized for a period of two years; but the President, by proclamation, extended the period for one additional year. Amendments to the Act continued the fund in operation through June 30, 1945, and Section 7 of the Bretton Woods Agreements Act, approved July 31, 1945, continued its operations permanently. The Bretton Woods Agreements Act also directed the Secretary of the Treasury to pay \$1,800,000,000 into the International Monetary Fund.

Since its establishment in 1934, the Exchange Stabilization Fund has been directed with a view to achieving a healthy relationship between the dollar and foreign currencies in a world in which monetary conditions have undergone drastic and frequent changes. In 1934, world trade was greatly curtailed and faced the threat of chronic unsettled exchange rates and resort to foreign exchange restrictions. World War II saw the introduction of numerous currency and exchange regulations. The postwar period was characterized by extreme inflation in many countries and by heavy expenditures on the part of the U. S. to aid in the reconstruction and rehabilitation of war-torn countries. Large amounts of development aid for less-developed areas and heavy defense expenditures abroad are distinguishing characteristics of the more recent past.

In the more recent years other industrialized nations have succeeded in restoring fully their domestic productive capacities and in competing vigorously once again with U. S. exports.

This progress has been accompanied by the establishment of external convertibility for their currencies and the liberalization of foreign exchange transactions. The growing receipts of these countries from exports and capital inflow, have led to their accumulation of large reserves of gold and dollars and in many cases have kept their currencies strong relative to the dollar. With regard to these countries, U. S. policy is to attain an improved U. S. balance of payments situation as a means of insuring stability of the dollar in its continued role as the principal international reserve currency. Swings in the official settlements balance result in substantial changes in foreign official dollar holdings, and give rise to coordinated operations by the Federal Reserve System and the Exchange Stabilization Fund, designed to limit pressure upon United States resources or those of other countries. Such operations help to stabilize the international monetary system.

In other areas of the world, particularly the less-developed areas, domestic inflation, heavy import demands, and other factors have kept the values of the countries' currencies weak in foreign exchange markets despite government efforts in many cases to affect the rates through some form of exchange controls. With regard to these countries, U. S. policy continues to be aimed at encouraging the establishment of a more stable relationship between the dollar and their currencies in an atmosphere of freer foreign exchange markets and financial policies.

The U. S. Government pursues its policy objectives in the field of stabilization policy not only bilaterally but also multilaterally and in particular through its membership in the International Monetary Fund, an international organization for promoting international monetary cooperation and exchange stability. The Treasury Department is the arm of the Government which plays the major role in pursuit of these policies. The Secretary of the Treasury chairs the National Advisory Council on International Monetary and Financial Policies which, among other functions, advises the Secretary with respect to instructions to the U. S. representative on the IMF of the U. S. position regarding exchange rates, exchange restrictions, drawings of currencies from the IMF, and other problems with which it deals.

The United States began utilizing the resources of the IMF in 1964. Drawings of foreign currencies were made by the Treasury which transferred the currencies drawn to the Exchange Stabilization Fund. The Exchange Stabilization Fund utilized these resources both directly in reducing excessive dollar holdings of other countries and by sale to countries having

Notes: This statement and policy statement was prepared by the Office of the Assistant Secretary for International Affairs, U. S. Treasury Department.

repayments to make to the IMF, thereby reducing the loss of gold to the U. S. which could have resulted if dollar holdings of other countries had become too large or if repayments could not have been handled in this way. In 1968 the U. S. position in the IMF was fully restored through the use of dollars in drawings by others and repayments in foreign currencies by the Treasury.

Pursuant to the Special Drawing Rights Act of 1968, the Exchange Stabilization Fund was assigned responsibility for holding and administering Special Drawing Rights allocated to or otherwise acquired by the United States and the proceeds resulting from United States use of Special Drawing Rights.

Effective operations in the broad area of stabilization policy depend on an organization equipped to provide analyses of foreign activities in the monetary and exchange field, to advise the Secretary on questions related to the U. S. balance of payments, on the maintenance of representatives in key financial centers abroad, on interdepartmental arrangements for formulating U. S. positions on foreign exchange rates and practices, and on frequent attention to detailed financial aspects of many governmental policies and operations with a view to insuring maintenance of the appropriate relationship between the dollar and other currencies.

Of particular significance are stabilization operations by the Fund designed to offset temporary pressures upon the dollar in the principal world exchange markets. To this end amounts of certain convertible currencies have been acquired to enable the Exchange Stabilization Fund to perform market operations. The Exchange Stabilization Fund also enters into exchange agreements, where appropriate, with foreign countries which are attempting to keep their currencies convertible into dollars at relatively stable exchange rates. Such operations help to avoid depreciation of foreign exchange rates to undervalued levels, which would be prejudicial to the trade and balance of payments position of the United States and tend to weaken the dollar.

Purchases and sales transactions of gold and foreign currencies for the account of the Exchange Stabilization Fund are normally made through the Federal Reserve Bank of New York as Fiscal Agent for The Secretary of the Treasury. The Federal Reserve Bank is reimbursed by the Fund for the expenses of this work.

All earnings from operations become part of the Exchange Stabilization Fund and are available for expenditure in the same manner as appropriated capital. Funds in excess of current operating needs may be invested in direct obligations of the United States.

Note: This historical and policy statement was prepared by the Office of the Assistant Secretary for International Affairs, U. S. Treasury Department.



THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 9 1969

Mr. Stanley A. Isaacks, Chairman
Mr. Robert M. McCloskey
Mr. Walter L. Jordan

Dear Sirs:

You are hereby appointed a Committee to make an audit of the Exchange Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, for the fiscal year ended June 30, 1969. The audit will be under the supervision of the Chairman. Your Committee will be provided additional staff assistance from the Bureau of the Mint, Office of the Treasurer of the United States, and Bureau of the Public Debt.

The audit of the propriety of expenditures should be limited to the determination of whether they have been authorized or approved by the Secretary of the Treasury or persons acting pursuant to his authority, as the Fund, by law (31 U.S.C. 822a), is under the exclusive control of the Secretary, and his decisions are final and are not subject to review by any other officer of the United States.

The staff required by the Committee to perform this audit is being provided by the various bureaus of the Department. All transactions in connection with this Fund are of a confidential character and only employees of proven trustworthiness are assigned to the Committee. The Bureau of Accounts has been designated to coordinate the administrative requirements of the audit and serves as the repository for the report and supporting records of the Audit Committee.

You should keep an accurate record of the auditors' time and related direct expenses, if any, so that reimbursement for the cost of the audit may be made from the Fund into miscellaneous receipts or accounts which, by law, are authorized to receive reimbursement from the Fund. It is requested that the audit be completed not later than December 19, 1969.

Sincerely yours,

David H. Kennedy

Washington, D. C.
December 16, 1969

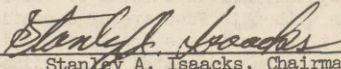
Dear Mr. Secretary:

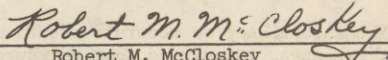
We have completed our examination of the Exchange Stabilization Fund for the fiscal year ended June 30, 1969, as requested by your letter of September 9, 1969. In accordance with your request, our audit of the propriety of expenditures was limited to a determination that they had been authorized or approved by the Secretary of the Treasury, or persons acting pursuant to his authority. Subject to this limitation, our examination was made in accordance with generally accepted auditing standards, and accordingly we examined or tested the accounting records and other supporting evidence by methods, and to the extent, we deemed appropriate.

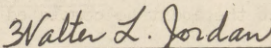
In our opinion, the accompanying balance sheet and related statement of income and expense, with footnotes and supporting schedules, present fairly the position of the Exchange Stabilization Fund at June 30, 1969, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

The Audit Committee:


Stanley A. Isaacks, Chairman


Robert M. McCloskey


Walter L. Jordan

The Honorable

The Secretary of the Treasury

EXCHANGE STABILIZATION FUND

BALANCE SHEET AS OF JUNE 30, 1969 AND COMPARISON
WITH JUNE 30, 1968

ASSETS	1969	1968
Current assets:		
Cash on hand and in banks:		
Imprest fund	\$ 500.00	\$ 500.00
Treasurer of the United States - checking account	2,502,179.48	218,165.60
Cash deposit with United States Treasury	16,247,902.47	0 -
Deposits in foreign banks - schedule 1	1,466,525,659.75	1,442,078,328.71
Gold on hand - schedule 2	786,357,929.22	314,412,013.01
Investments: - schedule 3		
U. S. Securities	22,800,000.00	771,831,219.74
Foreign Securities	49,529,075.81	11,871,552.90
Accounts receivable	111,559.67	5,037.60
Accrued interest receivable: - schedule 4		
U. S. Securities	225,791.61	3,488,228.56
Foreign bank deposits	7,607,700.87	3,304,556.57
Prepaid items	56,399.31	78,352.63
Total current assets	\$2,351,964,698.19	\$2,547,287,955.32
Fixed assets: - schedule 5		
Office equipment and fixtures	\$ 164,809.74	\$ 161,191.83
Transportation equipment	5,188.21	5,764.68
Land and structures	150,000.00	150,000.00
Total fixed assets	\$ 319,997.95	\$ 316,956.51
Special deposits with Bank of England for:		
U. S. Air Force - contra	\$ 5,274,840.69	\$ 18,513,311.20
Secretary of Treasury - Special Account for:		
U. S. Navy - contra	15,000,000.00	35,000,000.00
Deferred charges	162,230.10	159,101.80
Total assets	\$2,372,721,766.93	\$2,601,277,324.83
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable - schedule 6	\$ 560,658.04	\$ 667,449.68
Accrued payroll	183,738.54	166,201.61
Accrued interest payable - schedule 7	591,330.80	366,996.25
Funds due - Bank of England	550,000,000.00	788,640,339.93
Total current liabilities	\$ 551,335,727.38	\$ 789,840,987.47
Long term liabilities - schedule 8		
Deferred credits	103,500,000.00	98,900,000.00
Advances - Drawings - International Monetary Fund	65,668.07	0 -
Special deposits - U. S. Air Force - contra	1,125,000,000.00	1,125,000,000.00
Special accounts - U. S. Navy - contra	5,274,840.69	18,513,311.20
	15,000,000.00	35,000,000.00
Total liabilities	\$ 1,800,176,236.14	\$ 2,067,254,298.67
Equity:		
Appropriated (January 20, 1934)	\$2,000,000,000.00	
Less amount transferred to IMF		
July 31, 1945	1,800,000,000.00	\$ 200,000,000.00
Earnings: (cumulative from 1/30/34)		
Income	\$ 438,124,754.38	
Less:		
Expenses	65,579,223.59	334,023,026.16
Total equity	\$ 572,545,530.79	\$ 534,023,026.16
Total liabilities and equity	\$ 2,372,721,766.93	\$ 2,601,277,324.83

EXCHANGE STABILIZATION FUND

INCOME AND EXPENSE STATEMENT AS OF JUNE 30, 1969 AND COMPARISON WITH JUNE 30, 1968

	1969	1968	Increase or (Decrease)
INCOME:			
Gold Transactions:			
Handling charges from purchase or sale of gold	\$ 625,099.57	\$ 1,542,141.53	\$ (917,041.96)
Other gold transactions	(19,047.97)	11,076,453.89	(11,095,501.86)
Total gold transactions a/	\$ 606,051.60	\$12,618,595.42	\$ (12,012,543.82)
Carrying charges under exchange agreements:			
Argentina	- 0 -	141,267.12	(141,267.12)
Nicaragua	7,905.82	3,871.58	4,034.24
Total carrying charges	\$ 7,905.82	\$ 145,138.70	\$ (137,232.88)
Investments: - schedule 9			
Interest earned on U. S. securities b/	1,640,374.10	52,969,327.70	(51,328,953.60)
Discounts earned on investments in German securities	866,784.19	277,350.51	589,433.68
Discounts earned on investments in British securities	60,437.15	280,430.62	(219,993.47)
Total interest earned on investments	\$ 2,567,595.44	\$53,527,108.83	\$ (50,959,513.39)
Interest earned on foreign bank deposits - schedule 10 c/	48,800,944.76	16,770,262.51	32,030,682.25
Interest earned on deposits - exchange agreements	674,291.54	299,041.55	375,249.99
Profit or loss on investments in U.S. securities	- 0 -	(1,230,543.14)	1,230,543.14
Profit or loss on foreign currency transactions - schedule 11	878,629.37	4,714,397.30	(3,835,767.93)
Miscellaneous profit or loss	6,467.51	394.18	6,073.33
Total	\$53,541,886.04	\$86,844,395.35	\$ (33,302,509.31)
Less:			
Interest expense paid on foreign bank loans - schedule 12	9,338,776.03	3,461,018.21	5,877,757.82
Gross Income	\$44,203,110.01	\$83,383,377.14	\$ (39,180,267.13)
ADMINISTRATIVE EXPENSE:			
Personal services	\$ 4,308,270.33	\$ 3,926,368.82	\$ 381,901.51
Travel and transportation of persons	225,310.56	268,991.18	(43,680.62)
Transportation of things d/	22,150.59	1,323,846.50	(1,301,695.91)
Rent, communications and utilities	121,136.08	116,318.43	4,817.65
Printing and reproduction	6,727.63	37,356.78	(30,629.15)
Other services - Dept. of Commerce e/	- 0 -	1,062,781.99	(1,062,781.99)
Other services	407,717.25	689,434.34	(281,717.09)
Reimbursement to Federal Reserve Bank	531,280.58	849,359.16	(318,078.58)
Supplies and materials	30,280.39	41,487.90	(11,207.51)
Equipment	5,970.34	58,377.25	(52,406.91)
Land and structures	1,820.87	2,683.33	(862.46)
Depreciation	19,860.76	10,981.06	8,879.70
Insurance claims	80.00	398.52	(318.52)
Total administrative expenses	\$ 6,680,605.38	\$ 8,388,385.26	(2,707,779.88)
Net income	\$38,522,504.63	\$74,994,991.88	\$ (36,472,487.25)

- a/ The decrease in income from gold transactions is due to the extraordinary gold shipments to England during fiscal year 1968 to support the price of gold on the London market.
- b/ Interest earned on U. S. Securities decreased substantially from the prior year because of a policy change limiting funds that may be invested in Treasury Certificates of indebtedness.
- c/ The large increase in interest earned on Foreign Bank Deposits is due primarily to the large deposits on hand with the Bank of England.
- d/ Expense for "Transportation of Things" decreased substantially due to the cost of transporting gold (see footnote "a" above) to England during the prior year amounting to \$1,275,940.50.
- e/ The ESF did not pay any administrative expense of the Department of Commerce's Office of Foreign Direct Investment during FY 69.

Schedule No. 1

EXCHANGE STABILIZATION FUND
 SCHEDULE OF DEPOSITS IN FOREIGN BANKS
 June 30, 1969

<u>Deposited With</u>	<u>Foreign Currency</u>	<u>Units</u>	<u>U.S. Dollar Equivalent</u>
<u>Foreign Currencies held among Official United States Reserves:</u>			
Oesterreichische Nationalbank	Austrian schillings	102,222.22	\$ 3,951.36
Bank Nationale de Belgique	Belgian francs	2,853,017.01	57,044.65
Bank of Canada	Canadian dollars	22,356.02	20,686.26
Deutsche Bundesbank	Deutsche marks	7,471,030.10	1,865,829.83
Bank of England ^{a/}	Pounds	430,570,848/19/7	1,028,987,376.20
Banque de France	French francs	987,412,000.00	200,000,000.00
Banca d'Italia	Lire	82,936,355,768.00	131,988,901.13
De Nederlandsche Bank	Guilders	158,220.11	43,873.89
Sveriges Riksbank	Kronor	25,621.66	4,952.77
Bank Nationale Suisse	Swiss francs	433,717.57	100,069.15
Bank for International Settlements	Swiss francs	1,038,900.76	239,763.76
Bank for International Settlements	Deutsche marks	425,630,876.45	106,743,525.55
Bank for International Settlements	Netherlands guilders	6,302,413.19	1,744,505.89
Total Currencies held among Official U.S. Reserves ^{a/}			\$1,471,800,500.44
^{a/} Less amount on deposit- Bank of England for U.S. Air Force (Restricted deposit)			5,274,840.69
Net unrestricted deposits in Foreign Banks			<u>\$1,466,525,659.75</u>

Schedule No. 2EXCHANGE STABILIZATION FUNDSCHEDULE OF GOLD BALANCESJUNE 30, 1969

	<u>FINE TROY OUNCES</u>	<u>VALUE</u>
U.S. Assay Office, New York	5,715,636.990	\$200,047,299.68
Federal Reserve Bank of New York	9,836,408.168	\$344,274,285.48
Bank of England	486,483.383	17,026,918.39
Bank of France	<u>6,428,840.733</u>	<u>225,009,425.67</u>
Total	<u>22,467,369.274</u>	<u>\$786,357,929.22</u>

Schedule No. 3

EXCHANGE STABILIZATION FUNDSCHEDULE OF INVESTMENTS IN GOVERNMENT SECURITIESJUNE 30, 1969

		<u>Face Amount</u>	<u>Amortized Value</u>
<u>United States Government Securities:</u>			
Treasury Bonds	1964-1969	2-1/2%	\$ 400,000.00
Treasury Bonds	1965-1970	2-1/2%	\$ 400,000.00
Treasury Bonds	1966-1971	2-1/2%	10,000,000.00
Treasury Bonds	1967-1972	2-1/2%	2,400,000.00
			10,000,000.00
Total (Market Value \$21,068,750.00)		<u>\$22,800,000.00</u>	<u>\$22,800,000.00</u>
<u>Foreign Securities :</u>			
Federal Republic of Germany Treasury Bills		<u>\$49,842,915.82</u>	<u>\$49,529,075.81</u>
Total Foreign Securities		<u>\$49,842,915.82</u>	<u>\$49,529,075.81</u>

Schedule No. 4

EXCHANGE STABILIZATION FUNDSCHEDULE OF ACCRUED INTEREST RECEIVABLEJUNE 30, 1969

	<u>Amount</u>
<u>Interest Accrued - United States Securities:</u>	
Investment in Government Securities:	
United States Treasury Bonds	\$ 225,791.61
<u>Interest Accrued - Foreign Bank Deposits:</u>	
Foreign currencies held among Official	
United States Reserves:	
British pounds sterling	\$ 3,588,266.88
Deutsche marks	370,021.36
French francs	1,767,506.41
Italian lire	1,860,795.87
Netherlands guilders	20,104.20
Swiss francs	1,006.15
Total	\$ 7,607,700.87

Schedule No. 5

EXCHANGE STABILIZATION FUNDSCHEDULE OF FIXED ASSETSJUNE 30, 1969

		<u>Amount</u>
Office equipment and fixtures ^{a/}	\$ 243,470.23	
Less: Allowance for depreciation	<u>78,660.49</u>	
Total (net)		\$ 164,809.74
Transportation equipment - two automobiles	\$ 5,764.68	
Less: Allowance for depreciation	<u>576.47</u>	
Total (net)		5,188.21
Land and structures		
Item Consists of a one-family residence in Tokyo, purchased for the use of Exchange Stabilization Funds' Financial Attache stationed there - purchased in 1964 ^{b/}		<u>150,000.00</u>
Total fixed assets		<u>\$ 319,997.95</u>

^{a/} Includes \$58,653.18 of office equipment and fixtures located at Department of Commerce. Items are being used by Office of Foreign Direct Investment.

^{b/} No provision has been made for depreciation.

Schedule No. 6EXCHANGE STABILIZATION FUNDSCHEDULE OF ACCOUNTS PAYABLEJUNE 30, 1969

	<u>Amount</u>
<u>Accrued Administrative Expenses:</u>	
Travel and transportation of persons	\$ 89,152.99
Transportation of things	12,485.21
Rent, communications and utilities	22,623.25
Printing and reproduction	1,147.73
Other services	260,515.45
Other services - FRB	150,865.73
Supplies and materials	7,688.64
Equipment	6,981.12
Land and structures	1,654.20
Other accounts payable	<u>7,543.72</u>
Total accounts payable	<u>\$560,658.04</u>

Schedule No. 7EXCHANGE STABILIZATION FUNDSCHEDULE OF ACCRUED INTEREST PAYABLEJUNE 30, 1969

	<u>Amount</u>
Banco Central de la Republica Argentina	\$ 118,343.74
U. S. Department of Air Force ^{a/}	38,674.47
Banco de Mexico	416,849.65
Banco Central de Venezuela	<u>17,462.94</u>
Total accrued interest payable	<u>\$ 591,330.80</u>

a/ There is on deposit in the Bank of England \$5,274,840.69 obtained from the U. S. Air Force to pay their commitments abroad. Since these are appropriated funds, the ESF remits the interest earned on this deposit account to the U. S. Treasury. This \$38,674.47 is the amount accrued at June 30, 1969 but not paid over to the U. S. Treasury.

Schedule No. 8EXCHANGE STABILIZATION FUNDSCHEDULE OF LONG-TERM LIABILITIESJUNE 30, 1969

	<u>Amount</u>
Banco Central de la Republica Argentina	\$ 75,000,000.00
Banco Central de Venezuela	<u>28,500,000.00</u>
Total Long-Term Liabilities	<u>\$103,500,000.00</u> ^{a/}

a/ Items represent commitments which do not mature during the current operating cycle.

Schedule No. 9EXCHANGE STABILIZATION FUNDSCHEDULE OF INTEREST AND DISCOUNTS EARNED ON INVESTMENTSFISCAL YEAR 1969AmountDomestic:

United States Treasury Bonds	\$ 622,745.90	
Federal National Mortgage Association Debentures	<u>1,017,628.20</u>	
Total		\$1,640,374.10

Foreign:

Federal Republic of Germany Treasury Bills-IMF	\$ 11,047.74	
Federal Republic of Germany Treasury Bills	<u>855,736.45</u>	866,784.19
British Government Treasury Bills		<u>60,437.15</u>
Total interest and discounts earned on investments		<u>\$2,567,595.44</u>

Schedule No. 10EXCHANGE STABILIZATION FUNDSCHEDULE OF INTEREST EARNED ON FOREIGN BANK DEPOSITSFISCAL YEAR 1969U.S. Dollar
EquivalentForeign Bank Accounts

Belgian francs	\$ 59,228.78
British pound sterling	43,742,232.87
French francs	1,767,506.41
German marks	1,229,891.76
Italian lire	1,881,536.43
Netherlands guilders	103,329.20
Swiss francs	<u>17,219.31</u>
Total interest earned on foreign bank deposits	<u>\$48,800,944.76</u>

Schedule No. 11EXCHANGE STABILIZATION FUNDSCHEDULE OF PROFIT AND LOSS ON FOREIGN CURRENCY TRANSACTIONS (NET)FISCAL YEAR 1969

	<u>U.S. Dollar Equivalent</u>
Austrian schillings	\$ 72,766.29
Belgian francs	806,543.55
British pounds sterling	(15,257.71)
Canadian dollars	2,011.12
German marks	1,744,362.67
Italian lire	(693,109.44)
Netherlands guilders	72,160.88
Swiss francs	<u>(1,110,847.99)</u>
 Total profits (or losses) on foreign currency transactions (net)	 \$ <u>878,629.37</u>

Schedule No. 12EXCHANGE STABILIZATION FUNDSCHEDULE OF INTEREST EXPENSE PAID ON FOREIGN BANK LOANSFISCAL YEAR 1969

<u>Country</u>	<u>Amount</u>
Argentina	\$ 3,448,600.59
Israel	6,682.82
Libya	779.57
Mexico	4,096,500.09
Venezuela	1,786,212.96
Total interest expense	<u>\$ 9,338,776.03</u>

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EXCHANGE STABILIZATION FUND
STATEMENT OF ACTIVE ACCOUNTS
FISCAL YEAR 1969 AND CUMULATIVE TO DATE

GOLD

	Cumulative Total Through June 30, 1968		Transactions Fiscal Year 1969		Cumulative Total Through June 30, 1969		Total Increment to Fund
	Fine Troy Ounces	Dollars	Fine Troy Ounces	Dollars	Fine Troy Ounces	Dollars	
Purchases	1,236,628,003.350	\$43,244,886,930.47	23,987,955.210	\$839,317,240.68	1,260,615,958.560	\$44,084,404,171.15	
Sales	1,227,642,104.002	43,016,060,994.66	10,503,786.171	368,196,424.04	1,238,145,890.173	43,384,257,418.70	
Melting loss	2,699.113	94,468.96	- 0 -	- 0 -	2,699.113	94,468.96	
Balance held at close of fiscal year	8,983,200.235	314,412,013.01	- 0 -	- 0 -	22,467,369.274	786,357,929.22	
Deferred charges		- 0 -				- 0 -	
Income and expenses:							
Handling Charges		\$ 85,680,546.16		\$ 625,099.57		\$ 86,305,645.73	
Other income from gold transactions		12,168,766.15		(19,047.97)		12,149,718.18	
Shipping and miscellaneous Expenses		(2,840,021.07)		- 0 -		(2,840,021.07)	
Total income from gold transactions		\$ 94,914,822.28		\$ 606,051.60		\$ 95,520,873.88	

EXCHANGE STABILIZATION FUND
STATEMENT OF ACTIVE ACCOUNTS
FISCAL YEAR 1969 AND CUMULATIVE TO DATE
INVESTMENTS IN UNITED STATES SECURITIES

	Cumulative Total Through June 30, 1968	Transactions Fiscal Year 1969	Cumulative Total Through June 30, 1969	Total Increment To Fund
Acquisitions: (marketable issues)				
Par value	\$ 3,236,705,310.00	\$ - 0 -	\$ 3,236,705,310.00	
Acquisitions value	3,182,565,089.98	- 0 -	3,182,565,089.98	
Disposals: (marketable issues)				
Par value	3,211,705,310.00	2,200,000.00	3,213,905,310.00	
Disposal value	3,170,153,350.97	2,200,000.00	3,172,353,350.97	
Amortized value	3,167,514,804.69	2,200,000.00	3,169,714,804.69	
Other Agency Issues				
Acquisitions:				
Par value	534,560,000.00	- 0 -	534,560,000.00	
Acquisition value	534,737,853.13	- 0 -	534,737,853.13	
Disposals (marketable issues)				
Par value	509,560,000.00	25,000,000.00	534,560,000.00	
Disposal value	508,484,375.01	25,000,000.00	533,484,375.01	
Amortized value	509,714,918.15	25,000,000.00	534,714,918.15	
Balance held at the close of fiscal year:				
Marketable issues				
Par value	50,000,000.00		22,800,000.00	
Acquisition value	49,987,875.80		22,787,875.80	
Special issues				
Certificates of Indebtedness	721,841,347.94		- 0 -	
Income:				
Profit on investments	1,408,003.14	- 0 -	1,408,003.14	
Interest earned on marketable issues	53,363,518.51	1,640,374.10	55,003,892.61	
Special issues				
Certificates of Indebtedness	126,437,996.42	- 0 -	126,437,996.42	
Total income from investments in United States Securities	\$ 181,209,518.07	\$ 1,640,374.10	\$ 182,849,892.17	\$ 182,849,892.17

(Page 3 of 7)

EXCHANGE STABILIZATION FUND
STATEMENT OF ACTIVE ACCOUNTS
FISCAL YEAR 1969 AND CUMULATIVE TO DATE
INVESTMENTS IN FOREIGN OBLIGATIONS

	Cumulative Total Through June 30, 1968		Transactions Fiscal Year 1969		Cumulative Total Through June 30, 1969		Total Increment To Fund
	Units	Dollar Equivalent	Units	Dollar Equivalent	Units	Dollar Equivalent	
German Treasury Bills (Marze)							
Acquisitions:							
Per value	4,110,500,000.00	\$1,028,026,877.92	947,000,000.00	\$235,893,424.90	5,057,500,000.00	\$1,263,917,332.22	\$
Cost	4,086,664,492.28	1,022,067,983.17	934,989,831.41	232,870,043.62	5,021,594,343.69	1,254,946,028.99	
Disposals:							
Per value	4,067,500,000.00	1,017,276,096.86	790,000,000.00	196,798,319.54	4,857,500,000.00	1,214,074,416.40	
Proceeds	4,057,603,413.87	1,014,804,254.59	782,400,807.64	194,899,098.15	4,840,009,221.51	1,209,703,352.74	
Balance held at close of fiscal year:							
Per value	43,000,000.00	10,750,781.06			200,000,000.00	49,842,915.82	
Cost	42,730,270.83	10,683,343.59			197,157,621.11	49,529,075.81	
Discount earned	13,676,132.42	3,419,615.37	3,481,429.71	866,784.19	17,157,621.11	4,286,399.56	
British Treasury Bills (Sterling)							
Acquisitions:							
Per value	129,500,000/0/0	\$ 361,027,709.50	6,045,000/0/0	\$ 14,445,586.71	135,545,000/0/0	\$ 375,503,292.21	
Cost	128,104,280/12/3	397,192,546.14	6,005,300/15/10	14,350,711.60	134,109,580/8/1	371,543,257.74	
Disposals:							
Per value	129,000,000/0/0	359,861,627.83	6,545,000/0/0	15,641,664.38	135,545,000/0/0	375,503,292.21	
Proceeds	128,691,927/6/4	359,029,014.91	6,287,429/10/3	15,595,571.70	135,215,253/16/7	374,688,373.61	
Balance held at close of fiscal year:							
Per value	500,000/0/0	1,196,077.67			- 0 -	- 0 -	
Cost	496,710/12/4	1,188,208.99			- 0 -	- 0 -	
Discount earned	1,084,387/6/5	3,024,878.72	23,285/2/1	60,427.12	1,102,672/8/6	3,085,115.87	\$3,085,115.87

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EXCHANGE STABILIZATION FUND

STATEMENT OF ACTIVE ACCOUNTS

FISCAL YEAR 1969 AND CUMULATIVE TO DATE

FOREIGN EXCHANGE

	Cumulative Total		Transactions		Cumulative Total		Total	
	Units	Dollar Equivalent	Units	Fiscal Year 1969	Units	Dollar Equivalent	Through June 30, 1969	Increment to Fund
Austrian schillings								
Austrian schillings	8,327,766,077.79	\$ 323,313,932.14	731,045,000.00	\$ 27,850,026.44	9,048,811,077.79	\$ 350,183,928.58		
Belgian francs	9,735,552,155.43	255,095,429.96	11,530,877,388.00	37,350,544.52	21,266,429,543.43	562,444,974.50		
British pounds sterling	3,912,189,026.5/3	9,977,548,425.95	3,436,098,488.19/6	8,210,199,311.97	18,187,648,737.92	46,959,736,856.85		
Canadian dollars	1,023,462,696.23	947,024,329.23	- 0 -	- 0 -	1,023,462,696.23	947,024,329.23		
Deutsche marks	18,859,800,988.70	4,716,072,859.79	6,880,473,826.84	1,715,992,097.43	25,720,274,415.54	6,436,064,927.22		
Italian lire	834,506,283,107.00	1,337,589,129.85	987,412,000.00	200,000,000.00	2,324,999,129.85	200,000,000.00		
Netherlands guilders	4,731,654,677.35	1,318,580,768.99	228,359,198.00	58,022,355.60	5,060,013,865.35	1,702,915,695.45		
Swedish kronor	116,422,621.66	22,504,922.77	339,719,828.14	74,714,444.51	456,142,459.80	1,452,660,140.26		
Swiss francs	20,481,726,431.77	4,736,026,487.96	- 0 -	- 0 -	20,481,726,431.77	4,736,026,487.96		
Marocais (at cost)								
Marocais (at cost)	8,327,663,855.57	322,329,946.62	731,045,000.00	\$ 27,850,026.44	9,048,708,855.57	\$ 350,179,972.22		
Belgian francs	9,729,153,975.43	255,366,786.20	11,534,223,516.99	37,350,544.52	21,263,377,492.42	562,720,326.72		
British pounds sterling	3,205,246,867.13/3	8,328,863,648.71	3,612,469,698.11/11	8,623,696,723.01	6,917,716,466.15/2	17,138,563,371.72		
Canadian dollars	1,022,582,612.71	946,210,163.81	- 0 -	- 0 -	1,022,582,612.71	946,210,163.81		
Deutsche marks	18,859,763,065.67	4,713,563,233.62	6,457,409,443.32	1,613,892,338.22	25,287,172,508.99	6,327,455,571.84		
Italian lire	833,469,977,898.00	1,336,329,051.50	146,109,548,859.00	234,000,000.00	1,570,926,794.32	200,000,000.00		
Netherlands guilders	4,740,462,592.59	1,314,982,130.35	339,719,828.14	74,714,444.51	5,080,182,420.73	1,702,915,695.45		
Swedish kronor	116,397,000.00	22,500,000.00	- 0 -	- 0 -	116,397,000.00	22,500,000.00		
Swiss francs	20,477,865,716.70	4,735,134,190.25	6,144,236,623.01	1,423,118,324.53	26,622,102,339.71	6,160,252,514.78		
Balance held at close of fiscal year								
Austrian schillings	102,222.22	3,955.52			102,222.22	3,955.52		
Belgian francs	6,398,176.00	1,448,484,787.24			6,398,176.00	1,448,484,787.24		
British pounds sterling	606,942,058.12/0	1,448,484,787.24			606,942,058.12/0	1,448,484,787.24		
Canadian dollars	879,883.52	814,165.42			879,883.52	814,165.42		
Deutsche marks	10,037,323.03	2,509,596.17			10,037,323.03	2,509,596.17		
Italian lire	1,036,305,209.00	1,638,088.35			1,036,305,209.00	1,638,088.35		
Netherlands guilders	11,192,377.76	3,098,577.64			11,192,377.76	3,098,577.64		
Swedish kronor	25,621.66	4,992.77			25,621.66	4,992.77		
Swiss francs	3,860,775.07	892,297.71			3,860,775.07	892,297.71		

EXCHANGE STABILIZATION FUND
STATEMENT OF ACTIVE ACCOUNTS
FISCAL YEAR 1969 AND CUMULATIVE TO DATE
FOREIGN EXCHANGE

	Cumulative Total Through June 30, 1968		Transactions Fiscal Year 1969		Cumulative Total Through June 30, 1969		Total Increase to Fund
	Units	Dollars	Units	Dollars	Units	Dollars	
INCOME							
Profit on Transactions:							
Austrian schillings	\$	(25,782.95)	\$	72,766.29	\$	46,983.34	
Belgian francs		858,546.27		858,546.27		1,319,089.71	
British pounds sterling		649,819.02		(13,237.71)		636,581.31	
Canadian dollars		61,430.72		2,011.12		63,441.84	
Deutsche marks		3,936,279.38		1,744,362.67		5,680,642.05	
French francs		-0-		-0-		-0-	
Italian lire		1,407,431.31		(695,109.46)		714,321.85	
Netherlands guilders		2,359,442.71		72,150.88		2,431,603.59	
Swiss francs		5,108,404.92		(1,110,847.99)		3,997,556.93	
Total Profit		\$ 14,093,566.23		\$ 878,629.37		\$ 14,888,195.60	
Interest earned:							
Austrian schillings	\$	3,931.62	\$	-0-	\$	3,931.62	
Belgian francs		436,750.56		59,228.78		495,979.34	
British pounds sterling		22,651,392.14		43,742,232.87		66,393,625.01	
Canadian dollars		(334,415.36)		-0-		(334,415.36)	
Deutsche marks		247,266.95		-0-		247,266.95	
French francs		130,720.81		1,225,625.76		1,356,346.57	
Italian lire		1,120,581.39		1,765,904.41		2,886,485.80	
Netherlands guilders		(120,581.39)		(6,682.82)		(127,264.21)	
Swiss francs		1,177,410.82		1,881,536.43		3,058,947.25	
Libyan pounds (expense)		(562,760.18)		(779.57)		(563,539.75)	
Other		1,015,545.26		109,530.20		1,125,075.46	
Total Interest		4,932.77		17,219.31		4,932.77	
Total Interest (net)		\$ 24,596,109.19		\$ 48,795,482.37		\$ 73,389,591.56	
Total income on foreign exchange		\$ 38,695,675.42		\$ 49,672,111.74		\$ 88,277,787.16	

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EXCHANGE STABILIZATION FUND
STATEMENT OF INACTIVE ACCOUNTS AS OF JUNE 30, 1949
FOREIGN EXCHANGE AND SILVER

ACQUISITIONS				DISBURSALS				INCREMENTS				Last Fiscal Year Audited
	Units	Dollar Equivalent	Expense on Administrative		Units	Dollar Equivalent	Balance	Profit	Interest Received	Cable expenses	Devaluation charged to reserve for contingencies	Total Interest To Fund
Silver (Greece)	342,987,004.12	\$ 207,345,325.12	\$	342,987,004.02	\$ 211,231,423.68	\$-0-	\$ 3,376,097.56	\$	4,017,989.53	\$	\$	\$ 3,376,097.56
Argentine Pesos	8,666,812,500.00	75,000,000.00		8,666,812,500.00	75,000,000.00	-0-						1865
Belgian Belgas	12,190,000.00	2,051,604.50		12,190,000.00	2,051,462.32	-0-	(141.98)	2.50				(139.48)
Brazilian Cruzeiros	52,491,000,000.00	130,000,000.00		52,491,000,000.00	130,000,000.00	-0-	(.04)		6,223,781.23			1867
Brazilian Cruzeiros	81,358,356.25	81,358,356.25		81,358,356.25	81,358,356.25	-0-			1,358,356.25			1848
Brazilian Milreis (1-8-0)	391,343,424.30	18,097,171.22		391,343,424.30	18,097,171.22	-0-			67,171.22			1849
Brazilian Milreis (1-8-0)	18,097,171.22	18,097,171.22		18,097,171.22	18,097,171.22	-0-			67,171.22			1846
Chinese Yuan	96,574,680.00	38,120,000.00	221.76	96,574,680.00	38,120,000.00	-0-	309,093.55		2,432,812.11	432.94		1867
Chinese Yuan	370,169,004.89	60,462,817.07		370,169,004.89	60,462,817.07	-0-			1,975,317.07			1849
Chinese Yuan	60,462,817.07	60,462,817.07		60,462,817.07	60,462,817.07	-0-			1,975,317.07			1867
Chinese Yuan	2,798,655.753	2,798,655.753		2,798,655.753	2,798,655.753	-0-			440,172.46			1846
French Francs	1,133,362,450.01	229,750,000.00		1,133,362,450.01	229,750,000.00	-0-	3,927,368.31					1866
French Francs (H.A.F.)	363,536,567.80	5,681,652.89	90.00	363,536,567.80	5,681,652.89	-0-	111,063.13					1866
Indian Rupees	207,254,050.00	44,724,123.88		207,254,050.00	44,724,123.88	-0-	44,504,754.19	5.00	16,432.01			1954
Mexican Pesos	15,000,000.00	4,130,136.45		15,000,000.00	4,130,136.45	-0-	5,678,775.90					1846
Pakistan Rupees	510,807,136.45	119,767,926.38		510,807,136.45	119,767,926.38	-0-	1,424,155.72					1939
Swiss Francs						-0-	10.00					1939
Totals		\$1,679,896,361.91	\$311.76		\$1,729,644,312.02	-0-	\$59,547,658.35		\$17,945,027.75	\$486.71	\$(4,309,132.83)	\$73,284,409.96

CARRYING CHARGES UNDER EXCHANGE AGREEMENTS

Argentina	\$ 391,801.53	1964
Bolivia	42,187.50	1959
Chile	146,652.21	1967
Colombia	162,244.89	1967
Costa Rica	15,000.00	1965
Cuba	12,000.00	1958
El Salvador	12,000.00	1958
Honduras	27,500.00	1960
Paraguay	213,818.49	1960
Peru	40,351,332.60	1963
Philippine Republic	\$ 1,163,902.52	

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EXCHANGE STABILIZATION FUND
STATEMENT OF INACTIVE ACCOUNTS AS OF JUNE 30, 1968
INVESTMENT IN FOREIGN OBLIGATIONS

	INR. VALUE		ACQUISITIONS		DISPOSALS		Total Increment To Fund	Last Fiscal Year of Activity
	Units	Dollar Equivalent	Units	Cost	Units	Dollar Equivalent		
Canadian Treasury Bills (Dollars)	26,000,000.00	\$24,121,332.55	25,556,660.00	\$23,988,297.11	25,867,420.00	\$23,998,277.15	\$ 9,980.04	1964
Netherlands Treasury Bills (Guilder)	220,100,000.00	60,919,282.22	219,242,387.50	60,709,463.72	219,855,638.89	60,851,495.94	142,032.22	1965
MISCELLANEOUS								
Gold Sales for Joint Account Program								
Chinese Bank Accounts (Special Disbursing Officer)								
Cumulative Total, Inactive Accounts Through June 30, 1968								
						United States Share of Assets	(568,550.27)	1963
						\$ 131,785.29	21.30	1959
							<u>\$24,031,797.27</u>	

EXCHANGE STABILIZATION FUND
STATEMENT OF INCOME AND EXPENSES FROM

APRIL 26, 1934 THROUGH JUNE 30, 1969 AS SHOWN BY AUDIT REPORT

	Cumulative Total Through June 30, 1968		Transactions Fiscal Year 1969		Cumulative Total Through June 30, 1969	
	By Individual Class of Account	By Major Class of Account	By Individual Class of Account	By Major Class of Account	By Individual Class of Account	By Major Class of Account
INCOME ACCOUNTS						
GOLD:						
Profits on transactions	\$94,914,822.28	\$94,914,822.28	\$ 606,051.60	\$606,051.60	\$95,520,873.88	\$95,520,873.88
SILVER (Inactive):						
Profit on Silver sold to: Treasurer of the United States England	\$ 3,473,362.29 102,735.27	3,576,097.56			\$ 3,473,362.29 102,735.27	3,576,097.56
FOREIGN EXCHANGE:						
British pounds sterling						
Profit on transactions	\$ 649,819.02		\$ (15,257.71)		\$ 634,561.31	
Interest on balances	22,651,392.14		43,742,232.87		66,393,625.01	
Interest expense on deposits	(334,415.36)		-0-		(334,415.36)	
Inactive accounts						
Profits on transactions	301,798.43				301,798.43	
Interest on balances	8,860.15				8,860.15	
Miscellaneous earnings						
Sterling	432.94				432.94	
Other (Bank of Monrovia, Inc.)	1,295.12				1,295.12	
	\$23,279,182.44		\$43,726,975.16		\$67,006,157.60	
French francs						
Profit on transactions	\$ -0-		\$ -0-		\$ -0-	
Interest on balances	-0-		1,767,506.41		1,767,506.41	
Inactive accounts						
Profit on transactions	446,158.72				446,158.72	
Interest on balances	16,432.01				16,432.01	
Miscellaneous earnings	5.00				5.00	
	\$ 462,595.73		\$ 1,767,506.41		\$ 2,230,104.15	
Chinese yuan (Inactive)						
Interest on balances	\$ 1,975,317.07				\$ 1,975,317.07	
Egyptian pounds (Inactive)						
Profit on transactions in reserve for expenses and contingencies	\$ 3,927,368.31				\$ 3,927,368.31	
Iranian rials (Inactive)						
Profit on transactions in reserve for expenses and contingencies	\$ 5,678,775.90				\$ 5,678,775.90	
Swiss francs:						
Profit on transaction	\$ 5,108,404.92		\$ (1,110,847.99)		\$ 3,997,556.93	
Interest on Balances	843,300.18		17,219.31		860,519.49	
Inactive Accounts						
Profit on transactions	804,846.84				804,846.84	
Miscellaneous earnings	396.27				396.27	
	\$ 6,756,948.21		\$ (1,093,628.68)		\$ 5,663,319.53	

EXCHANGE STABILIZATION FUND
STATEMENT OF INCOME AND EXPENSES FROM

APRIL 26, 1934 THROUGH JUNE 30, 1969 AS SHOWN BY AUDIT REPORT

	Cumulative Total Through June 30, 1968		Transactions Fiscal Year 1969		Cumulative Total Through June 30, 1969	
	By Individual Class of Account	By Major Class of Account	By Individual Class of Account	By Major Class of Account	By Individual Class of Account	By Major Class of Account
Foreign Exchange (continued):						
Israeli pounds						
Interest expense on deposits	\$ (120,581.39)		\$ (6,682.82)		\$ (127,264.21)	
Pakistan rupees (Inactive)						
Profit on transactions in reserve for expenses and contingencies	\$ 270,695.32				\$ 270,695.32	
Indian rupees (Inactive)						
Profit on transactions in reserve for expenses and contingencies	\$44,514,607.57				\$44,514,607.57	
Profit on transactions after use of reserve for expenses and contin- gencies discontinued January 1933	26,146.60				26,146.60	
Total profit on transactions	\$44,540,754.17				\$44,540,754.17	
Less: devaluation of Indian rupee balance in F/T 1950	(4,209,132.85)				(4,209,132.85)	
Net profit on Indian rupees	\$40,331,621.32				\$40,331,621.32	
Belgian francs						
Profit on transactions	\$ 512,546.22		\$ 806,543.55		\$ 1,319,089.77	
Interest on balances	434,711.59		59,228.78		493,940.37	
Inactive accounts						
Loss on Belgian transactions (net)	(139.48)				(139.48)	
Loss on franc transactions	(.04)				(.04)	
	\$ 947,118.29		\$ 865,772.33		\$ 1,812,890.62	
Deutsche marks						
Profit on transactions	\$3,936,279.38		\$1,744,362.67		\$ 5,680,642.05	
Interest on balances	130,720.81		1,229,891.76		1,360,612.57	
	\$4,067,000.19		\$2,974,254.43		\$ 7,041,254.62	
Netherlands guilders						
Profit on transactions	\$2,359,442.71		\$ 72,160.88		\$ 2,431,603.59	
Interest on balances	120,179.24		103,329.20		223,508.44	
Inactive accounts	10.00				10.00	
Profit on transactions	\$2,479,631.95		\$ 175,490.08		\$ 2,655,122.03	
Canadian dollars						
Profit on transactions	\$ 61,430.72		\$ 2,011.12		\$ 63,441.84	
Interest on balances	247,266.93		-0-		247,266.93	
	\$ 308,697.67		\$ 2,011.12		\$ 310,708.79	
Austrian schillings						
Profit on transactions	\$ (25,782.95)		\$ 72,766.29		\$ 46,983.34	
Interest on balances	3,931.62		-0-		3,931.62	
	\$ (21,851.33)		\$ 72,766.29		\$ 50,914.96	

EXCHANGE STABILIZATION FUND
STATEMENT OF INCOME AND EXPENSES FROM

APRIL 26, 1934 THROUGH JUNE 30, 1969 AS SHOWN BY AUDIT REPORT

	Cumulative Total Through June 30, 1968		Transactions Fiscal Year 1969		Cumulative Total Through June 30, 1969	
	By Individual Class of Account	By Major Class of Account	By Individual Class of Account	By Major Class of Account	By Individual Class of Account	By Major Class of Account
FOREIGN EXCHANGE (continued)						
Libyan pounds						
Interest expense on deposits	\$ (562,760.18)		\$ (779.57)		\$ (563,539.75)	
Italian lire						
Profit on transactions	1,407,426.21		(693,109.44)		714,316.77	
Interest on balances	<u>1,177,410.82</u>		<u>1,881,535.43</u>		<u>3,058,947.25</u>	
	\$2,384,837.03		\$1,188,525.99		\$3,773,264.02	
Swedish kronor						
Interest on balances	<u>\$ 4,952.77</u>				<u>\$ 4,952.77</u>	
Interest on advances made under exchange agreements:						
Argentine pesos (expense)	\$ (11,270.55)		\$(3,448,600.59)		\$(3,459,871.14)	
Colombian pesos	833,670.54		43,268.25		876,938.79	
Mexican pesos (expense)	(4,764,969.54)		(4,096,500.09)		(8,861,469.63)	
Mexican pesos	484,267.95		631,023.29		1,115,291.24	
Venezuelan bolivares (expense)	(172,590.07)		(1,786,212.96)		(1,958,803.03)	
Inactive accounts						
Argentine pesos	4,017,989.53				4,017,989.53	
Brazilian cruzeiros	6,223,781.23				6,223,781.23	
Brazilian cruzeiros	1,350,356.25				1,350,356.25	
Brazilian milreis	67,171.22				67,171.22	
Chilean escudos	2,412,812.11				2,412,812.11	
Dominican Republic pesos	440,172.46				440,172.46	
Mexican pesos	<u>1,424,155.72</u>		<u>\$(8,657,022.10)</u>		<u>\$(7,232,866.57)</u>	
	\$12,313,546.15				\$3,656,524.73	
Total foreign exchange		\$104,683,096.15		\$41,015,089.64		\$145,698,185.79
CARRYING CHARGES UNDER EXCHANGE AGREEMENTS:						
Argentina	\$ 141,267.12		\$ -0-		\$ 141,267.12	
Colombia	6,201.92		-0-		6,201.92	
Mexico	2,193,750.00		-0-		2,193,750.00	
Nicaragua	3,871.58		7,905.82		11,777.40	
Inactive accounts						
Argentina	391,801.53				391,801.53	
Bolivia	42,187.50				42,187.50	
Brazil	244,045.32				244,045.32	
Chile	162,244.89				162,244.89	
Costa Rica	15,000.00				15,000.00	
El Salvador	12,082.19				12,082.19	
Nicaragua	6,250.00				6,250.00	
Paraguay	27,500.00				27,500.00	
Peru	213,818.49				213,818.49	
Philippine Republic	<u>48,972.60</u>				<u>48,972.60</u>	
Total carrying charges		3,508,993.14		7,905.82		3,516,898.96

EXCHANGE STABILIZATION FUND
STATEMENT OF INCOME AND EXPENSES FROM

APRIL 26, 1954 THROUGH JUNE 30, 1959 AS SHOWN BY AUDIT REPORT

	Cumulative Total Through June 30, 1958		Transactions Fiscal Year 1959		Cumulative Total Through June 30, 1959	
	By Individual Class of	By Major Class of	By Individual Class of	By Major Class of	By Individual Class of	By Major Class of
	Account	Account	Account	Account	Account	Account
INVESTMENTS:						
Profit on investments in						
U.S. securities	\$ 1,408,003.14		\$ -0-		\$ 1,408,003.14	
Interest on investments						
United States securities	179,801,514.93		1,640,374.10		181,441,889.03	
British securities	3,024,678.72		60,437.15		3,085,115.87	
German securities	3,419,615.37		866,784.19		4,286,399.56	
Inactive accounts						
Canadian securities	9,980.04				9,980.04	
Netherlands securities	<u>142,032.22</u>				<u>142,032.22</u>	
Total investments		\$187,805,826.42		\$ 2,567,595.44		\$ 190,373,419.86
Miscellaneous:						
Other	\$ 1,337.79		\$ 6,467.51		\$ 7,805.30	
Inactive accounts						
U.S. share of loss on gold sales						
for Joint Account Program						
in reserve for expenses and						
contingencies	(700,335.56)				(700,335.56)	
Recoveries in reserve for						
expense and contingencies	115,384.40				115,384.40	
Recoveries after use of reserve for						
expenses and contingencies discontinued						
in January 1953	16,400.89				16,400.89	
Interest on Chinese Bank Account balances						
(Special Disbursing Officer)	<u>23.30</u>				<u>23.30</u>	
Total miscellaneous		<u>(567,189.18)</u>		<u>6,467.51</u>		<u>(560,721.67)</u>
Gross income		<u>\$187,238,637.24</u>		<u>\$44,203,110.01</u>		<u>\$436,148,734.38</u>
EXPENSE ACCOUNT:						
Administrative expenses						
Personnel compensation and benefits	\$ 42,390,438.63		\$ 4,308,270.33		\$ 46,698,708.96	
Travel and transportation of persons	2,609,639.07		225,310.56		2,834,949.63	
Transportation of things	3,881,425.50		22,150.59		3,903,576.09	
Rent, communications and utilities	1,278,702.60		121,136.08		1,399,838.68	
Printing and reproduction	153,361.59		6,727.63		160,089.22	
Federal Reserve Banks	3,650,816.63		531,280.58		4,182,097.21	
Other services	5,212,814.63		407,717.25		5,620,531.88	
Supplies and materials	371,153.14		30,280.39		401,433.53	
Equipment	280,017.74		5,970.34		285,988.08	
Depreciation	64,717.34		19,860.76		84,578.10	
Insurance claims	848.01		80.00		928.01	
Land and structures	<u>2,883.32</u>		<u>1,820.87</u>		<u>4,504.20</u>	
Total expenses		<u>\$9,828,618.21</u>		<u>\$,680,605.38</u>		<u>\$5,779,223.59</u>
Accumulated net income		<u>\$177,410,019.03</u>		<u>\$38,522,504.63</u>		<u>\$315,932,523.79</u>

EXCHANGE STABILIZATION FUND
STATEMENT OF FUNDS PROVIDED, INCOME AND EXPENSES BY FISCAL YEARS
AS SHOWN BY REPORTS OF AUDIT

<u>FUNDS PROVIDED</u>	<u>Adjusted Gross Income</u>	<u>Salaries and Expenses</u>	<u>Equity</u>
Amount of capital provided by Gold Reserve Act of January 30, 1934 Less payment to International Monetary Fund as authorized by Bretton Woods Agreement Act, approved July 31, 1945			\$2,000,000,000.00
			<u>1,800,000,000.00</u>
Capital Balance June 30, 1969			\$200,000,000.00
<u>FISCAL YEARS</u>			
April 26, 1934 to June 30, 1935	\$ 5,871,890.74	\$ 117,391.24	
1936	816,487.06	138,045.05	
1937	1,387,796.78	195,492.13	
1938	2,459,813.43	220,611.61	
1939	5,419,867.47	261,858.33	
1940	7,363,101.98	279,493.77	
1941	5,024,255.42	253,165.73	
1942	2,560,514.92	290,018.34	
1943	1,760,985.14	292,928.69	
1944	28,238,954.47	567,358.15	
1945	26,709,788.26	588,988.21	
1946	\$8,577,678.45		
Less loss on gold sales for Joint Account Program	<u>700,335.56</u>		
1947	7,877,342.89	929,713.57	
	5,089,215.24	1,079,342.86	

EXCHANGE STABILIZATION FUND
 STATEMENT OF FUNDS PROVIDED, INCOME AND EXPENSES BY FISCAL YEARS
 AS SHOWN BY REPORTS OF AUDIT

<u>FUNDS PROVIDED (Continued)</u>		<u>Adjusted Gross</u>	<u>Salaries and</u>	<u>Equity</u>
<u>FISCAL YEARS</u>		<u>Income</u>	<u>Expenses</u>	
1948		\$6,931,037.41		
	Plus recoveries on gold sales for Joint Account Program	<u>82,411.22</u>	\$ 7,013,448.63	\$1,177,691.23
1949		3,284,086.03		
	Plus recoveries on gold sales for Joint Account Program	<u>10,991.29</u>	3,295,077.32	1,305,480.46
1950		3,734,906.75		
	Plus recoveries on gold sales for Joint Account Program	<u>5,523.16</u>		
		<u>3,740,429.91</u>		
	Less loss on devaluation of Indian rupees	<u>4,209,132.85</u>	(468,702.94)	1,274,140.84
1951		7,482,700.86		
	Plus recoveries on gold sales for Joint Account Program	<u>16,458.73</u>	7,499,159.59	1,302,276.02
1952			5,385,036.69	1,545,006.59
1953			3,258,333.94	1,553,234.47

EXCHANGE STABILIZATION FUND
STATEMENT OF FUNDS PROVIDED, INCOME AND EXPENSES BY FISCAL YEARS
AS SHOWN BY REPORTS OF AUDIT

<u>FUNDS PROVIDED (Continued)</u>		<u>Adjusted Gross</u> <u>Income</u>	<u>Salaries and</u> <u>Expenses</u>	<u>Equity</u>
<u>FISCAL YEARS</u>				
1954		\$2,566,347.81		
	Plus recoveries on gold sales for Joint Account Program	<u>5,535.57</u>	\$2,571,883.38	\$1,513,675.19
1955			1,711,844.15	1,421,647.77
1956			1,826,258.26	1,464,542.14
1957		4,250,363.10		
	Plus recoveries on gold sales for Joint Account Program	<u>5,461.32</u>	4,755,824.42	1,484,512.71
1958			5,373,115.56	1,674,741.06
1959			6,285,257.29	2,349,465.22
1960			6,766,818.61	2,121,027.98
1961			8,982,551.87	2,976,748.72
1962			9,116,491.14	2,649,287.01
1963		8,080,569.45		
	Plus recoveries on gold sales for Joint Account Program	<u>5,404.00</u>	8,085,973.45	3,062,651.06

EXCHANGE STABILIZATION FUND
STATEMENT OF FUNDS PROVIDED, INCOME AND EXPENSES BY FISCAL YEARS
AS SHOWN BY REPORTS OF AUDIT

<u>FUNDS PROVIDED (Continued)</u>	<u>Adjusted Gross Income</u>	<u>Salaries and Expenses</u>	<u>Equity</u>
<u>FISCAL YEARS</u>			
1964	\$ 11,017,561.62	\$ 3,288,389.89	
1965	24,571,933.47	4,056,242.69	
1966	37,487,179.86	5,381,630.79	
1967	55,913,207.12	4,693,433.43	
1968	83,383,377.14	8,388,385.26	
1969	44,203,110.01	5,680,605.38	
Accumulated Net Income to June 30, 1969	<u>438,124,754.38</u>	<u>\$65,579,223.59</u>	<u>\$372,545,530.79</u>
Total Equity			<u>\$572,545,530.79</u>

REPORT TO
THE CONGRESS OF THE UNITED STATES

PURCHASE OF RESIDENCE IN TOKYO
FOR FINANCIAL ATTACHE
FROM EXCHANGE STABILIZATION FUND

TREASURY DEPARTMENT



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

JUNE 1965



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-154506

To the President of the Senate and the
Speaker of the House of Representatives

Our review of circumstances relating to the purchase by the Treasury Department of a one-family residence in Tokyo at a price of \$150,000 for occupancy by the Financial Attache stationed there disclosed that the Secretary of the Treasury used moneys from the Treasury's Exchange Stabilization Fund to purchase this house under the authority vested in the Secretary by section 10b of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

Section 10b of the act provides that the Fund shall be available for expenditure under the direction of the Secretary of the Treasury, and in his discretion, for any purpose in connection with carrying out the provisions of this section and that decisions of the Secretary relating to the use of the Fund are not subject to review by any other officer of the United States.

Under this broad authority, the Secretary was able to purchase the property without subjecting his proposal to the scrutiny of the Congress which approves the acquisition of property overseas for most civilian agencies through Department of State appropriations. The Secretary of the Treasury has justified the purchase of the house on the basis that it was a fair value and that the purchase was in the best interest of the United States. We have given recognition to the Secretary's comments in the appropriate sections of the report.

The General Accounting Office has not audited, nor does it have authority to audit, the Exchange Stabilization Fund. We reviewed the information that was available to us concerning the real estate purchase. Also, we have included in the appendixes to our report certain published data concerning the international activities of the Treasury Department that are financed from the Exchange Stabilization Fund. Since we did not have access to the pertinent Treasury records, our report is limited to the information that was available to us from other sources.

The Department finances various activities from the Exchange Stabilization Fund, some of which appear to be only slightly related to stabilizing the exchange value of the dollar. Such activities, not now subject to the traditional budgetary, appropriation, and audit processes, embrace the functions of the Assistant Secretary for International Affairs, the Office of Foreign Assets Control, and the Office of International Tax Affairs, along with elements of the Office of General Counsel and the Office of Administrative Services. Some of these activities were not in existence and possibly not contemplated when the Fund was created in 1934.

Although the decisions of the Secretary under his broad authority are final as long as the Secretary asserts that the expenditures are related to, and necessary for, carrying out the purpose of the law to stabilize the exchange value of the dollar, we are bringing this transaction to the attention of the Congress because it represents an acquisition of real property overseas that normally could not be accomplished until after the Congress had been afforded an opportunity to review the proposed acquisition and had appropriated moneys to finance it.

We believe that the matters reported herein may be of concern to the Congress as suggesting a need for possible reevaluation or clarification of the nature and scope of the activities to be financed from the Exchange Stabilization Fund. In this connection, we believe that the Congress may wish also to consider:

1. The extent to which international activities of the Treasury which appear to be only slightly related to the stabilization of the exchange value of the dollar, but which are blanketed by the Treasury under the broad authority of the Exchange Stabilization Fund, should be brought under traditional congressional appropriation and control processes and made subject to the Bureau of the Budget and General Accounting Office scrutiny.

2. The desirability of having an independent audit of the Fund because, apparently, no independent audit has been made since its creation in 1934.

Copies of this report are being sent to the President of the United States, the Secretary of the Treasury, and the Secretary of State.

Frank H. Weitzel

Acting Comptroller General
of the United States

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PURCHASE OF RESIDENCE IN TOKYO
FOR FINANCIAL ATTACHE
FROM EXCHANGE STABILIZATION FUND
TREASURY DEPARTMENT

INTRODUCTION

The General Accounting Office, within the limited information available, has reviewed the circumstances relating to the purchase by the United States Government of a one-family residence in Tokyo at a price of \$150,000 plus other incidental costs for occupancy by the Financial Attache stationed there. This residence was purchased by the Treasury Department with moneys from its Exchange Stabilization Fund (ESF) under authority vested in the Secretary of the Treasury by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a), which makes funds available for the purpose of stabilizing the exchange value of the dollar.

Section 10b of the act specifies that decisions of the Secretary of the Treasury relating to the use of the ESF are not subject to review by any other officer of the United States. The General Accounting Office has not audited, nor does it have authority to audit, the Exchange Stabilization Fund. Our review was directed to the purchase of a residence in Tokyo by the Treasury Department. In the process of our review, made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67), we found that the expenditure had been made from the Exchange Stabilization Fund.

We obtained preliminary information from the United States Embassy in Tokyo and the Department of State, although the Department later denied us access to its records pertaining to this transaction on the basis of Treasury's request to State not to make them

available to us. (See appendix I.) The Embassy in Tokyo and the Department of State made available to us records relating to housing accommodations and quarters allowances of other Government officials stationed in Tokyo. Since we do not have access to records of the ESF, our information from Treasury was limited to a letter from the Assistant Secretary of the Treasury to the Comptroller General, dated June 15, 1964 (see appendix II), and a letter from the Secretary of the Treasury dated January 28, 1965 (see appendix III).

In the course of our review we also obtained general information regarding other international activities financed from the Exchange Stabilization Fund.

The principal officials of the Treasury Department responsible for administration of the Exchange Stabilization Fund discussed in this report are listed below:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Secretary of the Treasury:		
Douglas Dillon	Jan. 1961	Mar. 1965
Henry H. Fowler	Apr. 1965	Present
Assistant Secretary for International Affairs:		
John M. Leddy	Apr. 1961	Oct. 1962
John C. Bullitt	Dec. 1962	Oct. 1964
Merlyn N. Trued	Oct. 1964	Present

SEQUENCE OF EVENTS RESULTING
IN PURCHASE OF RESIDENCE

The current Financial Attache in Tokyo, grade GS-14, with an annual salary of \$14,065,⁽¹⁾ whose principal responsibility is to

¹Salary prior to enactment of Public Law 88-426, approved in August 1964.

act as financial advisor in the United States Embassy, assumed his duties at this post on May 6, 1963. The Attache is married and has three children. On the basis of the information made available to us,¹ the Financial Attache requested the Embassy to assist him in seeking housing in Tokyo. He advised the Embassy that he desired to lease a house that would be suitable for representational purposes²--that is, for official entertainment--and that he had been authorized a maximum annual housing allowance of \$6,000, the same amount received by his predecessor. Subsequently, Treasury approved the Attache's request to increase his maximum allowance to \$10,000.

We were informed by administrative officials in the Embassy that they had shown the Attache at least 25 houses and that, in their opinion, many of these houses were suitable for his purposes. A supervisor in the Administrative Section of the Embassy estimated that 15 percent of his time and an unknown portion of his staff's time were spent during the period June 1963 to February 1964 in trying to locate a house that would be acceptable to the Attache. In addition, the Attache had several real estate brokers in Tokyo show him many houses.

During the time he was seeking permanent housing, the Attache moved frequently. The Treasury Department furnished us a schedule that showed that he had lived in seven different places in a period

¹The information we obtained from the Embassy and the Department of State was received prior to the time that Treasury requested them to withhold their files from us relating to this transaction.

²We understand that his annual representational allowance was \$450.

of 10 months. Most of the time he had resided in Government-owned or Government-leased housing.

The Treasury Department advised us that in the summer of 1963 the United States Ambassador to Japan visited Washington and, in a discussion of the housing problem with the Assistant Secretary of the Treasury for International Affairs, indicated that he was attempting to obtain additional land in Tokyo. It was agreed at that time that, in order to provide housing for the Financial Attache, Treasury would pay a pro rata share of the cost of additional land obtained and would pay for the construction of the house.

We understand that the house the Attache ultimately decided to purchase was shown to him in September 1963. By telegram in September 1963, the Ambassador to Japan advised the Secretary of State that the Embassy had located a house suitable for representational purposes with an asking price of \$150,000, the fair property value of the land was estimated at \$110,000 on the basis of the general value of land in the area, and the house was worth \$50,000 by current Tokyo standards. The Embassy believed that any other adequate combination of land and suitable house would cost in excess of this figure. The Financial Attache, who selected the house, and a supervisor of construction from the Office of Foreign Buildings (FBO) concurred with the Embassy's conclusion.

The information available to us indicates that Treasury also requested views from the FBO, the office that is delegated the responsibility for purchasing or constructing housing for Department of State employees, regarding this transaction. The Treasury also wanted to know whether the house could be purchased from the Department of State appropriation, "Acquisition, Operation, and Maintenance of Buildings Abroad," that is administered by FBO. FBO's

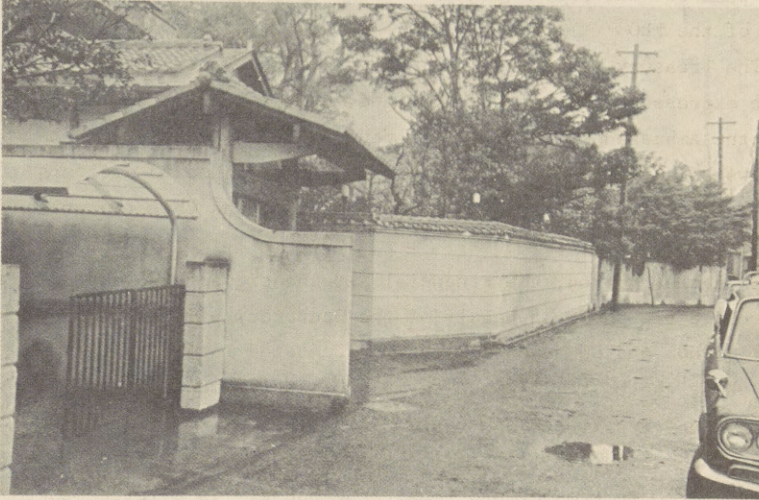
view was that the sum was in excess of the amount FBO would ordinarily consider justifiable for a senior officer residence. FBO advised the Treasury that funds from the aforestated appropriation were not available to make this purchase. The Assistant Secretary of the Treasury for International Affairs stated that the Treasury would purchase the house with its own funds notwithstanding the views of the FBO.

The Treasury requested the judgment of the Ambassador to Japan on the expressed views of the FBO, and, by a telegram in October 1963, the Ambassador stated in reference to this matter that the house was about the size and quality of one assigned to officers of roughly the same rank as the Financial Attache and that the price was reasonable.

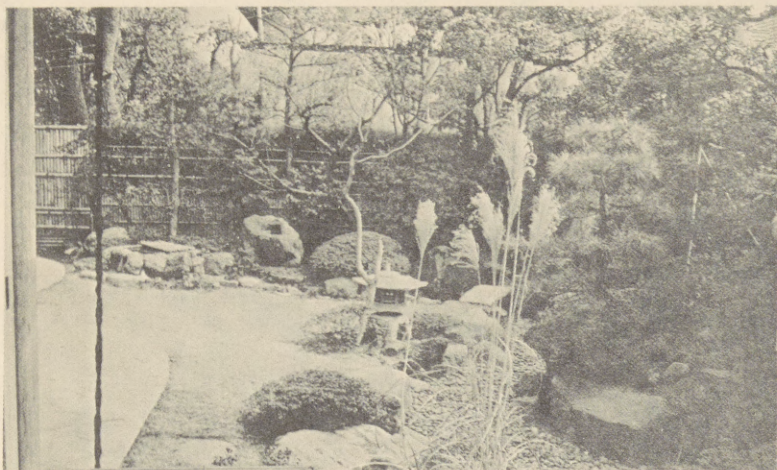
In February 1964, the Financial Attache signed a 90-day option to purchase the house on behalf of the Secretary of the Treasury for \$150,000, and on March 24, 1964, he entered into an agreement to purchase the house on these terms. Of the purchase price, \$100,000 was payable in Japanese yen and \$50,000 in dollars. The Treasury also incurred closing costs of about \$1,250 and at least another \$1,250 to remodel and repair the house. In a letter to the Comptroller General dated June 15, 1964, the Treasury estimated that \$100,000 represented the cost of the land, 4,788 square feet, and \$50,000 represented the cost of the house.

The house is a two-story stucco and Western-style house. The sales agreement shows that the gross area of the house is 3,042 square feet. The first floor contains 1,980 square feet of living space and consists of an entrance foyer, a living room/dining room, two maids' rooms, a kitchen and dinette, a utility room, several closets, and a bathroom; the second floor contains 1,062 square feet of living space and consists of two bedrooms, two dressing

rooms, two baths, and a den. One dressing room is being converted to a third bedroom. The house plans also show that the house contains a wine cellar, a carport, a patio, and a garden. The following photographs show exterior and interior views of the house.



ENTRANCE TO THE HOUSE (Department of State Photo)



VIEW OF THE GARDEN AND PATIO (Department of State Photo)



VIEW OF LIVING ROOM AND DINING ROOM (Department of State Photo)

We visited the house and noted that it contained several unique luxury features, such as ornate bathroom fixtures, a wall safe, and a locking glass display cabinet for jewels. The Treasury informed us that the cost of the house included central air conditioning, gas and electric fixtures, hot-water heaters, chandeliers, floor tiles, window screens, shades, awnings, carpeting, and draperies. The house is located at No. 9, Mita, Tsuna-machi, Shiba, Minato-ku, close to the United States Embassy in Tokyo.

FINDINGS AND MATTERSFOR THE CONSIDERATION OF THE CONGRESSTREASURY PURCHASE OF RESIDENCE
FOR FINANCIAL ATTACHE
BYPASSED APPROPRIATION PROCESS

The Secretary of the Treasury used moneys from the Treasury's Exchange Stabilization Fund to purchase a residence for the Financial Attache in Tokyo at a cost of \$150,000 plus incidental costs under authority vested in the Secretary by section 10b of the Gold Reserve Act of 1934, as amended. The basic purpose of section 10 is to provide authority to stabilize the exchange value of the dollar. The Treasury justified the purchase on the grounds that suitable leased residential quarters were not available even though the Financial Attache had a maximum housing allowance of \$10,000 a year. In the Secretary of the Treasury's judgment the purchase was in the best interest of the United States. Generally, purchases of land and residential quarters overseas for civilian agencies are made by the Office of Foreign Buildings, Department of State, and are financed from the Department of State appropriation, "Acquisition, Operation, and Maintenance of Buildings Abroad."

Agency justification for purchase of residence

By letter to the Comptroller General dated June 15, 1964, the Assistant Secretary for International Affairs, justified the purchase of the residence on the following basis:

"The decision to purchase a permanent residence for the Financial Attache was made after lengthy and intensive efforts to find suitable quarters on a rental or lease basis had failed. No U.S. Government owned facilities were available on other than a very temporary basis, and this unsatisfactory situation had made it necessary for the Financial Attache and his family to move at least seven times in a ten month period (see the enclosed schedule). This was true even though the Attache had an

annual housing allowance of \$10,000. Adequate housing simply could not be obtained except at an annual rental in excess of that figure. As you may know, the housing situation in Tokyo is probably the most acute of all the major capitals in the free world, and rentals and property values are extremely high. Based on the foregoing, it is estimated that the saving which will result to the United States by the acquisition of this residential property will be sufficient to equal the purchase price in fifteen years or less. Thereafter, of course, the advantage to the United States of owning this residence is obvious.

"In order to resolve the housing problem for our representative, he was authorized to explore the possibilities of purchasing a residence, which would not only provide him with living quarters for his family, but would henceforth be available for his successors in that post. It was agreed by the Embassy representatives who assisted the Attache in locating the house that it was entirely suitable, in view of its location and other features described above, and that the price being asked for the property was reasonable, taking into consideration the real estate situation in Tokyo. Accordingly, authorization was given the Treasury representative to take the necessary steps, in strict compliance with procedures applicable to the acquisition of real estate abroad, to acquire this property in the name of the U.S. Government as a residence for the Financial Attache."

By letter dated January 28, 1965, the Secretary of the Treasury furnished us additional justification for the purchase of the residence. Pertinent facts are quoted below:

"*** The purchase was dictated by a number of considerations, and was based essentially upon the fact that land values in Tokyo are not only extremely high, but are continuing to rise. The previous Financial Attache in Tokyo resided in a small house leased for \$400 a month. Before leaving Tokyo he was informed that his rent would be increased and in fact shortly after he left the property was leased for \$600 per month, or \$7200 per year plus

utilities. When the present Attache moved to Tokyo in early 1963, accompanied by his wife and three small children, he was unable immediately to find suitable housing of any kind. His search was complicated by the fact that at about the same time a large corporation was moving from Yokohama to Tokyo and seeking about fifty houses, at almost any price, for its employees, thus making the competition for suitable Western housing extremely severe.

"Attempts were made to secure government housing or government-owned land upon which housing could be built, but the State Department itself was badly in need of additional housing and no housing was available for use by the Treasury.

"*** In determining whether to take advantage of the opportunity recommended by Ambassador ***, the Treasury considered the facts that the cost of land and suitable housing in Tokyo is extremely high; that according to a study conducted in 1962 by the Japan Real Estate Institute, the value of residential land in the six largest cities of Japan increased over 600 per cent between March, 1955, and March, 1962; that a further substantial increase had occurred between 1962 and 1963; that the trend showed no signs of lessening; that suitable Western housing was very scarce and in great demand; and that in these circumstances it had previously been concluded that a purchase of property would be in the long run advantageous. The two immediately preceding Financial Attaches in Tokyo, one now a Director and the other a Deputy Director, of constituent offices in the Office of the Assistant Secretary, were consulted as to their knowledge of the housing situation in Tokyo. There were taken into consideration the advantages of owning property which could be used by successive Financial Attaches (as this property clearly could), eliminating the problem of constantly increasing costs, and eliminating also the time and effort involved in seeking new housing for each new Attache, with consequent advantage not only to the Attaches and to their attention to duty, but also to the Administrative Officers of the Embassy. Finally, before approving the purchase of the property, the Treasury requested from

Ambassador *** his 'personal judgment' on whether the house was 'inappropriately pretentious for officer of Financial Attache rank.' Ambassador *** replied as follows:

"*** From what I hear it is not at all excessive for financial attache, being smaller and on smaller land area than Mitsui houses [those built on Government-owned land] though somewhat superior in interior finishing. In short, it is about size and quality house we assign to officers of roughly same rank as financial attache. House can be amortized in 15 years at allowance rate given *** and my feeling is that Treasury would be fortunate to get it at \$150,000 and should go higher if necessary. ***"

"Upon receipt of this recommendation from the Ambassador I approved the purchase of this residence. The procedures followed in making the purchase were those prescribed in the Foreign Service Manual. ***"

As we interpret the Treasury's justification to purchase a residence, the Treasury decided to purchase it because it determined that suitable leased housing for representational purposes was not available at \$10,000 a year, the maximum housing allowance authorized for the Financial Attache, and in the long run it would be more economical to provide a permanent residence for financial attaches than to continue leasing houses. The justification to purchase the subject house was that the price was reasonable on the basis of current market prices and the housing accommodations were not excessive for an officer of the rank of Financial Attache.

Leases for other senior officers

The maximum annual housing allowance of \$10,000 authorized for the Financial Attache was higher than the annual cost of leased housing, including utilities, for various other senior civilian officers stationed in Tokyo. By reference to the description of

houses that were occupied by senior officers, it appeared that their housing accommodations compared favorably with the housing obtained for the Financial Attache. For example, the house occupied by the advisor to the ambassador on atomic energy is a two-story house consisting of a living room, a dining room, a kitchen, four bathrooms, three bedrooms, a study, a storage room, a utility room, a servant's room, and a terrace at an annual cost of about \$8,700. The annual cost of leases and utilities of selected senior officers in Tokyo is presented below.

Agency	Title or function	Grade or rank	Annual salary (note a)	Annual cost of lease	Annual cost of utilities	Total housing cost
Government leased:						
Atomic Energy Commission	Advisor to ambassador on atomic energy	-	\$20,000	\$7,917	\$ 772	\$8,689
Federal Bureau of Investigation	Chief, Tokyo office	GS-16	17,000	4,333	706	5,039
United States Information Service	Deputy public affairs officer	FSR-2	16,900	4,333	1,247	5,580
United States Information Service	Cultural affairs officer	FSR-2	15,700	3,433	900	4,333
Agency for International Development	Excess property utilization officer	FSR-3	15,205	6,666	800	7,466
Individually leased:						
National Science Foundation	Chief Scientist, Tokyo Staff	-	18,500	4,000	1,288	5,288
General Accounting Office	Director, Far East Branch	GS-15	17,210	3,473	508	3,981
Public Health Service	Scientist Director, Far East	GS-15	16,000	2,927	367	3,294
United States Travel Service	Chief, Tokyo office	GS-14	14,515	5,667	299	5,966
Bureau of Customs	Regional customs representative	GS-14	14,065	2,000	357	2,357
Average total cost						\$5,199

^aSalary rates prior to enactment of Public Law 88-426 approved in August 1964.

In a letter to the Comptroller General, dated January 28, 1965, the Secretary of the Treasury implied that our comparison of housing accommodations for selected senior officers in Tokyo with the housing obtained for the Financial Attache was unfair because the majority of the senior officers in our comparison are regional representatives attached to the Embassy chiefly for administrative purposes and, consequently, do not have any representational duties and are able to live at much greater distances from the Embassy.

The Secretary stated that, although the amount of representational allowance for the Treasury representative is not large,¹ his activities in this area should be extensive and are extremely important. The Secretary suggested that the housing accommodations of the Financial Attache be compared with officers in the Embassy of comparable rank and having comparable duties to those of the Financial Attache. The Secretary also implied that it was essential that the Financial Attache reside in the Minato-ku area, which is close to the Embassy.

We obtained a listing of senior attaches stationed in Tokyo whose diplomatic rankings are comparable with those of the Financial Attache. These attaches consisted of the three military attaches, the Agricultural Attache, the Labor Attache, and the attache from the Immigration and Naturalization Service. Three attaches live in Government-owned houses that initially cost less than the house for the Financial Attache but which are currently valued in excess of \$150,000. The remaining three attaches live in leased quarters, and the annual costs of their leases ranged from \$5,951 to \$6,667 compared with \$10,000, the maximum housing allowance authorized for the Financial Attache.

In respect to location, only two of the six senior attaches lived in the Minato-ku area. Our review disclosed also that most of the senior officers listed in our table on page 13 lived in Shibuya-ku, Minato-ku, and Chiyoda-ku areas, all of which are relatively close to the Embassy. Administrative officials in the United States Embassy in Tokyo advised us that several houses were

¹In that connection we were informed that the representational allowance of the Financial Attache amounted to about \$40 a month.

shown to the Financial Attache in these areas and, in their opinion, many of them were suitable for his purposes.

On the basis of information available to us, we are not convinced that suitable leased housing was not available in Tokyo at less than \$10,000 a year for the Financial Attache or that it was essential for him to reside in the Minato-ku area.

Relation of Treasury Department purchase
to Department of State acquisitions

In his letter to the Comptroller General dated January 28, 1965, the Secretary of the Treasury stated:

"Attempts were made to secure government housing or government-owned land upon which housing could be built, but the State Department itself was badly in need of additional housing and no housing was available for use by Treasury." (Underscoring supplied.)

The Secretary stated also that the Ambassador indicated he was attempting to obtain additional land in Tokyo.

The information available to us is that, whereas the Treasury requested the Office of Foreign Buildings, Department of State, to ascertain whether any housing was available for its Financial Attache or could be purchased by State for the Attache, FBO has no record of any request having been made by the Treasury to ascertain whether the Department of State would make Government-owned land available to it for the construction by the Treasury of a house for the Financial Attache.

We found also that the Foreign Service Manual specifically prohibits foreign service posts from taking independent action on real property acquisition matters. The manual states that the Department of State will issue specific instructions to the post with respect to all negotiations looking toward the acquisition of real property.

The Department of State has not purchased realty in Tokyo since 1956. An FBO official has advised us that the Embassy does not have specific authority to negotiate for additional land in Tokyo although it can make preliminary inquiries into property matters. He also indicated that requests for purchase of additional land for residential use in Tokyo by the Embassy would not be recommended by the FBO because the high price of land in Tokyo precludes the purchase of additional land for residential purposes especially since currently owned sites could be developed to provide additional residential quarters.

In order to confirm our understanding that land was available in the Minato-ku area to construct a residential house, we asked the Deputy Assistant Secretary for Foreign Buildings to confirm the location and size of any parcel of land that might be available for construction of a residential house. The Deputy Assistant Secretary for Foreign Buildings advised us that the Department of State owns a parcel of land at 5 of 28 Fujimi-cho, Azabu, Minato-ku that could be developed for the construction of representational housing. To provide this site, however, a vacant Japanese-style house would have to be demolished. The parcel of land that would be available would have a 75-foot frontage and an average depth of 159 feet, a gross area of about 11,900 square feet. This compares with 4,788 square feet of land purchased by the Treasury.

The Department of State budget justification to the Congress for fiscal year 1966 contains information that the Department has a long-standing agreement with the Departments of Agriculture and Defense for the worldwide acquisition each year of a number of representational-type residences for occupancy by senior attaches of these agencies. Residences are acquired insofar as possible in

accordance with the priority designations of the agencies. Costs of acquisition of these homes are financed from the Department of State appropriation, "Acquisition, Operation, and Maintenance of Buildings Abroad," that is administered by the FBO. In support of funds for this proposed real estate acquisition program, the Department of State furnishes the House and Senate Committees on Appropriations a listing of the locations and estimated costs of housing to be acquired for the senior attaches of these two agencies. This procedure affords the Congress an opportunity to review the proposed acquisition program.

In Tokyo, the United States Government owns a house for the occupancy of the senior Naval Attache. Housing for the senior Air Force and Army Attaches are leased, and these costs are borne by the Department of Defense. The costs of these leases are \$6,640 and \$5,951 a year, respectively, including utilities.

Four houses were contracted for by the FBO in June 1963, on property owned by the United States Government--two in Minato-ku and two in Shibuyo-ku--and are now occupied by upper middle-grade Embassy officers having diplomatic rank. The FBO advised us that these houses were completed in May 1964; three of them cost \$40,000 each, and the fourth house cost \$42,650 because it contained a larger living room and dining room.

The Department of State's real property records show that the average lot on which the two houses were built in Minato-ku was 5,000 square feet and that the average lot on which the two houses were built in Shibuyo-ku was 6,800 square feet.

The value of the house purchased for the Financial Attache was estimated by the Treasury to be about \$50,000. In the instant case, FBO advised the Treasury that no funds were available to

purchase the house for the Financial Attache. Since the Secretary of the Treasury had the broad authority pursuant to section 10 of the Gold Reserve Act of 1934, as amended, to purchase land, he was able to purchase this property without subjecting his proposal to the scrutiny of the Congress which approves the Department of State's appropriations for acquisition of property overseas for most civilian agencies.

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In our opinion, the capability of the Treasury Department to bypass the traditional budgetary and appropriation processes of obtaining funds dilutes the fiscal controls that the Congress maintains over Treasury with regard to administrative and operating expenses financed from the Exchange Stabilization Fund. The Treasury Department has reported that in fiscal year 1964 the Fund incurred expenses totaling \$3.5 million.

TREASURY INTERPRETATION OF ITS AUTHORITY
AS TO USE OF EXCHANGE STABILIZATION FUND

Section 10 of the Gold Reserve Act of 1934 approved January 30, 1934 (ch. 6, 48 Stat. 341),¹ authorized the establishment in the Treasury of a stabilization fund to be operated under the exclusive control of the Secretary of the Treasury, with the approval of the President, for the purpose of stabilizing the exchange value of the dollar. Section 10 of the act, in pertinent part, follows.

"The Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the Fund established in this Section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this Section."

To enable the Secretary of the Treasury to carry out the provisions of section 10, the Congress appropriated the sum of \$2 billion out of the increment resulting from the reduction in the weight of the gold dollar. This amount was deposited with the Treasurer of the United States and the Fund began operations in April 1934. Operation of the Fund was authorized for a period of 2 years; but the President, by proclamation, extended the period for 1 additional year. Amendments to the act continued the Fund in operation through June 30, 1945, and section 7 of the Bretton Woods Agreement Act, approved July 31, 1945, continued its operations permanently.

¹Section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a), appears as appendix IV.

The Bretton Woods Agreement Act also directed the Secretary of the Treasury to use \$1.8 billion of this Fund to pay part of the subscription of the United States to the International Monetary Fund.

The remaining \$200 million of appropriated moneys remained as the corpus of the Exchange Stabilization Fund under the control of the Secretary of the Treasury. The net worth of the Fund as reported at June 30, 1963, totaled \$347.7 million. (See appendix VI.) Of this amount \$200 million represented appropriated capital and \$147.7 million represented cumulative net earnings of the Fund.

The Secretary of the Treasury has made a broad interpretation of what constitutes "purposes of stabilizing the exchange value of the dollar." In furtherance of this interpretation, the Treasury has used this broad authority to finance activities from the Fund, some of which are only slightly related to the stabilization of the exchange value of the dollar. Accordingly, expenses of the Assistant Secretary for International Affairs, the Office of Foreign Assets Control, and the Office of International Tax Affairs are financed from the ESF, and portions of personnel salaries and related expenses in the Office of General Counsel and the Office of Administrative Services have been allocated to the ESF payroll. These activities, which are described in the United States Government Organization Manual, are included as appendix V.

Treasury officials refused to furnish us any statistics relating to the number of professional and clerical personnel financed under the ESF on the grounds that the transactions of ESF are not subject to review. However, the approximate number of personnel and administrative costs are shown in the President's budget. The

budget for fiscal year 1965 shows that 320 employees are estimated to be paid out of the ESF in fiscal year 1964 and operating expenses are estimated to be \$2,990,000, of which \$2,342,000 represents salaries. It should be noted that these estimates were prepared by the Bureau of the Budget and not the Treasury Department.

In response to a General Accounting Office inquiry relating to the Fund, Mr. John M. Leddy, Assistant Secretary of the Treasury, in a letter dated September 19, 1962, stated:

"The legislative history makes it clear that the Congress unequivocally placed the Fund under the exclusive control of the Secretary of the Treasury only after full debate and in full knowledge of the special responsibility involved. We feel, therefore, that Congress did not intend that expenditures of the Exchange Stabilization Fund should be subject to the normal budget, Congressional appropriation and audit procedures."

It is evident that the Secretary of the Treasury has such broad authority under the Gold Reserve Act of 1934 that he may authorize any expenditure from the ESF without subjecting his decisions to review by the congressional appropriation committees, the Bureau of the Budget, or the General Accounting Office acting as an arm of the Congress if he asserts that such expenditures are related to and necessary for carrying out the purpose of the act; that is, stabilizing the exchange value of the dollar.

In furtherance of this viewpoint, the Secretary has authorized several functions to be financed from the ESF which were not in existence in 1934 when the Fund was established. These include the functions of the Office of Foreign Assets Control which administers foreign assets control regulations and Cuban assets control regulations. (See appendix V.) It is not apparent to us how the administration of foreign asset regulations is related to any great

extent to the stabilization of the exchange value of the dollar. We observed that other agencies, such as the Department of State, incur costs in connection with their participation in international monetary organizations but it is only the Treasury's costs in these areas that are shrouded in secrecy.

In compliance with the statute requiring an audit of the ESF to be made and an audit report thereof to be transmitted to the President and the Congress, the Secretary of the Treasury designates Treasury employees to make an annual audit of the ESF. The Secretary restricts the scope of the audit to a determination of whether expenditures have been authorized or approved by him or persons acting pursuant to his authority.

Insofar as we have been able to determine, no independent audit of this Fund has been made since it was created 30 years ago. The Secretary of the Treasury has implied that an independent audit of the ESF is not essential. In a letter to the Comptroller General dated January 28, 1965, he stated:

"I have noted your comments concerning the Exchange Stabilization Fund. Since I have been in office, I have devoted a great deal of personal attention to the operation and management of the Fund. I have instituted revised management practices and I am now satisfied that it has the best management techniques known. I have had made each year an audit of the Fund, copies of which are forwarded to the President and the Congress in accordance with law. I have also given careful attention to the propriety of the activities currently being financed through this Fund, and have concluded that the expenditure of funds for their financing is properly within the purposes of the Act creating the Fund."

The implication that independent reviews are not needed if the Secretary determines that the operation and management of an activity is sound is contrary to the generally accepted principles of

sound management controls in respect of the purpose and objectives of independent audits. Independent reviews of many other activities administered by the Secretary of the Treasury have been made and the need for them has been evident. Furthermore, independent reviews of these activities have been beneficial and have been instrumental in revising practices to achieve economies and operating efficiency of the Department.

The ESF is not subject to an independent audit because it enjoys a statutory exemption. The Congress, however, has consistently recognized the need for an audit of the ESF. The Gold Reserve Act of 1934, that created the Fund, provided that an audit be made and a report thereof be made to the President. The Congress apparently reaffirmed its belief in the desirability of audits of the ESF in 1939, when it amended the Gold Reserve Act to provide that the audit report also be transmitted to the Congress.

Since it is evident that the Congress requires an audit of the ESF, the only matter we are raising is whether audits of the ESF should continue to be made by employees who report to the Secretary of the Treasury, and who are required to limit the scope of the audit in accordance with the directives set forth by the Secretary of the Treasury, or whether they should be made by independent auditors who would not operate under these limitations. Any reappraisal of this matter rests with the Congress.

We want to emphasize that no question is being raised regarding the Secretary of the Treasury's authority to make decisions that shall be final and binding on other officers of the Government and we recognize instances where this type of legislation can be justified. We have observed that, although enabling legislation creating some agencies subsequent to the establishment of the ESF,

such as the Urban Renewal Administration, has provided that the transactions entered into by the head of the agency shall be final and binding on other officers in the Government, the functions of these agencies are made subject to review by the Bureau of the Budget and the Congress and the General Accounting Office. Under legislation of this type, the General Accounting Office is precluded from stating an exception to a transaction and recovering any funds improperly expended; however, it is not precluded from auditing such transactions and reporting its findings to the Congress.

The Secretary of the Treasury was given the broad authority in 1934 for carrying out the purpose of stabilizing the exchange value of the dollar. Since activities are financed by the ESF which were not in existence and possibly not contemplated when the ESF was created, we believe that these activities should be weighed in a current context as to whether they continue to be construed as being within the purpose of the stabilization of the exchange value of the dollar as defined in the Gold Reserve Act of 1934, as amended, and therefore not subject to what the Treasury refers to as "normal budget, Congressional appropriation and audit procedures."

Matters for the consideration of the Congress

The Congress may wish to reappraise or clarify the authority given the Secretary of the Treasury pursuant to section 10 of the Gold Reserve Act of 1934, as amended, in the light of the expanded activities to which it has been extended.

In this connection, we believe that the Congress may wish also to consider:

1. The extent to which international or other activities of the Treasury which appear to be only slightly related to the stabilization of the exchange value of the dollar, but

which are blanketed by the Treasury under the broad authority of the Exchange Stabilization Fund, should be brought under traditional congressional appropriation and control processes and made subject to the Bureau of the Budget and General Accounting Office scrutiny.

2. The desirability of having an independent audit of the Fund because, apparently, no such audit has been made since its creation in 1934.

TREASURY DEPARTMENT

Washington

Assistant Secretary

JUNE 22 1964

Dear Mr. Meyers:

This letter will confirm the telephone conversation between Mr. William F. Niccloy of the Office of Foreign Buildings and Mr. John O. Hally, Acting Assistant General Counsel, Treasury Department, with respect to the purchase by Treasury of a house for the Financial Attache at the U.S. Embassy, Tokyo.

It is understood that a representative of the General Accounting Office has requested the Office of Foreign Buildings to make its file with respect to this acquisition available for examination. The purchase of this property was a transaction for the account of, and approved by the Secretary of the Treasury under statutory authority (31 U.S.C. 822a) which vests the Secretary with exclusive control of the Exchange Stabilization Fund, and provides in part that the decisions of the Secretary with respect to the operations of the Fund "shall be final and not subject to review by any other official of the United States." For this reason, it is requested that the Office of Foreign Buildings not make its file relating to this matter available to the General Accounting Office representative for examination.

You are advised, however, that because of the interest expressed in this purchase by representatives of the General Accounting Office in Washington and at the U.S. Embassy in Tokyo, the Treasury has sent a letter to the Comptroller General giving, on a purely voluntary basis, a resume of the essential facts concerning this acquisition.

Very truly yours,

/s/ John C. Bullitt

John C. Bullitt

Mr. Frank G. Meyers
Deputy Director
Office of Foreign Buildings
Department of State
Washington 25, D.C.



ASSISTANT SECRETARY

TREASURY DEPARTMENT

WASHINGTON

JUN 15 1964

Dear Mr. Comptroller General:

Requests by representatives of your office have recently been made both in Tokyo and at the Treasury in Washington for information with respect to the purchase of a residence for the Financial Attache, a Treasury employee, stationed at the American Embassy in Tokyo. While not required under the terms of Section 10(b) of the Gold Reserve Act of 1934, as amended, to provide this information, in view of your apparent interest in this transaction, and on a strictly voluntary basis, the essential details surrounding the decision to purchase this property, and the data pertinent to the purchase itself are supplied for your information.

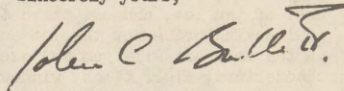
The house is three years old, of Western design, and is located in an excellent section of Tokyo in the same general area as the Embassy. The address of the house is "29-9 Mita, Tsuna-machi, Shiba, Minato-ku". The lot on which it is situated has an area of 4,788 square feet. The house itself has three bedrooms, several maids' rooms, and adequate facilities for representational purposes. The price being paid is \$150,000, two-thirds of which represents the cost of the lot, and one-third the cost of the residence. The original asking price for the lot and improvements was \$200,000. Included in the sale are all "gas and electric fixtures, hot water heaters, chandeliers, floor tiles, window screens, shades, awnings, ash cans and heating and cooling apparatus . . . carpeting and draperies".

The decision to purchase a permanent residence for the Financial Attache was made after lengthy and intensive efforts to find suitable quarters on a rental or lease basis had failed. No U.S. Government owned facilities were available on other than a very temporary basis, and this unsatisfactory situation had made it necessary for the Financial Attache and his family to move at least seven times in a ten month period (see the enclosed schedule). This was true even though the Attache had an annual housing allowance of \$10,000. Adequate housing simply could not be obtained except at an annual rental in excess of that figure. As you may know, the housing situation in Tokyo is probably the most acute of all the major capitals in the free world, and rentals and property values are extremely high. Based on the foregoing, it is estimated that the saving which will result to the United States by the acquisition of this residential property will be sufficient to equal the purchase price in fifteen years or less. Thereafter, of course, the advantage to the United States of owning this residence is obvious.

In order to resolve the housing problem for our representative, he was authorized to explore the possibilities of purchasing a residence, which would not only provide him with living quarters for his family, but would henceforth be available for his successors in that post. It was agreed by the Embassy representatives who assisted the Attache in locating the house that it was entirely suitable, in view of its location and other features described above, and that the price being asked for the property was reasonable, taking into consideration the real estate situation in Tokyo. Accordingly, authorization was given the Treasury representative to take the necessary steps, in strict compliance with procedures applicable to the acquisition of real estate abroad, to acquire this property in the name of the U.S. Government as a residence for the Financial Attache.

The funds for the purchase were provided from the Exchange Stabilization Fund which, as you know, was established pursuant to Section 10(b) of the Gold Reserve Act of 1934, as amended, 31 U.S.C. 822a (b), and the authority vested in the Secretary of the Treasury by that statute was utilized for the acquisition of this property. The Financial Attaches are employees of the Office of International Affairs in the Office of the Secretary of the Treasury, and the costs incurred in maintaining them abroad are a proper charge against the portion of the Exchange Stabilization Fund allocated for administrative support in connection with the conduct of operations of the Fund.

Sincerely yours,



John C. Bullitt

The Honorable
Joseph Campbell
Comptroller General
of the United States
General Accounting Office
Washington, D. C. 20548

Enclosure

Schedule of Moves Made by Financial Attache, Tokyo, and His Family
Between May 6, 1963, and March 13, 1964.

<u>Dates</u>	<u>Resided at</u>
1. May 6, 1963 -- June 14, 1963	Azabu Prince Hotel
2. June 15, 1963 -- July 28, 1963	Sub-rented furnished house 1-4 Azabu, Rappongi
3. July 29, 1963 -- September 1, 1963	Various hotels in and near Tokyo
4. September 2, 1963 -- November 1, 1963	Government leased house which was available only temporarily
5. November 2, 1963 -- January 29, 1964	Government owned house on Embassy compound which was also avail- able temporarily
6. January 30, 1964 -- March 13, 1964	Hotels in and near Tokyo
7. March 14, 1964 -- Present	Government owned house on Embassy compound which is available for occupancy by the Financial Attache only temporarily



THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 28 1965

Dear Mr. Campbell:

I wish to thank you for affording me an opportunity to comment upon your proposed Report to the Congress relating to the purchase by the Treasury Department of a residence for the Financial Attache to the American Embassy in Tokyo. The report raises no question as to the propriety of the purchase by this Department of a residence to house its official. Rather, the implications of the report seem to be (1) that more than fair value was paid for the particular house involved, and (2) that the house was too pretentious for purchase as a residence for our present and future Financial Attaches in Tokyo. That both of these implications are unwarranted can be demonstrated by the facts.

The purchase was dictated by a number of considerations, and was based essentially upon the fact that land values in Tokyo are not only extremely high, but are continuing to rise. The previous Financial Attache in Tokyo resided in a small house leased for \$400 a month. Before leaving Tokyo he was informed that his rent would be increased and in fact shortly after he left the property was leased for \$600 per month, or \$7200 per year plus utilities. When the present Attache moved to Tokyo in early 1963, accompanied by his wife and three small children, he was unable immediately to find suitable housing of any kind. His search was complicated by the fact that at about the same time a large corporation was moving from Yokohama to Tokyo and seeking about fifty houses, at almost any price, for its employees, thus making the competition for suitable Western housing extremely severe.

Attempts were made to secure government housing or government-owned land upon which housing could be built, but the State Department itself was badly in need of additional housing and no housing was available for use by the Treasury.

In the Summer of 1963, Ambassador Reischauer visited Washington and in a discussion of the housing problem with the Assistant Secretary of the Treasury for International Affairs, indicated that he was attempting to obtain additional land in Tokyo. It was agreed at that time that in order to provide suitable housing for its employee, the Treasury would pay a pro rata share of the cost of additional land obtained, and would pay for construction of a house. This was agreed to be the most economical and fairest long-range solution to the problem.

No further action was taken by Treasury until, shortly after his return to Tokyo, Ambassador Reischauer cabled the Secretary of State as follows:

"Treasury Assistant Secretary Bullitt with concurrence Secy Dillon has agreed to purchase land and construct house for Financial Attache, original Treasury concept based on possibility paying for a portion currently held or any new FBO property acquisition Tokyo. Embassy has now located highly desirable property with excellent 3 bedroom 3 year old house for immediate sale. Property 15 min from Embassy and completely suitable representation requirements Attache. Property this area generally valued 300,000 yen per tsubo. This rate for 133 tsubo (4,788 Sq. Ft.) gives fair property value \$110,000. House centrally heated, soundly constructed and worth full \$50,000 by current Tokyo standards.

"Owner now asking \$150,000 after exploratory negotiation by Embassy Staff. Initial asking price \$200,000. Embassy believes any other adequate combination land and suitable house would cost in excess this figure. Adams FBO and Financial Attache concur.

"Embassy uncertain whether such purchase would be by Treasury direct or by FBO on behalf of Treasury. In any event, due high desirability and excellent value of price Embassy certain delay will result in loss purchase opportunity. Request procedural instructions and authority sign option. Advise soonest. REISCHAUER"

By this time the Financial Attache had been in Tokyo for 4 months, with his wife and three small children, with totally unsatisfactory housing conditions, having been obliged to move a number of times during that period, at great personal sacrifice on both his part and that of his family and with serious interference in his being able to perform properly his duties as a senior Embassy official.

In determining whether to take advantage of the opportunity recommended by Ambassador Reischauer, the Treasury considered the facts that the cost of land and suitable housing in Tokyo is extremely high; that according to a study conducted in 1962 by the Japan Real Estate Institute, the value of residential land in the six largest cities of Japan increased over 600 per cent between March, 1955, and March, 1962; that a further substantial increase had occurred between 1962 and 1963; that the trend showed no signs of lessening; that suitable Western housing was very scarce and in great demand; and that in these circumstances it had previously been concluded that a purchase of property would be in the long run advantageous. The two immediately preceding Financial Attaches in Tokyo, one now a Director and the other a Deputy Director, of constituent offices in the Office of the Assistant Secretary, were consulted as to their knowledge

of the housing situation in Tokyo. There were taken into consideration the advantages of owning property which could be used by successive Financial Attaches (as this property clearly could), eliminating the problem of constantly increasing costs, and eliminating also the time and effort involved in seeking new housing for each new Attache, with consequent advantage not only to the Attaches and to their attention to duty, but also to the Administrative Officers of the Embassy. Finally, before approving the purchase of the property, the Treasury requested from Ambassador Reischauer his "personal judgment" on whether the house was "inappropriately pretentious for officer of Financial Attache rank." Ambassador Reischauer replied as follows:

"Please tell John Bullitt that I don't dare visit proposed financial attache house because owner now trying to push up price to \$180,000 and a visit by me or DCM would indicate too much interest on our part and weaken our bargaining position. However, from what I hear it is not at all excessive for financial attache, being smaller and on smaller land area than Mitsui houses [those built on Government-owned land] though somewhat superior in interior finishing. In short, it is about size and quality house we assign to officers of roughly same rank as financial attache. House can be amortized in 15 years at allowance rate given Pelikan and my feeling is that Treasury would be fortunate to get it at \$150,000 and should go higher if necessary. REISCHAUER"

Upon receipt of this recommendation from the Ambassador I approved the purchase of this residence. The procedures followed in making the purchase were those prescribed in the Foreign Service Manual.

I remain satisfied that this purchase was in the best interest of the United States. My judgment that this purchase should be made was based on the information available to me as to the housing situation in Tokyo, the statement of Ambassador Reischauer that the house was a fair value for the money (in which you will notice that the Tokyo representative of the Foreign Buildings Office concurred), and the judgment of Ambassador Reischauer that the house was "not at all excessive" for an officer of the rank of the Financial Attache.

In addition to these general comments, I should like to comment specifically on certain portions of your report. It is stated in your report that "The cost of housing purchased for the Financial Attache in Tokyo was considerably higher than the costs of housing provided for other senior officers (that is, grade GS-14 or higher or the equivalent thereof) stationed in Tokyo although the housing accommodations provided for these officers compared favorably with the house purchased for the Financial Attache." The first paragraph of the following section of the report is to the same effect.

As to the value of the property purchased, we can only rely upon the information received from Tokyo. In Ambassador Reischauer's cable quoted above, it was stated that property in the area is generally valued at 300,000 yen per Tsubo, giving a fair land value for the 133 Tsubos purchased, of \$110,000. Of the \$150,000 purchase price, this leaves \$40,000 paid for the house and furnishings. If a fair value is placed upon the furnishings, there is left less than \$40,000 as the price paid for the house, even though it had a value in Ambassador Reischauer's words of "full \$50,000 by current Tokyo standards." The price paid certainly compares favorably with the construction costs of the four houses built on government-owned land, stated in your report to have been \$40,000 and \$42,650. The plots of land upon which these houses were built were estimated to have values ranging from \$185,000 to \$210,000.

With respect to your expressed opinion that the Financial Attache was more selective and demanding in obtaining housing than other senior officers, this, of course, involves a judgment that it is impossible to make in Washington. Certainly, prior to receipt of your draft report we had no suggestion from any source that this might be the case. The same comments apply to the alleged statements by administrative officials in the Embassy that many houses shown the Attache were suitable for his purposes. We have no suggestion at all that Ambassador Reischauer shares such views.

With respect to your table showing the costs of leases and utilities of "selected" Senior officers in Tokyo, we should like to comment that the majority of the officers listed are regional representatives attached to the Embassy chiefly for administrative purposes and consequently able to live at much greater distances from the Embassy. In addition, most of them have no representational duties. While the amount of representational allowance for the Treasury representative is not large, his activities in this area should be extensive and are extremely important in my judgment.

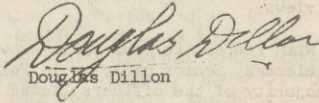
With specific reference to some of those listed, the Chief of the Tokyo Office of the FBI lives in a house built for the FBI in a former Embassy compound on a long-term lease basis. The Deputy Public Affairs Officer resides in a house leased in 1958. The lease on the house formerly occupied by the Cultural Affairs Office of the U.S. Information Service expired, and because the rent was to be more than doubled he moved to an Embassy-owned house. The Customs Representative has no family, but lives alone in a second floor walk-up apartment.

To be meaningful this table should list not "selected" officers, but officers in the Embassy of comparable rank and having comparable duties to those of the Financial Attache and should include a description of their housing situations and the costs thereof. For example, we understand that several comparable officials live in the government-built houses referred to above, similar in size to the Treasury house, but valued together with the land upon which situated at in excess of \$200,000.

I have noted your comments concerning the Exchange Stabilization Fund. Since I have been in office, I have devoted a good deal of personal attention to the operation and management of this Fund. I have instituted revised management practices and I am now satisfied that it has the best management techniques known. I have had made each year an audit of the Fund, copies of which are forwarded to the President and to the Congress in accordance with law. I have also given careful attention to the propriety of the activities currently being financed through this Fund, and have concluded that the expenditure of funds for their financing is properly within the purposes of the Act creating the Fund.

In the operations of this Fund I, as well as my predecessors, have observed meticulously, with the single exception of Japan, the State Department regulations on housing allowances for overseas personnel. The Exchange Stabilization Fund has not acquired and does not own any housing other than the house in Tokyo. The exception made in Japan to our consistent practice was, as indicated above, because of the extremely costly housing situation in Tokyo with the State Department having such problems of its own that it could not assist us with our housing problem.

Sincerely yours,


Douglas Dillon

The Honorable
Joseph Campbell
Comptroller General of the
United States
Washington, D. C.

EXTRACT FROM 31 UNITED STATES CODE 822a

"822a. Stabilization of exchange value of dollar; stabilization fund; payment of subscription to International Monetary Fund; repayment covered into Treasury.

(a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President and to the Congress.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is appropriated, out of the receipts which are directed to be covered into the Treasury under section 408b of this title, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. Such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and the Secretary of the Treasury. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) The Secretary of the Treasury is directed to use \$1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt.*** "

DESCRIPTION OF ORGANIZATIONAL UNITS
IN TREASURY FINANCED FROM
THE EXCHANGE STABILIZATION FUND
AS REPORTED BY THE SECRETARY OF THE TREASURY¹

OFFICE OF FOREIGN ASSETS CONTROL

This office was established by Treasury Department Order 128 (Rev. 1) of October 15, 1962. It is headed by a Director who reports to the Assistant Secretary for International Affairs through the Assistant to the Secretary (National Security Affairs).

The Office administers the Foreign Assets Control Regulations (31 CFR, Title 31, Ch. V) and the Cuban Assets Control Regulations (28 F.R. 6974). These regulations block the assets in the United States of Communist China, North Korea, Cuba, and nationals thereof, and prohibit, except pursuant to license, trade and financial transactions on behalf of such countries and their nationals or involving their property. Licenses are issued authorizing prohibited transactions which are not considered inimical to the interests of the United States. The major purpose of the regulations is to prevent the Chinese and Cuban Communist authorities from utilizing their dollar assets in the United States and to preclude the acquisition by those authorities of foreign exchange. This office also administers the Transaction Control Regulations which prohibit persons in the United States from engaging in certain transactions involving the shipment of certain strategic merchandise from foreign countries to Russia or other Communist Countries.

The Office maintains a representative in Hong Kong to assist in implementing the Foreign Assets Control Regulations.

OFFICE OF INTERNATIONAL AFFAIRS²

This office was established as a separate administrative unit within the Office of the Secretary on October 15, 1962, by Treasury Department Order 198 which abolished the Office of International Finance.

The Office, headed by a Director who reports to the Secretary of the Treasury through the Assistant Secretary for International Affairs,

¹ Source: United States Government Organization Manual, 1964, 1965, page 102.

² Pursuant to Treasury Department Order 202, dated October 14, 1964, all functions, duties, and personnel of the Office of International Affairs were transferred to the Assistant Secretary for International Affairs.

consists of six constituent Offices (Balance of Payments, Financial Policy Coordination, International Economic Activities, Industrial Nations, Developing Nations, and Latin America), with appropriate supporting staff and overseas personnel.

The Office advises and assists the Secretary of the Treasury and other senior departmental officials in the formulation and execution of policies and programs relating to the responsibilities of the Treasury Department in the international economic, financial, and monetary field. These responsibilities include the Treasury's activities in such matters as the balance of payments and gold outflow problems of the United States, international monetary and foreign exchange problems and agreements, the Bretton Woods Agreements Act, and the operations of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates, the Inter-American Development Bank, foreign lending and assistance programs, the Anglo-American financial agreement, the Exchange Stabilization Fund, and the activities of the National Advisory Council on International Monetary and Financial Problems.

The Office makes continuing studies of the flow of capital funds into and out of the United States and of the international accounts of foreign countries with special attention to transactions in gold and dollars. It also studies the legislation and policy of foreign countries relating to finance, gold and foreign exchange, exchange rates and exchange controls, and other relevant matters.

The Office advises the Secretary on international financial aspects of matters arising in connection with the Tariff Act and other legislation administered by the Treasury Department, as well as on such aspects of matters arising under legislation administered by other departments and agencies. Through the National Advisory Council, the Office assists in the coordination of the activities of U. S. representatives in international financial and lending institutions with the operations of U. S. Government financial institutions and with the broad financial policies of the Government. The Office acts for the Treasury on the financial aspects of international treaties, agreements, and organizations in which the United States participates. It also participates in negotiations with foreign governments regarding matters included within its responsibilities.

The Office advises Treasury officials and other Government agencies concerning exchange rates and other financial problems encountered in operations involving foreign currencies. In particular it advises the State Department and the Department of Defense in financial matters related to their normal operations in foreign countries and the special financial problems arising from defense preparations and military operations.

To assist in discharging its responsibilities the Office maintains Treasury representatives abroad who act as financial advisers in the diplomatic missions. The Office directs and coordinates their activities.

SPECIAL ASSISTANT FOR INTERNATIONAL TAX MATTERS

The Special Assistant for International Tax Matters is a unit within the Office of Assistant Secretary for Tax Policy. With the assistance of economists and attorneys from the Offices of Tax Analysis and Tax Legislative Counsel, the Special Assistant for International Tax Matters is responsible for the following: analytical activities relating to international tax matters, including those arising under tax agreements; preparation of legal, economic, and statistical analyses of proposed tax legislation affecting international investment, trade, and other activities; participation, with representatives of the State Department, in negotiation of treaties with other countries to mitigate the effect of double taxation and other tax obstacles to trade and investment; participation in the work of the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD); and providing assistance to other agencies on tax matters arising at international conferences.

EXCHANGE STABILIZATION FUND
FINANCIAL STATEMENTS AND BUDGET DATA
AS CONTAINED IN PRESIDENT'S BUDGET FOR FISCAL YEAR 1965

TREASURY DEPARTMENT—Continued

EXCHANGE STABILIZATION FUND—Continued

Revenue, Expense, and Retained Earnings (in thousands of dollars)

	1963 actual	1964 estimate	1965 estimate
Revenue.....	8,379		
Expense.....	3,062	2,990	2,997
Net income for the year.....	5,317		
Analysis of retained earnings:			
Retained earnings, start of year.....	142,365		
Retained earnings, end of year.....	147,682		

Financial Condition (in thousands of dollars)

	1962 actual	1963 actual
Assets:		
Treasury balance.....	78,260	1,069
U.S. securities (par).....	72,250	153,147
Gold.....	91,751	96,241
Foreign currency, net.....	78,505	88,958
Investment in foreign securities.....	21,359	7,696
Accounts receivable (including accrued premium or discount on U.S. securities).....	537	1,151
Office equipment, net.....	28	35
Total assets.....	342,690	348,297
Liabilities:		
Current.....	325	615
Government equity:		
Non-interest-bearing capital.....	200,000	200,000
Retained earnings.....	142,365	147,682
Total Government equity.....	342,365	347,682

Analysis of Government Equity (in thousands of dollars)

	1962 actual	1963 actual
Unobligated balance.....	150,722	154,753
Invested capital and earnings.....	191,643	192,929
Total Government equity.....	342,365	347,682

Object Classification of Operating Expenditures (in thousands of dollars)

	1963 actual	1964 estimate	1965 estimate
Personnel compensation and benefits.....	2,286	2,342	2,399
Travel.....	146	148	148
Transportation of things.....	126	130	130
Rent, communications, and utilities.....	45	47	47
Supplies and materials.....	21	23	23
Equipment.....	12		
Other.....	432	300	250
Total.....	3,068	2,990	2,997

Personnel Summary

	1963 actual	1964 estimate	1965 estimate
Employees, end of year.....	263	320	320

EXCHANGE STABILIZATION FUND
FINANCIAL STATEMENTS AND BUDGET DATA
AS CONTAINED IN PRESIDENT'S BUDGET FOR FISCAL YEAR 1965

EXCHANGE STABILIZATION FUND

Program and Financing (in thousands of dollars)

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded: Expense.....	3,056	2,990	2,997
Capital outlay, net:			
Equipment.....	12		
Investment in gold, foreign currency, and foreign securities, net.....	1,280		
Total program costs, funded—obliga- tions.....	4,348		
Financing:			
Revenue and other receipts:			
Revenue on:			
Gold and exchange.....	1,577		
Investments.....	48		
Miscellaneous.....	14		
Interest revenue on:			
Investments.....	3,130		
Foreign balances.....	3,610		
Total revenues and other receipts.....	8,379		
Unobligated balance brought forward.....	150,722		
Unobligated balance carried forward.....	—154,753		
Financing applied to program.....	4,348		

Summary of Sources and Application of Funds (in thousands of dollars)

Obligations (from program and financing).....	4,348	2,990	2,997
Increase (–) in gross unpaid obligations (cur- rent liabilities).....	–290		
Gross expenditures.....	4,058		
Revenues and other receipts (from program and financing).....	8,379		
Increase (–) in accounts receivable, net.....	–615		
Applicable receipts.....	7,764		
Net expenditures (not identified under trust fund expenditures).....	–3,706		

For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury is authorized to enter into stabilization agreements, and to deal in gold and foreign exchange and other instruments of credit and securities. An exchange stabilization fund, with a capital of \$200 million (derived from the increment resulting from the reduction in the weight of the gold dollar which took place in 1934) is authorized by law for this purpose (31 U.S.C. 822a). All earnings and interest accruing are paid into this fund and are available for the purposes thereof, including expenses.

The estimates shown for 1964 and 1965 for operating expenditures have been prepared by the Bureau of the Budget. Because of the special nature of the Fund's activities, it is not feasible to make estimates for the other items.

Mr. REUSS. In your letter of September 9, 1969, you set up a committee of Mr. Stanley A. Isaacs, Mr. Robert A. McCloskey, and Mr. Walter A. Jordan to audit the exchange stabilization fund. Where do those gentlemen work? Don't they work for the exchange stabilization fund?

Secretary KENNEDY. No. One of them works for the IRS auditor, and one of them is an auditor working for the Bureau of Accounts, and one of them is from Customs.

Mr. REUSS. But they all work for the Treasury?

Secretary KENNEDY. They all work for the U.S. Treasury.

Mr. REUSS. Do you dispute the general principle on which Congress set up the Comptroller General and the General Accounting Office, that it is a good idea to have somebody without the particular executive agency involved in making the audit? Do you think we were wrong when we set up the General Accounting Office?

Secretary KENNEDY. No, I am not disputing that. I am saying that there is a long legislative history on this subject, supporting the confidentiality of the fund. This audit proposal has been made in the past several times and rejected. This fund is an entirely different kind of a situation. There is a sensitivity here that is not apparent in other organizations. And I think in this case we want confidentiality combined with absolute control of the funds. There has been. The audit reports show this. So everything that you are wanting done is being done. I do not see why you have to put it in the form of law.

Mr. REUSS. Thank you, Mr. Secretary. My time is up.

Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman.

Mr. Secretary, and your colleagues, we certainly welcome you before the committee today. We are pleased that you in particular had a very successful trip out to Korea and Japan. And I am sure that it will prove fruitful as far as our own actions are concerned here in the United States.

I regret very much that I could not be with you on that trip.

Secretary Kennedy. We do, too.

Mr. WIDNALL. Mr. Zagorin, there was recently a very critical article on the Asian Development Bank. The old Drew Pearson column, now written by Jack Anderson, who I believe is the son-in-law, or vaguely related in some way to Drew Pearson. There were three basic allegations made at that time. And they were very damaging accusations as you read them in the press. I would like to have you comment on them, particularly with respect to what I felt was an allegation as to the misuse of funds and loans to employees, and also the fact that no loans were being made to any of the countries that we are supposed to aid by development funds, and that the earnings were substantially just investments made of capital funds that have been accumulated. Would you comment on those for the record, please?

Mr. ZAGORIN. Mr. Widnall I would be happy to. I regret very much that that article could lead to some misunderstanding, and to a distorted idea about the purposes, functions, and the operations of the Bank. And if I could I would like to comment on the questions that you raise.

On the loans to the employees, it is far from true that we have any intention of using the Bank for the purpose of lending to our personnel rather than to the developing countries of Asia. The Bank does pro-

vide a strictly regulated and limited facility for salary advances to its employees. And this facility is designed primarily to help the Bank personnel get settled in the initial months that they are in Manila. This provides a comparable financing facility to those which are customarily available to employees of other international agencies, governments and private companies who move to a duty station other than their home. In addition there is a small limited facility under which staff may get salary advances in emergencies and in hardship cases.

Many employees in the Bank come from countries where they do not get foreign exchange made available to them when they move to Manila. Normally they are required to pay a rental advance of 3 months or more to obtain housing. And they need to purchase household furnishings and effects on moving to Manila.

Many Asian countries maintain foreign exchange restrictions and new Bank employees could not get sufficient foreign exchange from their countries to buy the necessities for getting established in Manila. Thus they need some kind of salary advance from the Bank particularly in order for them to arrange for housing for which there is no ADB allowance. So they do require some convertible currency, which then is converted into pesos in Manila to cover these costs. And that is really an essential part of this.

Interest is charged on all salary advances. They are repaid through payroll deductions. For this installation process, under the Bank's normal practice an employee may receive in the first 6 months only, up to 3 months salary advance which is repayable over 18 months at 5 percent.

In addition, there are special hardship and emergency salary advances when there is a fire, or death in the family, or something like that. These are limited to 1 or 2 months advance in salary and are repayable in 6 or 12 months, depending on the case, at 5 percent.

And the total of this—I think this is another factor that might be kept in mind—the total is rather small. On the 31st of December 1969, there were 77 individual outstanding loans. The average loan was \$1,680, giving a total of \$129,363 on that date.

No defaults have occurred. Actually the outstanding amount will be lower in the future because the peak of employment increase has already been reached.

I think that answers that question.

On the question of the Bank's investments. As a prudent manager of its funds, the Bank has invested funds not immediately required for disbursements in operations—nearly \$100 million in the United States, plus investments elsewhere—in interest bearing assets. The investment of funds not needed for disbursements in its operations is made under Article 21(v) of the Bank's Articles of Agreement.

Now, in our institution we do make commitments on the basis of funds which we have. But the disbursements, of course, take many more years to run before these commitments are fully met. And in the meantime these funds are invested, just as the other international financial institutions invest their funds not needed for disbursement.

Of nearly \$100 million invested in the United States as of the end of last year, about \$40 million of it came from the cash portion of the U.S. paid-in subscription, most of it having come from subscriptions paid in U.S. dollars by other member countries. And we have, in the course of our activity while we are making commitments,

used our funds to build up our surplus and to pay for our operating costs.

In terms of lending activity, we have proceeded, I think, with some caution to insure that we put our money into good projects. But now the Bank is, I think, coming into full gear. And we have raised the lending activity from \$42 million in 1968 to \$98 million in 1969, and we will probably more than double the lending activity this year. And this of course will result in disbursements as time goes on, so that these investments which we have will decline.

I think that covers the main points, Mr. Widnall.

Mr. WIDNALL. How long does it take normally between an application for a loan and the final OK and the beginning of disbursement of the loan?

Mr. ZAGORIN. I would say it would depend, sir, on the country we are dealing with. What we have found is that in some countries—Laos, Nepal, Afghanistan, and other countries where there is inadequate staff for preparing a good project—we have found that we have needed to give them technical assistance in analyzing their problems and for project preparation. If you include that, this year's technical assistance often results in next year's financing. But after that technical assistance and feasibility work is completed, I would say it is a matter of 6 to 8 months from the time that is done until the time the loan is approved.

In some other countries we have taken between 6 months and a year approximately between the time the application is made and the time the Board approves it. Disbursements vary, I would say, beginning within 3 months to 6 months after the loan is approved.

Mr. WIDNALL. As of today, how many loans have been made, and to what countries?

Mr. ZAGORIN. I can put that in the record for you, sir.

Mr. WIDNALL. May we have unanimous consent to insert that in the record?

Mr. REUSS. Without objection it is so ordered.

(The information to be furnished by Mr. Zagorin for inclusion in the record at this point follows:)

As of April 15, 1970, the Asian Development Bank had approved 32 loans totaling \$163 million. Of these loans, 24 in the amount of \$138.4 million, were from the Bank's Ordinary Capital resources and 8, totaling \$24.6 million, were from Special Funds. The following is a list of the Bank's loans to date:

ASIAN DEVELOPMENT BANK
STATUS OF LOANS APPROVED AS OF APR. 15, 1970
ORDINARY CAPITAL
[Dollars amounts in millions]

Country and project	Amount	Approved	Term ¹	Interest (percent) (Feb. 28, 1970)
CEYLON				
Tea factory modernization.....	\$2.0	July 2, 1968	15(3)	6 $\frac{3}{8}$
Walawe irrigation development project.....	.885	Oct. 23, 1969	15(5)	6 $\frac{3}{8}$
Colombo Port tanker berth.....	2.6	Mar. 30, 1970	15(5)	6 $\frac{3}{8}$
CHINA, REPUBLIC OF				
North-South Freeway feasibility study.....	2.4	Nov. 19, 1968	10(2)	6 $\frac{3}{8}$
Chinese Petroleum Corp., DMT plant.....	10.2	Dec. 19, 1968	12(3)	6 $\frac{3}{8}$
Deep sea fisheries.....	10.0	Mar. 28, 1969	13(3)	6 $\frac{3}{8}$
Taiwan Aluminum Corp.....	2.67	Nov. 20, 1969	13(3)	6 $\frac{3}{8}$

See footnotes at end of table p. 249.

ASIAN DEVELOPMENT BANK—Continued
STATUS OF LOANS APPROVED AS OF APR. 15, 1970—Continued
ORDINARY CAPITAL—Continued
[Dollars amounts in millions]

Country and project	Amount	Approved	Term ¹	Interest (percent) (Feb. 28, 1970)
CHINA, REPUBLIC OF—Continued				
Taiwan Metal Mining Corp.	\$1.15	do.	12(3)	6 $\frac{7}{8}$
Hualien Port	.99	Dec. 4, 1969	13(3)	6 $\frac{7}{8}$
Taipei-Yangmei Freeway	² 18.0	Mar. 30, 1970	20(3)	6 $\frac{7}{8}$
Elevated railway TA	2.54	do.	10(2)	6 $\frac{7}{8}$
KOREA, REPUBLIC OF				
Seoul-Inchon Expressway	6.8	Sept. 3, 1968	15(3)	6 $\frac{7}{8}$
Korea Cold Storage Co.	7.0	Mar. 13, 1969	15 $\frac{1}{2}$ (4)	6 $\frac{7}{8}$
Korea Express Co.	7.5	Sept. 4, 1969	10 $\frac{1}{2}$ (2)	6 $\frac{7}{8}$
Medium Industry Bank	10.0	Dec. 16, 1969	15(3)	(³)
MALAYSIA				
Penang State Water Supply Project	7.2	Sept. 19, 1968	20(5)	6 $\frac{7}{8}$
Palm oil mills (Bukit Mendi & Bukit Goh)	2.8	Feb. 11, 1959	20(5)	6 $\frac{7}{8}$
Kuching Port expansion	5.0	Nov. 16, 1969	25(5)	6 $\frac{7}{8}$
Sarawak electricity supply	3.1	Nov. 18, 1969	20(5)	6 $\frac{7}{8}$
PAKISTAN				
Industrial Development Bank of Pakistan	10.0	Dec. 12, 1968	15(3)	(¹)
PHILIPPINES				
Private Development Corporation of the Philippines	5.0	Mar. 4, 1969	⁴ 12(2)	(³)
SINGAPORE				
Development Bank of Singapore, Ltd.	10.0	June 26, 1969	⁴ 12(2)	(³)
THAILAND				
Industrial Finance Corp. of Thailand	5.0	Jan. 24, 1968	⁴ 12(2)	(³)
Do	10.0	Dec. 16, 1969	⁴ 12(2)	(³)
Total Ordinary Capital	138.435			
SPECIAL FUNDS				
CAMBODIA				
Phnom Penh high-voltage transmission line	\$1.670	Apr. 2, 1970	16(4)	3
CEYLON				
Walawe irrigation development project	7.705	Oct. 23, 1969	25(7)	3
INDONESIA				
Tadjum irrigation project	.99	June 19, 1969	24 $\frac{1}{2}$ (7)	3
Sawit Sebarang Oil Palm Estate	2.4	Oct. 21, 1969	24 $\frac{1}{2}$ (7)	3
LAOS				
Tha Ngon agricultural development	.973	Mar. 10, 1970	40(10)	1
NEPAL				
Airport system development	6.01	Dec. 18, 1969	30(7)	2
PHILIPPINES				
Cotabato Irrigation Project	2.5	Nov. 18, 1969	25(5)	3
WESTERN SAMOA				
Faleolo Airport and Highway	2.4	Dec. 16, 1969	30(10)	1 $\frac{1}{2}$
Total, special funds	24.648			
Grand total	163.283			

¹ Inclusive of grace period (shown in parentheses).

² N-S freeway feasibility study loan (\$400,000) incorporated in Taipei-Yangmei Freeway loan; net new lending \$17,600,000.

³ Rate prevailing at time of crediting loan account.

⁴ Term commences from date of crediting loan account.

Mr. REUSS. Could I add Mr. Widnall, that I think you have done a very useful thing in asking about this Jack Anderson column. And I would like to ask unanimous consent that Mr. Zagorin in his answer to your question should, when he reads the record, extend it in any way he likes, and particularly endeavor to comment on it, and answer every allegation in the Jack Anderson story—I am not sure he has had time to do that—if there is an answer.

So without objection that may be done.

Mr. WIDNALL. Mr. Chairman, my time is up.

Thank you.

(The information requested follows:)

1. ASIAN DEVELOPMENT BANK INVESTMENTS

Under Article 21 of the Charter, the Bank invests "... funds not needed in its operations, in the territories of members in such obligations of members or nationals thereof as it may determine". Under a Resolution of the Board of Directors, these investments are limited to government or government-guaranteed operations up to five years maturity and commercial bank deposits up to three years maturity.

As a prudent manager of funds derived from subscriptions and from its income, the Bank invests funds not immediately required for disbursement in its operations as best it can under these guidelines. As of December 31, 1969, the Bank had invested \$225,777,246 of its funds in accordance with these guidelines. The Bank's income from investments in 1969 was \$12,372,250, which was more than sufficient to defray the total expenses of the Bank during that year. The surplus has served to increase the Bank's capital resources for future use in financing the development of Asia.

Of the Bank's total investments, \$96.5 million was invested in the United States. Most of this amount arose from subscription payments in U.S. dollars by countries other than the U.S. Total cash subscriptions paid in by the U.S. up to that date amounted to \$40 million. (The \$40 million paid in by the U.S. in the form of a non-interest bearing letter of credit is not available for investment by the Bank.)

2. BORROWING BY THE ASIAN DEVELOPMENT BANK

The Asian Development Bank is modeled closely after the World Bank. Similar to the World Bank, it will depend in the future primarily on borrowings in international money markets to increase its lending from Ordinary Capital. The Bank's borrowings to date, \$15 million equivalent in Deutschmarks in Germany and a \$5 million equivalent issue in Austrian shillings in Austria, served to introduce ADB bonds to the capital markets of the world while the Bank took advantage of favorable market opportunities which developed in those countries.

Even though the Bank still has uncommitted funds on hand from its paid-in subscriptions, it would be unwise to defer its borrowing program until the Bank's resources are depleted. With the final installment of paid-in capital from the subscription provided for in the Bank's charter coming up in August 1970, it is necessary for the Bank to begin to plan and to initiate a financing program by borrowing in the capital markets.

(See also Secretary Kennedy's remarks on this subject on Page 254.)

3. LEVEL OF ADB LOAN DISBURSEMENTS

As of December 31, 1969, the ADB had committed \$139.7 million for loans (\$117.7 from Ordinary Capital and \$22 million from Special Funds). By April 15, 1970, its total loan commitments had increased to \$163 million (\$138 million from Ordinary Capital and about \$25 million from Special Funds). These loan commitments were made during the second and third years of the Bank's operations, since its first year in operation was devoted to the task of setting itself up as a sound financial institution.

By the nature of the Bank's loans—which are for long-term development projects—actual disbursements may follow loan commitments by some time, owing to the natural time lag between loan commitments and actual expenditures. As of December 31, 1969, the Bank had disbursed \$9.3 million under its outstanding loans. Disbursements may be expected to show a rapid increase in 1970 and in future years.

4. LEVEL OF BANK ACTIVITY

To date the Asian Development Bank has committed \$163 million for thirty-one projects in thirteen countries. Of this total, \$138.4 million was approved for loans from Ordinary Capital resources and \$24.6 million for loans on concessional terms from Special Funds resources.

The Bank committed loan funds amounting to \$42 million in 1968 and to \$98 million in 1969. Loan commitments during 1970 are expected to total more than \$200 million. In terms of loan activity, it is anticipated that about thirty-five loans will be processed in 1970.

The Bank began its commitment of special fund resources on concessional terms in 1969, when \$22 million was approved for loans to five countries, and a considerable expansion in this part of the Bank's activity is planned in 1970 and future years.

There has also been an increasing pace in the Bank's technical assistance activities. Commitments for technical assistance amounted to \$1.3 million in 1968 and to \$3.2 million in 1969 and are expected to rise further in 1970.

5. COMPARISON OF ASIAN DEVELOPMENT BANK WITH EXPORT-IMPORT BANK

The Asian Development Bank and the Export-Import Bank are two very different types of organizations. Comparing the ratios of administrative expenses or personnel to volume of business or profits for the two banks gives a distorted picture.

The Export-Import Bank is charged with assisting in the financing of United States exports. Although its principal activity is extending direct credits to overseas purchasers of U.S. goods and services, the Bank also provides insurance and guarantees to U.S. exporters and commercial banks. In the latter cases a great deal of responsibility for determining the viability of the transaction and credit worthiness of the buyer is assumed by the United States exporter, his commercial bank and/or the Foreign Credit Insurance Association (FCIA). Such transactions financed by the Export-Import Bank are repetitive sales to established and well-known buyers in foreign countries. The exporter himself is usually required to assume a percentage of the financial risk and is accordingly selective in choosing his customers.

In contrast, the Asian Development Bank itself, rather than the suppliers or other financial institutions, must finance the cost of appraising the viability and economic and technical feasibility of all projects which it assists. The Asian Development Bank's operations require that its personnel, or consultants it may hire, spend a sufficient amount of time in examining a project in the recipient country concerned, and this kind of cost is very much less in the case of the Export-Import Bank which does not rely to the same degree on appraisal missions in the field.

Another extra cost which has to be incurred by the Asian Development Bank results from its very nature as an international institution. This requires travel and communication expenses in order to permit its member countries to play a significant role in policy formulation by allowing members of the Board of Directors to maintain continuous contact with the country or countries they represent on issues and project proposals. An additional cost for travel expenditure arises from the fact that the Asian Development Bank as an international institution draws its personnel from thirty different countries; this necessitates a cost, not found in the Export-Import Bank, in connection with their moving to Manila or returning to their home country.

These are some of the reasons why administrative costs for an international lending institution such as the Asian Development Bank would appear to be relatively higher than those for the Export-Import Bank whose operations are so very different. The Export-Import Bank is indeed to be complimented on its low ratio of administrative expenses, but it would be unrealistic to expect an international development institution to approach that ratio.

6. ADB REPRESENTATION EXPENDITURES

The costs of representation cover only those felt to be necessary in the conduct of the Bank's business as an international lending institution. They consist essentially of cost of the social good manners of the Bank in its dealings with member governments, borrowers, bankers and investment groups, and others with whom the Bank has dealings. Representation costs are strictly regulated by the Bank's Administration Department.

Expenditures by the Bank for representation in 1969 amounted to \$44,849. Most of these expenditures consisted of official hospitality provided by the President or Vice President of the Bank and at official receptions or dinners hosted by the Bank during conferences, signing ceremonies, and other official functions.

Representation costs incurred by staff members amounted to a total of \$18,828, of which \$6,317 was at headquarters and \$12,511 was on business trips. These covered 195 occasions at headquarters and 396 occasions on business trips, amounting to an average of \$32 per occasion.

The 1970 budget allows for an increase of only \$5,000 in representation expenses, up to a total of \$50,000, despite the expectation of a doubling of the Bank's activities this year.

7. PROVISIONS IN ADB STAFF REGULATIONS FOR SALARY ADVANCES

Specifically, the salary advance arrangement provides for:

A. Assistance to staff members in getting settled in their duty station. Within 6 months after arrival at duty station a staff member is eligible for an advance not exceeding three months' salary, repayable within 18 months with interest at 5 percent per annum; in special cases, but also only within 6 months of arrival in Manila and on approval by the President, an additional advance of up to \$2,000 may be obtained which is repayable in 12 months with interest at 6 percent per annum.

B. Assistance in special and unusual circumstances arising from disasters such as fire, flood, etc., and in cases of personal hardship or tragedy resulting from acute sickness, injury, or death in a staff member's family. After a minimum of 6 months' service with the Bank a staff member is eligible for such special salary advance not exceeding one month's salary repayable over 6 months. After 12 months' service a staff member is eligible for a special salary advance not exceeding two months' salary, repayable over 12 months. No special salary advance may exceed two months' salary and all such advances are at 5 percent interest per annum.

(See also Ambassador Zagorin's remarks on Page 246.)

Mr. REUSS. Mr. Stephens.

Mr. STEPHENS. Thank you, Mr. Chairman.

I appreciate the testimony that you have given, Mr. Secretary. As you see, I have cosponsored this legislation with Mr. Reuss and others.

I was interested in your comments on the three items that have been added as amendments. I have not actually gone into them too much in my own mind, and would reserve my opinion on those, except that I do feel in agreement with you in respect to the limitation about what the specific items dealing with people are concerned.

The reason I tend to agree with you in respect to that is because of two very interesting pieces of information that I have read within the last 6 months. One of them is the very fine work of Eugene Black entitled "Alternative in Southeast Asia." And the other, although it does not pertain to the particular legislation that we are now involved in, deals with an excellent report made by a member of this committee of a study that he made down in South America. Congressman Rees made a study in South America of four countries. He has the conclusion in there that we have a tendency to want to tell people what we think is the best thing for them, rather than cooperating with a local country—with the people who are coming to borrow.

And I have a feeling that in the past in our foreign aid programs we have tended to use it as too much of a weapon for getting them to do what the United States wants to do. As Mr. Black says, we must develop a feeling of cooperating, rather than having the constant threat that the United States is going to withdraw funds and not help.

I do not understand the other suggestions that have been made, but I do think there is a great deal of merit in the consideration about

not directing. We know what our objectives are. They are for the best interests of the United States actually, but it may not always be to the best interests of the United States to be as specific as this part of this seems to require.

I do appreciate your statements here, and I think the Asian Development Bank itself has been doing a great job with what we have given them to do, as well as our other programs.

I apologize for not getting here earlier today. But I have been so busy getting ready to go with you on the Inter-American Development Bank trip that I have not had a chance to come over here and listen to you.

Thank you.

Mr. REUSS. Thank you, Mr. Stephens.

I would like to place in the record at this point a letter from Mr. Black to Chairman Wright Patman.

(The letter referred to follows:)

NEW YORK, N.Y., March 23, 1970.

HON. WRIGHT PATMAN,
Chairman, House Banking and Currency Committee,
Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: I wish to state in the most positive terms my wholehearted support for Senate bill S. 3543 authorizing a three-year contribution of \$100 million for Special Funds of the Asian Development Bank.

As you are aware, I have taken a great deal of interest in the establishment of the Asian Development Bank and have followed closely the Bank's operations in the early years of its life. I recall with pride my own role in the United States participation in the formation of the Bank and remember well the widespread feeling, held not only in this country but throughout the world, of the high promise which the Bank held for the future development and well being of Asia. In just a few years the Bank has clearly shown through its able management and sound operations, and in establishing its own distinct and significant role in Asia, that it is fully living up to these high expectations. My own enthusiasm about the Bank is as strong as ever and, if anything, this feeling has now been fortified by the experience of realization and accomplishment.

The Bank has clearly demonstrated its ability to organize effectively the complicated business of development lending by a multilateral institution. One can rest assured that funds entrusted to it will be well handled and well spent. The Bank is functioning efficiently and now is handling a sizeable volume of lending, and it has successfully embarked on its borrowing program to add to its funds available for ordinary capital operations.

To round out its operations, the Bank has already made a good start with its concessional lending program financed with Special Funds contributions. This additional facility of the Bank is essential so that ADB has the versatility particularly to meet the needs of its members for whom concessional financing is most suitable.

I feel it is most important that the United States play its proper role, in joining with other developed countries, in the support of the Bank's Special Funds operations. The Bank's overall operations have been well conducted and its Special Funds lending is well underway. These operations of the Bank would be dealt a severe setback if the United States Government were not to offer its appropriate measure of support at this time. It is most important that the United States make its contribution to ADB Special Funds without any delay.

I consider S. 3543 most important and desirable legislation and hope very much that your committee and the U.S. Senate will affirm their support to the bill as soon as possible.

Very sincerely yours,

EUGENE R. BLACK.

Mr. REUSS. Now, Mr. Halpern.

Mr. HALPERN. Thank you, Mr. Chairman.

Mr. Secretary, as you know, I attended the Asian Development Bank meeting in Seoul. And I want this committee to know how

impressed I was by the admirable way you represented our country at that very successful meeting. You made a great contribution to the meeting.

Not limiting yourself to the agenda per se, you took advantage of that occasion to arrange many bilateral talks with representatives of other member nations which I feel were extremely worthwhile. Through these talks you achieved immeasurable good will for our Nation, and by meeting with your counterparts of these nations you were able through these informal, down-to-earth, bilateral talks to level with these men, to find out what is on their minds, and to develop a much better understanding on economic relations between the United States and these nations.

You performed an invaluable service to your country. And I for one heartily commend you.

Secretary KENNEDY. Thank you.

Mr. HALPERN. I agree with the views you expressed in your testimony, Mr. Secretary. You made a good case. And I might add, as a cosponsor of H.R. 16891, that I subscribe to your reasoning that this committee consider the deletion of the three provisions you cited; namely, the exchange stabilization fund, monetary gold purchases, and the economic and social policy of international financial institutions.

There is considerable validity to your contention that these provisions are inadvisable and unnecessary. And I trust that this committee in its wisdom will seriously consider your well taken recommendations.

And now to get back to the ADB, Mr. Secretary, I am particularly interested in the borrowing program of the Asian Development Bank. This program is getting underway most meaningfully, and has received wide applause at the meeting in Seoul.

Can you tell the committee what the Bank is doing to raise funds through borrowing, through bond issues?

Secretary KENNEDY. Yes, Congressman Halpern. We had a report from the management of the Bank of their borrowings, two in number, I think, one from Germany, 60 million Deutschmarks (\$15 million) and a borrowing in Austria of 130 million Austrian shillings (\$5 million)—not that they at this time needed those funds. They were establishing their credit in the markets in Europe. And it was done at a very difficult time. Interest rates were high. They had to pay 7 percent. But I think it was important to start getting market acceptance, and letting the market determine whether the Asian Development Bank was following prudent practices. And I was pleased to see the acceptance and even the rate they received for their funds in those markets.

As time goes on they will not be in the position that Mr. Widnall was referring to in having investments of size, because they will be using funds, and they actually will be coming into the markets to borrow, the United States and other markets. And I think that it is well that they did.

Mr. HALPERN. While I was at the meeting in Seoul I heard a number of offers for additional special funds. Mr. Secretary, what is the status of other countries in this regard?

Secretary KENNEDY. There have been a number of nations that have made contributions, I think six in number, and a total of about \$159.5 million to these funds. Japan has offered \$100 million, Canada \$25 million, Denmark \$2 million, the Netherlands \$8.3 million. The United Kingdom pledged at the meeting \$14.4 million, and Australia pledged \$9.75 million. There are additional nations that have pledged under advisement, as we do, as I announced at the meeting, the \$100 million that we are considering here today. Germany was one. There have been a number of other nations that have contributed to technical assistance, and those will be very helpful.

Mr. HALPERN. Ambassador Zagorin, I am very much impressed at the superb work you are doing as the U.S. permanent representative on the ADB. And I want to commend you for your complete dedication to the goals of this institution. I understand that there has been, and I am much impressed by it, a buildup of activity by the Bank, some of which you cited in your answer to Mr. Widnall's question, the Bank having made \$42 million, I believe it was, in loan commitments in 1968, \$98 million in 1969, and now it is expected to commit \$200 million or more in 1970.

Would you care to comment on the administrative costs of operating the Bank? In other words, what effect has the tremendous increase in the Bank's activity had on the Bank's administrative budget?

Mr. ZAGORIN. Thank you very much, Mr. Halpern.

The increase in this activity, approximately doubling from 1968 to 1969, and then from 1969 to 1970, will result in a rather moderate increase in the administrative budget. The administrative budget for 1970 is estimated at \$7.36 million. This represents a 13-percent increase over last year's budget and a 26-percent increase over the actual results of 1969. A major part of the increase is attributable to salary costs because of a larger, full-time effect of the increase in personnel, the biggest increase coming in 1969, and also to an increase in salary levels in that year.

But the President of the Bank—and it was also supported strongly by the Board—wanted to keep the rate of increase in personnel down. And, therefore, there is going to be an increase in professional personnel of only 20 persons, from 150 to 170 from 1969 to 1970, despite the substantial increase in activity.

Mr. HALPERN. Do these costs compare favorably with those of other international financial installations?

Mr. ZAGORIN. Mr. Halpern, I would like to put into the record a comparison between the Inter-American Development Bank and the Asian Development Bank and the administrative costs. And it is quite striking how close they are in terms of the increase in the costs during the first 3 years.

Mr. HALPERN. I ask unanimous consent, Mr. Chairman, that the information be submitted.

Mr. REUSS. Without objection, it is so ordered; the information referred to will appear in the record at this point.

Mr. HALPERN. Thank you, Mr. Chairman.

(The information referred to by Mr. Zagorin for inclusion in the record at this point follows:)

COMPARISON OF ADMINISTRATIVE EXPENSES OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE ASIAN DEVELOPMENT BANK DURING THEIR FIRST 3 FULL YEARS IN OPERATION

[Ordinary capital resources]

	1st year		2d year		3d year	
	ADB, Nov. 24, 1966 to Dec. 31, 1967	IDB, 1961	ADB, 1968	IDB, 1962	ADB, 1969	IDB 1963
Board of Governors.....	\$17,417	\$74,560	\$35,599	\$127,187	\$64,892	\$138,908
Board of Directors.....	531,672	153,529	577,630	222,097	724,949	319,869
Staff.....	1,550,894	1,416,081	2,357,177	2,543,673	3,993,031	3,457,587
Other.....	309,972	587,021	595,386	1,035,913	896,726	1,548,230
Total administrative expenses.....	2,409,955	2,231,191	3,565,192	3,928,870	5,652,598	5,464,594

Mr. HALPERN. I have used all my time, Mr. Chairman.

Mr. REUSS. Mr. Annunzio.

Mr. ANNUNZIO. Thank you, Mr. Chairman.

I, too, would like to join my colleagues and welcome back our distinguished Secretary from a very successful Asiatic trip. And I commend you for your timing today in coming before the committee when Chairman Patman is 1500 miles away, I understand, campaigning in Texas.

Secretary KENNEDY. I came further than that for this meeting.

Mr. ANNUNZIO. That is the reason I commend you for it.

I would also like to commend my colleague, the distinguished minority leader on this committee, Mr. Widnall for bringing up the comments on the Asian Bank that appeared in the Jack Anderson column, and I want to associate myself with his remarks.

I, too, was one of the original sponsors of the Asian Bank legislation when it was first proposed. I agree with the distinguished Secretary that the Asian Bank, since it has been established, has been doing an outstanding job with the undeveloped countries of the world, but I do think we must have a clearing of the air.

Now, Mr. Secretary, on page 3 of H.R. 16891—and I am one of the sponsors—in article (c) at the top of page 1, I would like to have your opinion on how we can justify untying our contribution to the Special Fund of the Asian Bank when we have such a serious balance-of-payments problem.

Secretary KENNEDY. That is a very good question, Congressman, because we do have a very serious imbalance in our accounts.

In the multilateral field, generally speaking, we are trying to move as best we can to untying in order to permit the countries to have greater flexibility in their purchases. This is a broad principle.

Now, with respect to the Asian Development Bank, the first year's contribution would be tied. But there would be under the authorization here authority for the Secretary to make changes in the second and third year, if we can justify it. And I would like to move that way, if it is at all possible. Because I think in the multilateral field it causes all kinds of difficulties. Because when we start tying the other nations do too. And the first thing we know we have the countries receiving aid that they cannot use as well as they could if it were completely free.

Mr. ANNUNZIO. Mr. Secretary, I wish you would elaborate further in the record on this particular question, because it is my feeling that this is where we are going to be hit hard on the floor.

Secretary KENNEDY. We would be glad to prepare a more detailed answer to you. And I can see the point involved in this very clearly.

Mr. REUSS. Without objection at this point in the record the Secretary and his associates will add whatever they feel should be added to their answer.

(The information requested follows:)

The multilateral lending institutions are designed to provide an equitable sharing of the burden of development financing, and it is especially important that they be able to make the most effective use of the funds at their disposal, regardless of source. Consequently, these institutions have endeavored to preserve the basic principle of competitive international procurement in their financing operations.

With respect to the Asian Development Bank, its Articles of Agreement provide that its Ordinary Capital resources be used on a competitive basis for procurement in any member country. The efficiency and economy of the Bank's Special Funds operations would be enhanced if they too were conducted in a manner under which all contributed resources would be available for utilization, as needed, for any and all projects.

Our proposal for a U.S. contribution to ADB Special Funds is designed to assure that the U.S. contribution will be used in a way which takes account of the U.S. international financial position, and at the same time makes the maximum impact in furthering the Bank's development objectives.

It is intended that the first year's installment of the U.S. contribution would be available only for procurement of U.S. goods and services. However, for the second and third year installments, the U.S. Governor of the Bank, in consultation with the National Advisory Council, could allow eligibility for procurement in other ADB member countries if he determines that broadening the area of procurement eligibility would materially improve the ability of the Bank to carry out the objectives of the Special Funds and would be compatible with the international financial position of the United States.

From the point of view of development assistance policy we want to give aid that is of as high a quality as possible and encourage other donors to do the same, in order to maximize the development impact of our assistance. But we must remain mindful of the U.S. balance of payments in considering any proposal to untie the second or third year's installment, and a decision to broaden procurement eligibility would be made if we are assured that it would be compatible with the U.S. international financial position.

In the National Advisory Council's consideration of this issue, one important question would be whether untying the second or third year's installment of the U.S. contribution would stimulate untied contributions from other donors. The greater the amount of untied contributions from other donors, the less would be the cost to the U.S. balance of payment from untying the U.S. contribution.

There has already been a movement away from tied procurement among the contributors to the ADB Special Funds. All the funds contributed by the Netherlands have been available for procurement in the developing member countries and in other countries making Special Funds contributions of similar terms. Following that initiative, Japan, which tied its first year's contribution, took the step when making its second contribution to permit procurement from other Special Funds contributors, as well as from all of the developing country members of the Bank. The U.K. is also following a pattern similar to the Netherlands' contribution. It is possible that a move in this direction by the United States would encourage other donors to move along the same lines and open the way for contributions from countries not willing to contribute to ADB Special Funds resources encumbered by procurement restrictions.

Mr. REUSS. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Secretary Kennedy, I, too, want to welcome you here this morning, together with your able assistants, and Mr. Zagorin of the Asian Development Bank.

I, too, was on this tremendously great, impressive international conference on the Asian Development Bank. And like Mr. Halpern, I was very proud of the role of our Secretary and also of his staff. And I think those of us who were on the trip made a very valuable contribution. And I sensed a pride in the rest of the delegates there that the United States was so well represented, and they showed tremendous evidence of good will. And I left the conference feeling that the Asian Development Bank was doing a tremendously great job in that section of the world, and that we must support that. That was my general feeling.

And I was also greatly impressed by the warmth of the people of South Korea for the United States. The country is just obsessed with the idea of freedom. And one of them stated, we will never be conquered again. And they are greatly beholden to the United States for giving them the courage.

I am thinking of when we go to the floor on this bill. The Members will want to ask some questions. The impact on the budget—that will be the floor debate. It is easy to discern from the legislation that at this session of Congress the Appropriations Committee will be asked to appropriate just the \$25 million toward the Asian Bank for Development. That is a fact, is it not?

Secretary KENNEDY. That is right.

Mr. JOHNSON. Now, as to this increase in the quota of the IMF of \$1,540 million, I note that you state elsewhere in the statement that there will be an authorization of \$385 million of gold to be used as a part of this \$1,540 million. What do you anticipate the appropriation would be at this session of Congress if we increase the authorization by \$1,540 million to the IMF?

Secretary KENNEDY. There would be no budget impact of the gold, because that would be a transfer of reserves. To the extent we pay in the gold, it could increase the debt, to the extent that we had—

Mr. VOLCKER. To the extent that we have to provide cash in fact to acquire the gold certificates back from the Federal Reserve.

Secretary KENNEDY. But that would not be a budget impact, that would be an impact on the debt limit only, which would be another matter.

Mr. JOHNSON. Do I understand that if we authorize the appropriation of \$1,540 million that the Appropriations Committee will not have to come up with an appropriations bill?

Secretary KENNEDY. There will have to be an appropriation bill, but there will actually be no budget outlay, no outlay of funds. We will have to go through the appropriations process, gentlemen.

Mr. JOHNSON. And there will be a bill on the calendar saying, there is hereby appropriated \$1,540 million?

Secretary KENNEDY. That is right, \$385 million of gold plus a letter of credit for the remainder.

Mr. JOHNSON. But your first payment under that \$1,540 million would be a transfer of \$385 million worth of gold, is that correct?

Secretary KENNEDY. That is right.

Mr. JOHNSON. And then if you are called on to put in other funds it would be through the issuance of obligations of the United States?

Secretary KENNEDY. It would be the issuance of letters of credit.

Mr. JOHNSON. Likewise I notice that with the authorization to increase the capital of the World Bank by \$246,100,000, only \$24.6

million of cash would be required to augment that particular authorization?

Secretary KENNEDY. That is right. And the other is callable.

Mr. JOHNSON. Letters of credit?

Secretary KENNEDY. We subscribe to capital stock which is not paid in but is callable at such time that it would ever be needed to pay the obligations of the Bank.

Isn't that right, Mr. Wieczorowski?

Mr. WIECZOROWSKI. Yes.

Mr. JOHNSON. Actually we are talking about \$25 million then for the ADB and \$24.6 million to increase the capital of the World Bank, our share of the increase?

Secretary KENNEDY. That is right, from a budgetary impact standpoint, although the \$25 million for the ADB will be in the form of a letter of credit and will not result in an expenditure until the Bank requires the funds for disbursement on loans.

Mr. JOHNSON. I thank you.

Mr. REUSS. Mr. Rees.

Mr. REES. Thank you, Mr. Chairman.

I would like to ask several questions on the last three chapters in the bill, because there seems to be some disagreement between the administration and the author of the bill.

In chapter 4, page 8, on gold purchases, it says: "The Secretary of the Treasury may not purchase gold from any country which is violating or has violated," et cetera, the two-tier gold agreement as amended. First, what countries are violating or appear to violate the two-tier agreement as amended?

Secretary KENNEDY. I think I will turn to Under Secretary Volcker to answer that question. There is some doubt or question in each case as to whether they are or whether they are not. It is not as clear, it is not clear in most cases. But the answer simply is that there is very little if any violation.

Mr. VOLCKER. To the best of my knowledge, there would not be any violations at the present time. There have been questionable incidents over the course of the past 18 months, let us say, but not recently. And my feeling is that with the addition and regularization of the two-tier system, as further developed by the South African agreement, those unfortunate lapses, which were minor, small, will be even less likely, and I hope and expect there will not be any.

Mr. REES. Then the mandatory language of the bill, in light of the South African Gold Agreement of December 30, really does not affect your Department as it might have, say, before the December 30 agreement?

Secretary KENNEDY. Even before, we were using all persuasion in trying to accomplish the very purposes of this bill.

Mr. REES. I might ask, in section (c) it says that whenever the Secretary of the Treasury has an option in settlement of any debt due to the United States to receive gold or SDR's, you shall elect to receive special drawing rights.

Now, when we approved special drawing rights I think it was the intention of the committee and of Congress that the special drawing rights would eventually take over much of the function of gold. Now, doesn't this follow in that policy?

Secretary KENNEDY. I should say that generally speaking that is what happens. I can hardly envision a case where gold would be preferred to SDR's unless we are required or asked by the country. And surely we would not turn down gold if we had no option. But we want to effectuate and have the special drawing rights function. And we would be using special drawing rights wherever we could.

Mr. REES. What would happen, Mr. Secretary, if a country did not have special drawing rights but had gold? Under this section would they have to go out and purchase special drawing rights?

Secretary KENNEDY. Mr. Dale, would you like to answer that?

I do not think they could.

Or Mr. Volcker?

Mr. VOLCKER. I must say, Mr. Rees, if I can try this, I am not sure what kind of transaction this amendment is directed toward. I am not aware of any debts due to the United States that would be payable either in gold or in special drawing rights. They are typically payable in dollars.

The typical transaction would be where somebody wants to acquire dollars and comes to the United States at his initiative and offers us gold, or they may offer us special drawing rights, but typically that would be through a fund-designated procedure where we are required to take the special drawing rights.

Now, as the Secretary suggested, we would have no reluctance to taking the special drawing rights. But typically the option is on the part of the other country, not on the part of the United States. And if they come to us and offer us gold our policy would be to take the gold. But we certainly are not turning down and would welcome the sales of special drawing rights if they wanted to sell them to us.

Mr. REES. Thank you.

A question on chapter 5. Under the current procedure, is any report made of how the U.S. Governor on any of the multinational banks votes on specific loan applications?

Mr. VOLCKER. In many cases there is no formal vote taken. If there is no objection expressed there would not be a formal vote. So in many, many cases there is no specific vote of that kind to report.

We have discussed with this committee our vote on particular issues at times in the past, and we would certainly continue to do that if there is interest.

This amendment raises the question of whether each vote should be reported and justified in terms of the purpose of the amendment. I do think we can visualize this creating some difficulties of appearance at least. It would appear that the U.S. Executive Director would be voting in a formal way, in many ways that may not be necessary, with his eye constantly cocked as to what the public justification may be for that vote. And I think this is perhaps a somewhat inhibiting factor for the Executive Director in working with their respective boards. But perhaps they could speak more directly to that point as to how they feel this might affect their negotiating ability, the conduct of their work and their relationships with the other board members within each of these institutions.

Mr. REES. Who are the members of the National Advisory Council on the International Monetary and Financial Policies? Under this bill the Executive Director would report to them as to his actions.

Secretary KENNEDY. The members are the Secretaries of Treasury, State, and Commerce, the Chairman of the Federal Reserve Board, and the Chairman of the Board of the Export-Import Bank. Also attending the meetings are members of the Council of Economic Advisers and representatives of the Bureau of the Budget.

Mr. REES. One last question. Why don't you think that the General Accounting Office should audit the Exchange Stabilization Fund?

Secretary Kennedy. I feel that the Exchange Stabilization Fund is now being audited properly. The information is submitted to the Congress. The Congress has the audit reports, and they can look over the reports and see the statement of the assets, the liabilities, the expenses, and the receipts.

The information is available to the Congress. There is, as I indicated, a sensitivity here. The Exchange Stabilization Fund was created for the purpose of stabilization of the dollar in international financial markets. And it would be, I think, better to have it done this way than to have the General Accounting Office audit it. The ESF audit has been functioning very well. I do not see any reason to change.

Mr. REES. Thank you.

Thank you, Mr. Chairman.

Mr. REUSS. Thank you. Mr. Stanton.

Mr. STANTON. Thank you, Mr. Chairman.

Good morning, gentlemen.

I wish to direct my remarks to the three amendments that have been added to H.R. 16891. Let me say at the outset that I am very sympathetic with the chairman of our Subcommittee on International Finance in regard to these amendments, at least a part of them. And my only disagreement probably would come with the idea of putting them into legislation. Let me add further that I have always found him a very flexible man, but I think he would agree with me, in the light of the frustration that we have felt with several Secretaries of the Treasury, and under two administrations at least, that it has been a policy since I have been on the committee since 1965 to hear from the Treasury only when you need funding. But from time to time in between funding we do not have the close liaison that we should have to resolve the problems involved in these three amendments. And it is a question of a communications gap, Mr. Secretary. And this year particularly we on this committee will have to fight for this legislation, and we may have a tough time passing it.

In regards to your reporting, Mr. Secretary, I wish you would give further thought to that, so that this committee or the International Finance Subcommittee could receive at least annual reports from somebody you would perhaps designate in person, so that we would have an opportunity to sit down and to specifically go over and ask questions at that time as to the individual transactions.

And I think that while your statement certainly says that provisions are already being effectively achieved, it is a question of communications. I think that we can elaborate, perhaps by letter—as I say, the chairman of our subcommittee is very flexible. My only question would be to accomplish it by letter and not put it into legislation.

Secretary KENNEDY. I think that you have a good point there. I find in my brief experience in this position that one of our real problems all through the Government is communication with the various committees of the Congress, so that they really have a back-

ground and understanding of what is going on. And I think we would work more closely in trying to make available the reports of the National Advisory Council, and their reasoning, and getting a feed-back from this committee.

We have tried to do that. And I think the Chairman will agree that in many sensitive matters we have had discussions. But I think we can do more. And maybe we can formalize something.

Mr. STANTON. Some of us know only what we have read in the paper in regard to the subject of the Asian Development Bank. Is there a question that information has been withheld from this committee, or other committees of Congress? I am referring to Congressman Passman.

Secretary KENNEDY. No, I think that is a misunderstanding. I think it related to the specific names of the individuals. And I think that Mr. Zagorin did not have the names and could not give the names. My own view is that it is not essential for legislation whether it is John Blow or Peter Block. The information requested has been made available.

Mr. STANTON. One final question. As you know, when we set up the Asian Development Bank we envisioned basically a soft-loan window within the corporation at that time. And I believe—I will have to refresh my memory—I believe there were something like 10 percent of the funds available that would be used toward this objective of creating a soft-loan window.

Now, of course we are moving into funding it directly, with which I agree. The first question is, has any progress been made in regard to the funding through this particular method, the way the bank was originally set up? And second, I believe when I talked to you personally—it must have been 6 months or a year ago—there was a question—the other countries, and specifically Japan, were waiting for the United States at that time for this particular legislation that we have before us today. Do I interpret from the statement that they did not wait, but that they went ahead on their own?

Mr. ZAGORIN. Mr. Stanton, on the first question, under article 19.1(i) of the Bank's Articles of Agreement, the Board of Governors in April 1969 set aside for special funds purposes 10 percent of the convertible currency portion of paid-in subscriptions paid by all member countries. That is, 10 percent of half of the paid-in subscriptions to ordinary capital for the first three installments—amounting to approximately \$14.6 million—has been set aside out of the ordinary capital subscriptions for the special fund. In the course of the coming months there will be a further look at this. I believe the President of the Bank may have some further thoughts on proposing, perhaps to the Governors next year a further allocation, a further setting aside of the paid-in capital. So we have taken—of the half of each subscription required by all countries in convertible currencies—we have taken 10 percent of the first three installments.

That action was taken when we had the first three installments. After August 1970 the fifth installment will be coming in, and the Bank will be considering what further to do. But I think it is the intention to transfer more in the course of time.

On the other question, the fact is that other countries have preceded the United States, as the Secretary mentioned a few minutes ago. Six countries have already stated their intention and stated pledges of

the amounts that they are going to be giving to the Asian Development Bank special funds. And in addition, there are a couple of more countries in Europe which have proposals which are being considered in the current legislative year.

Mr. STANTON. Thank you, Mr. Chairman.

Mr. REUSS. Mr. Galifianakis.

Mr. GALIFIANAKIS. Thank you very much, Mr. Chairman.

I too wish to add a cordial welcome to the Secretary and his distinguished associates, a welcome back from his successful trip to Raleigh, N.C., and Seoul, Korea.

It has already been suggested that the bill will have difficulty on the floor. I do not know whether this question should probably be propounded to the sponsors of the bill or to the distinguished panel. But how are the figures which represent the U.S. participation formulated? How are these particular figures formulated, like the \$100 million, for example, for the Asian Bank?

Secretary KENNEDY. That figure was arrived at after considerable discussion and thought in the executive branch of the Government, the National Advisory Council, and with the President. It is less than was proposed earlier by the previous administration; \$200 million was proposed. I had the strong feeling that in this area of the world, the Asian area, that we should take a position of leadership, but not dominate. And we should stay somewhat in line with the Japanese as we were in the original capital. We were equal in the original capital of the Bank. So we took a look at what their proposals for the special funds were, and put ours approximately in line. The year-by-year amounts would vary, but the total would come out about the same. And it would be our purpose not to have the dominant position in that field.

We are encouraging Japan, for example, to increase its efforts in its activity in the international field. They have a strong balance-of-payments surplus, it is a country that has made tremendous progress. And we feel that by having our total about equal to theirs, the \$100 million, that they can be encouraged to take a more important role. And it helps us with the European countries. I think one of the successes we have had in getting the British and the other countries to move into this special fund field has been that we have kept our figure somewhat in line.

Mr. GALIFIANAKIS. Are only the countries which are located in Asia eligible for applications for loans?

Secretary KENNEDY. For the loan side, yes.

Mr. GALIFIANAKIS. Is Japan, although it contributes to the capital, an eligible country for application?

Secretary KENNEDY. They would not be considered.

Mr. GALIFIANAKIS. If Mr. Gettys were here he would want to know if Japan could borrow money for part of its undeveloped areas to build textile mills.

Secretary KENNEDY. The answer is "No."

Mr. GALIFIANAKIS. I am authorized to ask that question in his behalf.

Secretary KENNEDY. The answer is "No."

Mr. GALIFIANAKIS. They cannot?

Secretary KENNEDY. As a matter of fact, it is for the very undeveloped countries. And Japan's money is going into those countries.

Mr. GALIFIANAKIS. May I ask Mr. Zagorin a question?

I assume that for the past 3 years the Asian Bank has been engaged in capital fundraising. Have you made loans already?

Mr. ZAGORIN. Yes, sir.

Mr. GALIFIANAKIS. Has the Asian Bank made loans already?

Secretary KENNEDY. \$160 million.

Mr. ZAGORIN. Yes. Our total lending so far, including special funds, is over \$160 million, \$163 million.

Mr. GALIFIANAKIS. Would you provide for the record information on those particular loans?

Mr. ZAGORIN. Yes, sir. (The information requested was submitted by Mr. Zagorin and may be found on p. 248.)

Mr. GALIFIANAKIS. What kind of loans do you anticipate in the next year or so?

Mr. ZAGORIN. We have covered a broad field: irrigation, power, transportation, petrochemicals, ports, highways, airports, agricultural development, aluminum processing, copper processing, and assistance to national development banks. We would expect future loans to be similarly spread over a broad field.

Mr. GALIFIANAKIS. Do you try to achieve a geographical balance in making loans?

Mr. ZAGORIN. No, sir, I would say that we do not try to achieve that. I think we have in mind that we cannot have too much in one particular place. But what we have done is to deal with the projects as they come along and just consider them on their merits. And the consequences are that in some countries we have loaned a lot more money than in other countries, because good projects have come forward. But there is no quota or specific predetermined allocation.

Mr. GALIFIANAKIS. Mr. Chairman, the chairman of the lower row has advised me that my time has expired. But I would like to ask one more question and get the response for the record.

Mr. REUSS. Is there objection?

(No response.)

Mr. REUSS. The gentleman is recognized for 1 extra minute.

Mr. GALIFIANAKIS. I would like to get the view of the Secretary in the record with some justification as to the figures. I know that probably this would be available to us at the time we mark up the bill from you, Mr. Chairman, and others. But I would like for the record to have the Treasury qualify the figures. Let it be shown in the record how the figures are formulated.

Secretary KENNEDY. We would be glad to give you a breakdown by countries and classes in all detail.

Mr. GALIFIANAKIS. Thank you very much.

(The information requested follows.)

With respect to the Asian Development Bank there are no quotas for contributions to the Special Funds. As stated above, we wish to show strong support for the Bank's role in Asia, but not to dominate. In determining the size of our proposed contribution we took into account our budgetary situation, the Bank's need for funds for concessional lending in the Asian region, and the actual and potential contributions of other donors. Our proposed contribution of \$100 million is equivalent to one-half of our subscription to the Bank's Ordinary Capital. Japan has offered \$100 million, as compared to its \$200 million capital subscription; Canada is contributing \$25 million—equal to its capital subscription; the Netherlands contribution will be \$8.3 million, exceeding its paid-in subscription; the U.K. has offered \$14.4 million as compared to a \$30 million capital subscription.

Mr. REUSS. Mr. Williams.

Mr. WILLIAMS. Mr. Secretary, I would like to thank you and your people who are appearing there this morning. I think in conjunction with what Mr. Annunzio said it is nice for you to be here while our chairman is down in Texas. You informed Mr. Annunzio that you had come a longer distance for this meeting than the distance from here to Texas. I would like to call to your attention that I think your trip has been of much shorter duration than our chairman's trip. I know a member does not have to be here to submit a bill, but I do not believe Mr. Patman was here when this bill was submitted on April 8, 1970.

And another thing, too, I do not always have time to keep up with all the columnists. However, I would like to suggest to the chairman that the detailed reply which will be prepared as a result of Mr. Widnall's question as to the matter of the newspaper column be also sent to the columnist. I hear a lot about congressional ethics, and I like to think that we have a little ethics in our newspaper reporting, including columnists.

Actually I would like to comment on the three points that you referred to on the top of page 22 of your statement. First, the general accounting audit of the Exchange Stabilization Fund. Being against a general accounting audit of anything is almost like being against motherhood. But I think we have got to realize that a GAO audit covers certain specific types of operation.

Now, in the operation of the Exchange Stabilization Fund there are many judgment decisions made which could, in effect, not be truly subject to an audit.

Secretary KENNEDY. There is a matter of judgment in all the major operational decisions, staffing and things like that. Details of operation are measured in terms of efficiency and productivity—there are standards to measure those. The sensitivity of the information involved, however, precludes an outside audit.

Mr. WILLIAMS. So what we are really talking about as far as any GAO audit is concerned is a hindsight audit by individuals with a 20/20 vision established by the passage of time on judgment decisions that had to be made with the best information at the time they were made.

I have also heard it said here today that these three provisions would reduce some flexibility to cope with problems. I think that if we are going to be helpful to these countries that we are trying to help, and if we are going to engage in these international operations, that flexibility is desirable. Do you agree with that?

Secretary KENNEDY. I agree precisely. What we are trying to build is confidence in a market system that can function. And that means immediate and responsive action.

Mr. WILLIAMS. Incidentally, I would like to say this, that I remember during the last administration that we removed all of the gold backing from our currency. At that time I remember clearly the statements that were made before the House that if we do not remove this backing from our currency that we are simply going to provide a field day for the gold speculators. We removed all gold backing from our currency and made something like \$8 or \$9 billion available to redeem over \$30 million held abroad that are redeemable in gold.

However, as I recall it most distinctly, the speculation continued and even increased, with people buying gold hoping that it would be forced off the \$35 an ounce price up to something much higher. So I would just like to make the comment that your administration of the Treasury Department has done a great job on monetary policy, because we no longer have to worry about the speculator in gold making a fortune because we might be forced off the gold standard. I want to compliment you for that. Thank you.

Mr. REUSS. Does that conclude your questioning?

Mr. WILLIAMS. Yes.

Mr. REUSS. Mr. Crane, whom we welcome as always.

Mr. CRANE. Thank you.

I would like to take advantage also of this opportunity to extend my greetings to the gentlemen here, and particularly to our Secretary of the Treasury, who is from my district back home. We are very, very proud of him.

I have just one question. And that has to do with the extension of long-term interest rates to developing nations in Asia. What safeguards are there in extending loans—and I am thinking specifically of Southeast Asia—what are the criteria that are taken into consideration in extending long-term loans where they are needed by countries such as Laos, to provide some kind of safeguard in terms of repayment of those loans in case those countries go under?

Secretary KENNEDY. Mr. Zagorin?

Mr. ZAGORIN. Mr. Crane, I think we have looked at these two countries, as a matter of fact, in the last several months. Just a couple of weeks ago we approved a loan for an electricity transmission project in Cambodia, and a few months earlier an irrigation project in Laos. Despite the problems in Laos, there is a dam which is being constructed which will provide the electricity for the pumping for this irrigation project. And even though there are hostilities, this project is continuing without any interference by the Pathet Lao. And we felt that it was of such importance to the Vientiane plain to proceed with this loan. Similarly, we proceeded with the approval of the loan for Cambodia even though the previous government applied for it and the new government was in power when it actually came before the Board of Directors.

I cannot say how we would expect a succeeding government to behave in terms of accepting international financial responsibilities. But I think it has been the case in the international financial institutions, if you look at the World Bank, for example, that there has not been a default. There have been many changes in governments but succeeding governments do accept the financial responsibilities of meeting their debts to the international financial agencies. And I think this is the presumption on which we will work.

Mr. CRANE. Fine.

Secretary KENNEDY. That is one of the principal strengths, I think, of an international multilateral approach to these problems, the discipline of having many nations involved rather than just country to country, the United States versus Cambodia and Laos. Succeeding governments must consider very carefully a default to an international bank like this.

Mr. CRANE. Excuse me. I was not familiar with the history of the World Bank in this connection, and it is most gratifying to learn of it.

I studied Latin American history and taught it for a while. Going back to the era of the banana republics and the very sorry record they had in repayment of obligations, I was wondering whether there was any possibility of a recurrence here through the Asian Bank.

Thank you very much.

Mr. REUSS. Thank you, Mr. Crane.

I might add that Mr. Wieczorowski is a distinguished citizen of Chicago.

Secretary KENNEDY. We have a lot of Chicagoans, Mr. Zagorin and Mr. Petty.

Mr. REUSS. Let the record so show.

Gentlemen, we each have had our initial questioning period. I had thought that we would have to ask the Secretary and his colleagues to come back this afternoon. I am not anxious to have that happen. I know that the Secretary and others are leaving early tomorrow for Latin America. May I ask—I have a few questions, most of which I think can be answered in the record—is it the sentiment here that we can conclude this rather shortly, and that objection that the House is now sitting is not likely to be made?

Does anybody object to that procedure?

If not, I will take another 3 minutes.

Mr. Secretary, I have a number of questions which I have obtained by studying the legislative history in other years on these international financial institutions. And I will just ask them of you now. I think you probably prefer to answer them not now, but as soon as possible, for the record.

Secretary KENNEDY. Very good.

Mr. REUSS. One, with respect to the Asian Development Bank, and the authority to untie procurement from the United States:

(a) What position have the other countries who have contributed or are planning to contribute to the Asian Development Bank Special Funds taken in this regard?

(b) What restrictions have Japan and other nations placed on their ADB Special Fund contributions?

Two. Are funds provided by the United States to the World Bank and the Asian Development Bank used to assist countries which expropriate without compensation?

Three. Does the World Bank or the Asian Development Bank lend to countries which are not undertaking their own self-help measures?

Four. Does the World Bank or the Asian Development Bank lend to nationalized enterprises which compete with private enterprise?

Five. Does the World Bank or Asian Development Bank permit, relending at excessive interest rates? What control, in other words, do these institutions have over funds which they have lent to individual country development banks for relending in terms of rates, maturities, and type of projects?

Six. Can World Bank or Asian Development Bank funds be used to benefit Sino-Soviet bloc countries?

Seven. Will the World Bank in your opinion continue to assist in financing IDA from its own resources?

Eight. How successful has the United States been in seeking maximum participation by other nations in their contributions to the World Bank or the Asian Development Bank?

Nine. To date, and pursuant to the December 30, 1969 agreement, how much South African gold has been bought by the International Monetary Fund, and what related purchases if any from the International Monetary Fund to any of its members have been made of this South African gold?

I would appreciate answers for the record to those questions.

(The reply to Mr. Reuss' questions from Secretary Kennedy follow:)

REPLY FROM SECRETARY KENNEDY TO QUESTIONS OF HON. HENRY S. REUSS

Question. With respect to the Asian Development Bank, and the authority to untie procurement from the United States: (a) What position have the other countries who have contributed to or are planning to contribute to the Asian Development Bank Special Funds taken in this respect? (b) What restrictions have Japan and other nations placed on their ADB special fund contributions?

Answer. (a) Japan's first \$20 million contribution to the Agricultural Special Fund was tied to procurement of Japanese goods and services. However, its second \$20 million contribution to the Multi-Purpose Special Fund is available for procurement from all developing member countries and from countries contributing to the Special Funds, and it is contemplated that further Japanese contributions will be on that basis. The Netherlands' contribution is available for procurement from all developing member countries and from donor countries whose contributions are on procurement terms as liberal as the Netherlands. The U.K. has stated its intention of following the Netherlands formula with respect to its forthcoming contribution. Denmark's contribution is available for procurement in developing member countries, as well as in Denmark. Canada's contribution is tied to procurement of Canadian goods and services to the extent "defined from time to time" by Canada. The terms of forthcoming Australian contributions are not yet known.

(b) All contributions have been allocated by the donors to the Multi-Purpose Special Fund except the first Japanese contribution (\$20 million) and the first Netherlands contribution (\$1.1 million), both of which were allocated to the Agricultural Special Fund. Initially Japan expressed its desire that its contribution be lent at interest no lower than 3 percent and on repayment terms not exceeding 25 years. This restriction was modified by Japan in November 1969, with respect to the entire Japanese contribution, thus permitting the Bank to apply easier terms (for example, 2 percent, or in exceptional cases 1½ percent), where the Bank considered such terms to be advisable.

Question. Are funds provided by the United States to the World Bank and the Asian Development Bank used to assist countries which expropriate without compensation?

Answer. The World Bank's general policy on expropriation rests basically on its charge, under the Articles of Agreement, to encourage international investment. This means that the Bank has a direct interest in the creation and maintenance of satisfactory relations between member countries and their external creditors. Accordingly, its practice is to inform governments involved in disputes over compensation for property expropriated from foreign owners that the Bank or IDA will not assist them unless and until they make appropriate efforts to reach a fair and equitable settlement. The application of this policy has meant that the Bank has refused, in a number of cases, to make loans until a dispute has been settled.

This issue has not arisen in the Asian Bank's operations. It is reasonable to expect that the World Bank's policy will provide a parallel for ADB policy in this area.

The U.S. position on this question is clear. Pursuant to a recommendation of the National Advisory Council, concurred in by all member agencies of the U.S. Government, the U.S. representatives to the multilateral development banks have been advised that they will be instructed to vote against multilateral economic assistance to any country where bilateral economic assistance is suspended by the President because of expropriation.

Question. Does the World Bank or the Asian Development Bank lend to countries which are not undertaking their own self-help measures?

Answer. No. Consideration of the economic policies and performance of a prospective borrowing country, which inevitably involves "self-help," is basic for the

IBRD and IDA. In addition to requiring sound projects or programs, and a local contribution thereto, both the IBRD and IDA are interested in the efficiency of total resource mobilization and use in the borrowing country. IBRD and IDA lending thus involves an examination of past economic performance and a favorable judgment regarding future economic performance. The policy of the IBRD is never to lend for more than a part of the cost of a project, normally the foreign exchange cost involved. The balance generally comes from the borrowing country. In some instances part of the remainder might come from other lending institutions—local, foreign or international—or, in the case of private enterprises, from the sale of shares or from loans raised by public offering.

The ADB also adheres firmly to the self-help principle in both its Ordinary Capital and Special Funds operation in all countries to which the Bank lends. The operating principle of the Special Funds Rules and Regulations states, Section 4.03(e): "In considering an application for financing the Bank shall pay due regard to the relevant self-help measures being taken by the recipient and where the recipient is not a member, by both the recipient and the member or members whose territories the project or program is intended to serve."

Question. Does the World Bank or the Asian Development Bank lend to nationalized enterprises which compete with private enterprises?

Answer. The World Bank has, as a practical matter, tended to limit lending to government owned enterprises. In no instance has the World Bank made loans to government owned enterprises where it was reasonable to expect that private enterprise could do the job. It should be noted that the IBRD's private enterprise affiliate, the International Finance Corporation, gives assistance only to private ventures.

Similarly, the Asian Development Bank in examining requests for financing, looks at the economic merits of a project. It must satisfy itself that the project is sound both technically and financially and, importantly, that the management is competent. If the project can make an important contribution to economic development and meets the ADB's criteria for project appraisal it would not be ruled out because of government ownership.

Question. Does the World Bank or Asian Development Bank permit relending at excessive interest rates? What control, in other words, do these institutions have over funds which they have lent to individual country development banks for relending in terms of rates, maturities, and type of projects?

Answer. The ADB concerns itself with the relending terms of institutions to which it makes loans to assure that relending rates are neither excessive nor too low. In loans to development banks from the ADB Ordinary Capital, provisions have been included to satisfy the Bank regarding the policies of the development banks on relending rates, maturities, and types of projects. In considering what should be appropriate relending rates, the ADB takes into account local market rates of interest, who bears the exchange risk in repaying ADB, and the spread needed to cover administrative costs of the development bank. The U.S. Governor and the U.S. Executive Director would use their influence to assure that the funds would not be relent either at "excessive" or inadequate interest rates, bearing in mind the above considerations.

The World Bank Group's policy governing interest rates charged by development finance companies to which loans are made is that such rates should bear a reasonable relationship to the real cost of capital in the country concerned and to the prevailing interest rate structure. The spread earned on IBRD funds lent by development finance companies varies from 1½ percent to 4½ percent, with most spreads falling in the 2-3 percent range.

In all cases, the loan contract contains a provision requiring the development finance company, when it relends the proceeds of a loan, to protect the interests of the World Bank as well as the development finance company itself. Thus, the company obtains, through its borrowers, a contractual commitment permitting the World Bank to have access to all records concerning the project and the enterprise as well as physical access to the project.

In practice World Bank loans to development finance companies are relent for periods from 5 to 15 or 17 years with the average around 10 to 12 years. As for types of projects, the development finance companies undertake to lend for projects that are both financially viable and economically sound.

The IBRD retains the right to approve the use of IBRD funds on projects above an agreed size, this size dependent upon the degree of experience of the borrowing company.

Question. Can World Bank or Asian Development Bank funds be used to benefit Sino-Soviet bloc countries?

Answer. No. These countries are not members of the World Bank Group. Consequently, they are not eligible for Bank loans or IDA credits. Bank policy also requires that procurement of goods and services associated with projects be obtained through competitive bidding, open only to member countries of the Bank and Switzerland.

No Communist bloc countries belong to the Asian Development Bank. Therefore these countries are not eligible to receive assistance from the Bank or to receive orders for procurement.

Question. Will the World Bank in your opinion continue to assist in financing IDA from its own resources?

Answer. Yes. I understand that the President of the World Bank Group is prepared to recommend to the Executive Directors that substantial shares of the Bank's net income be transferred to IDA. Annual transfers from net income have been made by the Bank to IDA every year since 1964 and in the current year amounted to \$100 million. The total for the previous five fiscal years has been \$285 million. When the first transfer to IDA was approved in 1964, the Board of Governors adopted the following statement of policy which remains in effect today: "Any transfers to the Association will be made only out of net income which (1) accrued during the fiscal year in respect of which the transfer is made and (2) is not needed for allocation to reserves or otherwise required to be retained in the Bank's business and, accordingly, could prudently be distributed as dividends."

Question. How successful has the United States been in seeking maximum participation by other nations in their contributions to the World Bank or the Asian Development Bank?

Answer. The United States Government traditionally has supported measures to encourage maximum participation by other nations in contributions to the World Bank. The policy of parallel action on special increases in the IMF and IBRD has been one such measure. While this is the first occasion on which this policy calls for an increase in the U.S. capital subscription to the Bank, other members in connection with past adjustment of Fund quotas have increased their subscriptions by almost \$3.5 billion. Moreover, in the present instance, the U.S. 11% share in the total special increases proposed is much lower than our present capital share, while the reverse is true of many other members.

The United States Government has also, as a matter of policy, encouraged the IBRD to borrow in foreign financial markets. We estimate that at present close to 60 percent of the Bank's funded debt is held outside the United States. The IBRD has not had a public issue in the United States since 1968, but has borrowed substantial amounts since then in Germany and Japan, also in Kuwait and Saudi Arabia.

The U.S. has also encouraged maximum participation of other developed countries in the ADB. The ADB now has 34 members, who have subscribed to \$979 million of its Ordinary Capital. Of this amount \$624 million was subscribed by 21 regional countries, including \$200 million by Japan, \$85 million by Australia, and \$22.56 million by New Zealand. Thirteen non-regional developed countries have subscribed \$355 million of the Bank's Ordinary Capital, including \$200 million by the United States, \$25 million by Canada, and \$130 million by 11 European countries. (With the formal accession of France, which is in process, the Bank's subscribed Ordinary Capital will be increased by \$25 million, to a total of \$1,004 million, and European participation will reach \$155 million.) Thus, with the accession of France, the Bank will include among its members all the industrialized World Bank member countries of Asia, North America and Western Europe, except Iceland, Ireland, and Luxembourg.

In addition to their subscriptions to ADB Ordinary Capital, six countries have already offered contributions to the Bank's Special Funds in the total amount of \$159.45 million, of which \$58.1 million is now available to the Bank:

Japan has offered \$100 million, of which \$40 million has been made available and \$30 million is budgeted for 1970.

Canada has pledged \$25 million over 5 years, of which \$15 million is now available.

Denmark has provided \$2 million.

The Netherlands has provided \$1.1 million and pledged another \$7.2 million.

In addition, at the ADB's Third Annual Meeting in Seoul, Australia offered \$9.75 million over 3 years and the U.K. offered £6 million (\$14.4 million) over 4 years. Other countries also indicated the possibility of contributions in future.

Question. To date, and pursuant to the December 30, 1969, Agreement, how much South African gold has been bought by the International Monetary Fund, and what related purchases if any from the International Monetary Fund to any of its members have been made of this South African gold?

Answer. South Africa in the first quarter of 1970 sold \$283 million in gold to the International Monetary Fund under the arrangements agreed with the Fund on December 29, 1969. As of the date of this hearing, no gold has been sold to the Fund in the second quarter. South Africa also sold \$22 million in gold to France under the arrangement for the conversion of rand drawn by France from the IMF.

There has been only one sale of gold by the IMF since South African sales commenced. This amounted to \$98.5 million on February 2, 1970, to generate currencies used in the drawing made by France on that date under its standby arrangement. The gold component of this drawing had been agreed prior to any purchase from or arrangement with South Africa and would have taken place whether or not any gold had been purchased by the Fund from South Africa. In the circumstances, I think it is conceptually correct to say that the Fund has not sold any of its South African gold purchases to members. It should be recognized, however, that gold, once received, is fungible, and I know of no attempt to distinguish specific bars that may have been obtained from South Africa from other IMF gold holdings.

Mr. REUSS. I have just one additional question on which you can perhaps give me an answer now.

On this audit of the Exchange Stabilization Fund, currently Mr. Charles Coombs, vice president of the Federal Reserve Bank of New York, does report quarterly in a public document, the Federal Reserve Bulletin, on the foreign exchange operations of the United States. Certainly this committee does not want to get on the record any more sensitive information than Mr. Coombs discloses. May I therefore ask this question:

If they were excluded from the proposed GAO audit anything characterized by yourself as internationally sensitive, and therefore in your judgment inappropriate for that audit, would that eliminate the difficulty which you appear to be having?

Secretary KENNEDY. That would be one possible way of doing it. One problem with that, of course, is a separation of what is sensitive and what is not. And you have the administrative problem of going through and determining what the auditors can see. And they want to see everything. They want to look at every paper, and so on. And you have to determine whether each paper is eligible, and this would lead to constant difficulties with the auditors.

Mr. REUSS. I realize it is a problem. However, right now the Federal Deposit Insurance Corporation does extract from the GAO audit matters affecting individual banks which for good and sufficient reason should not be the subject of that audit. Would you see any insurmountable difficulties with dividing the affairs of the Exchange Utilization Fund?

Secretary KENNEDY. I would not say there would be absolutely insurmountable difficulties. I would prefer not to do it. I don't think that we can provide sufficient information to make such an audit useful. That is one possibility, but we now provide a full financial audit to the committee.

Mr. REUSS. Mr. Widnall.

Mr. WIDNALL. No questions.

Mr. REUSS. Mr. Annunzio.

Mr. ANNUNZIO. No questions.

Mr. REUSS. Mr. Stanton.

Mr. STANTON. No questions.

Mr. REUSS. Mr. Williams.

Mr. WILLIAMS. No questions.

Mr. REUSS. Mr. Crane.

Mr. CRANE. No questions.

Mr. REUSS. Thank you very much, Mr. Secretary, and your associates, for your very comprehensive answers to our questions.

I think you will have gathered that most of the members of this committee believe this is good legislation and are going to do what they can to make you happy.

Secretary KENNEDY. We appreciate your consideration, gentlemen.

Mr. REUSS. The committee will now stand in adjournment until 10 o'clock tomorrow morning, when we will hear additional witnesses.

Thank you very much.

(Whereupon, at 12:10 p.m. the committee recessed, to reconvene at 10 a.m., Friday, April 17, 1970.)

**TO AUTHORIZE THE UNITED STATES TO PARTICIPATE
IN INCREASES IN THE RESOURCES OF THE ASIAN DE-
VELOPMENT BANK, THE INTERNATIONAL MONETARY
FUND, AND THE INTERNATIONAL BANK FOR RECON-
STRUCTION AND DEVELOPMENT**

FRIDAY, APRIL 17, 1970

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
*Washington, D.C.***

The committee met, pursuant to recess, at 10:00 a.m., in room 2128, Rayburn House Office Building, Hon. Henry S. Reuss, pre-
siding.

Present: Representatives Reuss, Galifianakis, and Widnall.

Mr. REUSS. Good morning. The House Committee on Banking and Currency will be in order for further hearings on H.R. 16891 and several other bills to authorize the U.S. participation in increases in the resources of certain international financial institutions, to provide for an annual audit of the Exchange Stabilization Fund by the General Accounting Office, and for other purposes.

We are privileged this morning to have the expert guidance of Dr. N. R. Danielian, president of the International Economic Policy Association. Dr. Danielian is well known to this committee over many years and this committee is richer for the testimony and guidance that he has given us. His association, the International Economic Policy Association, is a group of U.S. businesses with international interests, and over the years the association's testimony has been most helpful not only to this committee but to the Joint Economic Committee and many other congressional committees.

Dr. Danielian is accompanied by his associate and son, Mr. Ronald Danielian. We are delighted to have him with us, too.

Dr. Danielian, your entire testimony with its appendixes without objection will be received into the record, and would you now proceed in your own way to either read it or proceed orally or anyway you wish.

**STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNA-
TIONAL ECONOMIC POLICY ASSOCIATION; ACCOMPANIED BY
RONALD DANIELIAN, ASSOCIATE ECONOMIST**

Dr. DANIELIAN. Mr. Chairman, I appreciate your very generous comments. I know time is of the essence for you. I would be happy to follow your desires with regard to procedure.

Mr. REUSS. I should think, Dr. Danielian, if you could in your oral presentation hit the high spots in a comprehensive way—don't stint yourself—it would be most helpful.

May I say because it is a Friday today and because the House is not in session today a number of our colleagues are not in town. However, many of them have signified their interest and as you proceed I know that they will be joining us here. So don't be upset by the fact that you see only me before you.

Would you proceed then in anyway you want, and I have the entire morning available. I know that you, yourself, and I want to thank you for it, have absented yourself from a meeting downtown which you would like to be attending, so I realize that you have a time problem. Therefore, if you would just proceed in anyway that you would like.

Dr. DANIELIAN. Mr. Chairman, in this statement we have tried to touch upon the major points raised by the legislation before you. In general, we approve of the recommended increase in the special resources of the Asian Development Bank, the increased subscription to the World Bank and the IMF quotas.

We do raise certain points of policy which may be summarized briefly as follows: In the monetary field we have the following suggestions.

First, we feel that perhaps in the long run the IMF resources will have to be increased and the functions perhaps somewhat altered so that it can better deal with the surging supply of liquid capital that moves across currency lines, particularly the Euro-dollar market.

There are no institutions, at present that can really handle this problem. We have been trying to meet the emergencies through central bank swap arrangements and other devices, but when you consider the magnitude of the Euro-dollar market estimated at over \$30 billion, which is more than the resources even now available to the IMF, you can see there is a problem here. Unfortunately, most of the discussion in monetary reform has dealt with the question of exchange rates and variable exchanges and crawling pegs. I think there is an additional function that is going to be needed. I hope that in the long run the IMF, now that it is almost a bank of issue through the SDR program can become also a bank of deposits of some kind so that it can take in and absorb some of the surges of financial resources across boundary lines.

We do raise a note of caution with respect to the use of IMF resources for financing commodity agreements, long term commodity agreements, because we feel that the problem in the area of primary commodities is, in most instances, a matter of maladjustment of supply and demand, and that problem really indicates a maldistribution of resources, and just price maintenance and buffer stocks is not the way to bring about economical adjustment of resource application.

To pursue a step further the question of monetary policy, it is my personal feeling that an inordinate amount of time and effort has been spent with the problems relating to gold and the price of gold. If in the last 6 years, our brilliant financial minds had applied attention and imagination to the solution of the primary reasons for international monetary disequilibriums, namely the maldistribution of military

expense burdens among nations and maldistribution, or uneven distribution of foreign aid commitments, we would not find ourselves with such high deficits. Perhaps if we had, for instance, created an international security fund to share defense costs with Germany and Belgium and those surplus countries, and Japan, we would have less perhaps for economists in the monetary field because some of the pressures on international exchanges would have been lifted.

Mr. REUSS. May I interrupt you at this point to express the gratitude of myself, and I think of many members of this committee, for the leadership you have shown over the years in analyzing the true nature of our balance of payments deficit and particularly in pointing out the irony that so many of our friends and allies, who have been the most critical of our balance of payments deficit, have frequently been the principal causes of that deficit through being the sites where our military installations which led to the balance of payments deficit were located. I think the ideas that you first espoused are now common currency in both the Senate and the House and are the subject of a real effort to make burden-sharing a more equal process. But there was a time when you first advanced these ideas when they were considered quite far out, and I am glad you have become respectable.

Dr. DANIELIAN. I appreciate those comments. We started back in 1959 analyzing these problems, and as you will recall in 1966 and also in 1968 we published certain analytical studies on this issue. Unfortunately, there is a lag between recognition of the issues and action.

Since 1960 our liquid liabilities have increased tremendously, where they stand now at around \$44.5 billion, and our gold supplies are down to about \$11.9 billion at the moment. But during that time so much effort has been devoted in international conferences to discussing the role of gold and so little attention has been given to ways of alleviating the balance-of-payments impact of noncommercial-nonindustrial expenditures of funds. As of now, our own deficits, at the end of 1969, stood on a liquidity basis at \$7 billion, of which, \$4.5 billion was Government account deficits. Again, we have all of our financial minds running around the world trying to figure out what to do about the price of gold instead of really getting down to some hard bargaining with Bonn and with Brussels and The Hague about what to do on NATO expenses. I am sure that if the same amount of attention were paid to the basic causes, we could make much more progress in creating stability in the international exchange rates. This has been one of my, I might say, disappointments, that in 10 years of attempting to bring attention to this problem, this question of noneconomic Government accounts, such as military and other expenses, has not been the subject of a really high level international conference. I hope that in the recent visit of Mr. Brandt, the matter was more realistically approached than Mr. Schmidt's—the German Defense Minister—letter in the Washington Post (Apr. 2, 1970) would indicate.

At any rate the point I wish to make is that in the monetary field there are these two major issues: What to do with the huge amounts of liquid capital that are moving across currency lines, looking for higher returns and a safe haven; and what to do with the very high military expenditures in foreign nations in order to eliminate their impact upon exchange transactions. These are two of the most important issues facing this country and its financial managers.

Now, I feel that because of the continued balance-of-payments deficits of the United States these liquid funds abroad will continue to increase in size, and that question is not going to be resolved by any crawling peg or variable exchange rate schemes.

Mr. REUSS. That is so because these massive movements are not connected necessarily with differential price levels in the various countries; is that not so?

Dr. DANIELIAN. That is true. And also depending upon motivation—for instance, what is happening in Italy now; if motivations are political and security of capital, giving a 2-percent variation from a norm in exchange rate isn't going to prevent people from transferring their funds. It is fear that really motivates the holders of these funds.

I am now leading into the question of price of gold because for a long time a great illusion was maintained in international markets that there was an intrinsic value to gold besides that which was guaranteed by the governments, and that we were in a difficult position because of it. We were in a difficult position because of our balance-of-payments deficits and gold outflows were a symptom, and perhaps a useful psychological warning signal. But gold as an intrinsic commodity has lost its usefulness to the American people, first because it is no longer a store of value for us. It cannot be owned by American citizens. And second, because it has lost its psychological impact, with the improvement in the monetary system through the issuance of SDR's and also the confidence factor in Europe. There is a determination not to increase the official price of gold, and this has led the Europeans to put their money into dollar-denominated securities in order to get an income.

For these reasons gold flows seem to have lost their psychological significance, what I call a vascular gage of monetary blood pressure, and therefore, now, we have to have some other measures that we publicize such as the balance-of-payments deficits and the increase in liquid liabilities. But it is unfortunate that we recently agreed to put a floor price under gold in order to satisfy some of our friends, because this really gives the speculators and gold producers a sense of security. They can always expect to get a certain price and therefore, put us under political pressure in the future if some foreign government for other than monetary reasons, may want to threaten confidence in the dollar with withdrawal of gold.

For that reason I do support chapter 4 of the pending bill.

I do recommend two amendments to that. I do recommend elimination of the reference to the South African gold agreement in paragraph (b). This seems to give the impression of congressional sanctification, whereas the exchange of letters between Mr. Diederichs, the Finance Minister of South Africa, and Mr. Schweitzer, the Managing Director of the IMF, indicated that it is understood the matter can be reopened any time that circumstances require, and in any event not later than 5 years.

That being the case, I think we ought to leave the matter in the hands of the IMF and not give any congressional recognition to it.

With regard to paragraph (c) of that amendment, of that section which states that the Secretary of Treasury should cast his choice in favor of SDR's instead of gold in the settlement of debts owed to us where he has an option, I would like to expand and add at the end of

that paragraph two other alternate options, namely, the repurchase of U.S. obligations held abroad and other income-bearing assets.

It seems to me that we have to get our financial administrators in the habit of always looking for a reduction in our external expenditures and acquiring assets that have an income-bearing prospect. I think that this is the policy that other nations follow, that is, Japan and West Germany and Great Britain.

Only yesterday there was a story in the *Journal of Commerce* (see p. 101) which indicated that West Germany is setting up an investment fund based upon the dollar obligations of the United States which they received for our troop presence in Europe. They are advancing, \$164 million of it, to capital-starved Germans to make direct investments abroad, and in the United States in particular.

So other countries are very conscious of the fact that they prefer income-bearing assets instead of current expenditures or inert non-income-bearing assets.

Now, therefore, I suggest this amendment as an extension of that concept in paragraph (c) of section 41.

There is another area I would like to comment on, and I am now speaking extemporaneously. It is, apparently, determined national policy, now, to transfer aid functions as much as possible to international institutions. There will be further recommendations coming up on the Inter-American Development Bank this year, and probably the International Development Association next year, and of course in this bill we have the increase in the Asian Development Bank special fund resources and World Bank subscriptions.

I think this is going to confront the Congress with a fundamental issue in exercising its authorizing-appropriating function. The Congress usually selects the priorities and selects the objectives for which the money is appropriated to the executive, department by department, function by function, line by line. When it comes to foreign aid, we have gotten into the habit of lump-sum appropriations to some agency and telling them to go ahead and fix up some foreign country and make them economically more advanced and socially happier and more agreeable with their environment and with their fellowmen. After having spent a rather enormous sum of money for this purpose we seem to come, periodically, to the realization that the job is not being done or it hasn't completely been successful. I have traveled around the world viewing these results and I can say that progress has been made in many countries.

On the other hand, I think one must admit the progress, the visible progress, is not commensurate with the amount of money that is put into the program. I don't think that it is a criticism of any individual or institution to admit this, but what I don't understand is that the transfer of venue from a national to an international institution is necessarily going to change this picture. After all, organizations are made of human beings. They are all fallible. They all have their peculiar modes of thought. And for the Congress to agree to transfer this major function, that will cost us billions of dollars, to another agency with no guidelines and no review procedure is, I think perhaps in the next 10 years, going to result in further questions being raised as to why the results have not been commensurate with the expenditures.

So it seems to me that since there is going to be this major shift of emphasis—and this shift of emphasis is going to put the problem in

this committee which deals with these financial institutions—I hope that some thought will be given to the definable objectives and guidelines which would have to be, at least, expressed as policy declarations. This question is raised by chapter 5 of your bill because there is only one criterion advanced; namely, to maximize the advantages to the less developed countries.

Well, I wonder if the committee will be satisfied to stand on that one criterion alone.

I recall that back in 1964 there was a great controversy in Congress, particularly in the House, where the IDA legislation was returned to this committee and Mr. Dillon had to appear before the committee in March of that year to deal with the issues that were raised in debate on the floor of the House. He made a series of commitments to this committee on the basis of which, on the second round, the IDA legislation was approved by the House.

Now, I am trying to be helpful in suggesting that before these issues become acrimonious, if IDA is going to come back again for appropriations in the future—and this question is going to be raised, I believe, in connection with the inter-American Bank—I hope this committee will be able to look deeper into the question of the guidelines you want to offer to our member of the Board of Governors and U.S. representatives in these international institutions.

I have made a number of recommendations of issues that should be kept in mind. The balance of payments and procurement is one; the question of treatment of investments and the role of private technology and capital and resources in economic development is another; and the end purposes for which the funds should be used, is a third.

I recognize that a congressional committee may not be able to deal with this problem with the expertise that may be necessary. Perhaps the committee staff will need to be increased in order to deal with this problem if this committee, year after year, is going to be asked to authorize hundreds of millions of dollars to these international institutions.

As an illustration, reproduced following my prepared statement are Mr. Dillon's set of promises before this committee in March of 1964. Perhaps one may look at these and see if they need to be modified and expanded or refined, and perhaps some kind of understanding may be arrived at with the U.S. Governor in these institutions to see that these policy guidelines will be followed as far as his vote is concerned.

There are other issues which are even more difficult to deal with in the present structure. There has been much controversy in Congress as to the number of countries that have been helped. As I recall, the number 82 just sticks in my mind—AID advancing funds in 82 countries—and I remember many, many efforts in the Senate Foreign Relations Committee to limit the number of countries to which aid was to be given. Well, the World Bank has 111 members. Admittedly, the developed countries don't need aid, but I am sure there are 80 others that need to be helped.

So the point is, we are going to be back where we started.

Now, the point I am raising is how do we go about influencing the countries or areas or the criteria on which major aid is allocated to certain countries? Is this committee interested in that question or not? Again, what are the sectors in which help should be given?

We have heard much about the agricultural revolution but, gentlemen, I think now we are moving into an agricultural surplus situation which is going to disrupt the world agricultural markets. So the question is, are we going to allow international agencies to put every country into an agricultural surplus position where they just disrupt the world markets or do we have a set of criteria saying that, after you reach a certain level you better work on the distribution and improvement of dietary intake and improve protein intake of these people so they will be better citizens and better workers and healthier people in their own communities. Instead of trying to put India into the export of grain, we should try to see that they establish the storage facilities and the distribution systems whereby more of the Indian people are able to eat what they have produced and then gradually move into production of a more improved variety of foods.

Now, who determines these issues? What the World Bank does in this field is going to affect our economic situation. If we lose our cash agricultural markets we might as well decide now to pull some of our troops out from here and there and maybe cut down on foreign aid because we are not going to have the foreign exchange resources to continue the programs.

So these questions are interrelated, and this committee cannot escape responsibility by merely turning money over to an international institution.

So, Mr. Chairman, here I suggest a beginning of discussion of this issue in this committee.

With regard to audit of the stabilization fund, I am surprised to find that there is such a large fund that is not audited by the GAO. I have complete faith and confidence in the integrity of the officials of the Treasury Department. That is not the question. The issue is, as a matter of public policy, should there be an audit? I leave it to this committee to decide whether that kind of an audit should be made public or received in confidence by appropriate committees of Congress. As a private individual I would be most curious to see how the money is used, but I am willing to yield my curiosity to high public policy, and that question I think can be resolved within the committee.

That by and large, Mr. Chairman, summarizes the points that I raise in the statement.

(The prepared statement of Dr. Danielian and an attachment of a statement by Hon. Douglas Dillon from a hearing before the House Banking and Currency Committee, March 1964 follows:)

PREPARED STATEMENT OF DR. N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. Chairman: I appreciate the rare opportunity to appear before your distinguished committee to discuss some of the issues raised by the pending legislation, H.R. 16891. Before I proceed with the analysis of the proposals before you, I would like to identify our interests in them. Our organization is composed of a select number of U.S.-based businesses which are concerned with the maintenance of a viable and stable international community and the continuance of economic progress.

I must say that our member companies do not have a particularly strong interest in the proposals before you. In fact they diverge in their views on the basis of personal persuasion and convictions. Therefore, I appear here purely in the role of an economist to analyze the issues raised by the growing emphasis on international financial institutions.

Historically the record will show that as far back as 1959 we were among the first to warn of the implications of balance of payments deficits. In 1966 we published a book on the U.S. balance of payments, and in 1968 we updated the major parts of that book. We endeavored to analyze all aspects of our balance of payments, including the role of foreign aid.

The role of international institutions has been a matter of interest to us. In 1964-65, it was a matter of concern that the World Bank was issuing an inordinate amount of its bonds in the American money markets. The efforts of the late Senator Dirksen and of Senator Symington to persuade the World Bank to change its policy in this respect has borne results. In recent years the World Bank has developed a market for its securities outside the United States.

Current efforts to change many of the policies established in the past 10 years by the Congress and the Executive, understandably, are of more than a passing interest to us.

THE ASIAN DEVELOPMENT BANK

With this introduction I can say that the proposal to increase the special resources of the Asian Development Bank by a hundred million dollars over a three-year period is unexceptionable. At the time this program was first conceived U.S. special resources were to be expended for the procurement of U.S. goods and services, under the control of the United States Treasury. Under the new arrangements, the funds will be turned over to the Bank to open a soft loan window. Procurement limitations are relaxed. They will now be discretionary with the U.S. Governor of the Bank, in consultation with the National Advisory Council on International Monetary and Financial Policies. The White House press conference on this proposition made it clear that the first \$25 million, this year's requested appropriation, would be tied to U.S. procurement, as Japan's first contribution of \$20 million is tied to Japan. Both countries, however, are contemplating mutual unttying of this aid on subsequent contributions.

I can only say that, although mutual elimination of procurement restrictions sounds like fair reciprocity, we should be under no illusions that, from a practical point of view, it is a "heads you win, tails I lose" proposition.

Admittedly the sum now involved is small. One might well say it is not worth a major argument with our friends across the Pacific. However, if the military situation subsides, it is probable that the Asian Development Bank will become a major vehicle for economic recovery loans of much larger dimensions. Hence precedents and commitments now established will have a major impact on our financial position in future years.

THE INTERNATIONAL MONETARY FUND

With respect to the International Monetary Fund, there is obviously no disagreement with the proposal to increase the IMF quota. There are only two questions I would like to raise with respect to this. I wonder if increasing the total quotas in the Fund by \$7.5 billion is sufficient to meet the contingencies arising from the free flow of funds between countries, particularly in the Euro-dollar market. The function of the IMF heretofore has been considered as a means of balance of payments settlement between countries over a comparatively short period of time; while the commercial banks, primarily in the Western industrial countries, have carried the task of financing trade. One of the major developments in international money markets, not yet adequately understood because it is of recent origin, is the huge amount of funds in the Euro-dollar market and in other convertible currencies which move freely across international boundaries. The size of the Euro-dollar market is estimated at over \$30 billion—an amount greater than the total subscription to IMF quotas, including this increase.

This liquid capital moves from country to country looking for the highest return and the safest haven. We really do not have an institution to deal with this problem. This is one of the reasons we went through so many crises in 1967, 1968 and 1969. I would hope that in time the resources of the International Monetary Fund would be expanded sufficiently to absorb the shocks and perhaps blunt the speculative interest leading to the massive transfers of capital between countries.

I am decidedly not an expert on the detailed operating practices of the IMF, and at this time it would be difficult for me to define the structural changes necessary to fill this need. Suffice it to say here that the concept the experts should be working for is one best exemplified by a reservoir that impounds waters from floods

and freshets in a hydroelectric system, such as Grand Coulee and the Niagara power projects, and releases the flow back into the stream at a normal and useful rate. Thinking in this direction, to create an institution that can absorb the ebb and flow of liquid capital across currency lines will produce results better suited to maintenance of currency convertibility with exchange stability than variable exchange rates, crawling pegs and such.

In the second place, I would like to enter a note of caution against the use of IMF resources in insecure and unproductive ventures such as possible long-term financing of international commodity agreements. Price maintenance agreements are a desperate attempt to hide or compensate for uneconomic allocation of resources and production. The answer to such a situation is adjustment of supply to demand and transfer of resources to more useful employment. Commodity agreements tend to perpetuate inefficiency. As a major international aid policy, it is a dead-end street.

THE WORLD BANK

The increase of the World Bank capital subscriptions of \$3 billion, with the U.S. share set at \$246 million, is a modest increment and should certainly be approved. I do want to raise a fundamental issue here, however, relative to the whole philosophy of transferring aid responsibilities from bilateral agencies to multilateral institutions.

There is a tendency in this country, whenever difficult conditions are encountered, to sweep them under the rug by transferring the responsibility from one agency to another agency. Continuous study of the aid programs over a 12-year period leads me to the conclusion that the difficulties have not been due to a lack of resources or desire to be helpful. They have been due primarily to faulty assumptions, overoptimism, unrealistic exuberance, and in many cases, selection of wrong priorities. I say this not in criticism of individuals. Decisions have to be made by human beings and we are all fallible. Transfer of responsibility for judgments and choices from one group of human beings to another group of human beings does not necessarily solve this problem.

In our institutional system we ultimately determine priorities, imperfect though the method may seem to be, through congressional authorization and appropriations procedures. These are not lump sum appropriations to the Executive, but rather they are departmental, project-by-project, line-by-line appropriations. Only in international aid programs do we make lump sum allocations of funds to an institution, a group of men, with a very broad license to go and help develop the resources of less developed countries.

Our only connections with those institutions are the U.S. representatives and the members of the boards of governors. The charters of those institutions prohibit any outside audit or access to their records. This, in effect, excludes any third party supervision even by an international board or committee. It would require amendments of charters to provide for such audit or inspection.

Therefore, we must rely upon our U.S. representatives and the U.S. governors of those institutions to express the will of Congress in the deliberations, programming and execution of the functions of the international institutions such as the World Bank and its affiliates.

I do not know if this committee or the Congress at this time is disposed to enter into this question in some depth and to develop a set of priorities in the form of instructions to our Governor on the Board and our representative to the World Bank and IDA. The same, of course, goes for the Asian Development Bank and the Inter-American Development Bank. However, if the U.S. government is making a major commitment to increase the resources of these institutions, then I submit that the Congress cannot escape its responsibility to the American taxpayer to give specific direction to our representatives in these institutions, to observe certain policies and priorities, and to review the performance under such guidelines.

These guidelines must certainly provide for the protection of the integrity of the U.S. dollar in international markets, and must, in effect, guard the U.S. balance of payments position; and if the specific situation requires, they must require a strict adherence to a policy of balancing outflow of dollars with procurement in the United States so long as U.S. balance of payments deficits continue.

I do not see that the change of venue from bilateral aid to multilateral aid necessarily makes the problem of the U.S. balance of payments deficits disappear. Last year the United States ran deficits of \$7 billion. Of this, \$4.5 billion were on Government account. The U.S. Government is financing that much of its efforts abroad on borrowed money.

Another consideration which must be observed is the assurance that public credit does not compete with private credit and public credit is not used to supplant available private resources of capital, manpower and technology.

A third proposition should be that countries which are so poorly informed about economic institutions and organizations that they discourage private efforts through expropriation are not particularly well equipped to handle public funds either. Nowhere in the world is there any experience supporting the theory that public agencies and institutions can do a better job in strictly commercial and industrial fields than the self-generating initiative of private individuals with economic motivations.

Finally, there is a whole range of issues involved in the selection of countries and social and economic sectors which should receive aid financing. Capital and human resources of trained talent are scarce. Neither AID nor the World Bank nor the Inter-American Development Bank can escape these choices. Concentration of effort is going to be required. Who makes the selections, and on what criteria?

And, then in the countries selected, what sectors should receive the capital investment? If it is education, what areas—elementary, secondary, university, vocational, scientific? If it is in agriculture, what products? Grain is a basic ingredient. But should it be encouraged to the point of exportable surplus, or should the emphasis be on increased distribution and consumption and improved dietary intake?

To make the point perhaps a little clearer, I would like to refer back to a historical episode that took place in this very Committee and in the House of Representatives in 1964. You will recall that in February of that year the authorization for replenishment of IDA resources was defeated in the House, and in March of that year this committee held a second set of hearings. To meet the objections that had been raised during the debate in the House, the then Secretary of the Treasury, The Honorable Douglas Dillon, appeared before this committee and made some specific commitments, on the basis of which this committee reported out the legislation again to the floor of the House, and it then passed. I would like your permission to put his testimony in this record. (Mr. Dillon's statement follows Dr. Danielian's prepared statement.)

It seems to me that Mr. Dillon's promises to this committee still have validity, not only for IDA, but for other international financial institutions. They may have to be expanded to meet the current situation. I should think that, in any event, this Committee will want to review them to see in what manner they need to be modified and expanded, and secure appropriate confirmation from the present Administration.

ECONOMIC AND SOCIAL POLICY

With these issues in mind, it would seem to me that in considering sections 51 and 52 of Chapter 5, which direct the U.S. representatives in international agencies to vote to maximize the economic benefits of less developed peoples, this committee may wish to refine these provisions to give some more definite guidance to the U.S. authorities representing us in those institutions, and, more specifically, put the responsibility for the effectuation of those policies on the Governor and the National Advisory Council on International Monetary and Financial Policies, instead of the U.S. representatives.

If the committee feels that it is not prepared to consider these substantive issues in connection with this legislation, then I hope that more attention will be given to these questions in connection with the replenishment of the resources of the Inter-American Development Bank and the International Development Association. I make this suggestion in recognition of the fact that with the accelerated tendency to transfer aid functions to international institutions, yours will be the major responsibility to give guidance to the Executive in carrying out this vital function.

AUDIT OF STABILIZATION FUND

I feel at a disadvantage to comment on a matter on which there is so little public information. It is surprising to find that there is a \$2 billion fund in some department of government which has never been audited. I want to say that I have complete confidence in the integrity of the officials of the Treasury Department. But as a matter of public policy it is difficult to argue against auditing the usage of such a large amount of public funds. Whether the GAO audit and other information should be made public, or be made available in confidence to the

appropriate committees of Congress, I leave to the good judgment of this committee.

GOLD PURCHASES

This chapter says the Secretary of Treasury may not purchase gold from any country that violates the March 17, 1968 two-tier gold agreement (unless he deems it in the U.S. national interest) and directs him to accept Special Drawing Rights instead of gold in the settlement of any debt due the United States, where he has an option.

I support this provision for the following reasons, with two slight amendments. For American citizens, gold has lost one of its functions, as a store of value—of savings. No U.S. citizen can legally own gold.

Gold has also lost its last useful function to the American public, as a psychological warning signal concerning our international financial condition. The two-tier gold agreement of March 1968, and the creation of Special Drawing Rights has dulled the significance of gold as a vascular gauge of monetary high blood pressure.

Gold had become a shuttlecock of international speculative power plays. Fortunately, the determination of this committee and of the present and previous Secretaries of Treasury not to entertain any increase in the official price of gold has also dampened this speculative interest. Our creditors abroad have now shifted their attention away from gold as a means of quick capital gains to more remunerative revenue producing investments. This explains in fact the tremendous increase in the Euro-dollar market. Political conditions in other parts of the world have also led to a greater appreciation of the United States and the dollar as a repository of funds and investments that earn a return.

These developments do not eradicate the basic question of U.S. payments deficits. The deficits have continued at an increasing scale, and the current liabilities of the U.S. Government held abroad are said to be at \$44.5 billion, as compared with \$29 billion at the end of 1964. As a new warning mechanism, we should adopt the British habit of publicizing balance of payments deficits and current liabilities, and hold public officials accountable for correcting them.

Under these conditions, is it wise policy for the United States to lend its credit: (1) to maintain a floor price of gold in the open market, which is the result of the South African-IMF gold purchase agreement, and (2) to buy gold on official account, as we recently did from West Germany?

I fail to understand why it was necessary to agree to a scheme to support the open market price of gold at \$35 an ounce. It might have been better to let this private gold market find its level, even below \$35 an ounce, thus eliminating any incentive for hoarding, which has been its principal market, and thereby diminish the future threat of gold withdrawals from the Treasury as a political ploy. There is a subsidiary issue; we have in effect helped to establish a floor price which also benefits the Soviet Union and other producers of gold. However, the deed is done, though I am not sure it necessarily requires a special blessing in the present legislation in section 41(b).

I recommend that the reference "as amended by the December 30, 1969, South African Gold agreement" be deleted. The agreement is terminable, as stated in South African Minister of Finance Diederichs' letter of December 23, 1969, to IMF Managing Director Schweitzer. Mr. Diederichs said: "I would expect that the Fund would review the situation at any time if there were major changes in circumstances and in any event after five years." The Congress need not give it the permanency of legislative approval.

The prescription of massive gold purchases is also timely. We can no longer afford to give real resources in exchange for nonincome-bearing gold supplies, while we have to borrow funds abroad at considerable interest rates. We must acquire income-bearing assets wherever possible. I suggest, therefore, the addition at the end of section 41(c), of the phrase, "U.S. obligations held abroad or other income-bearing assets."

If we have any resources at all to expend, we should decontrol private investments and tell our people, as the British have done, and now the Japanese and the Germans are doing, with their own citizens, to go an invest abroad in income-bearing assets. This is a point of view that our government at all levels must adopt if we are to sustain our surplus of earnings on private account in order to finance our deficits in the government account.

The continuance of the present rate of international payments deficits for another ten years will practically eat up the advantages we now enjoy from private investment income of nearly \$6 billion annually. If our payments to

other countries on their investments in this country wipe out this surplus of earnings, then, Gentlemen, we really will have to close up shop as far as foreign aid and some of our military commitments are concerned. We cannot long continue to borrow short and lend long, and to pay for a current account deficit by sale of capital.

Thank you.

[Excerpt from the hearings on International Development Association Act amendment before the House Banking and Currency Committee, March 23 and 24, 1964]

STATEMENT OF HON. DOUGLAS DILLON, SECRETARY, DEPARTMENT OF THE TREASURY

Secretary DILLON. Mr. Chairman and members of the committee, I am happy to appear before you today on behalf of S. 2214. This bill would amend the International Development Association Act to authorize the United States to agree to contribute \$312 million to the International Development Association (IDA) in conjunction with contributions of \$438 million from 16 other industrialized countries.

The International Development Association was organized in 1960 as an affiliate of the World Bank, to provide financing to less developed countries on easier repayment terms than the World Bank could provide.

Only members of the World Bank can become members of IDA. Membership in IDA is divided into two classes—the part I countries are those in a position to provide assistance to the developing countries. Their subscriptions to IDA are all in convertible currencies. The part II countries are the developing countries. Ten percent of their subscriptions are in convertible currencies and 90 percent in their own currencies.

The initial subscriptions—totaling \$767 million in convertible currencies and \$219 million in local currencies—were payable in annual installments over a 5-year period beginning in November 1960. The final installment will fall due November 8, 1964.

In September 1963, 17 of the economically advanced nations of the free world reached agreement in principle to provide an additional \$750 million in convertible currencies to IDA for funds beyond 1964. On our part, this agreement was, of course, subject to congressional approval, which we are now seeking. This amount would be paid in over the 3-year period commencing November 1965, at the rate of \$250 million a year. The U.S. share would be payable at the rate of \$104 million a year. While authorization is required now to permit IDA to continue operations, no appropriation would be required until fiscal year 1966.

This agreement represents an important additional step in the continuing efforts of the United States to encourage other industrialized nations to share the burden of financing the development of the less fortunate nations of the free world. The United States provided 43 percent of the initial resources subscribed by part I countries, which were payable at the annual rate of \$150 million. The new proposal would increase this to an annual rate of \$250 million, but the U.S. share would be slightly reduced, to 41.6 percent. Thus, both the amount and the proportion put up by others would be increased. It is clear to me that these moves are in the right direction—one that the Congress itself has advocated for many years.

Unless the United States approves this arrangement, the IDA will soon have to stop operations and the pledges of the other countries will not become effective. This would be a blow—not only to our role of leadership in the free world, but also to our own financial interests, since the greatly increased contributions by others would be lost.

In the rest of my statement I am going to address myself to some of the questions which were raised during the debate on the floor about a month ago on this subject.

The CHAIRMAN. You may insert in the record the parts of your statement that you do not repeat before the committee, Mr. Dillon.

Secretary DILLON. First, there should be no question in anyone's mind—and there is none in mine—that contributions to IDA are a form of foreign aid—repayable aid to be sure, but still aid.

The administration has and will continue to take the annual U.S. contribution to IDA fully into account in formulating our bilateral aid proposals. We expect that the Congress in acting on our proposals will do likewise—both in the authorization and appropriation process. Indeed, for some years the annual appropriation

for IDA has been handled by the Appropriations Committee as an integral part of the foreign aid appropriation bill. In this way our contribution to IDA has been taken into account by the Congress each year in determining the appropriate level of our own bilateral aid program.

This legislation would authorize an annual contribution of \$104 million to IDA for the 3 fiscal years 1966-68. This is a small sum when compared to the rest of our foreign aid program. And it is a type of foreign aid that serves our interest in a way that no other aid program does, for it brings with it, in hard currency and on identical terms, nearly \$3 of aid from other industrialized countries for every \$2 we put up. Over the 5 years, fiscal 1961 through 1965, our contribution to IDA will average \$64 million. As we increase it—by \$40 million a year—as we are now proposing, we also increase—by \$61.5 million a year—the contributions of other industrialized countries. In this way, they share more of the burden we have been carrying on our own shoulders.

AID CRITERIA

There have been a number of objections to the proposal on the grounds that disbursements by IDA are not governed by the statutory criteria which govern our own bilateral aid program.

The fact of the matter is that the World Bank management—which is responsible for IDA as well—has always been a strong proponent of sound financial policies and has done its utmost to encourage private enterprise. Many of the special provisions recently written into law to guide our own bilateral programs have long been established policies of IDA and the World Bank. One has only to look at the attached record (annex A) of IDA's credit activities to date in the light of certain of our own AID criteria to fully appreciate this.

HICKENLOOPER AMENDMENT

One area that appeared to be of considerable concern during the House debate relates to expropriation of property and nullification of contracts—an area in which the Hickenlooper amendment governs use of funds appropriated to AID.

Ceylon is the only country in which our aid has been terminated because of the principles embodied in the Hickenlooper amendment. Long before this happened, the Bank and IDA had informed Ceylon they were not prepared to extend credit there because of Ceylon's financial policies. Since then, neither the World Bank nor IDA has extended credit to Ceylon and none is presently contemplated.

The reason this has happened—and can be expected to happen in other countries where there are similar situations—is that it is the established policy of the Bank and IDA not to operate in countries which are making poor use of their resources. For example, neither the Bank nor IDA lend money to countries whose external debt held by the public is in default—unless there is evidence that these countries are making reasonable efforts to achieve a fair and equitable settlement with their creditors. Similarly, neither the Bank nor IDA will extend credit to governments which refuse to pay compensation for foreign-owned properties which they have expropriated.

These policies of the Bank and IDA are long standing and will continue to be fully supported by the U.S. Government. They are fully supported by other principal contributors as well. I am completely assured that IDA funds will not be available to countries which decline compensation for expropriated foreign private property. The proceeds of an IDA credit could not, of course, be used by a country to pay compensation for an expropriated property. IDA credits, just like World Bank loans, are granted for specific new projects. As the attached annex A shows, these are for construction of new facilities in a variety of fields such as ports, roads, power and agriculture—not for the purchase of existing facilities.

SELF-HELP

The Bank and IDA have long recognized that no amount of external assistance can lead to growth and development unless the country itself is prepared to follow sound policies. They have declined to provide financing to countries unprepared to take steps which the Bank and IDA thought necessary for orderly development of their economies and fulfillment of the purposes of the financing. The Bank and IDA have thus contributed importantly to establishing the principle of self-help which has been the central feature of our own assistance programs ever since the first days of the Marshall plan.

BOKHARO AMENDMENT

Some concern has been expressed, despite these policies, that IDA might finance the proposed Indian steel mill to be constructed at Bokharo, and thereby permit U.S. funds to be used in a way that had been prohibited by the Congress without its specific consent.

Of course, even the overall proposed \$750 million would not give IDA sufficient funds to finance a project of such magnitude. It would leave virtually nothing for other worthwhile projects. So that on this score alone, it would not be approved by IDA.

But, even if the funds were available, it has long been the policy of the World Bank and IDA not to extend credit to Government-owned industrial enterprises which compete with private industry.

In fact, while the Bank has consistently refused to finance Government-owned steel capacity in India, it has loaned over \$150 million to private Indian steel firms.

IDA has never made a loan for a Government-owned industrial enterprise. The Bank has only made three such loans—all to Yugoslavia in the early 1950's. On the other hand, the Bank and IDA together have provided over \$1 billion for the direct development of private enterprise.

TERMS ON RELENDING

Whereas AID must charge interest on loans at the annual rate of 2 percent after 10 years, there is no such limitation on IDA loans, which are for a 50-year period with a three-quarters percent annual service charge. This difference in terms was the subject of some comment.

However, IDA was specifically organized to help meet the needs of developing countries for funds that would not unduly burden their balance of payments.

As I understand it, the principal reason Congress required the 2-percent interest floor on AID loans was in recognition that we were providing assistance on substantially better terms than most other aid-giving countries. But in IDA, the cost of lending on these favorable terms in borne by all contributing countries alike, and other countries contribute nearly \$3 for every \$2 that comes from us. IDA's terms, which were recommended by Mr. Eugene Black—who certainly cannot be called an unsound businessman—have been internationally agreed to and accepted as appropriate by the other countries which together have the greatest stake in providing IDA resources. These countries, such as Britain, Germany, France, the Netherlands, and Sweden are certainly sound and careful bankers and would not provide funds on these terms unless they were clearly required.

As the attached annex B shows, many of IDA's credits are reloaned within the country of the borrower at higher rates of interest and shorter terms than the country is required to pay IDA. This is the same practice that is followed by AID within the statutory guideline established by the Congress that AID funds shall be "reloaned at rates of interest not excessive or unreasonable for the borrower." It is the borrower that is important.

IDA has a similar policy of not permitting relending of its funds at excessive or unreasonable rates of interest to the borrower. The United States will continue to support this policy in IDA.

IDA's long-term, low-interest loans, which are often reloaned on harder terms, are appropriate because the country's balance-of-payments position does not permit it to borrow the needed funds on commercial or World Bank terms. On the other hand, domestic end users of the funds have no balance-of-payments problems and therefore do not need these very favorable terms. For this reason, the appropriate terms for the ultimate recipient of the funds are determined in the light of prevailing levels of interest rates within the country and the character of the project itself.

ELIGIBLE BORROWERS

There has been some confusion about which countries are eligible to borrow from IDA, as well as whether IDA would lend to Communist countries.

Under its articles, only members of IDA, which must, in turn, be members of the World Bank and the International Monetary Fund, are eligible to receive IDA credits.

Moreover, none of the countries participating in the proposal to provide \$750 million of additional resources to IDA is, under IDA's policies, entitled to receive any credit from IDA.

Even among the lesser developed members of IDA—the so-called part II countries—not all would expect to receive credits. In fact, only 20 countries have

received IDA credits, as contrasted with the 71 countries to which the World Bank has made loans. Because of its very limited resources, it is IDA's policy to lend only to those countries with very low per capita income and the most difficult balance-of-payments situation.

None of the Sino-Soviet bloc countries is a member of IDA. While Yugoslavia is a member, it has received no credits and none are being considered. Furthermore, all IDA credits must be used within the territory of the borrowing country—for projects approved by IDA's management and Directors. Accordingly, it would not be possible for a borrowing country to relend to any other country. So we need have no concern that Cuba, which is not a member of IDA and therefore not entitled to receive an IDA credit, could indirectly receive the benefits of an IDA credit.

We would not expect the IDA management to propose a loan to any country that might fall under Communist control, and I can give you categorical assurance that if any such suggestion were ever made it would be most strongly and vigorously opposed by the United States.

IBRD GRANT TO IDA

Attention has been called to the size of the World Bank's reserves, which, as of December 31, 1963, amounted to \$558 million in the supplemental reserve and \$271 million in the special reserve. There have been suggestions that some part of these reserves should be transferred to IDA, or, at least, that the Bank should not go on accumulating reserves at such a rate as in the past, but should transfer some part of its net income to IDA.

While I strongly favor transferring some of the Bank's net income for fiscal year 1964 and thereafter to IDA, I do not feel the Bank could properly or in good conscience dissipate any of its presently existing reserves.

Under the Bank's articles of agreement, the special reserve, which amounts to \$271 million and has been built up from a 1 percent per annum commission charged on outstanding World Bank loans, must be invested in short-term securities and kept available for meeting liabilities of the Bank. Accordingly, none of this reserve can be transferred to IDA.

The supplemental reserve, amounting to \$558 million, differs from the special reserve in that it is not a segregated fund, but is rather in the nature of an earned surplus and is used in the Bank's regular operations. As its name implies, it provides an additional reserve against losses on the Bank's loans and guarantees.

In order to maintain an adequate reserve against these risks, the Board of Governors of the Bank have deemed it necessary to allocate all net income to the supplemental reserve from the time of its creation in 1950 to the end of the last fiscal year, June 30, 1963. The Bank sold its bonds to the public constantly throughout this period and the financial statements of the Bank reflected the amount of the supplemental reserve existing at the time each issue of bonds was sold.

Any reduction at this time in the supplemental reserve could, therefore, be considered a breach of faith by the holders of the Bank's bonds. Thus, it would have a most serious adverse effect on the Bank's ability to continue mobilizing private capital for development by selling its bonds to the public.

However, this does not mean that the Bank need accumulate reserves in the future as rapidly as it has done in the past. At the 1963 annual meeting of the Bank last fall, there was general recognition that the Bank's reserves are now more nearly adequate to its present level of operations. In recognition of this, the Board rescinded a resolution originally adopted in 1950 which required that all net income be automatically allocated to the supplemental reserve. Accordingly, at the end of this fiscal year the Board will have to decide what to do with the net income for fiscal year 1964.

During the past year we have been urging that each year a portion of the Bank's net income be granted to IDA. I now understand that the Bank's management intends to propose that, beginning with fiscal year 1964, a substantial portion of its earnings be granted to IDA. We will fully support a proposal to transfer a large share of the Bank's earnings to IDA and I am confident such a grant will be made.

U.S. SHARE

The negotiations which resulted in the present proposal were long and difficult. We took the lead in these negotiations because we recognized the great value which IDA has to the United States in mobilizing more funds from other countries than from ourselves.

Our share of IDA's resources contributed by the part I countries was reduced from over 43 percent to 41.6 percent. Under the new proposal the amount of our annual contribution would increase from \$64 million to \$104 million—a rise of 62 percent. This compares to an increase for Italy of 176 percent, Sweden 148 percent, Germany 129 percent, Japan 105 percent, France 95 percent, and Canada 84 percent. Full details for each participating country are shown in the attached table.

It was suggested during the House debate that the IDA did not really represent a method of getting other countries to share the aid burden with us, because we were providing them aid with which to make their contributions to IDA.

Since 1963, no new commitments for economic assistance have been made to the governments of any of the part I countries of IDA and none is planned. Undisbursed amounts to fulfill prior commitments amount to only \$63,000, in total for all of the countries.

The Church amendment as enacted last year prohibits new commitments to these countries for military assistance after July 1, 1963, except for minor training expenses. Since payments under the new IDA proposal would not be made until fiscal years 1966, 1967, and 1968, it is clear that no new commitments will be made to any of the part I countries for disbursement during those years.

As to deliveries under earlier military aid commitments, according to the latest figures from the Defense Department, the facts are as follows: As of right now, eight countries who have agreed to contribute \$313 million of the \$438 million from other countries are no longer receiving any U.S. military aid at all. As of fiscal 1967, those figures are expected to grow to \$390 million and 14 countries. Only two countries, putting up \$48 million or approximately 11 percent of the total foreign contribution to IDA, are expected to continue to receive military aid deliveries from prior commitments throughout the 3-year period, fiscal 1966–68, and deliveries to both of these countries should be completed during fiscal 1968.

Thus, it becomes clear that except for relatively minor deliveries from past military aid commitments to a few countries, there is no substance to the concern that was manifested during the House debate. The foreign contributions to IDA are a real and valuable sharing of the aid burden and will not in any way be facilitated by current U.S. military aid programs.

U.S. INFLUENCE IN IDA

I would like to consider now the extent to which we are able to influence IDA's operations.

Votes in the World Bank and IDA are on a weighted basis, according to the size of each country's subscription. The 17 countries which would contribute the \$750 million in the new proposal have together 64 percent of the total votes in IDA. The United States alone has 26.6 percent of the vote, which is ample to assure that our interests are well protected.

While the funds for which we are seeking authorization would be paid over to IDA, our voting strength and close working relationship with IDA's management and staff—as well as with the other contributing countries—assure the United States an important voice in IDA's operations.

CONCLUSION

Mr. Chairman, unless the proposal to increase IDA's resources becomes effective soon, IDA will have to stop operations, and it cannot become effective without favorable action by the United States.

IDA cannot commit itself to make loans without assurance that it will be provided with the funds necessary for disbursements when the time comes.

IDA's present hard currency resources total \$777 million. Against these, commitments of \$591 million have been signed, leaving a balance of \$186 million still available for commitment.

In anticipation of approval of the proposal for new resources—originally scheduled for December 31, 1963, then postponed to March 31 of this year and now to June 30—IDA expected to have 17 projects in 9 countries ready for signature before June 30. These projects total \$267.5 million. Obviously, \$81.5 million of these cannot be financed within the balance of initial resources now available. These are projects which have reached the final stages of planning after many months—and, in some cases, years—of consideration. In many cases, they are

key parts of broader development plans, which would have to be reconsidered if the projects do not go forward. This process cannot be turned on and off at random. Lack of continuity means waste and ineffective development.

So far, all these contributing members of IDA except the United States have voted in favor of the proposal to increase the resources of IDA.

If the United States fails to approve the proposal, the other countries will be released from their commitment. Thus, this channel for mobilizing the resources of other industrialized countries for the aid effort on terms identical with our own contribution will be effectively blocked. This will make it difficult—if not impossible—to negotiate further burden-sharing arrangements with other nations.

Accordingly, Mr. Chairman, I strongly urge early and favorable action by the House so that the IDA can continue uninterrupted its uniquely valuable operations. Thank you.

Mr. REUSS. You made a simply invaluable contribution to our hearings, and I am very grateful. I could, I am sure, ask you questions for many hours. I know your schedule and we have a difficult one, too, so I will try to be brief.

Just because I have to begin somewhere, on your point that the Congress ought to have some interest in where these U.S. taxpayers' dollars go, even though they go, and quite properly, through the intermediary of an international financial institution, you are, here, setting forth a concern of both Mr. Widnall and myself and many other members of this committee over the years going back at least to the occasion of the testimony of Secretary Dillon back in 1964. We have in this year's bill tried to do something about it. We have set forth one criterion, namely let some of it trickle down to the people. As you point out, there are at least five or six other criteria that are important.

We have also in the bill done what we have not done before and what I think is really necessary, namely ask for an annual report on the action taken, including the U.S. position on each loan that was actually processed by the World Bank or the Inter-American Development Bank. I think that is a beginning.

Now, you have suggested that we should set forth a lengthier list of guidelines, and you have got some interesting and constructive ones here, just looking at pages eight and nine of your presentation. You say there should be explicit guidelines on the U.S. balance of payments, on noncompetition with private credit, on expropriations without compensation by the developing beneficiary country, on how you pick the countries that come in for the lion's share of the aid, and finally within those countries how do you decide between industry, infrastructure, transportation, agriculture, education, and so on.

I wish I felt in a position to formulate guidelines on all those problems. The truth of the matter is that I feel it is at this moment a little beyond the capability of this committee. I would hope, however, that our provision for requiring for the first time reporting on the actual loan decisions made would at least give us sort of a common law of how these multilateral lending institutions operate and maybe enable us, in the future, to evaluate what they are doing. Certainly as you point out somebody makes these decisions, someone, although heaven knows who, in these international lending agencies must evolve criteria for deciding what is to be stressed and what is to be disregarded. Maybe it is entirely proper that it be left entirely in their hands, but Congress at least ought to know what these implicit criteria are, and you point out that we don't.

Let me turn now to your equally cogent remarks on chapter 4 of the bill having to do with gold purchases. There you make two points. One, you say, why defy the December 30, 1969, South African gold agreement; that wasn't an agreement very much in the interest of the United States anyway. Why put it into law? I am inclined to to agree with you, and I am inclined to think that we could achieve our purpose of requesting the Secretary of the Treasury not to assist people who violate the March 1968 two-tier gold agreement by buying their gold. We could make that directive without specific mention or implicit approval of the South African gold agreement.

Dr. DANIELIAN. That is an agreement between South Africa and the IMF. The wording of your section applies to purchases from other countries. It doesn't apply to IMF, so that reference to the agreement has no relevance, really, to that provision.

Mr. REUSS. Yes.

Dr. DANIELIAN. I would just scratch that phrase out.

Mr. REUSS. I think that is a good suggestion. Then you come to our proposed chapter 41(c), where we say in effect when the United States has the option to take gold or special drawing rights, let it take special drawing rights. And to that you say—let me see if I have you right—yes, that is good, as far as we go but we oughtn't to confine ourselves to special drawing rights; we ought to prefer to gold not only special drawing rights but income-earning assets abroad, by which I take it you mean West German treasury bills.

Mr. DANIELIAN. I add the following phrase, after special drawing rights—

Mr. REUSS. Page 14 of your report gives your language.

Dr. DANIELIAN. Yes. Change the period to a comma and add "or U.S. obligations held abroad or other income-bearing assets."

Mr. REUSS. In other words, if some foreign central bank owns a billion dollars worth of our Treasury bills on which we are paying \$70 or \$80 million interest a year and we have the option of either buying gold from that country, since we are under the assumption they want dollars, or liquidating that debt, what you say is in Heaven's name liquidate that debt and save the American taxpayers \$70 million a year. Is that right?

Dr. DANIELIAN. Yes. Mr. Chairman, we bought about \$600 million worth of gold from West Germany in December, I believe it was, and they hold a great many U.S. obligations as a result of these off-set arrangements on troop expenditures. There is no reason why we couldn't have taken back \$600 million worth of those notes and saved the interest on them. Instead, they keep the American securities in their possession, they have an investment company which uses our notes as a basis in order to encourage investments in the United States on which they are going to earn income. So we pay the interest to them and they invest the money back here, and they are going to earn money on that. And that is a balance of payments negative factor in the future. So in both ways we are losers. We are paying them interest on our obligations, they are putting the money to work back here in the United States, and they are going to earn further money on that.

Now, this is no way to help the U.S. balance of payments position. I would like to put this article in the record. It appeared in the Journal of Commerce yesterday.

(The article referred to follows:)

[From The Journal of Commerce, April 16, 1970]

BONN TO SPUR INVESTMENT IN AMERICA

(By Jess Lukomski)

Bonn, April 15—West German concerns anxious to set up subsidiaries in the United States but frustrated in their direct investment projects by lack of readily available cash soon will be able to exploit a new source of financing capital.

As reported by the Ministry for Economics, final details are currently being worked out on the technicalities of applying the special provision in the German-American offset agreement of Aug. 19, 1969.

This clause specifies that some \$164 million worth of American 8-year Treasury bonds purchased by the Bundesbank can be utilized to finance direct private investment of German companies in the United States this year and during the first half of 1971.

The negotiations to give the Kreditanstalt fuer Wiederaufbau the authority to provide financial assistance to interested German companies are in the final stage and it is expected that the funds will be made available next month.

The financing capital will be provided either in form of a temporary acquisition of the equity capital in the new venture, by providing loans with participation character, or in cases of joint ventures as a loan to the U.S. partner of the German investor.

Reportedly, the capital share provided by the Kreditanstalt fuer Wiederaufbau cannot exceed 50 percent of the total new investment outlay and will be limited to a maximum of \$8.7 million for each project if the German investor has already been operating business facilities in the United States.

Mr. RUESS. I think this is an excellent broadening of what we were trying to do that you have suggested. I am very attracted by it.

May I ask this question. You like we of the committee who drafted this amendment, 41(c), did not seek to undo the present arrangement whereby if gold is tendered the United States by a foreign monetary authority we must accept it. Therefore, what we were talking about was only the situation where the foreign monetary authority gave us the option of either buying their gold or instead selling us special drawing rights and with your additional interest-bearing securities abroad or liquidating a U.S. interest-paying debt. You aren't suggesting—

Dr. DANIALIAN. No.

Mr. REUSS. —that we give up our commitment, however unwise it may be, to buy gold whenever it is offered us officially.

Dr. DANIELIAN. Not at all, Mr. Chairman. As a matter of fact, none of the rules of the game are to be changed by this. But let us be practical. If some country—and there aren't very many of them—comes over and says I have got \$600 million worth of gold in my bag, I am going to deposit it on your doorstep—now, I don't think that happens because of the rules or anything like that. That is subject to negotiations and conversation between countries, and in the course of those conversations the interest of both countries must be considered. So these transactions are matters of intergovernmental negotiations. Even though the rules are written, they are not automatically applied. These things don't come over the counter, as it were, off the street.

So what you will be really saying in this provision is that where there is the option in the process of negotiation you persuade the other fellow, with all the persuasion that you can command, that you prefer to take SDR's or income-bearing assets in place of gold.

Mr. REUSS. Mr. Widnall.

Mr. WIDNALL. Dr. Danielian, we are very happy to have you here today. You are extremely well-informed on the subject matter before this committee, and I think that you have made a very valuable contribution to the committee at this time by your statement today.

I have a few questions that I would like to ask you.

What do you feel is the overall impact of our foreign aid on the balance of payments?

Dr. DANIELIAN. Well, according to Department of Commerce figures, balance of payments figures, the net impact including both bilateral and international channels of aid, in 1968, it was close to \$650 million. In 1969, it went up to \$750 million.

Mr. WIDNALL. This seems to be continuing to mount.

Dr. DANIELIAN. Yes.

In previous years, of course, back during the earlier part of the decade it was over a billion dollars, but as a result of tied aid and so on, it was brought down considerably, but it has not gone down below \$600 million, and it is now as of 1969 up to \$750 million.

Mr. WIDNALL. So that if you untie aid it is liable to mount again?

Dr. DANIELIAN. Oh, yes you can expect it to go up very substantially. In 1968 AID-financed exports outside of Public Law 480 were in the neighborhood of about a billion dollars' worth of goods, outside of the agricultural concessionary sales.

Now, if you untie it completely, I don't know whether you would lose all of that but you might lose as much as two-thirds or 70 percent of it.

Mr. WIDNALL. Could you estimate the contributions of the international lending institutions to the balance of payments deficits?

Dr. DANIELIAN. Well, that is very difficult and it varies from year to year depending upon the method of financing. Now, the World Bank in the earlier years, early in the decade of the 1960's, was borrowing a lot of money in the American market and lending abroad, and its procurement rate in the United States was as low as 12 percent at one time. Then through considerable effort and recalculation they put it up to about 26 percent in U.S. procurement.

But in the last two or three years, and I think in large part due to the criticism in the Senate from the late Senator Dirksen and Senator Symington, the distinguished Senator from Missouri, directed at the World Bank financing, they have changed their source of funding now, by and large, to other countries. Last year, or fiscal year 1969 for instance, they issued about \$237 million worth of bonds in the American market—bought by U.S. residents—but close to about \$970 million abroad.

Now, with the financing coming from abroad, I think the World Bank, you might say, is not having an adverse effect upon the U.S. balance of payments, but IDA would be a different proposition. In IDA we put up about 40 percent of the funds and the most recent figures seem to indicate that only 17 percent of their procurement, of their total contract procurement, is taking place in the United States.

Now, I think it was stated before the House Appropriations Committee last year that out of our total subscription of \$632 million, about \$234 million was spent in the United States. So you might say

only one-third came back to the United States; the other two-thirds went to other countries.

Mr. WIDNALL. Well, if we shift our foreign aid from bilateral institutions to multilateral institutions which do not have restrictions on procurement, what effect do you think this might have on our balance of payments?

Dr. DANIELIAN. I think it will be negative. I think we are going to go back to the experience prior to the establishment of these restrictions. These restrictions really did not come into effect until about 1964-65, although the legislation in 1961, section 604 of the Foreign Aid Act, put the responsibility on the President to determine, or to take into account the effect on balance of payments of aid expenditures. It didn't go into effect until about 1964-65, and then the procurement rate, which up to that time in the early 1960's was 46 percent under AID, went up to almost 90 to 95 and even 97 percent by the later years.

Now, I think we are going to reverse the process and go back the other way. The effect is going to be deleterious on our balance of payments.

Mr. WIDNALL. I would like to ask this question of you, and I hope you will answer it for the record. Mr. Chairman, I would like permission for this to be answered for the record by Dr. Danielian.

Could you give us a brief sketch of the developments in our balance of payments since 1964? Just submit that for the record.

Dr. DANIELIAN. I have a table here which I would like to submit. It is a traditional table that we prepare and bring it up to date year by year, and it has been brought up to date, including 1969. And I would like to submit it for the record. If you would like me to comment just briefly—

Mr. REUSS. Without objection, the submission will be made part of the record.

(The table referred to follows:)

PRIVATE AND GOVERNMENT SECTORS IN THE U.S. BALANCE OF PAYMENTS, 1962-69¹

[In billions of dollars]

	1962		1963		1964		1965		1966		1967		1968		1969	
	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government	Private	Government
Exports.....	18.1	2.5	19.2	2.9	22.4	3.0	23.5	3.0	26.2	3.2	27.2	3.5	30.3	3.3	33.4	3.1
Income on investments.....	4.1	5	4.2	5	5.0	5	5.0	5	5.7	6	6.2	6	6.9	8	8.0	9
Other service receipts.....	4.4	2	4.7	2	5.2	3	5.6	3	6.5	3	6.9	3	7.5	4	8.1	4
Long-term capital inflows.....	4.4	2	4.7	2	5.2	3	5.6	3	6.5	3	6.9	3	7.5	4	8.1	4
Repayments to U.S. Government, including military sales ²	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Government liabilities ³	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total receipts.....	27.0	5.1	28.4	5.3	32.7	5.6	33.9	5.5	40.6	5.8	42.6	6.6	50.6	7.0	53.2	7.4
Imports.....	-16.2	-	-17.0	-	-18.6	-	-21.5	-	-25.5	-	-27.0	-	-33.0	-	-35.8	-
Services including income paid to foreign investors.....	5.6	-1.0	-6.2	-1.1	-6.6	-1.3	-7.2	-1.4	-8.2	-1.5	-9.2	-1.7	-9.9	-1.9	-11.9	-1.9
Private long-term investments.....	-2.9	-	-3.7	-	-4.4	-	-4.5	-	-3.8	-	-4.3	-	-3.9	-	-4.1	-
Military cash outflows.....	-3.1	-	-3.0	-	-2.9	-	-2.9	-	-2.9	-	-3.7	-	-4.3	-	-4.5	-
Government grants and loans.....	-4.3	-	-4.6	-	-5.2	-	-4.2	-	-5.1	-	-5.2	-	-5.2	-	-5.3	-
Total payments.....	-24.7	-8.4	-26.9	-8.7	-29.6	-8.5	-33.2	-8.5	-37.5	-9.9	-40.5	-11.2	-46.8	-11.7	-51.8	-11.9
Basic position.....	2.3	-3.3	1.5	-3.4	3.1	-2.9	.7	-3.0	3.1	-4.2	2.1	-4.6	3.8	-4.7	1.4	-4.5
Short-term capital outflows.....	-5	-	-8	-	-2.1	-	.8	-	-4	-	-1.3	-	-1.0	-	-6	-
Short-term liabilities of U.S. private residents.....	-1	-	-5	-	-1.1	-	.1	-	.3	-	.5	-	.8	-	3.0	-
Unrecorded outflows or inflows.....	-1.2	-	-5	-	-1.1	-	-6	-	-5	-	-1.0	-	-6	-	-3.0	-
Balance ⁴	5	-3.3	.2	-3.4	0	-2.9	1.0	-3.0	2.5	-4.1	.4	-4.6	3.0	-4.7	-2.2	-4.5

¹ Preliminary.² Excludes debt prepayments (\$29,000,000 in 1966; \$6,000,000 in 1967; \$270,000,000 in 1968 and -\$87,000,000 in 1969).³ Excludes sale of medium-term government securities to foreign governments which represent the bulk and so-called special transactions (\$2,000,000,000 in 1968; -\$41,000,000 in 1969).⁴ To reconcile this balance to the liquidity balance, net private and Government columns and add or subtract lines 45 and 57 of table 1, "Survey of Current Business," March 1970, p. 36. Government expenditures on U.S. merchandise exports (\$3,351,000,000 in 1968; \$3,102,000,000 in 1969). Source: "Survey of Current Business," U.S. Department of Commerce, June 1969, pp. 26 and 34, March 1970, pp. 36 and 41.

Dr. DANIELIAN. Would you like me to comment now?

Mr. WIDNALL. Yes, go ahead.

Dr. DANIELIAN. I would like to comment on two really important developments in the past year.

First, the government account deficit has not gone down materially. It is still at around \$4.5 billion. But there has been for the first time a deterioration in the private account—that is, a minus \$2.2 billion, whereas in previous years it was always in balance or surplus. And this probably accounts for the \$7 billion figure that we had last year.

Mr. WIDNALL. Doctor, you say for the first time? For the first time in how many years?

Dr. DANIELIAN. Well, ever since these figures have been accumulated by us since 1958.

Now, the reason for this downturn in the private account is a very interesting development. Because Europeans are now investing in American securities and American direct investments their earnings in the United States are increasing, and last year this outflow of dollar income from the United States to other countries in the direct investment account increased by \$1.4 billion, the largest jump in this record, whereas our earnings from abroad on this same account increased only by about \$722 million.

So that what is happening is what I have been trying to convey. We have limited our investments abroad, we have forced our Government and our private citizens to borrow abroad to carry on their business, and the Europeans have acquired these dollars. They are now investing them in the United States so that their earnings in the United States are going up, whereas our earnings are flattening out. When they catch up, and they will if this deficit situation continues another 10 years as it has the last 10 years, then the advantage we have had in the earnings in the private account will disappear. This has been the one favorable factor in our balance of payments, and if it disappears then we are not going to be able to sustain our expenditure levels in the Government account abroad. We will have to pull back.

Mr. WIDNALL. I think that is an extremely important point which you are making and one the committee should go fully into and study.

What, in your judgment, are the principal causes for a continued balance-of-payments deficit?

Dr. DANIELIAN. I think in addition to continuance of Government expenditures, we have this situation that I just described, the increased earnings of foreigners who have now decided to put their money into dollar securities for investment purposes, and, of course, a deterioration of our trade account. When I say deterioration I don't mean that our exports are diminishing; they are going up very substantially, but imports are going up faster, and our trade surplus has not been even sufficient to finance our foreign aid program. Our trade surplus was between \$600 and \$700 million in 1968 and 1969. Our foreign aid account, foreign aid financed exports were between \$3.1 and \$3.3 billion. So if you take out the foreign aid financed exports which enter into the figures of the Department of Commerce, we were actually about \$2.4 to \$2.6 billion minus in our commercial trade account in those years.

So these I say are the three important factors that account for the continued balance of payments deficits.

Mr. WIDNALL. One further question along that line. Are there any favorable trends in our balance of payments accounts?

Dr. DANIELIAN. The one positive factor, of course, is the earnings of private investments abroad. That has been positive. I have here a tabulation that gives that. We have been earning, net, even allowing the outflows of dollars on investment account, close, in 1969, to \$4 billion. The gross income on direct investments was \$5.7 billion, and on royalties and fees another billion, \$1.3 billion. So that the investment account has been still the most healthy aspect, but now this surplus is being eaten up by the dividends we have to pay other countries. I would like to introduce a table here, Mr. Chairman, if it would be of interest to the committee.

Mr. REUSS. Without objection, it will be received.
(The table referred to follows:)

DIRECT INVESTMENT OUTFLOWS, INCOME AND NET BALANCE, 1945-69

[In millions of dollars]

Year	Outflows ¹	Income	Royalties and fees	Balance (cols. 2+3-col. 1)
	(1)	(2)	(3)	(4)
1945	-100	426	(2)	326
1946	-230	589	(2)	359
1947	-749	869	(2)	120
1948	-721	1,064	(2)	343
1949	-660	1,112	(2)	452
1950	-621	1,294	126	799
1951	-508	1,492	130	1,114
1952	-852	1,419	130	697
1953	-735	1,442	128	835
1954	-667	1,725	136	1,194
1955	-823	1,912	258	1,347
1956	-1,951	2,171	229	449
1957	-2,442	2,249	238	45
1958	-1,181	2,121	245	1,185
1959	-1,372	2,228	349	1,205
1960	-1,694	2,335	344	1,005
1961	-1,598	2,672	448	1,522
1962	-1,557	3,050	548	2,041
1963	-1,976	3,134	660	1,818
1964	-2,328	3,674	756	2,102
1965	-3,468	3,963	924	1,419
1966	-3,523	4,045	1,030	1,452
1967	-3,020	4,517	1,140	2,637
1968	-3,025	4,085	1,279	3,239
1969 ²	-3,060	5,707	1,341	3,988
Total	-38,961	60,215	10,429	31,683

¹ Includes funds borrowed abroad and actually used abroad to finance direct investment.

² Not available.

³ Preliminary.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement and the Survey of Current Business, September 1966, 1967, October 1968, and December 1969, and March 1970.

Mr. WIDNALL. Now, my last question. It is said that we are borrowing short and lending long and that we are meeting our current account expenditures by sale of capital. Could you explain that?

Dr. DANIELIAN. The balance-of-payments deficits result in an increase in our current liabilities; our current liabilities have gone up since 1964 from \$29 billion to the end of 1969 to \$42 billion at the end of 1969, but actually as of now, when you wash out yearend transactions, it is about \$44.5 billion. That is an increase in current liabilities of \$15.5 billion since December 1964.

That means that we really have been borrowing this money from abroad. These are dollars that other people have been willing to hold for us. Now, why did we have to run up the balance-of-payments deficits?

Well, I explained that—for maintenance of our troops in Europe, for the Vietnam war in Asia and foreign aid expenditures.

So actually, we are borrowing short, on short notes, short-term notes, and we are shooting it up in Vietnam and we are spending it for current expenditures of our soldiers in Europe. So we really are consuming, using up the borrowed money in these activities. So we are borrowing short and using it up in current account expenditures.

Now, in the case of foreign aid and also other loan transactions, like 50-year loans by IDA, what we are doing is, again, we are borrowing short and we are lending long on a 50-year basis. Of course as far as the U.S. Government is concerned, it is not even a loan because there is no provision in the IDA charter that they are going to be returned to us unless the IDA is liquidated. So actually where there is a loan transaction involved we are borrowing short and lending long almost in perpetuity. This is what I mean by that.

Mr. WIDNALL. Thank you, Doctor. I appreciate your testimony.

Mr. REUSS. Mr. Galifianakis.

Mr. GALIFIANAKIS. Thank you very much, Mr. Chairman. Welcome, Doctor, you and your associate.

I have quickly perused this testimony. I was curious to know what type of business activity is involved by the businesses that are part of your organization.

Dr. DANIELIAN. Well, they are cross sections of companies. They are in the chemical—

Mr. GALIFIANAKIS. Textile machinery.

Dr. DANIELIAN. No; we don't have textiles. Minerals, grain feed, and so on.

Mr. GALIFIANAKIS. The material is very instructive and I plan to study it at the time we do the markup. I was intrigued by your statement relating to the purchase of \$600 million worth of gold in December from West Germany, and not having more effective policies which would save the taxpayers' money. Could you recommend a policy that could be incorporated in this particular bill that would preclude or help us to seek that tax saving deficit in this particular piece of legislation?

Dr. DANIELIAN. Not really. It is a question of education. It is a question of inculcating a point of view in your administrators.

If you travel around Europe and meet with finance ministers and even chamber of commerce executives, they are all aware of the balance-of-payments significance. They can tell the difference between money and capital. They can tell the difference between foreign aid as a way of using their surplus and investment as a way of using their surplus. They are always thinking of where does their country come out in the end.

You go around this town and talk to the equivalent people and they have other priorities in their minds. You have priorities of, well, helping India at any cost. India is more important than our balance of payments, for instance even though we are in a crucial deficit situation and have to borrow the money we lend them.

Now, you couldn't sell that point of view to a German finance minister or a Dutch finance minister, but you can in this country.

How do you bring this whole question into a position of commending priority in the thinking of our establishment, government establishment, here in their dealings with foreign countries?

Mr. GALIFIANAKIS. Well, that is of concern to me in particular coming from a textile State, North Carolina, where aid has inured to the detriment of my own industries, and of course, you know we have the old theories of protectionist laws are not good, that free trade is the ideological way of having a world market, and yet we are suffering detrimentally now because of foreign aid policy of the United States.

I get apprehensive on a piece of legislation like this that some undeveloped country would make an application for a loan going into heavy textile manufacturing and end up competing with my State. And I think you hit it on the head when you said we ought to be a little bit careful, to help our own balance of payments.

Now, can you suggest a way of incorporating a policy that will have the effect of inculcating the education that we need?

Dr. DANIELIAN. You know that by the charters of these international institutions no outside agency can control them or secure their records. They are inviolate. And so the entry you have is through your Governor on the Board and your U.S. Representative.

Now, how can you instruct your U.S. Representative to say no to certain things is the question you are asking me, and this is a question that we discussed previously. I recognize that it is difficult to write guidelines in which you tell our representative to say no on textile investments, and no on further aid to such and such country. You can't run an aid program that way. How do you, then, inculcate it into the policy discussions of the executive establishment including the State Department and the White House staff and the President so that they give the instructions without having to have a public brawl before Congress on these issues? This is the major question. And frankly, I don't see any machinery established by the executive where these viewpoints can be explored in depth. I believe I have done as much in going around seeing people on these issues as anyone in Washington, and I have attended many of the conferences, and they don't deal substantively with the policy questions. And I think you are really raising a very fundamental issue here, how does the Congress of the United States defend the national interest as they resolve it here by influencing the Federal establishment, the executive establishment, through these international organizations which are inviolate and a super government all by themselves above everybody else?

I think the growing emphasis on international institutions is going to raise this very fundamental issue.

Mr. GALIFIANAKIS. Well, I would ask one more question and then I will yield to the sigh of the chairman to conclude the meeting.

Mr. REUSS. Ask as many as you want.

Mr. GALIFIANAKIS. Just one more.

Could you point us to a source—getting back to your example again of the tax saving device as illustrated by your example in the purchase of gold, to what source could we go to see what kind of tax savings we could realize if our Government had a different kind of policy? How could we start an investigation type of a thing that would end up saying if we did this, this, and that in foreign aid, in international transactions we could realize this kind of savings?

Dr. DANIELIAN. Well, let's take the North Atlantic Treaty Organization, sir. Our troop presence in Europe is costing us about \$1.5 billion in foreign exchange, disregarding for a moment the offset arrangements, and I am told that it is costing about \$14 to \$15 billion in DOD budgetary costs.

We have had a number of offset arrangements which have resulted in part, in massive purchases of military equipment from the United States and, in part, we have given promissory notes to the West German Government, anywhere from 4- to 8-year notes on which they get an interest, 4 or 5 percent.

Now, you wonder why it is not possible to sit down and negotiate whereby the foreign exchange expenses of this mutual defense setup can be favorably borne by all members of the group.

The arguments of the Germans is that it is unpopular with their people; they can't go and ask for more taxes to make a budgetary contribution, and they even take the position here that the thing to do is persuade the American public that our troops must remain there at our expense.

This is a legitimate position for them to take. It is a bargaining position. But I have discussed this with American diplomats in Europe whose counterpoint is that there is not a single American soldier in Europe that is not for the defense of the United States; if that were not the case, they shouldn't be here. They are here for the defense of the United States. And if they are here for the defense of the United States, how can we ask them to pay for it?

Now, this is the American diplomat's position as against the German position.

How can you go into a negotiating session with this kind of a position?

Now, how much could you save. Well, the arithmetic is there. We could save maybe a billion dollars in the European situation on foreign exchange costs alone. Whether we can save on the budgetary aspect—

Mr. GALIFIANAKIS. You mean—

Dr. DANIELIAN. Then, of course, we have given them notes over a number of years on which we are paying interest, and the recent reevaluation of the German mark increased our costs, military costs by at least a hundred million dollars. Everybody thought the reevaluation was a great thing because it was going to promote better trade relations, but actually it cost us more money out of our pocket.

Now, I think you can define the dimensions of the savings here with regard to our troops in Europe. When you consider that this has been going on now for the last 20 years you can really define the dimensions of it fairly clearly. Out budgetary savings would be the interest on our IOU's plus part of the DOD \$14-\$15 billion "at-home" costs.

Mr. GALIFIANAKIS. Thank you, Mr. Chairman.

Mr. REUSS. I will detain you only for a moment, Dr. Danielian. I would like to go into one of the questions that Mr. Galifianakis just asked you which is what can the Congress do to try to give some guidance to the administration so that where taxpayers' interest are involved U.S. Treasury and U.S. executive branch takes that course which is the greatest benefit to the U.S. taxpayer. Is not one example of what can be done there the language in chapter 4(c)

of the bill before us on which you have commented and on which you have suggested some amendments?

Under that language particularly with your amendment it would say that the United States wherever it can legally do so should instead of taking gold, which yields no interest, which has an insurance charge which has to be paid, the United States should instead take either special drawing rights which pay interest or let us say German or French or Japanese or Italian securities which may pay 8 or 9 percent interest, or effect the liquidation of a U.S. debt owed abroad under which, like a Treasury bill, eliminating that payment puts that much in the pocket of the taxpayers?

Isn't this one area at least where, by expressing a congressional preference, we may be able to save scores and scores of millions of dollars for the U.S. taxpayer?

Dr. DANIELIAN. Well, yes. There is no question about that. But I think we must recognize the fact that we are a debtor nation vis-a-vis some of these countries that have the gold to sell us, and so the opportunities, the options, the choices are not going to be too broad and too frequent.

Mr. REUSS. No, but as you pointed out just a few moments ago the Germans unloaded \$600 million worth of noninterest bearing gold on us, and apparently no effort was made to suggest to the Germans, look, gentlemen, you need dollars and we recognize your need for dollars. Here are the dollars, but instead let us liquidate some of the Treasury bills on which we are paying 8 percent interest that the West German Government holds.

Dr. DANIELIAN. I think to be completely fair, and I want to check this, I think there was also a parallel transaction in which we did repurchase some of the notes in this particular deal. In other words, it was a two-pronged deal; we repurchased some notes and some gold.

Mr. REUSS. Yes. Why, however, shouldn't it have been a one-pronged deal, one in which we saved, roughly calculating we could have saved \$30 million to \$40 million a year for the American taxpayer?

Dr. DANIELIAN. That is right.

Mr. REUSS. Did anyone have further questions?

Mr. GALIFIANAKIS. No.

Mr. REUSS. We are most grateful to you, Dr. Danielian. You have made a most valuable contribution to our proceedings and we thank you for being with us.

The committee will now stand in adjournment. And the record will be held open for 5 days to permit the filing of additional statements. (The following material was received for inclusion in the record:)

THE COOPERATIVE LEAGUE OF THE USA,
Washington, D.C., April 23, 1970.

HON. HENRY REUSS,
*Chairman, International Finance Subcommittee,
House Committee on Banking and Currency,
U.S. House of Representatives, Washington, D.C.*

DEAR CHAIRMAN REUSS: The Cooperative League of the USA notes with pleasure that you are holding hearings on funding the Asian Development Bank and would like to affirm for the record our support for this relatively new and important multilateral agency now at work in a truly crucial area of this troubled world.

Word we have received of impressions brought back from Seoul by U.S. representatives to the Asian Bank meeting earlier this month—including Representa-

tive Hanna of your committee and Senators Bennett and Pell—reinforce our conviction that the Bank stands on the threshold of important undertakings. Such undertakings will be all the more important when and if peace comes to Southeast Asia.

With the Bank mechanism *in being*, important time will not be wasted gearing up to do the healing economic jobs which only await there the return of peace. The cooperative pattern of development in accomplishing these tasks has already taken a precarious foothold in the area despite the turmoil and political disorganization that now obtains. With the restoration of peace will come an urgent need for development capital from such agencies as the Asian Development Bank to expand the opportunities in the cooperative field. This is particularly important to the submerged classes of Asia because it will give a taste of economic democracy to people who have known little of either political or economic democracy.

We are pleased that the President and the Secretary of State have put a high priority on funding for the Bank, for it gives promise of helping to deliver to these people what we have signally failed to deliver at bayonet point.

The emerging pattern of greater use of multilateral agencies in the field of overseas development and the push for more private initiative and energy is well served by the Bank because it involves with us important allies such as Australia, Japan, and other countries with an interest in the future development and stability of East Asia.

Faithfully yours,

SHELBY EDWARD SOUTHARD.

DEPARTMENT OF STATE,
Washington, D.C., April 27, 1970.

HON. HENRY S. REUSS,
Committee on Banking and Currency, Rayburn House Office Building, Washington, D.C.

DEAR CONGRESSMAN REUSS: In response to your verbal request to Mr. Schnee at the hearing on April 16, 1970 concerning H.R. 16891, we are happy to offer comments on this important legislation.

With regard to chapters 1-2, these carry forward recommendations of the National Advisory Council on International Monetary and Financial Policies. We recommend that these provisions be enacted into law by the Congress. They would clearly serve the foreign policy interests of the United States.

With regard to chapters 3 and 4, these, we believe, concern matters of primary concern to the Treasury.

The policy statement embodied in Section 51 of Chapter 5 is consistent with the increasing attention the international financial institutions are giving to assuring that the fruits of economic development are widely shared by the people of the recipient countries. The National Advisory Council and the U.S. representatives have strongly supported this emphasis. For that reason, we do not consider section 52 to be necessary. Nor do we think that the inclusion of these two sections would be desirable, given the possible adverse impact of having it appear to other nations that this was a United States attempt by unilateral action to determine the policy of these multilateral institutions. Moreover, the report required in Section 53 would, for the most part, only duplicate information submitted to the Congress, as well as information contained in the annual reports of these institutions.

We noted with particular satisfaction in the recent hearings the identity of views between your committee and this Department as to the importance for our foreign policy of these international financial institutions. In general, we consider H.R. 16891 to be a most valuable piece of legislation.

Sincerely yours,

DAVID M. ABSHIRE,
Assistant Secretary for Congressional Relations.

STATEMENT BY MRS. BRUCE B. BENSON, PRESIDENT, LEAGUE OF WOMEN VOTERS
OF THE UNITED STATES

The League of Women Voters supports H.R. 16891, the bill to authorize a U.S. contribution to the Special Funds resources of the Asian Development Bank. We believe the creation of this operation by the Asian Bank is a logical next step,

one which was envisaged from the beginning to complete the Bank's usefulness and adequacy as an agency for development of the Asian region. The long-range, low-interest loans which are to be provided through the Special Funds for such infrastructure investments as transportation, education, water resources, and agricultural projects are essential for the economic development of the region. They are really the heart of ADB's function as it was initially conceived when it was established in 1966. The Special Funds will finance high priority projects that will undergird undertakings made by conventional ADB loans. Many Asian countries at their present stages of development do not qualify for conventional loans, and with increasing interest rates for "hard" loans many countries cannot repay them without incurring disastrously heavy debt burdens. Experience of the World Bank and of regional institutions show that "hard" and "soft" loans must go hand in hand if viable economies are to be fostered in the less developed nations.

The League has just completed a one-year membership reevaluation of development aid. Our members have concluded that development assistance should be strengthened in several ways, including increased utilization of multilateral channels which are prepared to make effective use of the funds. They also believe that development encompasses more than economic growth and that there must be greater emphasis on the noneconomic aspects, and on the cooperation of the developed and developing countries in the planning and execution of the aid programs. (A copy of the League's Statement of Position on Development Assistance, April 17, 1970 follows this statement.)

The Asian Bank has now been in existence for more than three years. It was formed at Asian initiative and its management is essentially Asian. Thirty-three nations are members, 20 of them from the region (including the affluent countries of Australia, Japan, New Zealand); 11 Western European nations (including Switzerland); and Canada and the United States. It is truly a multilateral effort of both developed and developing nations in support of a genuinely Asian self-help project. The multinational aspect of the development projects to be undertaken by the Special Funds helps to assure that the Asian nations will plan development together rather than country by country. If effectively supported and utilized, the Asian Bank can go far in fostering a rational economic structure in the area and help to avoid the divisiveness of competition among nations.

We believe the supportive role of the United States as projected in H.R. 16891 is a proper one. The U.S. contribution of \$100 million (\$25 million in the present fiscal year, and \$35 million and \$40 million in the next two annual installments) would not exceed the total of other contributions or be the largest single contribution.

All too often we are reminded of the gloomy side of the world's development picture: the developing countries' lagging share of world trade; pressures of population on the food supply; diversion of resources to support unproductive internal and international conflicts; shortage of technological skill in the less developed countries. There is, however, a bright side. After more than twenty years of experience in bilateral and multilateral aid, there is a great store of accumulated knowledge about development problems. The successful program planning of the World Bank is one illustration. Also new cooperative efforts to improve agricultural development in Southeast Asia, undertaken under ADB auspices, now show promise. Relatively small U.S. increases to development funds such as this legislation proposes can serve to build on the progress already made in Asia, especially in agricultural, transportation, and communications projects for which it is anticipated the Special Funds will be used.

In short, the League of Women Voters supports H.R. 16891 to authorize a U.S. contribution of up to \$100 million to the Special Funds of the Asian Development Bank. In our judgment, this legislation represents an important statement of intent on the part of the United States that our country wants to promote the peaceful development of Asia in cooperation with other developed and developing countries.

STATEMENT OF POSITION ON DEVELOPMENT ASSISTANCE AS ANNOUNCED BY THE LEAGUE OF WOMEN VOTERS OF THE U.S. NATIONAL BOARD, APRIL 17, 1970

The League of Women Voters believes that long-term requirements for world peace, humanitarian obligations, and long-range national interests demand U.S. policies that help the less developed countries reach self-sustaining economic growth. League members understand that the development process encompasses more than economic growth and urge that the focus be on the human concerns of development and on an improved quality of life for the people of developing countries. U.S. development assistance policies should enhance human dignity and fulfill basic human needs. The policies should be coordinated with other

development efforts and they should respect cultural differences. The League favors greater participation by the recipient nations in the planning and execution of development programs. The development effort should be one of a partnership between developed and developing countries.

League members recognize that population pressures affect all other aspects of the development process. The League supports U.S. efforts to assist other nations in their population planning programs, in accordance with the culture and mores of each country. The League also emphasizes strongly the importance of programs for nutrition, health, employment, and education.

The League advocates that the proportion of U.S. assistance given through multilateral channels should be substantially increased, with concurrent efforts being made to strengthen the multilateral agencies where necessary.

The League urges that military aid and supporting assistance be separated in legislation and administration from development aid.

The League deems it essential that the trend of reduced aid be reversed and that U.S. contributions for development assistance be increased.

DETAILS OF POSITION

The League believes that development assistance enhances the possibilities for world peace. The League favors programs, with a focus on human needs, which emphasize cooperative efforts by developed and developing countries and are long-range, adequately financed, effectively coordinated and administered. The League advocates separation of military aid and supporting assistance from development aid and an increased use of multilateral channels.

"Enhances the possibilities for world peace" reflects the League's conviction that in an increasingly interrelated world, the people of the developing countries must be helped in their striving for economic and social progress if we are to build an atmosphere for harmonious international relations.

"Focus on human needs" means League concepts of development are people-oriented.

"Cooperative efforts" not only indicates dedication to the idea of sharing the work of development but also commitment to the concept that decisions as well as efforts for development must be shared by the donors and recipients. It includes an emphasis on "self-help" based on the belief that improvements can come only if those receiving aid have the will to accept the changes and burdens imposed by the development process.

"Long-range" reflects League conviction that economic aid is not a matter of a miracle in a decade, but a long-term proposition.

"Adequately financed" means not only that the amount must be sufficient to underwrite development loans and grants, technical assistance, and contributions to international organizations in proper proportion to our own great resources, but that the U.S. must assume its obligations of international leadership in setting the pace for development efforts.

"Good administration" emphasis stems from traditional League concern with efficiency and economy and the coordination of related administrative functions.

The League's advocacy of separation of military aid and supporting assistance from development aid and increased multilateral giving is based on the value of distinguishing clearly between short-term political goals and long-term development objectives, as well as on the desirability of enhancing the effectiveness of development assistance.

League members believe that aid alone is not enough to meet the needs of the less developed countries. Measures other than direct grants and loans must be utilized. The League advocates such measures as reduced tied aid, prevention and relief of debt burdens, and changed patterns of trade. The U.S. government must ensure that its trade, monetary, political, and military policies do not subvert the goals of its development policies. The League also urges active participation in the development process by the private sector.

The League recognizes the gross disparity in trading positions between the developed and less developed countries. The exports of the developing countries must be expanded if they are to broaden their economic base and improve their people's standard of living. Because of their need for greater access to U.S. and other industrialized countries' markets, the League favors generalized, temporary preferential tariff treatment and certain commodity arrangements for the less developed countries. The principle of reciprocity in trade agreements, which the League supports, should be waived in order to make special trade concessions to the developing countries.

*Private Investment*¹

The League believes that private investment of U.S. capital in the less developed countries can be an important supplemental means of helping these countries reach self-sustaining economic growth. In order to facilitate the flow of private capital to those developing countries which most need it and which can most advantageously use it, appropriate safeguards are necessary against risks for both the investor and the developing countries. In order to protect outside investors against risks, the League favors continuation of governmental assistance, such as pre-investment surveys, investment guarantees, and investment loans. The League believes that additional encouragement could be provided through tax credits on funds invested in the less developed nations. In order to guard against risks for the developing country, the League believes that investors should be encouraged to engage in joint-venture type investments with local businessmen, to seek matching investment funds within the country, to employ and train as high a proportion of local personnel as possible for responsible positions, and to send to these countries carefully chosen and well-briefed U.S. representatives. The League welcomes continued efforts by the less developed countries to encourage their citizens to invest more in their own countries' development efforts and to create a more favorable climate for both public and private investment through appropriate internal reforms.

*Commodity Arrangements*²

International commodity arrangements serve as a short-term supplement to long-run efforts to promote self-sustaining growth in the less developed countries.

Insofar as commodity arrangements can help moderate sharp fluctuations in the price of primary products and help to stabilize the export income of the developing countries, they can serve a useful though necessarily short-term purpose.

Each commodity arrangement should be evaluated on its own merit. Such arrangements should be flexible and open to renegotiation within a reasonable period of time. Each arrangement needs careful supervision and regular review in order not to inhibit diversification within these countries of land, labor and capital or to distort international patterns of trade. These arrangements might include such compensatory financing efforts as those being initiated under the international Monetary Fund.

If any commodity arrangement is to bear fruit, primary product countries should be encouraged through technical and financial assistance to diversify both their primary-product and industrial position. If diversification efforts are not to be frustrated, the developed countries including the United States, will need to open their export doors wider to a broader range of imports whether raw materials, semi-processed or finished goods. In order to help the United States meet new competition, greater use might be made of trade adjustment assistance to affected U.S. industries and workers.

It is recognized that continuation of freer trade policies and reduction of various kinds of trade barriers are essential to improve the terms of trade of the developing countries.

THE CHASE MANHATTAN BANK, N.A.,
New York, N.Y., April 30, 1970.

Hon. WRIGHT PATMAN,
Chairman, House Banking and Currency Committee,
U.S. House of Representatives Washington, D.C.

DEAR MR. CHAIRMAN: I wish to state my wholehearted support for H.R. 16891 authorizing a three-year contribution of \$100 million for Special Funds of the Asian Development Bank.

I consider the U.S. participation in the Bank of major importance to our interests in that part of the world and I have followed with interest and much satisfaction the Bank's substantial achievements during the early years of its life. I believe that the U.S. Government should now join with other countries in strengthening the Bank's operations by making a contribution to its Special Funds to enable it to broaden its activities and enlarge its facilities for lending on concessional terms.

On my recent trip to Asia I was most impressed by the fine reputation which the Asian Development Bank has earned during its three years of operations.

¹ Section of the Development Assistance Position as announced in 1964, with minor editorial revisions in 1970.

It is much respected in Asia and it has clearly won the confidence of donor countries who have already pledged resources for the Special Funds for the ADB. With France's joining the ADB, just about all of the industrialized countries which are members of the World Bank are now also members of the ADB. This, in my view, is as clear a demonstration as any that the Bank has gained the confidence of countries throughout the free world that it has a significant role to play in the economic affairs of Asia.

I have no doubt in my mind that to entrust funds to the ADB would be to place them where one has an assurance that they will be efficiently and constructively utilized to promote development in the Asian region.

Please accept this statement of my support for H.R. 16891 which I hope will be enacted as soon as possible.

With best regards.

Sincerely,

DAVID ROCKEFELLER,
Chairman of the Board.

(Whereupon, at 11:20 a.m., the committee was adjourned, subject to the call of the Chair.)



